

**1946 EXTENSION OF THE EMERGENCY PRICE CONTROL
AND STABILIZATION ACTS OF 1942, AS AMENDED**

HEARINGS

BEFORE THE

**COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES**

SEVENTY-NINTH CONGRESS

SECOND SESSION

ON

H. R. 5270

A BILL TO AMEND THE EMERGENCY PRICE CONTROL ACT
OF 1942, AS AMENDED, AND THE STABILIZATION
ACT OF 1942, AS AMENDED, AND
FOR OTHER PURPOSES

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1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

MONDAY, FEBRUARY 18, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee convened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

We will consider H. R. 5270, a bill to amend the Emergency Price Control Act of 1942, as amended, and the Stabilization Act of 1942, as amended, and for other purposes.

(H. R. 5270 is as follows:)

[H. R. 5270, 79th Cong., 2d sess.]

A BILL To amend the Emergency Price Control Act of 1942, as amended, and the Stabilization Act of 1942, as amended, and for other purposes

Be it enacted, by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1 (b) of the Emergency Price Control Act of 1942, as amended, is amended by striking out "June 30, 1946" and substituting "June 30, 1947".

SEC. 2. Section 6 of the Stabilization Act of 1942, as amended, is amended by striking out "June 30, 1946" and substituting "June 30, 1947".

SEC. 3. Section 2 (e) of the Emergency Price Control Act of 1942, as amended by the Stabilization Extension Act of 1944, is hereby amended by striking out therefrom the last paragraph thereof, effective July 1, 1946, and inserting in lieu thereof the following:

"During the fiscal year ending June 30, 1947, the making of subsidy payments and the purchase of commodities for resale at a loss, and thereby subsidizing directly or indirectly the sale of the commodities, shall be limited as follows:

"(1) With respect to the Commodity Credit Corporation—

"(A) for operations with respect to the dairy production payment program, \$: *Provided,* That in carrying out the dairy production payment program the rate of payment per pound of butterfat delivered shall not be less than 25 per centum of the national weighted average rate of payment per hundred pounds of whole milk delivered;

"(B) for operations with respect to other noncrop programs, including the feed-wheat program, \$; and

"(C) for operations with respect to the 1946 crop program operations, \$:

Provided, That not to exceed 10 per centum of each amount specified in clauses (1) (A), (B), and (C) shall be available interchangeably for the operations described in such clauses but in no case shall the total subsidy payments and losses absorbed under any one of such clauses be increased by more than 10 per centum; and

"(2) With respect to the Reconstruction Finance Corporation—

"(A) for materials or commodities other than rubber and rubber products produced outside the United States, \$;

"(B) for rubber and rubber products produced outside the United States,

\$;

"(C) for materials or commodities produced in the United States as follows:

"(i) meat, \$;

"(ii) butter, \$;

- “(iii) flour, \$;
- “(iv) petroleum and petroleum products, \$;
- “(v) copper, lead and zinc in the form of premium price payments, \$;
- “(vi) other materials or commodities, \$:

Provided, That in the event the entire amount of any of the above allocations is not required for its purpose, the unused portion of such allocation, but not to exceed 10 per centum of such allocation, may be used for making such payments on and purchase of any item or items enumerated in this section as may be determined by the Stabilization Administrator in the Office of War Mobilization and Reconversion.

“(3) The amount of funds authorized to be expended under subsection (1) above by the Commodity Credit Corporation shall be increased by such amounts as may from time to time be determined by the Secretary of Agriculture, as follows:

- “(A) Not to exceed with respect to livestock and livestock products, \$;
- “(B) Not to exceed with respect to wheat and wheat products, \$;
- “(C) Not to exceed with respect to butterfat and butter, \$;

Provided, That the amounts authorized to be expended by the Reconstruction Finance Corporation under subsection (2) above for subsidy payments on meat, butter, and flour shall be reduced correspondingly.”

SEC. 4. Nothing in this Act shall be construed to affect the provisions of Public Laws 30, 88, and 164, of the Seventy-ninth Congress.

The CHAIRMAN. Mr. Bowles, I have asked that you testify first because you have been the symbol of price control to the American people.

You have administered the Office of Price Administration for a long time, and you are familiar with its administration and policies and I thought it would be proper that you testify first.

In this morning's paper I saw a reported interview with me, saying that 25 percent of the mail that we had received in the committee and that I had personally received had been in favor of the continuation of price control. That was a very obvious error. What I said was that 95 to 98 percent of the mail we had received had been in favor of continuation of price control and the Stabilization Act.

I understand you wish to complete your statement without interrogation, Mr. Bowles, and after you have concluded it, you would like to be subject to interrogation; is that right?

MR. BOWLES. Yes, sir. I am here, in a sense, in two categories. I have a new job on which the Executive order has not been prepared, and I am still Price Administrator, therefore, but just moving into this other job.

MR. CRAWFORD. May I be recognized, Mr. Chairman, before Mr. Bowles starts?

The CHAIRMAN. Mr. Crawford.

MR. CRAWFORD. In the previous bill, the housing bill, I, at least, somewhat, misunderstood the arrangement we had, and I would like to have the chairman state, for the purpose of the record, the general procedure with respect to the hearings on this bill.

The best I can determine, from my district, the Eighth Congressional District of Michigan, is that from 75 to 85 percent of the people in that district are against a continuation of the Office of Price Administration. I do not mean to say by that that I am against it, because my mind is open on this proposition, and I want to hear what is to be said by the Administration as well as by the opponents to a continuation of this legislation. What I want to find out from the chairman for the record is what chance the opposition will have to present its case to this bill.

The other bill I referred to was the housing bill. I would like now for the chairman to state, for the purposes of the record and for the benefit of the press and the public generally, what chance there will be for opposition witnesses to appear on this bill. In other words, will the opposition witnesses be cut off? Will they be crowded out of the picture and will those members of the committee who wish to develop opposition be restricted in the cross-examination of administration witnesses? Those are the points I would like to have cleared up.

The CHAIRMAN. I do not know why the gentleman hints at such apprehension.

Mr. CRAWFORD. It is because of my misunderstanding on the other bill.

The CHAIRMAN. As judged by the past, I do not think we have cut off people.

Mr. PATMAN. We had 2 months' hearings on the housing bill.

Mr. CRAWFORD. Well, we can make this very short, Mr. Chairman.

The CHAIRMAN. I am going to make it very short, if you will let me.

Mr. CRAWFORD. Do not try to lecture me on my position on the committee.

The CHAIRMAN. I am not trying to lecture you. You ought to lecture yourself. You understand the difference between those two things, do you not?

Mr. CRAWFORD. I am not going to be lectured to about my position on this committee. I am asking for a clear-cut statement as to the procedure on this bill.

The CHAIRMAN. We are going to give you every opportunity to have those witnesses heard, those that are opposed to the bill. You say you do not know whether you are opposed to it or not, but that 85 percent of your people are opposed to it. I do not know who you want as witnesses. We are not going to stay here indefinitely to hear witnesses in the opposition, but you are going to have a fair opportunity to present your witnesses when the time arrives. It certainly would be inconsistent to let the opposition introduce witnesses, as witnesses for the continuation of the Office of Price Administration proceeding. It ought to be conducted in an orderly fashion, and according to the rules of evidence.

Those who have the burden of proof—and I think the proponents of the bill have the burden of proof—should have the opening and then you can introduce testimony opposed to the continuation of price control and the Stabilization Act, and those who have the burden of proof should have the concluding testimony.

Mr. BUFFETT. Mr. Chairman, last year we had no adequate opportunity for questioning many of the witnesses in favor of price control.

The CHAIRMAN. I do not know what "adequate opportunity" is.

Mr. BUFFETT. I'll amend to that "any opportunity."

The CHAIRMAN. Some people think adequate opportunity is to continue day after day to ask questions and explore fields that have nothing to do with price control. If that is your purpose, it may be cut off. But as long as pertinent questions are asked to develop the matters the committee ought to hear, there will be no attempt to cut off your testimony.

Mr. Bowles, you may proceed.

Mr. BOWLES. I would like, Mr. Chairman, if I might—

The CHAIRMAN. I just want to say one other thing, first. You want expeditious hearings. Let us apply some of the rules of evidence to the hearings. Let us see if we can eliminate incompetent, irrelevant, and immaterial testimony and that the questions be direct to the matter under consideration by the committee. If we do that, I do not think we will have any trouble. The hearings will be expeditiously conducted to the conclusion, and everybody will have an opportunity to question the witnesses.

Mr. Bowles, you may proceed.

STATEMENT OF CHESTER BOWLES, DIRECTOR OF STABILIZATION

Mr. BOWLES. Mr. Chairman, as you suggested, if I might, I would like to read this statement, which will cover the problems in general that we face, and some of the difficulties we have been through.

I am very sorry that we have had to ask for several postponements of these hearings. I think all of you know that for the past few weeks we have faced a crisis of major proportions on the stabilization front. It was imperative that Administration policy be clarified before I could come before your committee to request extension of the stabilization statutes. I appreciate more than I can say the committee's patience in postponing its hearings.

It would be difficult to exaggerate the gravity of the inflationary crisis we face. An expectancy of higher and still higher prices is sweeping the country. The speculative fever is reminiscent of 1929. We can see it in the stock market, in the real-estate market, and even in almost every commodity market.

Everywhere men are betting on inflation. Everywhere the inflationary pressures have reached explosive proportions. It should be obvious to any reasonable mind that only by the most vigorous action—action taken now—can we regain control.

What is at stake is more than our reconversion program. What is at stake is our entire economic future. The answer to our present problems rests with you here in the Congress no less than with us in the executive branch of the Government.

In the next few weeks and months we shall be deciding whether we build a future of prosperity and security for all of us or whether we permit the present inflationary dynamite to go off in an explosion that will smash our economic system beyond hope of repair.

It is, I think, important to review briefly the events that have led up to this crisis. Let me go back, therefore, to VJ-day.

At that time there was a general expectation that the inflationary pressures would diminish. We expected pay-rolls to fall off sharply because of the elimination of overtime, the downgrading of workers and other factors. And we expected that during the tooling-up period unemployment would reach substantial proportions, further cutting into pay rolls and purchasing power. As a result of all these factors most experts anticipated softening of markets and an abatement of pressure on prices.

At the same time, the whole country was eager to get rid of wartime controls as rapidly as possible. After 4 years of the rigors of wartime controls it was natural for all of us to hope for the speedy restoration of the free market. This was how the country felt; and this was how you, in the Congress, no less than we in the executive branch, felt.

The Congress, for example, moved promptly to eliminate the excess-profits tax and to reduce taxes on individual incomes.

In the Office of Price Administration, the staff was put to work to carve out broad areas of the price structure which it was hoped and expected could be exempted from price control during the fall and winter months. And in collaboration with the Department of Agriculture a program, indeed almost a timetable, based on the expectancy of lower food prices, was developed for a progressive removal of food subsidies.

The War Production Board proceeded at once to dismantle its structure of production and other controls. Regulations in batches were pitched into the wastebasket. The same was true of the Department of Agriculture, the Petroleum Administration, the Office of Defense Transportation, and the Foreign Economic Administration.

In all this, needless to say, there was considerable difference of opinion among the various Government agencies; not disagreement on the general policy, but disagreement as to timing.

Ordinarily my own record as a prophet is no better than the next man's. But on this issue I happened to be one of those who wanted to play it safe. I was fearful of a repetition of the disaster of 1919 and 1920 when prices soared and then promptly collapsed. I did not feel that price and rent controls alone could carry the burden of inflation control.

Having lived with 4 years of other wartime controls we could, it seemed to me, take another 6 months or whatever was necessary to be sure we were on solid ground before scrapping those controls.

One element of the program for orderly liquidation of Government controls was the wage-price program. It was expected, as indeed it has actually come to pass, that the take-home pay of millions of American workers would be cut drastically. That was why, on August 18, the Administration dismantled the complicated and often cumbersome structure of wartime wage controls and restored collective bargaining, setting labor and management free to negotiate wage increases on their own. There was, however, one basic condition—that these negotiations take place within the framework of stable prices.

The President urged management to negotiate wage adjustments in order to cushion the cut in take-home pay. He pointed out that management could, in general, afford to grant such increases, emphasizing particularly the high profitability of most American industries, the excellent financial condition developed during the war, the protection against the risks of reconversion embodied in the tax laws, and the increase in earnings retained by business resulting from the elimination of the excess-profits tax. But the President emphasized, too, that such wage increases must vary widely from one industry to another, depending upon the ability of management to pay these increases without raising prices.

As Price Administrator I subscribed to this policy. Although I knew that it would put some strain on prices, I believed it to be compatible with effective price control and in line with our best labor-management traditions. And indeed I supported the President's entire reconversion program. It was a program designed under the then existing conditions to give us a swift and orderly transition from war to peace.

What, then, produced the crisis which we face today on the stabilization front? Well, first of all, the tooling-up process of reconversion has proceeded faster than anyone thought possible. As a result, while average take-home pay has been cut, the volume of unemployment has not reached the proportions that were feared. That means that total pay rolls have stayed higher than expected with a resulting high demand for all products of our factories and farms.

Second, speculation, which, after the last war, became a dominant factor only after 5 or 6 months following the cessation of hostilities, this time put in an earlier appearance. The speculators started betting on inflation, and that showed in all our markets. And so, instead of a softening of pressure on prices in key areas of the economy, we have had prices pushing up hard against the Office of Price Administration ceilings all across the board, and prices in the speculative markets which were not under control moving up to new high ground almost from day to day.

Looking back on it, with the knowledge that we have today, and bearing in mind what I have just said about the inflationary pressures, it is perfectly clear that we moved too fast and too soon in stripping off the wartime controls.

Many of the actions taken, reasonable and proper though they may have seemed at the time, have not only meant hardship for our people; they have encouraged hoarding and added fuel to the flames of speculation.

And finally, let me turn to the wage-price policy. On the whole, that policy has worked extremely well. Industrial and other wholesale prices as well as retail prices have been held very close to their VJ-day levels, while thousands of collective-bargaining agreements involving substantial wage increases have been concluded in an orderly fashion. I am told that 6,000,000 workers have received wage increases during this period.

Nonetheless, the wage-price policy broke down in a number of vitally important areas. Why it broke down in these particular areas can be left to the economic historians and to the theoreticians to decide. It seems to me high time that we stop arguing about "who did what to whom" and get on with the job of meeting a national emergency.

A speculative fever has taken hold of the country. The pressure in the boiler is up to the bursting point. The lobbyists and the profiteers are licking their chops. It is going to take firm and decisive action—it is going to take teamwork and support on every hand—if we are to hold this country on an even keel.

The President, last Thursday, laid down a new stabilization program. He called upon me to take responsibility for its administration and upon the country to close ranks and see this job through to the finish. I think it is a good program and a workable program, and I mean to put everything I have got into making it succeed. I am confident that the American people will give the President the support he has asked for.

Let me turn now to the program itself, and specifically to the wage-price aspects of that program. I am not prepared this morning to give you all the details. Many of them have still to be worked out. The baby is only 48 hours old. But the basic policy is clear and understandable. Let me say once more, and as strongly as I know

how, that the basic principles are good. They are workable. If we have congressional as well as public backing, they will enable us to keep inflation under lock and key and to maintain stability in our American economy.

On the wage side, control has been reestablished. This does not mean a wage freeze. Wage increases within the industry patterns already laid down since VJ-day will be approved by the Government. Every effort will be made to speed up action and to establish streamline procedures. I expect to have an announcement about how this can be accomplished within the next few days.

What does this new policy mean to prices? It means that manufacturers will no longer be required to wait 6 months before the wage increases which they have granted will be taken into consideration in setting their prices. If for any reason an industry—operating at normal volume—is in hardship, price adjustments will be granted. These price adjustments will be designed to assure the minimum level of peacetime earnings for that industry during the coming year.

Does this mean general price increases throughout the entire economy? Does it mean a retreat to a new price line—to a new higher level of prices? Emphatically it does not, and it is vitally important that we understand why this is so.

First of all, let us remember that the number of industries which have been, or are likely to be, forced below their prewar earnings for any reason is relatively very small. The present pattern of wage increases can be, and in many instances has already been, established in scores of industries with no price consequences whatsoever. It is generally true of such industries as the food processing and petroleum industries where labor cost is a relatively small part of the total sales dollar. It is true of the apparel industry and many others where labor costs represent a higher proportion of total costs—but where profits generally have been abnormally high. It is less true of some of the metal-using industries where labor costs, direct and indirect, represent a sizable factor in the total price.

The result of this new wage-price policy will, as I say, not necessitate a retreat from the present price line. It will mean a bulge in one relatively narrow section of that line—a bulge which must not be allowed to spread.

Food prices represent 40 percent of the total cost-of-living line as reported by the BLS index. This new policy will have little or no effect on food prices. Provided Congress continues the present food-subsidy program, the line on food prices can be held, as it has been held for 32 months, at roughly present levels.

Rent represents 19 percent of the cost-of-living line. This new policy will have little or no effect on rents. The rent line can and must be held.

Apparel represents about 12 percent of the cost-of-living line. This new policy will have little or no effect on apparel prices. It is my belief that we can continue to step up apparel production at roughly the present average of prices.

And what is true of food prices, rents, and apparel prices is generally true of furniture prices, the prices of house furnishings and services. It is in some of the metal-using industries, a relatively small section of the cost-of-living line, where some price increases will be needed.

There will be a few other places, but not so many, I think.

But let me make this situation clear beyond all question. The price line simply must be held. The prices of food, rent, and apparel must be kept from rising. On that all-important sector there can be no retreat.

There will, of course, be loud cries from the "now I want mine" boys. And there will be sober and understandable requests from many farmers for the removal of food subsidies. These objections to a continued "hold the line" policy—both irresponsible and responsible objections—will be based on a plea of fairness. Businessmen will say, "Labor has had rather general increases in wages. We want general increases in wages. We want general increases in prices." Some farmers will say the same thing.

For this reason, I would like to discuss this subject of fairness of income—group by group. Let me say at the outset that there is probably far more fairness of income distribution in our economy today than at any previous point in our peacetime history. Let me say further that if we strive now to work out all the unfairnesses which remain, we shall only succeed in blowing up our entire anti-inflation program with resulting disaster to everyone. That is, in my opinion, the key point of these hearings and which Congress must decide. If we are going out to try to erase and eliminate every unfairness that can be found in our economic system, you are going to get inflation, and you are going to get it this year, and you are going to get it with very loud explosive characteristics.

We have always had some unfairness, some inequities, I believe we have less unfairness, and I think the record will show that, today we have less than we ever had. We hope that over a period of time we will gradually have still less and less. There will always be some, no matter how we may attempt to work it.

Mr. SMITH. Did you say more unfairness or less?

Mr. BOWLES. Less unfairness today than we probably ever had.

Not that we have no unfairness, but I believe there is considerably less today than we have had at any other time in our peacetime history.

Let us examine, first of all, the position of labor. There are some people who throw up their hands in horror at the thought of any wage increases at all. Well, let us look at the problem like reasonable men. The fact is that the elimination of overtime and downgrading have sharply cut the take-home pay of millions of American workers.

There are all kinds of figures tossed around about basic wage rates, straight-time hourly earnings, and average hourly earnings. But let us remember that it is take-home pay that buys groceries and pays the rent. And when take-home pay is cut, the family has got to tighten its belt, as the President pointed out in October. The pattern of wage increases established over the past 3 months in most instances provides adjustments that go only part way toward making good the loss in take-home pay.

These wage increases, and others which will be coming along in certain other fields, do not represent a new advantage to labor. They represent a cushioning of the blow that millions of individual workers have had since VJ-day. They do not give labor an unfair advantage as compared to other groups in the community. They are designed, rather, to maintain something approaching the balance we had in wartime.

Under the new wage-price policy, wages generally will be stabilized according to the new patterns established since VJ-day. A further increase over the present pattern would make economic stabilization impossible. But the fact that many increases have occurred and others will occur in industries where pre-VJ-day contracts are still in effect, is in my opinion, healthy, proper, and in the interests of every one of us.

How about business? Business is doing very well. American industry, on the whole, is extremely profitable. Only limited areas of it have been affected adversely by the shift from war to peace. The food industry, the textile and clothing industry, the department stores, the service trades—none of these industries have had to reconvert. They have kept on producing right straight through. They were very profitable during the war, they are very profitable today, and they are going to stay very profitable for a long time to come.

Corporation profits, as a whole, before taxes are expected to total in 1945 some \$22,000,000,000 compared to a little under \$25,000,000,000 in 1944. It will be said that most of this profit was earned in the first half of the year, while the shooting was still going on and that since VJ-day the situation has been entirely different. We do not have the full details of profits quarter by quarter for 1945, but it is significant, I think, that the boards of directors of American corporations declared a billion and a half in dividends in the final quarter of 1945—the period of economic readjustment. This was just as much as they declared in the final quarter of 1944. And total dividends last year were right up to the 1944 level. And, incidentally, I know none of my business friends who have had their salaries reduced since VJ-day. There may be some, but I have yet to hear of them.

Now, it is true that in the reconversion area—and I mean by this not only those industries which have stopped producing war equipment and are now producing civilian items, but also industries like steel which have had to change the character of their production—operations are less profitable at the moment than in other parts of the economy. But let us keep our perspective. All these industries together make up less than 15 percent of the American economy.

No one can know for sure how these industries are making out now. Nonetheless their outlook for 1946, as a whole, is extremely favorable. For one thing, they face an almost unlimited demand for their output. Once they really get rolling, they will be producing far more than they ever produced before the war, and increasing volume means decreasing costs and rising profits.

That the outlook for these industries is bright is confirmed by the fact that the stocks of corporations in the reconversion area have not been lagging behind in the general boom on the stock market. That is why until recently we felt it fair to ask the reconversion industries, as well as all others, to wait 6 months after negotiating wage increases before concluding that price relief was necessary. That, of course, has been changed under the new policy.

So let me say once more—let us keep our sense of perspective. We are not confronted with a situation in which scores of industries and hundreds of thousands of firms are on the verge of bankruptcy. The very opposite is true. On the whole, American industry is extremely profitable. Only 15 percent of it is affected materially by the transi-

tion from war to peace. Its prospects, in general, were never brighter. And, as I pointed out before, we have never in our entire history had a period in which there was less hardship in American business. In 1945 bankruptcies fell for the third successive year to an all-time low of 810. This compares to 22,900 bankruptcies in the boom year 1929.

Finally, how about our farmers—the group whose extraordinary record during the war is perhaps least appreciated, the group which for more than a generation has profited the least when times were good and suffered the hardest blows in times of adversity.

In 1939 our farmers, representing 25 percent of our people had only 9 percent of our national income. When the experts stress the gains which our farmers have made during this war, they often fail to mention the low levels from which they had to start.

Nevertheless it is a fact that our farmers, like the rest of us, have done rather well since the days before the war. Today net operating income per farm is more than three times as great as it was in 1939, and the increases have been pretty general. On VJ-day the experts generally prophesied that farm prices and farm income would drop rapidly in the following months. But again the experts were wrong. In December, the cash income of our farmers, after seasonal adjustments, was 2 percent higher than in August.

To those of our farmers who are inclined to criticize labor and and deplore the increases in wages which have occurred, let me point out one all-important fact. The decrease in farm income which they expected 6 months ago has failed to materialize largely because total factory pay rolls in our cities did not drop to the extent expected—because employment held up and increases in wage rates offset, in part, the loss in take-home pay due to a shorter workweek. The same is true of the merchants who enjoyed such a tremendous quarter in the last quarter of 1945. Some 12 to 15 percent higher than the highest previous year in their history.

It is not too much to say that our farmers today hold the key to economic stabilization largely in their hands. For unless food subsidies are maintained beyond July 1, the control of the present inflationary dangers will become impossible.

If food subsidies were withdrawn, food prices would rise promptly and dangerously. The food index which has been held steady since May 1943, would immediately rise more than 8 percent. This would force a major increase in the cost of living. This, in turn, would force compensating wage adjustments on a broad scale. As surely as day follows night, we would be started on a spiral of wage and price increases leading directly to disaster.

Very properly, our farmers hate subsidies. I do not blame them for that. Subsidies are a necessary evil, and the quicker we can be rid of them without blowing up our economy, the better off we will be.

But subsidies are absolutely vital to the success of our program. I am hopeful and confident that much as our farmers may dislike them, they dislike and fear inflation more.

The stabilization program has meant much to our farmers. The prices he receives have risen on the average exactly the same percentage in this war as in the last—113 percent. That is the general average. But the prices he pays, including interest and taxes, have risen only 40 percent this time against 94 percent the last time—for the single reason that price and rent controls have been in effect. A good

example is farm machinery. In the First World War it rose in price, on the average, 68 percent. The increase since 1939 has totalled only 14 percent.

If the present price line is broken—if inflationary forces break loose—there is no group in America which will more surely suffer disaster and heartbreak than our millions of farm families.

I have come to know our farmers well and feel that I understand many of their problems. I sympathize deeply with their concern over the future. They do not want to go back to the kind of farm economy they had before the war. The low incomes they had, I think, were a disgrace to this country in the generation before the war.

The leaders of farm organizations are my friends. I have confidence that they will rise to the present emergency in the same statesmanlike way in which they have supported price and rent controls during the most critical period of the war.

So much for price and wage policy and its effects on our economy. We have a bulge in our line and a threatened break-through. We must stop the break-through, seal off the bulge, and continue to hold the line where it is. This is our new program. It is a program that will work. It is a program that will stabilize the American economy. To those people who are betting on inflation in the stock market and in the commodity markets, let me say, "You are betting on the wrong horse. There is not going to be any inflation. We are going to hold the price and rent line as we have held it since May 1943—the speculators, lobbyists, and pressure groups to the contrary notwithstanding."

It is, of course, expanding production which will bring us to the point where price, rent, and wage controls can be dropped. Production is the only answer to inflation. There are some who say. "Yes, but under price control production is impossible."

I see our friends, the NAM had that to say in the morning newspapers.

The record clearly proves that this is nonsense. During the war industrial and farm production under price control rose fully five times as much as in World War I. Today production is surely at the highest point ever achieved in peacetime. Unemployment is at the lowest peacetime point in 20 years with as many people on our pay rolls as in our best wartime year.

What are those 52,000,000 workers doing if they are not producing? Why is it that industry after industry is crying for more and more employees? Why is it that reconversion has been accomplished in record time? Why is it that every business forecast indicates rapid increases in production throughout 1946? Why are retail sales continuing to higher and still higher levels—all under a program of price control?

As production recovers from recent shut-downs, let us forget this propaganda talk about price controls making production impossible. Let us take off our coats, forget our differences, and get out the goods. That is the way—the only way—to get rid of price control without the most disastrous inflation this country has ever seen.

It should be perfectly clear to all of us that we are going to have to retrace some of the steps we have taken since VJ-day. As I pointed out, we are going to have to abandon early liquidation of the subsidy program. We cannot permit an increase in the price of food. The fact that we were ready to liquidate that program, and,

indeed, make a beginning, should provide assurance that that program will not be continued a single month beyond what is necessary for the continued stabilization of our economy.

Furthermore, we shall probably have to restore some of the production controls which were abandoned last fall. Obviously we shall have to move with discretion and only where the need is very clear. But we shall see to it that the orders that are necessary to get clothing for our veterans, and building materials for the construction industry will be put into operation promptly.

And I mean to make the fullest use of the authority under the Second War Powers Act to prevent hoarding. If there is any doubt on that score, let me dispel it now. That is one thing we simply must not tolerate. Speculators take notice.

If we are to win through in our fight against inflation, it will take the best efforts we can put forth in the executive branch of the Government. More than that, it will take action by the Congress. I urge that you renew without amendment and at the earliest possible moment, after all due opportunity for groups to make their opinions felt, the stabilization statutes. The speculative fever in this country has reached such a pitch that it can be overcome only if it is unquestionably clear to everybody that the Congress, no less than the executive branch of the Government, is determined that inflation shall not come. Under other circumstances, I would not urge the reenactment of the legislation without amendment. But the dangers today are great. Any sign of weakness will be quickly and greedily seized upon by the speculators and other enemies of inflation control. Delay in reaching a decision will do irreparable damage to the entire program.

I further urge with all the vigor at my command that the Congress enact at the earliest possible moment legislation to stop the inflation in the real-estate market. If this inflation is permitted to continue unchecked, it will undermine the construction industry just as it did after the last war. And it will strike a body blow at any hopes we may have for a secure and prosperous economic future.

Mr. Wilson Wyatt has recently developed a magnificent veterans' housing program. It will not only provide the housing which the veteran so desperately needs at reasonable prices, but it will also put the housing industry generally on a firm and solid basis such as it has never before enjoyed. Legislation to prevent inflation of real-estate prices is imperative if this program is to have a chance of success.

Gentlemen, the program the President has laid down is not a perfect program. Under the circumstances which we face, there can be no perfect program. But it is a good program, and a workable program. It will prevent inflation, which benefits no one and spells disaster for all of us. And I want to say as strongly as I know how that it is a fair program. Under it, we shall not be able to eliminate every inequity in our economic system. That, I am afraid, will never be possible. But we can and we will do broad justice to all the economic groups of the country.

Clearly this program of economic stabilization—or any program of economic stabilization which might have a chance of success—will be attacked by every irresponsible pressure group in the land, such as the group that demanded the removal of all price controls on

February 15—last Friday—at the very height of this inflationary crisis, and then repeated that request in the morning newspapers. I am obviously referring to National Association of Manufacturers.

In the past 4 years of price and rent controls, Congress has courageously resisted the pressures of these groups. Congress has consistently turned down their periodic drives for needlessly higher prices, rents, and profits. By taking this stand, Congress has so far saved the people scores of billions of dollars and prevented a disastrous inflation. Over and over again on this vital issue, Congress has proved that the people's case is in good hands.

Let me repeat that it is not unfair or unreasonable to ask American business to live with its present generally high level of profits, with adjustments in prices limited only to those who really need them. The vast majority of businessmen are as reasonable, sensible, and patriotic as any group in the land.

Let me repeat that it is not unreasonable or unfair to ask the farmer to accept the present general level of prices for his products. Some months ago it was expected that farm incomes would decline in 1946 some 15 percent below the levels of 1945. It is now perfectly clear that farm incomes will not decline. If anything, they will go up from the 1945 level. That is due in no small part to the wage increases which have helped to prevent a decline in total wage income. Such a decline in wage income would have resulted in a decline in farm income, too. And, as I pointed out before, the expectancy in the decrease in farm income was based on the expectancy of a decline in general wages and salaries.

Finally, it is not unreasonable or unfair to ask labor to accept temporary Government controls over wages and some cut in their take-home pay as a result of reduced overtime. Much as we might wish to prevent that cut, there is no way in which we can do so without precipitating an inflation in which the workers, like everyone else, have everything to lose and nothing to gain.

You and I and the American people all face a grave responsibility. I am confident that in the face of the danger of inflation we shall close ranks, as the President has called upon us to do, and carry through the program which he has laid down. I am confident that we shall now throw our economic machine—the most productive in the world—into high gear. That is the way—and the only way—in which we can quickly get back to a free market, free collective bargaining, and a free and prosperous America.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Bowles, what is the purchasing power of the dollar now compared to 1941?

Mr. BOWLES. There is a difference of about 20 percent, I think.

Mr. BROWN. I understood that the purchasing power of the dollar was really around 75 cents.

Mr. BOWLES. Seventy-five to 85 cents, I think is about the right figure.

Mr. BROWN. Of course, we all realize that the most important thing for the American citizen today is production of food.

Mr. BOWLES. That is right.

Mr. BROWN. Production of clothing and production of building materials.

Mr. BOWLES. That is correct.

Mr. BROWN. As you stated a few moments ago, full production would help us control inflation.

Mr. BOWLES. It is the answer to inflation. That is the way you get out of all these controls.

Mr. BROWN. So I think, and I am satisfied you think it too, that this law should be administered chiefly with a view to obtaining full production. Now, the pattern that you established the other day with regard to steel, giving labor 18½ cents per hour increase, and steel producers around 15 cents per hour, I think you did right. If you are going to increase the manufacturing costs, you certainly ought to increase the ceiling on steel in proportion. Now, do you propose to follow that plan with all commodities?

Mr. BOWLES. Mr. Brown, the program is this: Of course, as you know, we have always adjusted any industry's price where that industry fell below their prewar profits. In other words, we established a floor under profits. Industry has never had a floor in the past—they have had it during the war period, which, of course, continued after VJ-day. When any industry falls below that point, there is a general industry increase.

Also, we have made increasing allowance for individual increases, particularly since VJ-day. In other words, you may have an industry where the industry, as a whole, is doing very well, but where there are individual firms in it having trouble, we have made close to 9,000 individual adjustments since VJ-day, beyond the industry earnings.

Under the former wage-price policy put out in October, if industry gave an increase in wages, it would not be allowed to take that into consideration in appealing for a price increase until 6 months had passed, unless the wage increases were approved, and there were a very narrow group that were approvable. In other words, we said, "Gamble a bit now. Your costs are probably going to decrease as your volume comes up, and at the end of 6 months, regardless of the reason why you are in trouble, whether it is wages or what it is, we will adjust if necessary at that time. We will review and adjust."

Now, the new policy states that wage adjustments that have been made in the past, that we have already had, or wage adjustments to be made to that same pattern in the future, will be immediately taken into consideration in setting prices or in granting hardship relief.

That does not mean, obviously, that every time a wage is raised, prices are raised. Actually, the number of industries which are below the prewar level of earnings in the country, is a relatively small number of the whole. It would only apply in that area.

Is that clear? It is a rather complicated problem and I would like to be sure it is clear.

Mr. BROWN. Yes. Many people think—and I think—that you have put what you considered a fair ceiling on all commodities, 2 years ago, and last year. Now, my theory is this: That when labor costs and other costs go up, and you allow the increase, that you ought to let the producer have an increase in the same proportion, whether it is done by raising the ceiling or by subsidy, to keep him in business. If you have had a fair ceiling in all these years, you have got to raise prices in proportion with the increased cost of production, or wages. Do you agree with that philosophy?

Mr. BOWLES. Do you mean, Mr. Brown, provided that the increase in wages has resulted in a hardship or anticipation of hardship,

or do you mean in any case where wages are increased, prices ought to be increased correspondingly?

Mr. BROWN. Not only that but other things. For instance, take the steel industry.

Mr. Bowles. I just wanted to be sure what you mean of those two.

Mr. BROWN. I mean not only labor but all wage costs.

Mr. BOWLES. But do you mean that all wage increases ought to be reflected in a price increase?

Mr. BROWN. That is right. That is to keep him in business, if we want production.

Mr. BOWLES. If they are in difficulty, I would certainly agree with you a hundred percent. But, obviously, in a free-enterprise economy, whenever you get a cost increase, you do not automatically up your price by that amount, because there are other corresponding elements which bring your costs down. For instance, as you develop greater volume. The proof of that, of course, is in your general overall figures for the last 20 years. Your wage rates in 1919, were, roughly, 44 and 47 cents, average, throughout the industry. They are, roughly, 97 cents today. In other words, more than double.

Now, price levels, generally, are about the same today as they were in 1919. If you will look at the general price levels, they are just about the same.

Now, profits are far greater. So what we have done in 20 years is to double wage rates, increase profits very substantially, and hold prices roughly to the same level. That, of course, is because we have had greater labor productivity, greater efficiency, better management, more volume. Now, obviously, you cannot go beyond the point we have gone in this crisis we are in, to go on increasing wages beyond this pattern, because you get into difficulty, and we are going to, in fact, have to go back, as I pointed out, and correct some of these prices that need correcting. But I would assume that over the period of the next few years, or 20 years, we would tend to repeat the pattern of the past, with prices, by free competition, held stable or even declining, with wages going up quite substantially and thereby increasing the purchasing power, which people need to buy the goods, including the farmers' products.

Mr. BROWN. I take this position: we want to curb inflation; and in order to curb inflation, you have got to keep the costs of production down?

Mr. BOWLES. That is right.

Mr. BROWN. If not, you have got to raise the ceiling to the producer. For instance, in the case of steel, you have not only increased labor, but you have increased the producer's prices 15 percent. Farm implements are practically all worn out—we could not get any during the war. Most of them are made of steel.

Take in manufacturing enterprises, such as cotton mills. A great deal of their machinery is worn out. They have to buy new machinery. And in setting your ceilings on these products, I think you have got to take into consideration increased labor costs, increased price of steel, and these other things.

Now, I am like you. I want to curb inflation. But at the same time the only way to curb it is to get production.

You have, in fixing a ceiling, a clause to the effect that the ceiling must be generally fair and equitable. A lot of people will object to

that word "generally," and they claim that the higher producer has put the other ones out of business. I, of course, know a lot of my producers have quit. It would be awfully hard to find out any that went out of business. Well, supposing the word "generally" was stricken out, would that interfere with it?

Mr. BOWLES. I cannot think of any word that Congress could change that would have more disastrous effect on your economy than the word "generally" in the phrase "generally fair and equitable." It is a pretty important word.

What we have tried to do is this, however, and we have gone a long way toward doing it. During the war period, as I pointed out, we had not very much hardship; 810 bankruptcies in the year 1945 as against 22,000 in 1929.

Now, I think I ought to interpret that figure a little bit, because the firms that are inclined to go bankrupt are new firms. There have been fewer firms started in 1945, obviously, during the war, because they could not get materials. There will be many new firms starting now, and the bankruptcy rate will obviously increase. But we have gone a long way toward meeting the question which you asked, by individual adjustments to firms which, where the industry is O. K.—in other words, the price is generally fair and equitable to the industry—but where there are individual firms, all the way through that industry, which need relief. And we have gone to work to try to get it for them.

Mr. BROWN. For instance, a man in the building game: he sells different kinds of materials. For instance, Mr. Johnston, I believe it was, testified a year ago. He is head of the Chamber of Commerce of the United States, or was at that time. He said he was engaged in the production of building material, among which was brick. He said over-all he made a lot of money, but on one item, brick, he lost \$2 per thousand.

Mr. BOWLES. Of course, that has all been corrected and changed since VJ-day.

Mr. BROWN. I know, but I am just getting back to the word "generally." Of course, "generally" he made a profit, but a lot of people just engage in making one item, such as brick, and so if you have the same ceiling on that fellow as you have on a man who makes other material, he just goes out of business. I am bringing that to your attention, as to whether or not the words "generally fair and equitable" should apply.

Mr. BOWLES. Of course, we take brick as an industry. We have made over 400 adjustments since VE-day in industry prices.

Mr. BROWN. Why was he losing \$2 per thousand? That was the testimony. He wanted the Office of Price Administration extended, just as I do, but why did he lose \$2 per thousand?

Mr. BOWLES. Well, during the war we were pretty careful and individual adjustments were held to a minimum; as I say, now we have stepped up all the processes of giving individual adjustments and we have given many, many more. As I said, 8,500, since VJ-day. However, we also make adjustments to get supplies up. For instance, we have had adjustments in brick this fall. The brick industry, you see, was always a rather low-paid industry, and they had to get higher prices in order to get wage rates up and in order to attract labor, and we have given about a 40 percent increase all told in the brick business,

I think maybe a little more than that. Brick production is coming up very fast now, as you know. Also soil pipe, cast-iron soil pipe, which is the same type of thing.

We have given those increases since VJ-day pretty generously and pretty broadly, in order to get production. I do not know how much of that type we have given to get production but it would run into a good many. I agree with you perfectly. You have got to get production going, and cannot let price stand in the way of it.

Here are 36 adjustments since VJ-day, price adjustments on building materials, increasing prices of building materials to get production. I have a list that was just handed to me.

Mr. BROWN. Of course, a great many of these producers have gone out of business. I do not know why.

Mr. BOWLES. There is no reason, Mr. Brown. We have adjustments for any firm that would make it impossible for him to go out of business.

Mr. BROWN. Do you have a way of speeding these adjustments up? That is one problem. I feel you want to do a good job, and have done a pretty good job. I have no complaints about the adjustments. But it takes too long. For instance, in the case of brick, it took about 6 months to do it. Do you have any scheme to speed up these adjustments?

Mr. BOWLES. The more individual adjustments you have, obviously, the more your work load is. We have delegated a good part of that out to the field organization and pushed it out of the National Office, into the field offices, where they are empowered to make many of them on an automatic basis.

For instance, take firms under \$200,000. They do not have to go near the Office of Price Administration at all. They are reconverting, and they simply make out a simple form, set their own price, report to the Office of Price Administration, and if the Office of Price Administration does not do anything about it in, I think, 20 days, that price holds.

That covers something like 80 percent of all reconverting firms, under purely automatic pricing. Now, as a result of that automatic pricing, you get some sloppy pricing. Obviously, you get some things too high, and so on. As some of these foolish cases you hear about, where one is priced too high, come from that automatic pricing, as a result of our attempt to streamline the operation.

I, for one, though it was better to take some of the rather ridiculous results you would get, in a small number of them, which make dramatic and sometimes entertaining examples, but get the red tape out and let those fellows move ahead, which is what we have done. I might just say one more thing on this.

Everyone has a problem. I have often said, and I guess a lot of other people have said it, that there is no problem in Washington that cannot be solved by increasing the price. Even though you cannot get more manpower, even though you cannot get more lumber, even though you cannot get more of this or more of that, it, at least, makes you feel better to have a higher price.

We established—not we, but another office—the Office of Economic Stabilization—established a Bottleneck Committee to examine each bottleneck situation of the country where production was not coming up. They have various representatives of all the agencies interested

sitting on that committee, independent of the Office of Price Administration, with only one Office of Price Administration man on the committee, and the Office of Price Administration has accepted every recommendation that that committee has made to raise a price to get out of the way of any production. Every single recommendation they have ever made has been promptly accepted.

Mr. BROWN. Of course, you realize that where you place a ceiling on a product, you may have a very high cost producer. If you fix a ceiling where he can make a profit, of course, a capable man will make more. That is natural.

Mr. BOWLES. There is no harm in that.

Mr. BROWN. And it is a very difficult thing to keep all producers in business. Of course, you have got to give them all the same proportion if they are in that line of business.

Mr. OUTLAND. Would you yield for one question on your point regarding speed by which adjustments are made, Mr. Brown?

Mr. BROWN. I yield.

Mr. OUTLAND. Mr. Bowles, if Congress had been a little more generous in providing additional funds for the Office of Price Administration so that more and more competent people could have been hired, would it have helped you speed up the adjustments?

Mr. BOWLES. Very definitely, Mr. Outland. That is always a problem, of getting enough good people to do these jobs, particularly enforcement.

But we have tried, whenever we see ourselves getting in a jam, and see a bottleneck developing, with too slow action, to streamline the procedures. Usually you cannot get more people or enough able people, so we have made our procedures simpler and taken chances many times to accomplish that.

Mr. OUTLAND. But if we, in the House of Representatives, provided ample funds, it would cut some of that red tape and make your adjustments more rapid?

Mr. BOWLES. Tremendously.

Mr. WOLCOTT. Will you yield, Mr. Brown?

Mr. BROWN. Yes.

Mr. WOLCOTT. Mr. Bowles, you have half the work that you have to do now as compared to a year ago? You have cut out all of your rationing?

Mr. BOWLES. Well, we have cut our staff in half also, Mr. Wolcott.

Mr. WOLCOTT. Why did you do that?

Mr. BOWLES. We did it since VJ-day.

Mr. WOLCOTT. You did not do it because of any lack on the part of Congress, did you? Do not come up here and try to tell us that you have reduced your staff because Congress reduced your appropriation. You cut off your staff voluntarily when you cut off rationing.

Mr. BOWLES. We have never had enough people, in my opinion, to enforce our regulations properly or to get all the regulations out as fast as I would like to see them.

Mr. GAMBLE. No Government agency has. They all say the same thing.

Mr. BOWLES. That is correct, and often it is true. We moved ahead very rapidly after VJ-day to get our staff down. It is down from 62,000 on VJ-day to 28,000 now.

Mr. WOLCOTT. Why did you reduce it if you have not enough men?

Mr. BOWLES. We have gone back to Congress. One thing that has gotten us into a little trouble is this: the statement that I offered you here went into some detail as to the amount of de-control we thought we could get. We thought we could drop controls. For instance, on rent, we assumed we would be out of 150 of our 470 rent areas by June. Actually, we have gotten out of about 30 and had to move back into about 20.

Mr. WOLCOTT. That is not the fault of Congress, is it?

Mr. BOWLES. No, that is not the fault of Congress. The Congress cut our budget.

Mr. WOLCOTT. You have cut your force voluntarily.

Mr. BOWLES. Congress did not give us the budget we requested last fall, if that is your question. They cut it \$3,000,000, and that was a very vital \$3,000,000.

However, I went over it the other day. You cut us \$3,000,000 over what we asked for in September. I went over it the other day and presented a case to get some of it back. The committee has acted favorably on that. I hope the Congress will act favorably on it, because it will mean a great deal to us, I think, in improving our operation wherever we can.

Mr. KUNKEL. I was wondering if Mr. Bowles would care to put those price adjustments in the building field, the list you have just referred to, with the date as to when they were made, because they are of interest to us.

Mr. BOWLES. I would like to do that. I have it here but I will insert the dates and put it in the record.

(The document above referred to is as follows:)

STATEMENT OF BOTTLENECK COMMITTEE ON OPA BUILDING MATERIAL PRICE ACTIONS

OPA price actions in the building materials field since VJ-day have included many items not designated as bottlenecks by CPA, accounting in some measure undoubtedly for the shortness of CPA's list. Since VE-day, OPA has made one or more general price increases applicable either to large areas or Nation-wide on the following building materials:

	<i>Dates of price actions</i>
1. Vitrified clay sewer pipe and allied products...	May 5, July 21, Dec. 17, 1945; 6-inch and above, Dec. 26, 1945.
2. Building lime.....	May 12, June 21, Aug. 13, Oct. 4, 1945.
3. Rough quarry limestone blocks.....	May 17, 1945.
4. Lineal sash and frame stock.....	May 30, 1945.
5. Douglas fir stock millwork—screen doors and door frames.	June 11, 1945.
6. Cast-iron soil pipe and fittings.....	June 14, Sept. 7, Dec. 31, 1945.
7. Gypsum lath and linerboard.....	Aug. 21, 1945.
8. Concrete blocks.....	Aug. 20, 1945.
9. Cast-iron tube radiation.....	Aug. 22, 1945.
10. Cement.....	Sept. 5, 1945.
11. Calcined gypsum bag goods.....	Sept. 14, 1945.
12. Common and face clay brick.....	Sept. 19, 1945; Jan. 2, 1946.
13. Structural clay tile.....	Sept. 19, 1945.
14. Hinges and butt hinges.....	Oct. 8, 1945.
15. Builders hardware.....	Oct. 8, Nov. 14, 1945—low-priced builders' hardware.
16. Automatic electric temperature controls.....	Oct. 9, 1945.

	<i>Dates of price actions</i>
17. Ready-mix concrete.....	Oct. 30, Nov. 14, Dec. 18, 1945.
18. Stokers.....	Nov. 8, 1945.
19. Douglas fir open window sash.....	November 20, 1945.
20. Douglas fir and minor species of plywood.....	November 24, 1945.
21. Window and picture glass.....	December 7, 1945.
22. Enameled cast-iron plumbing fixtureware.....	January 2, 1946.
23. Clay drain tile.....	January 7, 1946.
24. Domestic oil burners.....	January 14, 1946.
25. Gas-fired and liquid-petroleum-fired furnaces and unit heaters.....	Do.
26. Brass plumbing fixtures.....	January 21, 1946.
27. Southern pine lumber.....	July 23, 1945.
28. Yellow cypress lumber.....	August 22, 1945.
29. Douglas fir boards.....	Do.
30. Redwood lumber.....	September 4, 1945.
31. Western pine 4/4-inch boards.....	September 11, 1945.
32. Walnut lumber.....	November 23, 1945.
33. Lake States logs.....	November 29, 1945.
34. White birch logs.....	Do.
35. Hardwood handles.....	December 10, 1945.
36. Northern hardwood and softwood lumber.....	December 26, 1945.

The above list reflects approximately 60 separate price actions. Some of the actions were discretionary, and many simply fulfilled the legal minimum standards. Some involved relatively small price increases, others substantial raises. Further adjustments will undoubtedly become advisable within some of these same commodity categories.

Mr. BROWN. Mr. Bowles, I had a restaurant owner here speak to me about some article. He said there was plenty of this particular article. He said that by placing a ceiling on it, with the ceilings too high, everybody thought they would have to run quick to get it, because if there was a ceiling on it, it would be scarce. If it did not have a ceiling, of course, people would not rush to buy so quickly, and the price would be under ceiling. That is his philosophy, of course. He is against the Office of Price Administration altogether. But he told me about it, and I am just passing it on to you.

Mr. BOWLES. If he can find me any items that are selling below ceilings—potatoes, of course, did drop, and we took the ceilings off, and they have stayed off, and we have apparently gotten on all right on potatoes. That was said on chickens, but I do not think it is correct.

The CHAIRMAN. Mr. Bowles, you spoke of the increase of \$5 a ton on steel right across the line. What percentage of increase in the price of steel would that result in?

Mr. BOWLES. I think it is about 8 percent; maybe a little more than that—7 or 8 percent, I am told; that is, in general. Of course, some items, Mr. Spence, would go up considerably more than that.

The CHAIRMAN. It is a rather complicated formula, is it not? I mean many of the steel products are low-priced per ton, and many are higher.

Mr. BOWLES. Many would have higher increases than that; yes.

The CHAIRMAN. It would operate a greater percent in some items than in others?

Mr. BOWLES. Yes; our big problem is the small nonintegrated companies who are going to need considerably higher increases than that to get them into a good position.

The CHAIRMAN. What did the highest increase fall on?

Mr. BOWLES. The highest increase in price?

The CHAIRMAN. Yes.

Mr. BOWLES. They are not worked out in detail yet. They were being worked out over the week end; and I probably should not be talking about them, because I have nothing very exact. As soon as we get them—and it might be incorrect—as soon as we get them, we will give you all the increases. We are trying to particularly help the small nonintegrated companies, which, as you know, have been in difficulty for some time.

Mr. SMITH. Could we have them inserted in the record?

The CHAIRMAN. Does that run from \$38 a ton to \$70?

Mr. BOWLES. Up to \$1,800 a ton, some of them. Some of these steels they use in chisels and things like that would be \$1,800 a ton.

Mr. SMITH. I would like to make a request that those data be placed in the record.

Mr. BOWLES. All right, Mr. Spence. We would be glad to do that. (The document above referred to is as follows:)

RPS 6
INCL. AMDTS. 1-13
MAY 21, 1945

OFFICE OF PRICE ADMINISTRATION

(Document No. 46145)

PART 1306—IRON AND STEEL

[RPS¹ Incl. Amdts. 1-13*]

IRON AND STEEL PRODUCTS

This compilation of Revised Price Schedule 6 includes Amendment 13, effective May 23, 1945. Portions amended by Amendment 13 are underscored. Redesignations and revocations are indicated by note.

Price Schedule 6 was issued on April 16, 1941 to stem a threatened general increase in steel prices. It successfully achieved the major purpose. Such inequities and hardships as were inevitably involved in an action of this nature have been alleviated in the course of administration.

In June 1941 a revision of Price Schedule 6 was issued to incorporate certain suggestions received from a cross section of the industry. Subsequently, Revised Price Schedule No. 6 was issued, the revision being designed to eliminate ambiguities and minor errors which in no way affected the major provisions of the original Schedule. The present Schedule continues to employ the multiple basing point, price leadership, and extra systems which are presently in effect in the industry. As before, the acceptance of these systems merely as a vehicle for determining price should not be regarded as approval thereof.

Such specifications and standards as are used in this schedule were, prior to such use, in general use in the trade or industry affected.

[Preamble amended by Supplementary Order 62, 8 F. R. 12553, effective 9-11-43; and Am. 13, effective 5-23-45]

Sec.	Sec.
1306.1 Maximum prices for iron or steel products.	1306.12 Appendix C: Principal established basing points for selected products covered by Revised Price Schedule No. 6.
1306.2 Less than maximum prices or charges.	1306.13 Appendix D: Export base prices of United States Export Company for principal products, F. A. S. principal ports, in effect on April 16, 1941.
1306.3 Evasion.	1306.14 Appendix E: Exceptions to Revised Price Schedule No. 6.
1306.4 Adjustable pricing.	1306.15 Appendix F: Maximum charges for conversion or processing operations.
1306.5 Filing, invoicing and record-keeping requirements.	1306.16 Appendix G: Summary of provisions of the Maximum Export Price Regulation particularly applicable to Revised Price Schedule No. 6.
1306.6 Enforcement.	
1306.7 Petitions for amendment and applications for adjustment or exceptions.	
1306.8 Definitions.	
1306.9 Licensing.	
1306.10 Appendix A: Domestic and export ceiling prices for sales by producers of iron and steel products.	
1306.11 Appendix B: Products included in the definition of iron and steel products, § 1306.8 (e).	

AUTHORITY: § § 1306.1 to 1306.16, inclusive, issued under 56 Stat. 23, 765; 57 Stat. 566; Pub. Law 383, 78th Cong.; E. O. 9250, 7 F. R. 7871, and E. O. 9328, 8 F. R. 4681.

¹ 7 F. R. 1215.

*Statements of the Considerations involved in the issuance of amendments have been issued simultaneously therewith and filed with the Division of the Federal Register. Copies may be obtained from the Office of Price Administration.

§ 1306.1. *Maximum prices for iron or steel products.* On and after the 23rd day of May, 1945, regardless of any contract or other obligation: No producer shall sell or deliver iron or steel products at prices higher than the maximum prices established by this Schedule;

No person shall buy or receive iron or steel products from a producer at prices higher than the maximum prices established by this Schedule;

No producer shall charge a fee for the service of converting or processing in any manner an iron or steel product which is owned by a person other than the producer in excess of the maximum charges established by this Schedule;

No person shall agree, offer, solicit, or attempt to do any of the foregoing

The provisions of this Schedule shall apply to all sales and deliveries by producers of iron or steel products in the forty-eight states of the United States and the District of Columbia. Maximum prices for sales to exporters and for export sales of iron or steel products are established by the 2nd Revised Maximum Export Price Regulation and a summary of the provisions of the 2nd Revised Maximum Export Price Regulation particularly applicable to this Schedule is hereinafter set forth in § 1306.16 Appendix G.

[§ 1306.1 amended by Am. 13, effective 5-23-45]

1306.1a [Revoked]

[§ 1306.1a added by Am. 8, 8 F. R. 6042, effective 5-13-43; and revoked by Am. 13 effective 5-23-45]

§ 1306.2. *Less than maximum prices or charges.* Lower prices and charges than those set forth in this regulation may be charged, demanded, paid or offered.

[§ 1306.2 amended by Am. 8, 8 F. R. 6042, effective 5-13-43]

§ 1306.3 *Evasion.* The price limitations set forth in Revised Price Schedule No. 6 shall not be evaded whether by direct or indirect methods in connection with a purchase, sale, delivery or transfer of any iron or steel product, alone or in conjunction with any other material, or by way of any commission, service, transportation, or other charge, or by tying agreement or other trade understanding. Without limiting the generality of the foregoing, the price limitations set forth in Revised Price Schedule No. 6 shall not be evaded by improper classification of any iron or steel product; by improper application of extras; by elimination or reduction of any customary or general privilege as defined in § 1306.10 (h); by the charging of any premium for prompt or early delivery; by the splitting of orders into small quantities with design to increase prices; or by pricing on an f. o. b. mill basis or on the basis of any other than designated basing points, when either of these practices results in a higher than ceiling delivered price.

§ 1306.4 *Adjustable pricing.* Any person may agree to sell at a price which may be increased up to the maximum price in effect at the time of delivery; but no person may, unless authorized by the Office of Price Administration, deliver or agree to deliver at prices to be adjusted upward in accordance with action taken by the Office of Price Administration after delivery. Such authorization may be given when a request for a change in the applicable maximum price is pending, but only if the authorization is necessary to promote distribution or production and if it will not interfere with the purposes of the Emergency Price Control Act of 1942, as amended. The authorization may be given by the Administrator or by any official of the Office of Price Administration to whom the authority to grant such authorization has been delegated. The authorization will be given by letter or telegram when the contemplated revision might be the granting of an individual application for adjustment.

[§ 1306.4, formerly § 1306.7a, added by Am. 10, 9 F. R. 7601, effective 7-12-44; redesignated by Am. 13, effective 5-23-45. Former § 1306.4 revoked by Am. 13]

§ 1306.5 *Filing, invoicing and record-keeping requirements—(a) Filing.* On or before the 23d day of June 1945, every producer of iron or steel products shall file with the Iron and Steel Branch, Office of Price Administration, Washington 25, D. C., if he has not already done so, all charges, terms and discounts, including base prices published or quoted as of April 16, 1941, and extras which were (1) published and quoted, and (2) actually and customarily charged as of April 16, 1941. On and after the 23d day of May 1945, except as specifically authorized by the Office of Price Administration, no prices, extras or other charges permitted by Revised Price Schedule No. 6 may be charged by any producer unless such filing has been made, *Provided, however,* That a detailed price filing is not required in the case of speciality products (such as special bar mill sections) which are sold in very small quantities to one customer only. This exception, however, does not in any way affect the application of other provisions of this Schedule to such items.

(b) *Invoicing requirements.* Every producer making a sale of iron or steel products shall furnish to the buyer an invoice describing the material sold and terms of sale in such detail that the buyer can determine whether the material is priced in accordance with this Schedule. The invoice shall contain at least the following information: The date of sale; the name and address of the seller and purchaser; the quality, size, grade and quantity of the material sold; the price per item; and transportation charges, if any, paid by the purchaser. Copies of such invoices shall be retained by the seller for the duration of the Emergency Price Control Act of 1942, as amended, or for a period of not less than one year whichever is shorter.

(c) *Records.* Every producer of iron or steel products shall keep for inspection by the Office of Price Administration for the duration of the Emergency Price Control Act of 1942, as amended, or for a period of not less than one year, whichever is shorter, complete and accurate records of each sale, showing the customer's name and order number; date of order; date of shipment; shipping point and destination; a complete description of the material sold including quantity, size, grade and quality; and special operations or services performed by the producer for which a charge is made; the price of each item sold showing separately each price component; transportation charges paid by the buyer, if any; terms of sale and other credit terms.

(d) *Reports.* Every producer of iron or steel products shall submit to the Office of Price Administration such reports as it may from time to time require, in accordance with the requirements of the Federal Reports Act of 1942.

[§ 1306.5 amended by Am. 6, 7 F.R. 4780, effective 6-30-42; Am. 8, F.R. 6042, effective 5-13-43; and Am. 13, effective 5-23-45]

§ 1306.6 *Enforcement.* (a) Persons violating any provision of this Revised Price Schedule No. 6 are subject to the criminal penalties, civil enforcement actions, and suits for treble damages provided for by the Emergency Price Control Act of 1942, as amended.

(b) Persons who have evidence of any violation of this Revised Price Schedule No. 6 or any price schedule, regulation or order issued by the Office of Price Administration or of any acts or practices which constitute such a violation are urged to communicate with the nearest field or regional office of the Office of Price Administration or its principal office in Washington, D. C.

[§ 1306.6 amended by Supplementary Order No. 3, 7 F.R. 2132, effective 3-16-42]

§ 1306.7 *Petitions for amendment and applications for adjustment or exception—*(a) *Petitions for amendment.* Any person seeking an amendment of any provision of this Schedule may file a petition for amendment in accordance with the provisions of Revised Procedural Regulation No. 1² issued by the Office of Price Administration.

(b) *Applications for adjustment.* Any producer of iron or steel products may file an application for adjustment of the maximum prices established by this Schedule when he can demonstrate hardship in his over-all financial position or in the production of any item, product or line of products, because of the maximum prices established by this Schedule. Such application shall be filed in accordance with Revised Procedural Regulation No. 1.

(c) *Applications for exception.* Any producer of iron or steel products may file an application for an exception from the maximum prices established by this Schedule for a sale or group of sales of iron and steel products which are necessitated by the war effort and involve shipments into areas not normally served by such producer or the absorption of abnormally high transportation costs either of which would result in hardship to the producer. Applications for exception shall be filed in accordance with Revised Procedural Regulation No. 1.

[§ 1306.7 amended by Am. 2, 7 F.R. 2299, effective 3-25-42; Supplementary Order 26, 7 F.R. 8948, effective 11-2-42; and Am. 13, effective 5-23-45]

§ 1306.8 *Definitions.* When used in Revised Price Schedule No. 6, the term: (a) "Person" includes an individual, corporation, partnership, association, or any other organized group of persons, or legal successor or representative of any of the foregoing, and includes the United States or any agency thereof, or any other government, or any of its political subdivisions, or any agency of any of the foregoing.

[Paragraph (a) amended by Supplementary Order No. 12, 7 F.R. 6385, effective 8-17-42]

² 9 F.R. 10476, 13715.

(b) "Producer" or "producer of iron or steel products" means any person who manufactures or produces any of the iron or steel products as defined in paragraph (c) herein;

(c) "Iron or steel products" means and includes all iron or steel ingots, all semifinished iron or steel products, all finished hot-rolled or cold-rolled iron or steel products, and any iron or steel product which is further finished by galvanizing, plating, coating, drawing, extruding, etc. Without limiting the generality of the foregoing, the term shall include all products listed in Appendix B (§ 1306.11) of Revised Price Schedule No. 6. The term shall also include all seconds and off-grade iron or steel products: *Provided*, That the term shall not include axles or car wheels, or any combination rolled or forged, or pig iron.

[Paragraph (c) amended by Am. 10, 9 F. R. 7601, effective 7-12-44]

(d) "Governing basing point" means that established basing point the use of which results in the lowest delivered price at the place of delivery.

(e) "Emergency basing point" means the established basing point at or nearest the place of production or of origin of shipment.

(f) "Usual market area" of any mill with respect to a shipment of any product means that area into which the particular iron or steel product had, in the course of the two years prior to April 16, 1941, been customarily shipped by such mill in quantities comparable to the shipment being made.

(g) "Basing point base prices" means:

(1) The prices announced prior to December 31, 1940, or customarily quoted by Carnegie-Illinois Steel Corporation, American Steel & Wire Co., Tennessee Coal, Iron & Railroad Co., National Tube Co., and Columbia Steel Co., as base prices effective during the first quarter of 1941, or in effect on April 16, 1941, and applicable at designated basing points for iron or steel products; or

(2) In the case of an individual producer, the prices announced or customarily quoted by such producer during the first quarter of 1941, or in effect on April 16, 1941, as base prices applicable at designated basing points for iron or steel products: *Provided*, That the base prices under this subparagraph (2) shall not be in excess of the base prices under subparagraph (1), for the purpose of this definition, except to the extent which actually prevailed in the case of such producer, during the entire third quarter of the year 1940; or

(3) Where there are delivered prices applicable at a particular place, including Detroit, eastern Michigan, and the Gulf and Pacific Coast basing points listed in Appendix C (§ 1306.12), and such prices are less than the basing point base prices at the nearest governing basing point plus transportation charges, such prices for the purpose of Revised Price Schedule No. 6 shall be deemed basing point base prices applicable for delivery at such place: (i) *Provided*, That such prices, except in the case of the Gulf and Pacific Coast ports, are not to be used to arrive at delivered prices to other destinations: (ii) *Provided further*, That when delivery is made in any part by water transportation, to these maximum delivered prices may be added any excess in the charges for war risk marine insurance above the charges prevailing prior to January 8, 1942: (iii) *Provided further*, That this paragraph need not apply (a) in the case of a shipment to or based upon Gulf or Pacific Coast points, if the customary means of transportation are not used or (b) if the shipment is outside the usual market area, as defined in § 1306.8 (f), in which cases the shipment may be priced in accordance with paragraph (b) of Appendix A (§ 1306.10).

(iv) [Revoked.]

[Subparagraph (iv) added by Am. 4, 7 F.R. 3115, effective 4-30-42; revoked by Am. 9, 8 F.R. 6440, effective 5-15-43]

(h) (1) "Extras" means when used with reference to domestic sales (i) the published or quoted extras of the subsidiaries of the U. S. Steel Corporation as of April 16, 1941, or (ii) the published or quoted extras of the individual producer, as of April 16, 1941, being additions to or deductions from the base price to make adjustment for variations in the product sold from the product governed by the base price, which variations might be in size or other physical specifications, chemical analysis, processing or other quality or treatment or in the quantity of the product: *Provided*, That (except as permitted under § 1306.10 (h)) where any extra may have been so published or quoted but had not been charged, in whole or in part, by a producer for a specific application to a particular group or groups of buyers on April 16, 1941, or during the two years prior thereto, before such published extra may be charged or invoiced by such producer after March 15, 1942, to such particular group or groups of buyers such producer must apply for approval to and receive approval from the Office of Price Administration for

the charging of such extra for such application to such particular group or groups of buyers.

Any extra approved by the Office of Price Administration under this section may after publication thereof be charged by all producers covered by Revised Price Schedule No. 6. Without limiting the generality of this proviso, approval may be denied for the charging of any such extra, even if published as of April 16, 1941, to the extent that such extra during the two years prior to April 16, 1941, had been generally ignored in pricing steel for a particular group or groups of buyers so that the failure to charge such extra constituted a customary trade practice in respect to such buyers.

(2) "Extras" when used with reference to export sales means (i) the export extras published or quoted by the United States Steel Export Company, by the Steel Export Association, or by the individual producer, as of April 16, 1941; or (ii) where extras provided under (i) are not applicable, domestic extras as defined in paragraph (b) (1) above.

(3) The extras or other charges which may be charged on sales of cold finished steel bars and shafting shall be as established in subparagraphs (1) and (2) above: *Provided, That:*

(i) With respect to sales of cold finished carbon steel bars and shafting.

(a) The extra of \$0.10 per hundred pounds for magnetic testing may be charged only when the specification expressly calls for magnetic testing, or when the specifications for surface seams and other defects of this type are sufficiently critical so that magnetic testing is necessary to determine whether or not the material will be acceptable.

(b) The extra of \$0.25 per hundred pounds for United States Government specifications requiring physical inspection or physical testing is restated to read for "U. S. Government specifications requiring physical testing," and this extra may be charged only when the steel is produced to definite physical specifications requiring tensile, impact, fracture, or similar tests.

(c) The extra of \$0.10 per hundred pounds for U. S. Government specifications requiring chemical inspection or chemical testing is eliminated and such extra may not be charged.

(d) The extra of \$0.15 per hundred pounds for extensometer testing may be charged only when the use of this instrument is specifically required in the specification, and this extra may not be charged when the extra of \$0.25 per hundred pounds for physical testing is charged.

(e) Extras for quality, such as "special requirement quality" and "shell quality", may be charged only when and in the amount that such extra has been charged by the producer of the hot rolled steel from which the cold finished steel is made. In the case of producers making both the hot rolled and cold finished bars, such extras may be charged only when properly applicable to the hot rolled bars.

(f) When strain and stress relieving or stabilizing by baking is specified or required to meet physical requirements of the U. S. Army and Navy specifications for 20 mm, 1.1", 37 mm and 40 mm shells and other ammunition components covered by U. S. Army specifications 57-107-29, AXS-485, and AXS-605, and U. S. Navy specifications OS-1231, OS-829, Grade C, and OS-829, Grade D (Class 2) and similar Army, Navy, Lend-Lease, British or other specifications, the extra of \$0.75 per hundred pounds for annealing or normalizing may be charged, but such charge shall include all charges for physical testing, including magnetic testing and use of extensometer, and no other extras for physical testing may be charged.

(ii) With respect to sales of cold finished alloy steel bars,

(a) The maximum chemical analyses extras for the following basic open hearth grades shall be:

	<i>Per 100 lbs.</i>
NE 8600.....	\$. 65
NE 8700.....	. 70
AISI 41C0 (Mo.—.15 to .25).....	. 70
AISI 3100.....	. 85

On analyses of all other alloy steels for which chemical extras and extras for alloy content are not included in the standard extra list, the applicable charge for chemical composition and alloy content shall be calculated from the list of extras for hot rolled alloy steel bars as published and filed by the Carnegie-Illinois Steel Corporation.

The customary differentials for electric furnace quality and for variations from the standard analyses range shall apply to these extras.

[Subparag aph (a) amended by Am. 10, 9 F. R. 7601, effective 7-12-44]

(b) On U. S. Government specifications requiring physical testing such as tensile, impact, or fracture testing, an extra of \$0.25 per hundred pounds may be charged: *Provided*, That when this extra is charged, the extra of \$0.25 per hundred pounds for use of extensometer shall not be charged: *Provided further*, That this extra shall not be charged when the steel is heat-treated and/or stress relieved by the cold finished bar producer.

(c) The extra of \$0.10 per hundred pounds for U. S. Government specifications and/or inspection may be charged only when such extra has been charged by the producer of the hot-rolled steel from which the cold-finished steel is made, or, in the case of integrated producers, only when applicable to the hot-rolled bars.

(d) The maximum extra which may be charged for the stamping of heat numbers and symbols on one end of individual bars shall be \$0.25 per hundred pounds regardless of the number of stamps which may be required.

(e) When bars in the form of rounds or hexagons are furnished in coils, a discount of \$0.15 per hundred pounds shall be deducted from the selling price.

(f) The extra of \$0.50 per hundred pounds for steel guaranteed free from decarburization may not be charged when the steel is turned, turned and polished, or turned, ground, and polished.

(iii) Where the rules and interpretations as listed above mention "U. S. Government specifications", this term shall include British, Russian, and other governmental specifications of a similar nature, and also other specifications intended to procure steel for ordnance purposes.

[Subparagraph (3) added by Am. 6, 7 F. R. 4780, effective 6-30-42, amended as otherwise noted]

(4) The extras or other charges which may be charged on the sales of hot finished alloy steel bars and bar strip, billets, blooms, and slabs, cold rolled alloy strip, and hot and cold finished alloy mechanical and pressure tubing shall be as established in subparagraph (1) and (2) of § 1306.8 (h), *Provided*, That: (i) with respect to sales of alloy steel bars, bar strip, billets, blooms, slabs and cold rolled alloy strip the maximum analysis extras for the following basic open hearth grades, shall be:

	Basic Open Hearth	
	Bars—Bar strip cold rolled strip Per 100 lbs.	Blooms billets and slabs Per gross ton
NE 8600.....	\$0.65	\$13.00
NE 8700.....	.70	14.00
AISI 4100 (Mo.—0.15 to 0.25).....	.70	14.00
AISI 3100.....	.85	7.00

The customary differentials for electric furnace quality and for variations from the standard analysis range shall apply to these extras.

(ii) With respect to sales of alloy steel mechanical and pressure tubing (except aircraft tubing and bearing tubing) the maximum analysis extras for the following basic open hearth grades, NE 8600, NE 8700, AISI 4100 and AISI 3100, shall be the bar extras stated in subparagraph (i) of this paragraph converted to a percentage "base" in accordance with the "Analysis Extras and Deductions" tables filed with the Office of Price Administration by producers of alloy steel tubing.

[Subparagraph (4) added by Am. 10, 9 F. R. 7601, effective 7-12-44]

§ 1306.9 *Licensing*. The provisions of Licensing Order No. 1,³ licensing all persons who make sales under price control, are applicable to all sellers subject to this regulation or Schedule. A seller's license may be suspended for violations of the license or of one or more applicable price schedules or regulations. A person whose license is suspended may not, during the period of suspension, make any sale for which his license has been suspended.

[§ 1306.9, formerly § 1306.6a, added by Supplementary Order No. 72, 8 F. R. 13244, effective 10-1-43; redesignated by Am. 13]

[Former §§ 1306.9 and 1306.9a revoked by Am. 13, effective 5-23-45]

§ 1306.10 *Appendix A: Domestic and export ceiling prices for sales by producers of iron and steel products*. (a) The domestic ceiling delivered price for any iron or steel products for which there are basing point base prices shall be the aggregate of:

³ 8 F. R. 13240.

(1) The basing point base price at the *governing* basing point;
 (2) Applicable extras, as defined in and subject to the provisions of § 1306.8 (h): *Provided*, That in no case shall an extra or extras be charged for any processing, testing, chemical specification, special quality, quantity, etc., unless these services are actually performed and are necessary in order to furnish an iron or steel product of a type and quality required to fabricate successfully the article in question or to meet the specifications of the purchaser.

(3) Transportation charges in effect at the time of shipment from the governing basing point to the place of delivery as customarily computed.

(b) Notwithstanding the provisions of paragraph (a), if in any case in which by reason of unusual circumstances arising directly from the emergency demands of the war program, a shipment of any product is made to a place which is not within the usual market area of the mill from which shipment is made, the emergency basing point may be used and transportation charges may be calculated from the emergency basing point to the place of delivery. Such transportation charges shall in no case exceed the actual cost of transportation on the shipment. All persons selling iron or steel products under this paragraph (b) shall maintain complete and readily available records of all such sales and shall report such sales to the Office of Price Administration as the Office of Price Administration may from time to time require.

(c) The maximum prices for export sales shall be determined in accordance with the provisions of the Second Revised Maximum Export Price Regulation issued by the Office of Price Administration. A summary of the provisions of said Second Revised Maximum Export Price Regulation⁴ particularly applicable to this schedule is set forth in Appendix G hercof.

[Paragraph (c) amended by Am. 8, 8 F. R. 6042, effective 5-13-43]

[Former paragraph (d) revoked by Am. 8, 8 F. R. 6042, effective 5-13-43. Former paragraphs (e), (f), (g), (h), (i) and (j) redesignated (d), (e), (f), (g), (h) and (i) by Am. 8, 8 F. R. 6042, 7257, effective 5-13-43]

(d) For all iron or steel products, such as specialty products, for which there are no basing point base prices and extras or United States Steel Export Company F. A. S. seaboard prices, the ceiling prices shall be the prices and extras which were or would have been charged by the seller on April 16, 1941 (upon the basis of the prices, discounts, charges, or extras then listed or quoted by the seller) for such iron or steel products.

[Subparagraph (d) (4) (incorrectly designated), added by Am. 12, 10 F. R. 2432, effective 3-1-45; and revoked Am. 13, effective 5-23-45]

(e) (1) The maximum delivered prices for flat rolled iron or steel products which either have been rejected from the original order for which they were rolled or contain imperfections customarily distinguishing secondary or off-grade iron or steel products from products of prime quality, shall be as set forth hereinafter in this paragraph (e): *Provided*, That a product which has been rejected from the original order for which it was rolled may be applied at the full applicable prime price against a different prime order if such product fulfills in every respect the quality and other requirements in the original specifications for such different order, and if such product may be used by the purchaser without resorting to additional processing not usually performed in order to adapt the material to his requirements.

(i) "Seconds arising" shall not be sold at a price in excess of the applicable prices filed therefor in accordance with paragraph (a) of § 1306.5 of this Schedule.

[Subparagraph (i) amended by Am. 13, effective 5-23-45]

(ii) "Rejects" shall not be sold at a price in excess of the aggregate of 85% of the applicable basing point base price at the basing point nearest freightwise to the point of shipment plus 85% of such of the following extras established by this Revised Price Schedule No. 6 as may be applicable: (a) in the case of hot rolled sheets and cold rolled sheets, the standard extra for 32" x 96" sheet in the gage specified, and, in the case of hot rolled pickled sheets, the pickling extra; (b) in the case of hot rolled strip, cold rolled strip .26 carbon and higher, commodity cold rolled strip and cold rolled spring steel, the standard extra for gage and size and, in the case of hot rolled pickled strip, the pickling extra; (c) in the case of cold rolled strip under .26 carbon, the standard extra for gage and size in cut lengths, for either hard or soft temper; (d) in the case of plates, the standard extra for thickness, for wide widths, for pickling or sandblasting and for quality (provided such quality is actually furnished and was not the reason for the original rejection and is specified by the customer); and (e) in the

⁴ 8 F. R. 4132, 5987, 7662, 9998, 15193; 9 F. R. 1036.

case of galvanized sheets, galvanized sheets, long terne sheets, and all other products with separate gage extra and size extras, the extra for gage. "Rejects", for the purpose of this subparagraph are flat-rolled iron or steel products which are of a designated specific size and gage and which contain minor imperfections such as minor surface defects, lack of flatness, camber, off or fluctuating gage or temper, and similar imperfections, but which may be utilized without requiring unusual processing in order to remove or minimize injurious defects.

(iii) "Wasters" shall not be sold at a price in excess of the aggregate of 75% of the applicable basing point base price at the basing point nearest freightwise to the point of shipment plus 75% of such of the extras set forth in (ii) of this subparagraph as are applicable. "Wasters", for the purposes of this subparagraph, are flat-rolled iron or steel products which are of a designated specific gage but are unassorted to size, and which are otherwise of the same quality as "rejects."

(iv) "Waste wasters" shall not be sold at a price in excess of the aggregate of 65% of the applicable basing point base price at the basing point nearest freightwise to the point of shipment plus 65% of such of the extras set forth in (ii) of this subparagraph as are applicable: *Provided*, That in computing the maximum unit price for any lot of "waste wasters" containing a range of gages, the maximum price for the gage within the range carrying the lowest gage extra shall be the price used in determining the maximum price for the entire lot: *Provided further*, That the maximum prices for plates which are "waste wasters" shall be those set forth in (iii) of this subparagraph. "Waste wasters", for the purposes of this subparagraph, are flat-rolled iron or steel products which are unassorted to both size and gage and also include flat-rolled iron or steel products which, in addition to the imperfections listed in (ii) of this subparagraph, also contain imperfections appreciably limiting the utility of the product, such as blisters, laminations, perforations, dirty surfaces, bad edges, wrinkles, or other mars, and which require further processing by the purchaser, such as shearing, pickling, or scrubbing, in order to remove or minimize such injurious defects.

(v) The maximum prices which may be charged for tin plate "waste waste" shall be \$2.80 per hundred pounds, and for manufacturers' terne plate "waste waste" shall be \$2.25 per hundred pounds.

(vi) To the maximum prices established in (ii), (iii), (iv), and (v) above may be added the actual cost of transportation from the immediate point of shipment to the point of delivery.

(2) The maximum delivered prices for "semi-finished rejects" shall be not in excess of the aggregate of 85% of the applicable basing point base price at the basing point nearest freightwise to the point of shipment for an identical quantity of the iron and steel products of a reolling grade plus such extra for cross-sectional area as may be applicable and plus the actual cost of transportation from the immediate point of shipment to the point of delivery. "Semi-finished rejects" for the purposes of this subparagraph, are partly finished iron or steel products, such as blooms, billets, tube rounds and slabs, which have been rejected because of poor surface condition, lack of internal soundness, or other defects which render the steel unsuitable for sale or use by the mill as a prime product.

(3) The maximum delivered price for any secondary or off-grade iron or steel product for which a maximum price is not established in subparagraphs (1) and (2) above shall be an amount not in excess of the maximum delivered prices established by this Revised Price Schedule No. 6 for an identical quantity of the same iron and steel of prime quality.

[Paragraph (e), formerly (f) amended by Am. 7, 7 F. R. 7240, effective 9-17-42]

(f) (1) The maximum base price for carbon steel ingots, reolling quality, standard analysis, shall be \$31.00 per gross ton, f. o. b. mill.

(2) The maximum basing point base price for unfabricated new-billet concrete reinforcing bars shall be \$2.15 per hundred pounds, subject to the following mandatory adjustments:

(i) A discount of \$0.25 per hundred pounds on orders released for shipment to one installation at one time and in quantities of 20 tons or more of one size and one length 30 feet or over or in random mill lengths, when such sales are made to persons in the business of fabricating such reinforcing bars for resale and who maintain warehousing facilities, equipment for cutting and bending, and engineering services. This paragraph shall apply to direct purchases by the Tennessee Valley Authority and the Bureau of Reclamation.

(ii) Such other functional or customary discounts to contractors, jobbers, brokers, or others as each individual producer was granting on April 16, 1941, and is required to maintain by § 1307.10 (h) .

(iii) Such differentials as are allowed or enforced by other sections or paragraphs of Revised Price Schedule No. 6 in the case of Gulf ports, Pacific ports and other delivered price areas.

[Paragraph (f), formerly (g), amended by Am. 6, 7 F. R. 4780, effective 6-30-42]

(g) In any case in which the maximum prices set forth in this schedule are not applicable to a new product, or a substantial variation in a product or a new process or service, the producer shall apply to the Office of Price Administration, Washington 25, D. C. for a maximum price for the product or process. He shall submit his proposed selling price and substantiating information. If the new product or process is such that an in-line price may be established by interpolation of existing maximum prices the interpolation procedure must be clearly set forth, otherwise detailed estimated costs must be submitted on OPA Forms #674-530 (a), (b), (c) or (d) whichever is applicable. The Office of Price Administration shall act upon such application within 10 days after its receipt or after the receipt of any additional information requested. It may deny the application or establish a different price and may impose such conditions as are appropriate. If the Office of Price Administration has not acted upon an application within the period specified, the applicant may use the requested price until such time that he receives notice from the Office of Price Administration that his price has been revoked or modified. Pending action of the Office of Price Administration upon an application, the producer may make offers or enter into contracts upon the basis of the requested price, but may not receive payment until action by the Office of Price Administration or until expiration of 20 days after mailing of the application.

[Paragraph (g) amended by Am. 13, effective 5-23-45]

(h) All customary or general privileges in effect as of April 16, 1941, including, without limiting the generality of the foregoing, delivery and other services of all kinds, credit or other terms of payment, functional discounts and allowances such as those customarily made to jobbers, dealers or other distributors and discounts and allowances customarily made to specific classes of purchasers such as manufacturers of roofing materials, chain link fencing, culverts, etc., shall be continued without diminution or extra charge: *Provided*, That this paragraph shall not apply to any reductions in published or quoted base prices arising from specific competitive situations: *Provided further*, That the discount or allowance to be made on bale tie low carbon Bessemer or low carbon basic manufacturers' wire, shall be, not less than 20 cents per hundred pounds off the base price for such wire, except that, insofar as a lesser discount, was actually and customarily granted, as of April 16, 1941, by a producer who customarily sold such bale tie wire to bale tie manufacturers, such lesser discount may be used by the producer on its sales of bale tie wire to such manufacturers.

[Paragraph (h), formerly (i), amended by Am. 1, 7 F. R. 2153, effective 3-17-42; Am. 5, 7 F. R. 3941, effective 5-30-42; and Am. 13, effective 5-23-45]

(i) Notwithstanding the provisions of any other section of this Revised Price Schedule No. 6, the maximum basing point base prices of steel wire screen cloth, both black painted and galvanized, in standard length rolls of 100 lineal feet and in standard widths of 18' to 48' inclusive, shall be as follows:

To jobbers stocks

	Carload	Less than carload	Direct to dealers
AREAS OTHER THAN PACIFIC COAST			
Discount off list, of	50 & 15 percent	50 & 12½ percent	50 & 10 percent
List in effect Apr. 16, 1941			
PACIFIC COAST			
Net prices per 100 sq. ft.			
12 mesh black painted	\$1.67	\$1.88	\$2.07
12 mesh galvanized	1.80	2.02	2.25
14 mesh galvanized	2.04	2.29	2.52
16 mesh galvanized	2.36	2.60	2.86
18 mesh galvanized	2.64	2.95	3.90

All extras, terms and conditions of sale, delivery and other services shall be maintained.

[Paragraph (i), formerly (j), added by Am. 3, 7 F. R. 2907, effective 4-27-42]

(j) (1) *Additions to basing point base prices for certain products.* Notwithstanding the provisions of any other section of this Revised Price Schedule No. 6, there may be added to the basing point base prices otherwise established by this schedule for the products listed below, the amounts indicated:

- (i) Carbon steel blooms, billets, slabs, and sheet bar of all qualities—\$2.00 per gross ton.
- (ii) Carbon steel tube rounds, and tube billets exclusive of billets not directly converted into seamless pipe or tube—\$4.00 per gross ton.
- (iii) Carbon steel plates, all types and qualities, produced to the dimensional tolerances in A. I. S. I. Manual Section 6, Carbon Steel Plates, March 1943 revision—15¢ per 100 pounds.
- (iv) Rails, except light rails, all types and grades—\$3.00 per gross ton.
- (v) Light rails, all types and grades—\$5.00 per gross ton.
- (vi) Tie plates, all types—\$3.00 per net ton.
- (vii) Carbon steel hot rolled merchant bars and bar size shapes, all types and qualities—10¢ per 100 pounds.
- (viii) Carbon steel hot rolled wire rods, all types and qualities—15¢ per 100 pounds.
- (ix) Carbon steel manufacturers wire and carbon steel merchant quality wire, all types and finishes, except such manufacturers wire for which a base price in excess of \$3.20 f. o. b. Pittsburgh, Pennsylvania, or \$3.30 f. o. b. Worcester, Massachusetts is otherwise established by this schedule—15¢ per 100 pounds.
- (x) Nails and staples, other than galvanized nails and staples—35¢ per 100 pounds except that for all Miscellaneous Nails and Wire Brads having maximum prices based on list prices less published discounts, the increase of 35¢ per 100 pounds may be added to the maximum delivered prices.
- (xi) Twisted barbless wire and barbed wire—10¢ per 100 pounds.
- (xii) Bale ties, all types—35¢ per 100 pounds.
- (xiii) Hot rolled carbon steel, porcelain enameling, iron, and electrical steel sheets, including roofing and siding manufactured from those materials, all types and qualities—10¢ per 100 pounds.
- (xiv) Galvanized iron or steel sheets, and zinc coated specialty iron or steel sheets, including roofing and siding manufactured from those materials (not including galvanized sheets)—20¢ per 100 pounds.
- (xv) Track spikes—25¢ per 100 pounds.

[Subparagraph (1) amended and (4) revoked by Am. 13, effective 5-23-45]

(2) The increases granted in this § 1306.10 (j) shall apply to all shipments made on and after the effective date hereof.

(3) The increases granted in this § 1306.10 (j) may not be added to prices established by individual price adjustment. The companies to which individual price adjustments have heretofore been granted may sell at the prices established in this § 1306.10 (j) or at the prices established by their individual adjustment order, at their option.

(4) [Revoked]

[Paragraph (j) added by Am. 11, 10 F. R. 520, effective 1-11-45; and amended by Am. 12, 10 F. R. 2432, effective 3-1-45 and as otherwise noted]

§ 1306.11 *Appendix B: Products included in the definition of iron or steel products, § 1036.8 (c).* The following iron and steel products and their alloys (including stainless) are "Iron or steel Products" as defined in § 1306.8 (c). This list does not limit the generality of the definition of iron and steel products contained in § 1306.8 (c).

<p>Ingot Blooms Billets Slabs Sheet bars Skelp Tube rounds Muck bar Forging rounds</p>	<p>Bars and small shapes, new billet and rail steel—all types and grades including: Merchant Cold finished—carbon Concrete reinforcing Alloy-hot rolled cold finished Hoops and baling bands</p>
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Tool steel bars—rolled and forged
 Plates—all types
 Armor plate—forged, rolled and otherwise
 Shapes including bearing piles
 Sheet piling and accessories
 Rails—all types
 Track materials including:
 Tie plates
 Tie rods
 Track spikes
 Splice bars (joint bars, angle bars, rail joints, and fish plates)
 Ties
 Pipe and tube—plain, threaded, and coupled—all types and grades, including:
 Conduit
 Spiral welded
 Mechanical tubing
 Boiler, pressure, and heat exchange tubing
 Black Plate
 Tin Plate—all types
 Sheets and strips, all types, including plain and corrugated; and roofing and siding of all types; including:
 Hot rolled
 Cold rolled
 Galvanized
 Ternes
 Enameling
 Electrical
 All other
 Wire and wire rods—all types and grades
 Merchant wire products, including:
 Nails, staples, and brads
 Merchant quality wire
 Wire fencing, including woven, chain, link and lawn
 Bale ties and buckle wire
 Posts—all types and accessories
 Poultry and animal farm netting
 Twisted barbless and barbed wire
 Wire clothes line
 Wire rope, wire strand, and special cords such as aircraft
 Woven wire cloth—insect, hardware, and all other
 Wire belting
 Wire hoops
 Communications and power transmission wire
 Welded or woven wire fabrics for reinforcing

[List amended by Am. 10, 9 F. R. 7601, effective 7-12-44]

§ 1306.12 *Appendix C: Principal established basing points for selected products covered by Revised Price Schedule No. 6.*

["Axles—Rolled or Forged" deleted by Am. 13, effective 5-23-45]

Bale Ties:
 Birmingham
 Chicago
 Cleveland
 Duluth
 Pittsburgh
 Pacific Coast Ports
 Bars—Alloy Steel, Hot Rolled:
 Bethlehem
 Buffalo
 Canton
 Chicago
 Massillon
 Pittsburgh
 Bars—Alloy Steel, Cold Finished:
 Buffalo
 Chicago
 Cleveland
 Gary
 Pittsburgh
 Bars and Small Shapes—Carbon Steel and Rail Steel, Hot Rolled:
 Birmingham
 Buffalo
 Chicago
 Cleveland
 Duluth (Carbon Steel only)
 Gary
 Pittsburgh
 Gulf Ports
 Pacific Coast Ports
 Bars—Carbon Steel, Cold Finished:
 Buffalo
 Cleveland
 Chicago
 Detroit
 Gary
 Pittsburgh
 Bars—Concrete Reinforcing, New Billet and Rail Steel:
 Birmingham
 Buffalo
 Chicago
 Cleveland
 Gary
 Pittsburgh
 Sparrows Point, Md. (New Billet only)
 Youngstown
 Gulf Ports:
 Beaumont, Texas
 Galveston, Texas
 Houston, Texas
 Orange, Texas
 Port Arthur, Texas
 Pacific Coast Ports
 Bars, Billets, Blooms, Muck Bar—Iron:
 Berwick, Pa.
 Burnham, Pa.
 Chicago
 Coatesville, Pa.
 Columbia, Pa.
 Creighton, Pa.
 Cuyahoga Falls, Ohio
 Dover, N. J.

Bars, Billets, Blooms, etc.—Continued	Plates—Alloy—Continued	
Jersey City, N. J.	Pittsburgh	
Lebanon, Pa.	Gulf Ports	
Louisville, Ky.	Pacific Coast Ports	
Pittsburgh	Plates—Floor:	
Richmond, Va.	Pittsburgh	
Terre Haute, Ind.	Chicago	
Bars and Billets—Tool Steel:	Gulf Ports	
Bethlehem	Pacific Coast Ports	
Pittsburgh	Girder Rails and Splice Bars Therefor:	
Syracuse, N. Y.	Lorain, Ohio	
Blooms, Billets and Slabs—Alloy Steel:	Steelton, Pa.	
Bethlehem	Light Rails—(60 lb. or less per yd.):	
Buffalo	Birmingham	
Canton	Chicago	
Chicago	Pittsburgh	
Massillon, Ohio	Rails and Splice Bars for Rails (over 60	
Pittsburgh	lb. per yd.):	
Blooms, Billets and Slabs—Carbon	Gulf Ports:	
Steel, Forging and Rerolling:	New Orleans	} On sales to Railroad Cos. 200 g. t. or more for rails, and any quantity for splice bars.
Birmingham	Mobile, Ala.	
Buffalo	Galveston, Tex.	
Chicago	Houston, Tex.	
Cleveland	Pacific Coast Parts:	
Duluth (Billets only)	Oakland, Calif.	
Gary	San Francisco	
Pittsburgh	San Pedro, Calif.	
Sparrows Point, Md. (Rerolling	Portland, Oreg.	
quality)	Seattle, Wash.	
Youngstown	Railroad Tie Plates—for Standard Tee	
Fence Posts:	Rails:	
Birmingham (Angle line posts only)	Birmingham	
Chicago	Buffalo	
Cleveland	Chicago	
Pittsburgh	Kansas City, Mo.	
Pacific Coast Ports	Minnequa, Colo.	
Pipe—Wrought Iron:	Pittsburgh	
Pittsburgh	Portsmouth	
Pipe—Steel:	St. Louis	
Gary	Steelton, Pa.	
Lorain	Weirton, W. Va.	
Pittsburgh	Pacific Coast Ports	
Ingots—(Forging):	Railroad Track Spikes:	
Pittsburgh	Birmingham	
Ingots—(Alloy):	Chicago	
Pittsburgh	Kansas City, Mo.	
Bethlehem	Lebanon, Pa.	
Buffalo	Minnequa, Colo.	
Canton	Pittsburgh	
Chicago	Portsmouth, Ohio	
Coatesville	Richmond, Va.	
Massillon	St. Louis	
Plates—Carbon:	Weirton	
Birmingham (up to and incl. 106''	Youngstown	
wide)	Pacific Coast Ports:	
Chicago	San Francisco	
Claymont, Del.	San Pedro, Calif.	
Cleveland, Ohio	Portland, Oreg.	
Coatesville, Pa.	Seattle, Wash.	
Gary	Sheet Bars:	
Pittsburgh	Buffalo	
Sparrows Point, Md.	Canton	
Youngstown	Chicago	
Gulf Ports	Cleveland	
Pacific Coast Ports	Pittsburgh	
Plates—Alloy:	Sparrows Point, Md.	
Chicago	Youngstown	
Coatesville		

Sheets—Cold Rolled:	Strip Steel—Cold Rolled—Continued
Buffalo	Worcester, Mass.
Chicago	Youngstown
Cleveland	Splice Bars for Light Rails:
Gary	Pittsburgh
Granite City, Ill.	Strip Steel—Commodity:
Middletown, Ohio	Pittsburgh
Pittsburgh	Cleveland
Youngstown	Youngstown
Pacific Coast Ports	Worcester
Sheets—Enameling:	Strip Steel—Alloy:
Pittsburgh	Pittsburgh
Chicago	Bethlehem
Cleveland	Buffalo
Gary	Canton
Granite City	Chicago
Middletown	Massillon
Youngstown	Strip Steel—Hot Rolled:
Pacific Coast Ports	Birmingham
Sheets—Electrical:	Chicago
Pittsburgh	Cleveland
Granite City	Gary
Pacific Coast Ports	Middletown, Ohio
Sheets—Galvanized:	Pittsburgh
Birmingham	Youngstown
Buffalo	Pacific Coast Ports
Chicago	Structural Shapes:
Gary	Bethlehem
Granite City, Ill.	Birmingham (Standard Shapes
Middletown, Ohio	Only)
Pittsburgh, Pa.	Buffalo
Sparrows Point, Md.	Chicago (except ship sections not
Youngstown, Ohio	rolled)
Pacific Coast Ports	Gary (except ship sections not
Sheets—Hot Rolled:	rolled)
Birmingham	Pittsburgh
Buffalo	Gulf Ports
Chicago	Pacific Coast Ports
Cleveland	Tin Mill Black Plate:
Gary	Chicago
Granite City, Ill.	Gary
Middletown, Ohio.	Granite City, Ill.
Pittsburgh	Pittsburgh
Sparrows Point, Md.	Pacific Coast Ports
Youngstown, Ohio	Tin Plate and Terne Plate:
Pacific Coast Ports	Chicago
Sheets—Long Terne:	Gary
Chicago	Granite City, Ill.
Gary	Pittsburgh
Pittsburgh	Tubing—Mechanical:
Pacific Coast Ports	Canton
Skelp—Carbon Steel:	Detroit
Chicago	Milwaukee
Coatesville	Shelby
Pittsburgh, Pa.	Pittsburgh
Sparrows Point, Md.	Tubing—Pressure:
Youngstown	Pittsburgh
Skelp—Charcoal Iron:	Twisted Barbless & Barbed Wire:
Coatesville, Pa.	Birmingham
Steel Sheet Piling & Accessories:	Chicago
Buffalo	Cleveland
Chicago	Duluth
Pittsburgh	Pittsburgh
Pacific Coast Ports	Pacific Coast Ports
Strip Steel—Cold Rolled:	Tube Rounds:
Chicago	Chicago
Cleveland	Cleveland
Pittsburgh	Pittsburgh

<p>Wire Rods: Birmingham Chicago Cleveland Pittsburgh Worcester, Mass. Gulf Ports: Galveston, Tex. Pacific Coast Ports: Los Angeles San Francisco Portland, Ore. Seattle, Wash.</p> <p>Wire—Drawn (Includes Manufacturer's and Merchant Quality): Birmingham Chicago Cleveland Glassport, Pa. (Hot copper covered steel only) Duluth Pittsburgh Worcester, Mass. (Manufacturer's wire only) Pacific Coast Ports</p> <p>Wire—Spring: Chicago Cleveland Pittsburgh Worcester, Mass. Pacific Coast Ports</p> <p>Wire—Telephone: Cleveland Munice, Ind. Pittsburgh Sparrows Point, Md. Trenton, N. J. Waukegan, Ill. Worcester, Mass.</p>	<p>Wire Fencing (except chain link): Birmingham Chicago Cleveland Duluth Pittsburgh Pacific Coast Ports</p> <p>Wire Hoops: Chicago Pittsburgh</p> <p>Wire Nails and Staples: Birmingham Chicago Cleveland Duluth Pittsburgh Pacific Coast Ports</p> <p>Pacific Coast Ports, except where otherwise enumerated are as follows: Bellingham, Wash. Everett, Wash. Long Beach, Calif. Los Angeles, Calif. Oakland, Calif. Portland, Oreg. Sacramento, Calif. San Diego, Calif. San Francisco, Calif. San Pedro, Calif. Seattle, Wash. Stockton, Calif. Tacoma, Wash. Wilmington, Calif.</p> <p>Gulf Ports, except where otherwise enumerated are as follows: Beaumont, Tex. Galveston, Tex. Houston, Tex. New Orleans, La. Orange, Tex. Port Arthur, Tex.</p>
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§ 1306.13 Appendix D: Export base prices of United States Export Company for principal products, F. A. S. principal ports, in effect on April 16, 1941

PER GROSS TON

Products	Boston, New York, Philadelphia, Baltimore, Norfolk	Charleston, Savannah, New Orleans, Mobile	Galveston, Houston	San Francisco, Seattle, Portland, Los Angeles (San Pedro)
Ingot.....	\$37.00	\$37.00	\$39.49	\$46.60
Blooms-billets & slabs, sheet bars.....	42.00	42.00	44.49	51.60
Forging billets.....	48.00	48.00	50.49	57.60
Wire rods in coils.....	52.00	52.00	54.49	61.60
Light rails (60 pounds and under).....	52.50	52.50	58.01	62.21
Heavy rails (over 60 pounds).....	54.15	54.15	59.66	63.86
Girder rails.....	55.00	58.55	60.25	64.27

PER 100 POUNDS

Angle splice bars for heavy rails.....	\$3.52	\$3.52	\$3.64½	\$3.92
Tie plates.....	2.92	2.92	3.04½	3.32
Track spikes.....	3.25	3.25	3.37½	3.65
Axles.....	3.38	3.58	3.66	3.78
Skelp.....	2.20	2.40	2.48	2.60
Piling.....	2.60	2.80	2.88	3.00
Plates (carbon steel).....	2.45	2.45	2.57½	2.85

§ 1306.13 Appendix D: Export base prices of United States Export Company for principal products, F. A. S. principal ports, in effect on April 16, 1941—Con.

PER 100 POUNDS—Continued

Products	Boston, New York, Philadelphia, Baltimore, Norfolk	Charleston, Savannah, New Orleans, Mobile	Galveston, Houston	San Francisco, Seattle, Portland, Los Angeles (San Pedro)
Structural shapes (standard).....	\$2.45	\$2.45	\$2.57½	\$2.85
Merchant bars and bar mill shapes.....	2.45	2.45	2.57½	2.85
Concrete bars (new billet).....	2.45	2.45	2.57½	2.85
Cold finished carbon steel bars.....	2.88	3.08	3.16	3.23
Hot rolled alloy bars.....	2.79½	3.04	3.04	3.14
Cold finished alloy bars.....	3.56	3.69	3.69	3.79
Hot rolled carbon tool steel bars (Tennessee special).....	7.57	7.57	8.37	7.50
Black annealed wire.....	3.10	3.30	3.38	3.50
Galvanized plain wire.....	3.60	3.80	3.88	4.00
Galvanized barb wire.....	3.65	3.85	3.93½	4.07½
Bright nail wire.....	2.80	3.00	3.08	3.20
Wire nails.....	2.85	2.85	2.98½	3.29
Galvanized staples (incl. \$1.17 extra for galvanized).....	3.90	4.12	2.41	4.34
Bright staples (including 72 cents extra for bright).....	3.50	3.72	3.81	3.94

PER BASE BOX

Tin plate 14" x 20" 107 pounds—112 sheets, wooden boxes—wire strapped.....	\$5.35	\$5.35	\$5.49	\$5.80
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PER 100 POUNDS

Hot rolled sheets, 24 B. G. plain bundles (includes 90 cents for gag).....	\$3.25	\$3.25	\$3.37½	\$3.65
10 U. S. G. plain bundles.....	2.35	2.35	2.47½	2.75
Cold rolled sheets, 17 U. S. G. in 2-ton metal crates (includes 15 cents for packing).....	3.40	3.60	3.68	3.80
Galvanized sheets, 24 B. G. in plain bundles.....	3.90	3.90	4.02½	4.30
Hot rolled strip.....	2.40	2.60	2.68	2.80
Cold rolled strip.....	3.10	3.30	3.38	3.50

Percent

American standard pipe, black, T. & C. 1" to 3".....	67	65	64.2	63
American standard pipe, galvanized, T. & C. 1" to 3".....	56.2	54.2	53.4	52.2
American extra strong pipe, black, plain ends, 1" to 3".....	65.5	63.5	62.7	61.5
American extra strong pipe, galvanized, plain ends, 1" to 3".....	55.7	53.7	52.9	51.7
American double extra strong pipe, black, plain ends, 2" to 2½".....	53.8	51.8	51.0	49.8
American double extra strong pipe, galvanized, plain ends, 2" to 2½".....	43	41	40.2	39
English gas tubes, black, T. & C. ¾" to 6".....	1 67	1 65½	1 64.5	1 63.5
English gas tubes, galvanized, T. & C. ¾" to 6".....	2 65	2 63½	2 62.5	2 61.5
English gas tubes, black, T. & C. ¾" to 6".....	1 59	1 57½	1 56.5	1 55.5
English gas tubes, galvanized, T. & C. ¾" to 6".....	2 57	2 55½	2 54.5	2 53.5
English steam tubes, painted, T. & C. ¾" to 6".....	1 62	1 60½	1 59½	1 58.5
English steam tubes, galvanized, T. & C. ¾" to 6".....	2 57	2 55½	2 54½	2 53.5
English steam tubes, black, T. & C. ¾" to 6".....	1 50	1 48½	1 47½	1 46.5
English steam tubes, galvanized, T. & C. ¾" to 6".....	2 49	2 47½	2 46½	2 45.5

DISCOUNTS:

- American standard pipe—off American list No. 6.
- English gas tubes—off English list No. 3, converted 2 cents to the penny.

- ¹ South American markets.
- ² Other markets.

§ 1306.14. Appendix E: Exceptions to Revised Price Schedule No. 6. Since the issuance of Price Schedule No. 6 and its revisions, various persons have been granted exceptions or adjustments pursuant to the provisions of the schedule, by orders issued by the Office of Price Administration. Persons interested in the provisions of such orders may secure copies thereof by applying to the Distribution Branch of the Office of Price Administration at Washington 25, D. C.

[§ 1306.14 amended by Am. 13, effective 5-23-45]

§ 1306.15. *Appendix F: Maximum charges for conversion or processing operations.* The maximum charge which may be made by any producer for converting or processing in any manner an iron or steel product which is owned by a person other than the producer shall be determined in the manner hereinafter set forth in this section.

[Above paragraph amended by Am. 13, effective 5-23-45]

(a) When the converted or processed iron or steel product is to be sold by the owner at a price not in excess of the applicable maximum ceiling price established by Revised Price Schedule No. 6 or by Revised Price Schedule No. 49, there shall be no maximum charge applicable to the conversion or processing operation.

(b) When the aggregate charges for any conversion or processing or group of conversion or processing operations on any quantity of steel, shipped at one time to the producer's plant by the owner, do not exceed \$500, there shall be no maximum charge applicable to such transaction.

(c) When a conversion or processing operation consists of an operation such as annealing, machine straightening, pickling, etc., for which there are standard published extras, the maximum charge shall be the applicable published extra for such operation plus a handling charge of not to exceed \$5.00 per net ton.

(d) If for any reason the maximum charges as established by paragraph (c) are clearly not applicable to a particular conversion or processing operation, the converter or processor shall apply to the Office of Price Administration for a maximum charge for the conversion or processing operation. He shall submit his proposed conversion or processing charge and appropriate substantiating information. If the conversion or processing operation is such that an in-line charge may be established by interpolation of existing maximum charges, the interpolation procedure must be clearly set forth in the substantiating information, otherwise detailed estimated costs must be furnished on OPA Forms #674-530 (a), (b), (c), or (d), whichever is applicable. The application must specifically state the details of the operation performed, including size before and after conversion, complete specifications, and the quantity involved. The Office of Price Administration shall act upon such application within 10 days after its receipt or after the receipt of any additional information requested. It may deny the application or establish a different price and may impose such conditions as are appropriate. If the Office of Price Administration has not acted upon an application within the period specified, the applicant may use the requested price until such time that he receives notice from the Office of Price Administration that his price has been revoked or modified. Pending action of the Office of Price Administration upon an application, the producer may make offers or enter into contracts upon the basis of the requested price, but may not receive payment until action by the Office of Price Administration or until expiration of 20 days after mailing of the application. Once a charge has been established pursuant to this section the same charge may be made for subsequent similar conversion or processing operations without the necessity of reapplying for approval thereof.

All filings made prior to the issuance of Amendment 13, and not disapproved or modified, shall remain in full force and effect notwithstanding the provisions of this § 1306.15 (d), and the same charges may be made for subsequent similar conversion or processing operations without the necessity of further approvals thereof.

[Paragraph (d) amended by Am. 13, effective 5-23-45]

(e) All maximum charges for conversion or processing operations set forth in this Appendix F are exclusive of transportation costs incidental to the conversion or processing operation.

§ 1306.16 *Appendix G: Summary of provisions of the Maximum Export Price Regulation particularly applicable to Revised Price Schedule 6.* (a) The maximum export prices of products sold under a contract of sale entered into on or after April 2, 1943, shall be either:

(1) The aggregate of: (i) the domestic or export base price of the product at the governing or emergency basing point, plus applicable domestic and export extras, as provided in this schedule, and plus inland transportation charges (at export rates where applicable) from such governing or emergency basing point (whichever is applicable) to the port of exit: *Provided, however,* That if an emergency basing point is used the transportation charges shall in no case exceed the actual transportation charges from the producing mill to the port of exit; and

(ii) Expenses incident to exportation and incurred or to be incurred by the exporter such as demurrage, storage, transfer to the export carrier, ocean or other export freight, marine and war risk insurance, and consular fees; or

(2) The aggregate of: (i) The export base price of the product quoted by the United States Steel Export Company f. a. s. the port of exit on April 16, 1941, plus applicable exports extras, as provided in this schedule (see Appendix D for such export base prices for principal ports), plus any increases in mill base prices or maximum delivered prices permitted by amendments to Revised Price Schedule No. 6; and

[Subparagraph (i) amended by Am. 12, 10 F. R. 2432, effective 3-1-45]

(ii) Expenses incident to exportation and incurred or to be incurred by the exporter for demurrage, storage, and transfer to the export carrier, in excess of the amounts of such charges which were normally included in the price under (2) (i) above; and

(iii) Other expenses incident to exportation and incurred or to be incurred by the exporter such as ocean freight, marine and war risk insurance, and consular fees; or

(3) Where a product has no basing point base price, the maximum price established by (2) above, or the aggregate of: (i) the export price, including applicable extras, which was or would have been charged for the product by the producer on April 16, 1941, plus inland transportation charges (at export rates where applicable) from the producing mill to the port of exit (except that portion of those charges which was or would have been included in such price); and

(ii) Expenses incident to exportation and incurred or to be incurred by the exporter in excess of the amounts, if any, of such expenses which were normally included in the price under (3) (i) above. *Provided*, That on a sale to a procurement agency buying for the account of the Office of Lend-Lease Administration, the maximum price shall be the maximum domestic price established by this schedule, except that (a) where there are no published or filed domestic extras, export extras shall apply; (b) inland transportation charges shall be computed at export rates where applicable, otherwise at domestic rates; and (c) where there is no established domestic ceiling price for the product, the maximum price shall be determined in accordance with the provisions of (2) or (3) above.

[§§ 1306.15 and 1306.16 added by Am. 8, 8 F. R. 6042, effective 5-13-43]

This Schedule shall become effective April 17, 1941. [Price Schedule 6 originally issued April 16, 1941]

[Effective dates of amendments are shown in notes following the parts affected]

NOTE: All record-keeping and reporting requirements of this regulation have been approved by the Bureau of the Budget, in accordance with Federal Reports Act of 1942.

Issued this 21st day of May 1945.

CHESTER BOWLES,
Administrator.

STATEMENT OF CONSIDERATIONS INVOLVED IN THE ISSUANCE OF AMENDMENT 13
TO REVISED PRICE SCHEDULE NO. 6

Amendment No. 13 to Revised Price Schedule No. 6 continues or revises the interim maximum prices of certain steel products which were increased by Amendment No. 11 and grants increases in other products. The price revisions and increases, over the levels in effect prior to Amendment No. 11, are as follows:

1. Carbon steel blooms, billets, slabs, and sheet bar, of all qualities—\$2.00 per gross ton.
2. Carbon steel tube rounds, and tube billets exclusive of billets not directly converted into seamless pipe or tube—\$4.00 per gross ton.
3. Carbon steel plates, all types and qualities, produced to the dimensional tolerances in A. I. S. I. Manual Section 6, Carbon Steel Plates, March 1943 revision—15¢ per 100 pounds.
4. Rails, except light rails, all types and grades—\$3.00 per gross ton.
5. Light rails, all types and grades—\$5.00 per gross ton.
6. Tie plates, all types—\$3.00 per net ton.
7. Carbon steel hot rolled bars and bar size shapes, all types and qualities—10¢ per 100 pounds.
8. Carbon steel hot rolled wire rods, all types and qualities—15¢ per 100 pounds.
9. Carbon steel manufacturers wire and carbon steel merchant quality wire, all types and finishes, except such manufacturers wire for which a base price in excess of \$3.20 f. o. b. Pittsburgh, Pennsylvania, or \$3.30 f. o. b. Worcester, Massachusetts is otherwise established by this Schedule—15¢ per 100 pounds.

10. Nails and staples, other than galvanized nails and staples—35¢ per 100 pounds, except that for all Miscellaneous Nails and Wire Brads having maximum prices based on list prices less published discounts, the increase of 35¢ per 100 pounds may be added to the maximum delivered prices.

11. Twisted barbless wire and barbed wire—10¢ per 100 pounds.

12. Bale ties, all types—35¢ per 100 pounds.

13. Hot rolled carbon steel, porcelain enameling, iron, and electrical steel sheets, including roofing and siding manufactured from those materials, all types and qualities—10¢ per 100 pounds.

14. Galvanized iron and steel sheets, and zinc coated specialty iron and steel sheets, including roofing and siding manufactured from those materials (not including galvanized sheets)—20¢ per 100 pounds.

15. Track spikes—25¢ per 100 pounds.

The amendment is further designed to clarify and renumber certain provisions of the Schedule, to elaborate on the record-keeping and invoicing requirements, and to require the specific approval of special prices rather than permit their establishment by a mere filing.

THE HISTORY OF PRICE CONTROL IN STEEL

Price Schedule No. 6 was issued on April 16, 1941 by the Office of Price Administration and Civilian Supply. The Schedule established as maximum prices those prices quoted and in effect on that date. Subsequent to the enactment of the Emergency Price Control Act of 1942, the Schedule was revised in some minor respects and reissued as Revised Price Schedule No. 6. The basic price level remained unchanged.

During the years 1942, 1943, and 1944 the Office of Price Administration conducted three detailed and comprehensive surveys of the steel producing industry's production costs in addition to many examinations of individual company data submitted simultaneously with petitions for individual price adjustments. Quarterly profit and loss information was also secured. From this information it was possible to segregate profits derived from steel making activities and those derived from such other activities as ship-building and munitions production. It was also possible to measure accurately trends in such cost factors as wages and costs of raw material, as well as changes in the relative proportion of high, medium, and low profit, or loss products in the industry's product mix and their effect on the earnings position of individual companies and the industry as a whole.

Throughout the war years there was a steady increase in the cost of producing steel as a result of increases in raw materials such as coal and iron ore, wage increases, a general deterioration in the quality of scrap, increased use of pig iron, increases in the cost of fuel oil, refractory and other miscellaneous supplies, and increases in overtime costs, in addition to increased labor turnover, and accompanying decreases in labor efficiency.

Working against these increases in costs were the economies secured from a sustained maximum operating rate, and increase in average sales realization derived from the production of a greater proportion of specialty and war products. Certain of the specialty products are normal to the steel industry such as alloy and tool steels. The majority, however, are fabricated war goods ranging from ships to landing mats. They are produced under contracts with the Armed Services or other government agencies and are generally profitable.

The basic steel products were profitable in the year 1941. Thereafter, however, the situation was reversed as the factors tending to increase costs and other factors tending to decrease profitability became more prevalent. 1941 was also the most profitable year on the basis of over-all earnings. In subsequent years there was a decline in earnings. This decline was not as rapid as the decline in profitability of basic carbon steel products as the earnings in 1942, 1943, and 1944 were still being bolstered by a continued increase in the production of war goods.

At a meeting on December 16, 1943, between the Steel Mill Industry Advisory Committee and representatives of the Office of Price Administration, it was asserted by the Committee that the steel producing industry was operating at unsatisfactory profit levels, that it was threatened with substantial losses and that further cost increases could not be absorbed. The Committee further asserted that the steel producing industry was selling iron and steel products at maximum prices which would not return total manufacturing costs and recommended that the Office of Price Administration undertake a cost and financial survey in regard to carbon steel products and thereupon adjust the maximum prices of said products to levels which are generally fair and equitable to the industry as a whole. At that time the steel labor unions had indicated their

intention to request a further advance in wage rates. It was the contention of the Committee that the industry would be unable to absorb any further increases in wages without securing compensating price increases.

This Office, in response to the Committee's request, undertook a comprehensive survey of steel costs and of the financial position of the industry. Twenty-one basic carbon steel producers accounting for more than 85% of carbon steel production and including mills of a representative group, submitted integrated cost and financial information from the mining of coal and ore through to the sale of the finished product. The month of November 1943 was used as being a representative month for the cost data.

When this information was tabulated in February, 1944, it was apparent that a number of basic carbon steel products were being produced below manufacturing costs. After a discussion of the summaries of such costs was had with the Committee, they formally recommended that the Office of Price Administration grant certain specified price increases in various basic carbon steel products. Appropriate price action could have been taken for those products being sold below the out-of-pocket costs of the producers, but the action was deferred in view of the pendency of the steel wage decision and the hope that a second series of financial and cost studies could thereby be avoided. The industry acquiesced in this course.

Throughout the year 1944 the financial position of the steel producing industry continued to deteriorate. In the first three quarters of the year the return on sales was 5.6 percent, 4.9 percent, and 4.5 percent, respectively. The return on net worth was 10.4, 9.1, and 8.4 percent, respectively. Within these averages, however, the range of profit or loss on a particular product was wide. Those companies who were able to concentrate their activities in the more profitable specialty items and to bolster their earnings with substantial profits from war fabrication were considerably above the average. Other companies, however, were forced to concentrate their production in basic steel products and showed lower than average earnings. In a substantial number of cases such companies were operating unprofitably.

The inability of certain companies to bolster their earnings through the production of specialty items and fabricating activities stems from a combination of factors. At the start of the war many concerns had available production facilities which could be readily adapted to the war demands. The War Production Board in its efforts to meet the urgent requirements of the Army, Navy and Lend Lease naturally concentrated production in the most readily available facilities. The war demand also required large increases in many of the heavy, basic, normally low profit items such as plates. Some companies were forced to concentrate their production in these products to the almost complete exclusion of their normal products. The natural result of these factors was a wide dispersion in profits between companies. The Office of Price Administration attempted to alleviate financial hardship by granting individual adjustments to those companies who applied. Approximately 100 orders were issued granting individual adjustments to these companies, many of which could not continue to survive without such price relief.

On November 25, 1944, the War Labor Board granted the steel workers certain "fringe" increases. The factors which increase costs can be divided roughly into three groups: (1) liberalized vacation allowances, (2) shift differentials for the second and third shifts, and (3) elimination of intra-plant inequities.

Soon after the War Labor Board decision, the Committee renewed its request for increases in the prices of certain basic carbon steel products. The Committee also requested that the period 1936 through 1939 generally used by the Office of Price Administration in calculating the base period earnings rate, be expanded to include subsequent years in which higher average operating and earning rates were experienced. After careful consideration of the Committee's application on this point, the request for a change in the base period was denied by the Administrator.

As the cost data collected in 1943 was then approximately one year old, it was determined to conduct a new cost survey based upon the first nine months of the year 1944. It was recognized at the time of the commencement of this new survey that the collection of the information and its analysis would necessarily be a time consuming operation. It was then decided that in order to alleviate any immediate hardship certain "interim increases" in five basic carbon steel products should be made at once. On January 11, 1945, Amendment No. 11 was issued adjusting the prices for those products. The amounts of the increases and the reasons therefor are set forth in the Statement of Considerations which accompanied Amendment No. 11.

THE NEED FOR PRICE ACTION

On the basis of the latest financial information it has been determined that the steel industry as a whole is not entitled to a general price increase under the "industry earnings standard". The financial position of the steel industry has improved over that in the years 1936-1939.

Steel Mill Products—Financial Data

[21 companies]

Period	Net profit before income taxes—	
	As percent of net worth	As percent of sales
1936-39.....	14.2	14.5
1940.....	8.0	6.7
1941.....	20.8	12.3
1942.....	19.7	11.0
1943.....	12.1	6.6
1944:		
First quarter.....	210.4	5.6
Second quarter.....	29.1	4.9
Third quarter.....	28.4	4.5

¹ 1938 was a loss year and is in the average as zero.

² On an annual basis, and before any provision for wage increases to steel workers and coal miners granted in December 1944, and May 1945, respectively.

When the over-all earning position of the industry is better than it was in the pre-war years, 1936-39, then the industry earnings standard has been satisfied and no general price increases are thereby required. However, under the secondary standard established by this Office, known as the "product standard", which has been approved by the Congress and subsequently confirmed by the Emergency Court of Appeals, the maximum prices for a particular product or line of products are not deemed generally fair and equitable unless they cover the out-of-pocket costs for the industry generally. In the statement made before the Senate Banking and Currency Committee on March 2, 1945, Mr. James F. Brownlee, Deputy Administrator for Price, in discussing the product standard stated: "Out-of-pocket costs are those which would be eliminated if manufacture of the product were to be discontinued. While these are the costs which in principle should be covered, we have found that it is often a matter of serious accounting difficulty to compute them—as, for example, to find out just what part of factory overhead is included. We have come to the conclusion, therefore, that as a working rule we ought ordinarily to use the higher measure of manufacturing costs, although deductions from these costs, or additions to them, will be appropriate in some cases. By then using the average of these manufacturing costs, with or without such adjustment, we are able to cover the out-of-pocket cost for the bulk of the output".

The standard set forth in Mr. Brownlee's statement has been applied to the cost information submitted by the steel industry. The cost data cover approximately 85 percent of the ingot capacity of the industry. The companies included are representative both as to size and geographical location.

The cost data for the first nine months of 1944 were collected in sufficient detail so that the cost components for all products could be reconciled in total to the profit and loss statements of each company. The period covered represents maximum capacity operation under the most favorable mix of wartime production and includes full operation of all new facilities which were built during the war. The period does not represent maximum overtime labor cost since overtime hours are still increasing. Furthermore, because of changes in steel requirements under WPB directives, the profitability of the product mix has appreciably deteriorated since the period covered in the study.

The cost data cannot be analyzed as such but must be used as a comparison against sales realization. The realization figures represent total net income to the companies for the products listed and, as far as is known, represent the maximum realization possible under the Controlled Materials Plan of the War Production Board and ceiling prices established by the Office of Price Administration.

Since the close of the period under study, the realization of emergency freight on shipments required by CMP out of normal market areas of mills has declined. For West Coast shipments most companies have adopted the Chicago basing point base price plus freight from Chicago whereas the Price Schedule permits addition of freight from nearest basing point to the producing mill.¹

Sales realizations include the adjusted prices allowed in some 100 individual adjustment orders granted by the Office under Revised Price Schedule No. 6. The difficulty of determining what the sales realization would have been without giving effect to price adjustments represents too great an accounting task for the industry and a serious administrative burden.

Under the standards of the Office, the total costs for individual products have been adjusted to eliminate:

(1) Selling and general administrative expenses, averaging roughly \$1.70 per ton of finished product.

(2) Excess of amortization of emergency facilities over estimated actual depreciation.

(3) Any excess of the transfer price at which materials were charged to finished products over cost for raw materials transferred between affiliates of an integrated steel company.

Adjustments have been made for the minimum effect of two of the three fringe adjustments granted in the steel wage decision, determined at 4 cents per hour. The reasons for this determination are developed below. A further adjustment has been made for the increase in wages to the coal miners, just granted, estimated at 20 cents per ton of coal, a like amount per ton of ingot steel, which on the basis of individual product yields will average 30 cents per ton of finished steel product. Realizations in the cost study do not include amounts granted as interim increases on January 11, 1945, of \$5.00 on nails, \$3.00 on rails and galvanized sheets and \$2.00 on plates and hot rolled sheets. These increases were estimated to amount to approximately \$36,000,000 annually or roughly one percent of sales of all steel products covered by Revised Price Schedule No. 6.

An analysis of the cost survey after all the adjustments heretofore described discloses the necessity of increases in the prices of basic carbon steel products which are presently being produced below their average manufacturing cost.

PRICE ACTION AND ITS JUSTIFICATION

The peculiar construction of the steel industry with respect to integration, the diversity of products, the prevalence of single line producers in some areas, the complex price structure and other factors of this nature tend to complicate the problem of making an extra price adjustment. It has become apparent that it will not be possible in every instance to apply an exact mathematical formula to the cost information and thereby determine the precise amount of price increase which should be made for each particular product. To attempt such a procedure would so disrupt the normal price relationships between products that the flow of steel to consumers might be interrupted or distorted. The Administrator is vested with discretion in such situations, since there is no requirement that price adjustments otherwise reasonable conform to a precise formula, so long as they keep within the broad limits of the basic standards for determining whether maximum prices are "generally fair and equitable."

In order to determine the total amount of the price increase required by law to be granted to the steel industry on carbon steel products, the following procedure was applied to the data after the adjustments mentioned:

1. The weighted average realization was subtracted from the weighted average manufacturing cost for each product in the cost sample to determine the average profit or loss for the product.

2. The total loss dollars in the sample was then determined by multiplying the loss shown on each product showing a net loss by the number of tons for that product and totalling the loss dollars.

3. The total loss dollars were then distributed among those carbon steel products reflecting a net loss on the following principles listed in order of importance:

(a) Increases were established in units of 5¢ per hundred pounds of the base prices (the prices established by the Schedule are based upon even amounts of 5¢ per hundred pounds or its equivalent, except for products priced on gross ton basis, in which cases even dollars per ton were used).

¹ Whether the recent decisions of the United States Supreme Court in the Corn Products and Staley cases will require any adjustments in the basic steel price structure is a matter which is now under study by this Office. However, it was determined not to defer issuance of this amendment until the study could be completed.

(b) Increases were related to the average amount of "loss" on each product, that is, the average amount by which realizations were less than manufacturing costs, using the average which most nearly represents central tendencies consistent with Item (c) below. In the majority of the products increased, the weighted average loss, rounded to the nearest even dollar, is the exact price increase granted. However, there were some variations from this rule in the case of semi-finished products going to non-integrated producers.

(c) Relationships between products were so maintained as to avoid a squeeze on non-integrated producers. Some products are generally purchased by these producers whose existence depends upon the spreads between the prices of semi-finished and finished products. Wherever it was evident that financial hardship would result to these segments of the industry if we failed to maintain customary price spreads, adjustments were made to balance the increases in semi-finished products and the converted finished products.

(d) Slightly larger upward adjustments in base prices were made on end products going to industrial consumers who could absorb increases in the cost of their raw material and would not pass on the increase, thus minimizing the inflationary effect.

(e) Section 1306.10 (h) is amended to decrease the required discount on bale tie wire from 40 cents to 20 cents per one hundred pounds. Bale tie wire is a form of manufacturers wire sold to non-integrated bale tie producers. As the loss on manufacturers wire generally justifies a 15 cent per 100 pound increase, the requirement that bale tie wire sell at a price discount of 40 cents under the general level of manufacturers wire substantially increased the hardship existing on sales of this product.

In order to prevent hardship to the non-integrated bale tie producer the price increases in bale ties, manufacturers wire, and the required discount on bale tie wire, have been balanced to preserve the spread between bale tie wire and bale ties.

The total amount of all the adjustments mentioned is equal to the total dollar loss indicated by the cost sample. In calculating this total dollar loss and the adjustments based thereon, the interim increases granted in Amendment 11 were disregarded. Hence, the present increases are not in addition to those interim increases but supplant them. The Statement of Considerations which accompanied Amendment 11 stated: "In determining the extent of the increases to be granted, the cost data obtained in that survey have been conservatively appraised to minimize the possibility that the data to be obtained in the new survey would require reductions in the prices thus increased. The new data may require further increases in a number of these prices and hence the present increases are being granted on a temporary basis. When the current survey is completed, these interim price increases will be adjusted in subsequent price actions, upward or downward, depending upon the results of the survey." None of the five increases granted in Amendment 11 have been reduced.

At a meeting of the Industry Advisory Committee held on February 9, 1945, the Committee recognized the necessity for making many of the adjustments hereinabove described and passed a resolution recommending to the Administrator specified increases in certain basic carbon steel products which in some instances were lower than the then estimated manufacturing costs and in other instances were greater. The Administrator has carefully considered this recommendation and has in the main conformed to it. With reference to some products, however, it has been necessary to deviate from the Committee's recommendation in order to meet the immediate needs of a particular product in accordance with the principles set forth above, and to keep the total amount of increases granted within the total dollar deficiency heretofore described.

As has been indicated above, this action is predicated on a cost study of operations for the first nine months of 1944. Nevertheless, the cost data have been adjusted to reflect two of the wage adjustments authorized by the National War Labor Board in its order of November 25, 1944, approved by the Economic Stabilization Director on December 30, 1944. Two types of adjustments were authorized in the Board's order, the first group liberalizing vacation allowances and providing shift differentials, the second authorizing the companies and unions to negotiate for the correction of intra-plant inequities by reclassification, subject, however, to the limitation that in no case should the reclassifications applicable to any particular company exceed an average of 5¢ per hour. Although the former category of wage adjustment has been effective since January 1, 1945, and the latter is still the subject of continued negotiation, the adjustments of both types are retroactive to about January 1, 1944.

It is not the general policy of this Office to act on the basis of estimates as to the effect of wage adjustments save in occasional cases where discretionary price increases are authorized to remove impediments to supply. However, by this time experience has accumulated to such an extent under the first category of the wage awards now in effect (vacation allowances and shift differentials) that it is possible to calculate their impact on costs. Under the circumstances, particularly the fact that the increases have been already operative for four months and are retroactive for at least a year, it would seem inequitable to require the industry to institute a new cost study before giving effect to the minimum impact of such wage increases on production costs. For the purposes of this action, the Office is computing the minimum impact of this category of wage increases to be an average of 4¢ per hour and has made appropriate adjustments in the production costs. This conclusion has been arrived at by the Office on the basis of convincing evidence as to the operations of these increases already effective.

With respect to the increases resulting from reclassification, a different problem is presented. This Office cannot forecast with assurance the result of a bargaining process. In fact to do so would be to influence the pending negotiations. In connection with its consideration of the question, this Office has been advised by the Office of Economic Stabilization that, in its judgment, to give effect to the reclassification adjustment in the present action would conflict with the War Labor Board's action in leaving the determination of these adjustments to negotiation, subject to a maximum limitation. Furthermore, no accurate estimate can be made of the impact of a wage increase not yet determined, upon production costs not yet affected. For these reasons no adjustment for the wage increase resulting from reclassifications has been made. Of course, it will be open to the industry to show, in any subsequent cost study, the amount of the reclassification increases and their effect, if any, upon production costs, and also that the other wage adjustments have in fact amounted to a higher figure than the Administrator's computation.

By thus taking into account the cost increases resulting from the wage increases now in effect the Office is authorizing increases in certain basic carbon steel products on a basis different from that forecast in its letter of December 21, 1944, to the Economic Stabilization Director when the steel wage case was pending before him. At that time the Office stated that, while certain price increases were required by law under the product standard, these would be based on the cost studies for the first nine months of 1944, and that when it later became necessary to take the wage increases into consideration, it was expected that these could be offset by compensating decreases in steel prices so that no net increase in the general level of steel prices would result.

Under the procedure established for determining the price effects of pending industry-wide wage cases, it is frequently necessary for this Office to reach conclusions which are essentially forecasts based either upon such assumptions as may then appear reasonable, or on such data as are then available to the Office. Wage awards cannot be required to remain inoperative during the extended periods which are sometimes necessary for final conclusions to be reached as to the necessity for and the amount of price increase. Such was the case when this Office was required to report its opinion as to the effect of the wage action last December. The only data available were derived from a study of November 1943 costs which had been completed in the Spring of 1944. Although the 1944 cost study on which this action is based was then being developed, its result, the Office knew, would not be available in sufficient time to permit deferring its report to the Economic Stabilization Director until it was in hand. At the time of the issuance of the report to the Economic Stabilization Director in December, 1944, on the basis of the 1943 data then available and of the methods theretofore developed for the application of the product standard, it appeared that the price increases already required under the product standard would so affect the overall earning position of the industry that no further net increases in the general level of steel prices would be necessitated by the wage adjustments. However, when the results of the 1944 survey were received, and the product standard was applied along the lines indicated by the Deputy Administrator for Price, Mr. Brownlee, to the Senate Banking and Currency Committee in March, 1945, they compelled a substantial revision downward of the expectations of this Office with reference to the amounts of the product increases and their effect on the over-all earnings position of the industry. Moreover, the summaries of cost submitted by the 21 companies included in the sample, reflected substantial amounts of accelerated amortization of emergency facilities, payments for materials by one

corporate subsidiary to another at market prices rather than at cost of production, and other items which had to be extracted from the costs to obtain a true average manufacturing cost representative of the out-of-pocket cost of the industry generally. To make these adjustments in the cost data obliged the Office to await the acquisition of the detailed accounting reports of costs from each of the companies in the sample. This delayed the taking of action for another considerable period.

At the time of the submission of the report to the Economic Stabilization Director on December 21, 1944, it was believed that the product increases therein referred to would be established almost immediately subsequent to the granting of the wage adjustments, and the submission of data. However, in view of the prolonged delay in obtaining all the data necessary for the adjustments referred to above, it has been considered inequitable to postpone further any action which would reflect the impact of the wage adjustments on production costs. The Administrator has therefore determined that, in order to satisfy the requirements of law, the product increases granted in this action must take the wage adjustments into account. To this extent, the present action represents a change of the Administrator's position as set forth in the letter of December 21, 1944, a change necessitated by the considerations discussed above.

It is impossible to make a reliable estimate of the aggregate amount by which the price increases authorized by this action will increase the total revenues of the steel industry in view of the important changes in product mix which will result from reductions and changes in military demand during the coming year. However, the impact of the increases on ultimate consumers of finished steel will be materially reduced by total or partial absorption of the increases on the part of steel producers who purchase semi-finished steel, and also on the part of distributors of steel products. After allowance is made for such absorption, it is unlikely that the increases, including the interim increases, will average 2 percent of the total sales of the steel products covered by this Schedule.

So far as can be determined from all information presently available to this Office the price increases granted by this Amendment 13 meet the minimum requirements of law. Some information is still inconclusive and for that reason final and definitive action cannot be taken thereon and must await a later date. The full impact of the steel wage case and of the coal wage decision on steel producing costs have been conservatively appraised because of the lack of operating experience. Furthermore, as recommended by the Committee, certain standing sub-committees have been or are being formed to report on the subject of extra charges and to make such recommendations thereon as will enable the Administrator to establish price levels more generally fair and equitable to all branches of the industry and further to enable him to concentrate greater relief in the area of greatest hardship. The Committee has also resolved that, subsequent to the granting of product increases, a general study will be commenced by sub-committees with the objective of recommending further adjustments, upward and downward, in order to obtain a sound price structure. In addition there are certain minor steel products, such as insect screen cloth principally produced by single line producers, where the cost studies have not as yet been completed. Upon completion and analysis of all these studies further action will take place with reference to steel mill prices. In connection with the above studies, this Office will undertake additional cost studies of profitable steel products with a view to ascertain where compensatory price reductions may be possible. This course is consistent with sound pricing policy and with the recommendation of the Industry Advisory Committee.

MISCELLANEOUS CHANGES

1. *Invoicing and record-keeping requirements.* Section 1306.5 has been amended by elaborating the invoicing and record-keeping requirements setting forth in detail the minimum items to be contained on the invoice and in the producers' records. The reason for incorporating these requirements into the Schedule are as follows:

(a) To inform producers of iron and steel products of the types of records necessary for price control purposes.

(b) To assist the Office of Price Administration in securing information essential for the proper determination of maximum prices and hence for the proper enforcement of the Schedule.

It has been ascertained that the steel industry generally does keep the records and does issue the invoices as required by the amended provision. To the extent that it may require some slight changes in the present records of a few producers, the elaboration of the record-keeping and invoicing provision has been found necessary to achieve effective price control and to prevent circumvention or evasion of the Schedule or the Emergency Price Control Act of 1942, as amended.

2. *Adjustable pricing.* The previous Section 1306.4—Existing Contracts, has been revoked as no longer necessary, and the Adjustable Pricing Section, formerly numbered Section 1306.7a, has been renumbered and inserted in its place.

3. *Licensing.* The previous Section 1306.9—Effective date of Price Schedule No. 6, has been revoked as no longer necessary and the Licensing section, previously numbered Section 1306.6a has been renumbered and inserted in its place.

4. *Approval of special prices.* Sections 1306.10 (g) and 1306.15 (d) have been amended to require the application to the Office of Price Administration for a maximum price for a new product or a maximum charge for an unusual conversion process rather than the existing provision requiring merely a filing of such price or charge. Under the amended provisions the price would not be established until the Office had approved the charge or until 10 days had elapsed from the time of receipt by the Office of the application. It has been determined that the previous filing provisions were inadequate to achieve effective price control in that they permitted the charging of prices once filed, until their formal disapproval by this Office. Under the amended provisions, the price is not established, unless approved in writing, or by failure of this Office to approve, disapprove or modify within ten days.

5. *Secondary grades.* Section 1306.10 (j) (4) has been revoked. The increases granted by Amendment 11 and by the present amendment may apply to the secondary grades as well as to prime quality. At the time of the granting of the interim increases by Amendment No. 11 it was determined not to extend the increases to secondary grades because no determination could then be made from the cost data concerning the necessity for increasing those grades. The Industry Advisory Committee, however, has since requested that any increases granted to prime products should similarly be granted to secondary grades and since it was not administratively possible to differentiate between prime and secondary products, all increases have been applied uniformly to both grades. For that reason the provisions concerning the application of the increases to secondary grades has been revoked.

6. *Conversion charges.* Section 1306.15 has been amended by deleting the clause which limited the application of conversion charges to a product "which was not produced by such producer." It is generally impossible to ascertain whether or not a particular iron and steel product delivered to a producer for special conversion or processing was produced by that producer. Furthermore, there are other circumstances under which special conversion or processing is necessary for goods owned by others but still in the possession of the producer. The charges established by Section 1306.15 for conversion or processing are limited to filed charges or extras, or to charges approved by the Office of Price Administration upon application. Under these circumstances it is believed that this provision cannot be abused and it has therefore been determined to delete the phrase "which was not produced by such producer."

All provisions of this Amendment and their effects upon business practices, cost practices or methods, or means or aids to distribution in the industry or industries affected have been carefully considered. No provisions which might have the effect of requiring a change in such practices, means, aids or methods established in the industry or industries affected, have been included in the Amendment unless such provisions have been necessary to achieve effective price control and to prevent circumvention or evasion of this Schedule or of the Emergency Price Control Act, as amended.

The Administrator finds that the prices established by Amendment 13 are generally fair and equitable and will effectuate the purposes of the Emergency Price Control Act of 1942, as amended. The Administrator also finds that Amendment 13 is not inconsistent with Executive Orders 9250 and 9328.

For the reasons set forth above, the Administrator deems it necessary and advisable that the accompanying Amendment 13 to Revised Price Schedule 6 be issued.

Issued this 21st day of May 1945.

CHESTER BOWLES,
Administrator.

OFFICE OF PRICE ADMINISTRATION
(Corrected Copy)

RPS 6
AMDT. 15
MAR. 1, 1946
Corrected Copy
(Document No. 52890)

PART 1306—IRON AND STEEL

[RPS 6, Amdt. 15]

IRON AND STEEL PRODUCTS

A statement of the considerations involved in the issuance of this amendment, issued simultaneously herewith, has been filed with the Division of the Federal Register.

Revised Price Schedule No. 6 is amended in the following respects:

1. A new § 1306.17 Appendix H is added to read as follows:

§ 1306.17. *Appendix H: Modification of maximum prices for certain iron and steel products.* Regardless of the provisions of any other section of this schedule, the modifications set forth below may be made in the applicable maximum prices otherwise established by this schedule. The increases in basing point base prices and maximum prices may be added to prices established by individual price adjustment orders, but companies which heretofore have been granted such adjustments may sell at maximum prices determined in accordance with Revised Price Schedule No. 6 as modified by this Appendix H or at the maximum prices established by their individual adjustment order, at their option.

(a) *Additions to basing point base prices for certain carbon iron and steel products.* The sums specified below may be added to the applicable basing point base prices otherwise established by this schedule for the particular carbon steel products named, both prime and secondary quality.

(1) Ingots and sheet bars, all types and qualities	\$2.00 per gross ton.
(2) Blooms, billets, slabs, and tube rounds of all qualities except forging.	\$3.00 per gross ton.
(3) Skelp	\$0.15 per 100 lbs.
(4) Forging billets and blooms	\$5.00 per gross ton.
(5) Structural shapes and piling	\$0.25 per 100 lbs.
(6) Plates—all types and qualities	\$0.25 per 100 lbs.
(7) Rails—all types and grades except light rails	\$5.00 per net ton.
(8) Light rails—all types and grades	\$9.00 per net ton.
(9) Splice bars—all types and grades	\$0.15 per 100 lbs.
(10) Tie plates—all types and grades	\$0.25 per 100 lbs.
(11) Hot rolled merchant bars and bar sized shapes—all types and grades.	\$0.25 per 100 lbs.
(12) Concrete reinforcing bars—all types and grades except fabricated.	\$0.20 per 100 lbs.
(13) Hot rolled wire rods—all types and grades	\$0.15 per 100 lbs.
(14) Manufacturers' wire and merchant quality wire—all types and finishes except such wire as is suspended from price control under Amendment 6 to Supplementary Order 129.	\$0.30 per 100 lbs.
(15) Nails and staples—all types and finishes except mis- cellaneous nails and brads priced on a list and discount basis.	\$0.35 per 100 lbs.
(16) Twisted barbless and barbed wire	\$0.35 per 100 lbs.
(17) Wire fencing, including woven, chain link and lawn	\$0.25 per 100 lbs.
(18) Bale ties, all types	\$0.325 per 100 lbs.
(19) Fence posts—all types and accessories	\$0.25 per 100 lbs.
(20) Tin plate, including hot dipped, electrolytic and can- making quality black plate.	\$0.25 per base box.

For all such material sold on a 100 lb. basis, 25¢ per
100 lbs. may be added.

(21) Terne plate	\$0.25 per 100 lbs.
(22) Long terne sheets	\$0.25 per 100 lbs.
(23) Hot rolled iron and steel sheets	\$0.225 per 100 lbs.
(24) Cold rolled sheets	\$0.225 per 100 lbs.
(25) Galvanized sheets	\$0.35 per 100 lbs.
(26) Enameling sheets	\$0.35 per 100 lbs.
(27-a) Electrical sheets—electric, armature and field grades.	\$0.60 per 100 lbs.

(27-b) Electrical sheets—all other grades.....	\$0.375 per 100 lbs.
(28-a) Hot rolled strip, six (6'') inches and narrower.....	\$0.35 per 100 lbs.
(28-b) Hot rolled strip, wider than six (6'') inches.....	\$0.25 per 100 lbs.
(29) Cold rolled strip.....	\$0.25 per 100 lbs.
(30) Track spikes.....	\$0.40 per 100 lbs.
(31) Cold finished bars.....	\$0.35 per 100 lbs.

(b) *Modification of maximum prices for certain carbon and alloy steel products.* The maximum prices for the carbon and alloy steel products listed below may be modified in accordance with the provisions of this paragraph.

(1) Pipe and oil country tubular goods:
 (i) Butt weld and lap weld—increase the applicable maximum base prices by \$6.00 per net ton.

(ii) Electric weld and seamless—increase the applicable maximum base prices by \$5.00 per net ton.

(2) All alloy steel products except stainless—increase the applicable maximum price (base price plus extras) otherwise established by this schedule by 4 (four) percent.

(3) Tool steel and specialty steels, both carbon and alloy, produced by tool steel producers—increase the applicable maximum price (base price plus extras) otherwise established by this schedule by 8.2 (eight and two-tenths) percent.

(4) All carbon and alloy steel tubing (other than oil country tubular goods and carbon steel pipe)—increase the applicable maximum base prices on hot finished products otherwise established by this schedule by 6.6 (six and six-tenths) percent; increase the applicable maximum base prices otherwise established by this schedule on cold finished products by 9.9 (nine and nine-tenths) percent; increase the applicable maximum extras otherwise established by this schedule which are not calculated as a percentage of the base price by 8.2 (eight and two-tenths) percent. On all tubing schedules of prices, items are to be priced individually by size, grade, and for shipment to one destination.

(5) Miscellaneous nails and staples priced on a list and discount basis—add 0.35 per 100 pounds to the applicable maximum delivered price otherwise established by this schedule.

(6) Steel screen wire cloth. The maximum basing point base prices of steel screen wire cloth, both black painted and galvanized, in standard length rolls of 100 lineal feet and in standard widths of 18'' to 48'' inclusive, shall be as follows:

To jobbers stocks

	Carload	Less than carload	On direct shipment to dealers
AREAS OTHER THAN PACIFIC COAST			
Discount off list, of.....	(1)	(2)	(3)
List in effect April, 16 1941.			
Retail dealer discount off list, 40 and 10 percent.			
PACIFIC COAST			
Net prices per 100 sq. ft.:			
12 mesh black painted.....	\$1.81	\$2.03	\$2.24
12 mesh galvanized.....	1.95	2.19	2.43
14 mesh galvanized.....	2.21	2.48	2.73
16 mesh galvanized.....	2.55	2.81	3.09
18 mesh galvanized.....	2.86	3.19	3.57

¹50 and 8 percent.

²50 and 6 percent.

³50 and 3 percent.

All extras, terms and conditions of sale, delivery and other services shall be maintained.

(7) All carbon steel products except shell steel and except the products listed in (a) and (b) (1) to (6), inclusive, including but not limited to poultry netting, hardware cloth and wrought iron (but exclusive of new products priced by special order issued by the Office of Price Administration for which no industry-wide prices have yet been established in the schedule, for example steel screen wire cloth 18'' x 14'' mesh—.011 gauge)—increase the applicable maximum prices (base price plus extras) otherwise established by this schedule by 8.2 (eight and two-tenths) percent.

(8) Canmaking quality black plate—all canmaking quality black plate (118 pound basis and lighter) may be sold on an area basis and the maximum prices may be computed by making the following deductions from the maximum base prices of coke tin plate: 55 pounds to 70 pounds, inclusive—deduct \$1.30 per base box; 75 pounds to 95 pounds, inclusive—deduct \$1.40 per base box; 100 pounds to 118 pounds, inclusive—deduct \$1.30 per base box.

2. Section 1306.8 (c) is amended to read as follows:

(c) Iron or steel products includes all of the products listed in (1) below, but does not include any of the products listed in (2) below:

(1) The term includes: All products listed in the Table of Capacity and Production for Sale set forth in the Annual Statistical Report of the American Iron and Steel Institute, for 1939, pages 42, 43 and any additional products listed in § 1306.11, Appendix B; and all such products further finished by galvanizing, enameling, plating, coating, drawing, extruding, or otherwise in a manner commonly employed by or for steel mills and rolling works. It includes such products in prime, secondary or rejected quality.

(2) The term does not include: Pig iron, concrete reinforcing bars to the extent that the sale thereof is covered by Revised Maximum Price Regulation No. 159—Fabricated Concrete Reinforcing Bars; cut nails or cut tacks; steel gates; lead head nails; steel conduit; welding rod; wire rope slings; cast iron pipe; pipe couplings (except when attached to pipe); pipe fittings; rolled or forged axles or car wheels or any combination thereof; industrial wire cloth.

3. Section 1306.8 (h) (5) is added to read as follows:

(5) The maximum extras which may be charged for selected rimmed stock for hot and cold rolled carbon sheet and strip steel shall be the extras which are presently in effect for aluminum killed steel; however, in no instance may the producer charge more than one of the following quality extras: the extras applicable to aluminum killed steel, the extras applicable to deep drawing quality, or the extras established by this subparagraph. The extras established by this subparagraph are only applicable when drawing quality, or physical test properties or values are specified or required, beyond commercial bend tests, by the purchaser.

4. Section 1306.10 (i) is hereby revoked.

5. Section 1306.11 Appendix B is amended by the deletion of the word "conduit."

6. Section 1306.11 Appendix B is further amended by changing that portion of the appendix which now reads "Woven wire cloth—insect, hardware, and all other" to read "Woven wire cloth—insect and hardware".

This amendment shall become effective March 1, 1946.

Issued this 1st day of March 1946.

PAUL A. PORTER,
Administrator.

The CHAIRMAN. We will proceed.

Mr. BROWN. Mr. Bowles, I have a letter here from a mill owner, a man in my State. I just want to read one or two paragraphs. Now, I am bringing up these complaints so that you can answer them. Do not let these questions I am asking you mislead you into thinking that I am against the Office of Price Administration. I am not.

Mr. BOWLES. You have always been a good friend of it.

Mr. BROWN (reading).

If the present situation continues, this liquidation of spindles will continue.

It is a matter of common knowledge that mills in this country are reducing their operations from 48 hours per week to 40 hours per week and are discontinuing entirely their third-shift operations.

Mr. BOWLES. What kind of mills are these?

Mr. BROWN. Cotton mills. [Continuing:]

Already many people who are converters of cotton goods, and some who are buyers and users of cotton goods, are purchasing mills in the hope that by such a purchase they can insure a supply of goods for their business. They realize the present owners of these properties cannot continue to operate them successfully under existing conditions.

There came in my mail this morning a communication from a man who operates a business of selling cotton mills and second-hand cotton-mill machinery here in the South. He starts his communication with this statement:

"Here is the way to get plenty of cotton, merino, or spun rayon blends, as well as all other kinds of cotton yarns. The way is to do as your neighbors and competitors are now doing—which is to buy a good southern cotton mill in full operation, with good management, good location, and good reputation for yarn, and make yourself safe for the future."

He then proceeds to call attention to four different plants which are now producing weekly, 110,000 pounds per week per mill, down to amounts ranging 100,000 per week and 30,000 pounds per week, and suggests prices for these mills from \$945,000 per mill on down to \$800,000 per mill, \$715,000 per mill, and \$500,000 per mill.

This is a bad situation and a bad trend, when you consider the future of cotton and cotton consumption.

If these mills are sold to concerns who propose to use the product themselves, then it is obvious that they will utilize them so long as it pays them and then junk the mills and buy their goods in the open market, when such goods are available and when the present inflated demand is satisfied.

Mr. BROWN. Of course, the main point I want to get to you is this— if they are just working 40 hours a week as against 48 hours a week, and then cut off one shift, we are not getting the production of clothing we should, and I think they should be encouraged. But how?

Mr. BOWLES. I think you will find that no industry has increased its percentage of profit to the extent that the cotton-textile industry has—or very few have increased it more, let me put it that way, during the war and now. They are in pretty good shape.

Now, the problem in getting cotton textiles out is manpower, and that has been the difficulty in some of these bottleneck areas. They happen to have been industries, like brick, cast-iron soil pipe, some of our foundries, lumber to a degree, textiles, and some where you have had very low-paid labor. They have always gotten along by dipping into the unemployment pool, pulling out workers at very low wages all the way through.

A lot of those workers during the war went into aircraft plants and war plants and made very big money, and they are reluctant to go back at 50 cents, 45 cents, 55 cents, or 60 cents an hour. There have been wage adjustments in there to get more workers into those trades, but I think if you will examine carefully the textile situation, you will find that what they want is more workers, and they are crying for them, they are going on the radio trying to get them, they are doing everything they can to recruit more people.

Mr. BROWN. Well, now, if the cost of labor is more, and the machinery cost is more, you will need to increase the ceiling on their product.

Mr. BOWLES. If they are in hardship. But they are far from it.

Mr. BROWN. Some of them might be in hardship.

Mr. BOWLES. Some may be, but I will be glad to get any cases you have and investigate them for you and give you the full story on them.

Mr. BROWN. Of course, I have heard a good many complaints. I do not know them myself.

Mr. BOWLES. I think you will not shed any tears over the cotton-textile industry if you get into it and get the over-all figures in it. There may be an individual firm in difficulty here or there, and where there is, they are entitled to adjustments, and those adjustments will be given to them.

Mr. BROWN. I want to bring another thing to your attention. I have a resolution passed by the legislature of my State with regard to pulpwood, complaining about it. It says:

The Congress of the United States should be requested to take the necessary steps to prevent the Office of Price Administration from discriminating against southern pulpwood growers, and that the selling price on rough pipe pulpwood be uniformly placed at \$16.25 per unit f. o. b. cars at shipping point, and a ceiling price uniformly placed on rough hardwood at \$17.19 per unit, f. o. b. cars at shipping point.

Now, they complain that down there the ceiling price is \$9.60, against \$16.25 in some other areas, and \$10.16 in other areas of the country. And this pulpwood is just as good. So I cannot understand why you have such a difference between one section of the country and another, when their pulpwood is just as good as the others, they claim.

Mr. BOWLES. There are tens of thousands of items in the country now. I do not have them all at the tip of my tongue. I know in pulpwood there is a price increase being granted in the very near future—this week—

Mr. BROWN. I understood that you had increased it recently, but I wanted to bring this out and put it in the record because it came to me from the legislature of my State.

Mr. BOWLES. That is right, sir. I have not come over—maybe I should have—prepared to go into the individual cases, partly because I am out of the Office of Price Administration.

Mr. BROWN. Well, we will just leave it there, and I will file this for the record.

The CHAIRMAN. It may be filed.

(The resolution above referred to is as follows:)

A RESOLUTION MEMORIALIZING THE CONGRESS OF THE UNITED STATES TO PROHIBIT THE OFFICE OF PRICE ADMINISTRATION FROM PLACING DISCRIMINATORY PRICE CEILINGS AGAINST SOUTHERN PULPWOOD GROWERS

Whereas, many formers of Georgia and other Southern States are selling pulpwood at prices far below the ceiling prices prevailing in other sections of the United States, and

Whereas, we regard this discrimination against southern pulpwood growers as outrageous and indefensible; and the forest of the Southern States are being demanded at prices far below those in keeping with the material produced; and

Whereas, we are advised by the Farm Bureau representative at Washington, D. C., that the Office of Price Administration has fixed the following ceiling prices on pulpwood; to wit—southern rough pine, f. o. b. cars shipping point, \$9.50 per unit; northern rough pine, f. o. b. cars at shipping point \$16.25 per unit; southern rough hardwood, f. o. b. cars at shipping point \$10.12½ per unit, northern rough hardwood, f. o. b. cars at shipping point \$17.19 per unit. Thus it is shown how the southern farmer is being discriminated against; and

Whereas, the product made from southern pulpwood is equal in every respect to that produced from pulpwood grown in other areas and pulp mills have been erected in the South because of the recognized value of southern grown pulpwood; now therefore, be it

Resolved, by the house of representatives, the senate concurring, That the Congress of the United States be requested to take the necessary steps to prevent the Office of Price Administration from discriminating against southern pulpwood growers, and the ceiling price on rough pine pulpwood be uniformly placed at \$16.25 per unit f. o. b. cars at shipping point, and a ceiling price uniformly placed on rough hardwood at \$17.19 per unit, f. o. b. cars at shipping point: Be it further

Resolved, That the clerk of the house, jointly with the clerk of the senate, send each Member of the United States Congress a copy of this resolution.

Mr. BOWLES. I would like to say just one thing on the subject of production. I think it would be very foolish for anybody to deny that out of all of the 3 million business firms in the United States there is not some place somewhere, probably many, individual cases where you can find where some bad prices are in effect—we have something like 8 million prices—some bad places or some squeeze, or somebody is stupid and has done the wrong thing. But I think the general statements that we get about price control interfering with production need to be looked at with a very cold and fishy eye.

Let me just point out again that we never had the production that we had during this war. The rate of increase in production was five times the increase of the last war. To be exact, we got 25 percent more production in the last war; we got 119 percent extra production in this war under price control.

This time industrial prices have gone up some 26 percent. Last time they went up a hundred percent. You did not get the production last time—you got it this time. It does not mean that you got it because of price control. It does not sound as though price control stood in the way, however.

One more point: we have today fewer unemployed workers—first of all, we have more men at work in our factories, plants, stores, and so forth, than ever before in our peacetime economic history. Today we have fewer people unemployed, out of a job, than at any period in our economic history. The want ads for people in factories, farms, and everything else have never been quite as packed with requirements in peacetime as they are today.

Now, all I know is that those people must be doing something. I assume they are producing, and producing in very big quantities.

Mr. BROWN. I overlooked one question a while ago. You gave the purchase value of the dollar now as compared with 1941. What was the purchasing power of the dollar right after the First World War?

Mr. BOWLES. The price level in general was right about where it is today, after the last war.

Mr. BROWN. Did the purchasing power of the dollar go down considerably in the years following?

Mr. BOWLES. After the last war, yes.

Mr. BROWN. How far down did it get; that is what I want to know. I want to make the comparison between now and then.

Mr. BOWLES. Well, starting, as you know, in 1920, everything collapsed, after the inflation. The National Association of Manufacturers' theory, of course, is let prices go up, get production, and that will get production, according to the National Association of Manufacturers, and then let them collapse down to where they ought to be. Well, that does not make sense to me. You did not get production when you had the inflation of 1919 and 1920. It did not give you production. All you got was inflation and out of it a collapse. Now, how far the purchasing power of your dollar fell after that point—well, the purchasing power went up obviously as your prices collapsed. The collapse came. I will get you the figure.

Mr. BROWN. I will release the witness at this point.

The CHAIRMAN. Mr. Bowles, will you be able to come back after lunch today?

Mr. BOWLES. I did not know you were going to go on. I have a date at the White House at 3:15. I would be very glad to do this, Mr. Spence: I have a date at the White House on this new set-up at 3:15. I think what we would like to do, if it is all right with you gentlemen, is to go into the Office of Price Administration presentation, which covers a great many of the subjects that you are asking, on production, on all these questions of speed, and administration, and all of that, which is the regular Office of Price Administration presentation on a somewhat different basis than you have ever seen it. I will be there during that period. I could drop out for three-quarters of an hour for this date. Otherwise I will call the President and make a change.

The CHAIRMAN. You will return, though, to continue the interrogation?

Mr. BOWLES. Yes. I did not realize you were going right through the afternoon.

The CHAIRMAN. Will you be here while the Administration of the Office of Price Administration presents its case, part of the time?

Mr. BOWLES. I will certainly be here part of the time if you would like.

Mr. BARRY. Mr. Chairman.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. Mr. Bowles, with respect to production, would you, not now but when you come back again, give us the figures of the farmers' production, say, in 1940 and 1941, and compare it with the figures during the last 3 or 4 or 5 years, up to date?

Mr. BOWLES. Well, production increased during the war, from farms, about 25 to 28 percent against about 5 percent in the last world war.

Mr. BARRY. All right. Now, you have the 13 percent over parity. Last year the farmers produced an average of 17 percent above parity. I would like you to check that figure of 13 percent.

Mr. BOWLES. 113 percent.

Mr. BARRY. Now, in 1941, the average farm prices, as I recall them, were about 18 percent of parity.

Mr. BOWLES. 80 percent.

Mr. BARRY. About 85 percent of parity?

Mr. BOWLES. Yes.

Mr. BARRY. And has increased to about 17 percent above parity, which is 32 percent, plus the various changes that take place when the parity formula is revised. So I would like to get the actual increase of farm prices since 1940 or 1941 to date, and the increase in production, because a good part of the objection to the Office of Price Administration comes from the Farm Belt and I would like to have the exact figures.

Mr. BOWLES. Of course, the farmer has had—I am surprised that you say that, because we have had almost more support from farmers, outside of the subsidy question, with which they do not go along at all—than from anybody else.

Mr. BARRY. On that point, there is a provision in another bill that the farmer will get his subsidy if the prices fall below parity after the war ends. I cannot see where farmers have ever objected to subsidy.

Mr. PATMAN. That is a mistake. They do not get a subsidy. They get a loan.

Mr. BARRY. A loan which they never pay back.

The CHAIRMAN. Are there any other witnesses for this afternoon? Can the Office of Price Administration proceed this afternoon?

Mr. BOWLES. Yes, sir; definitely. I would suggest they go ahead with their regular presentation.

The CHAIRMAN. And you will come back and subject yourself to regular interrogation? If you cannot do it this afternoon, you can be here tomorrow morning?

Mr. BOWLES. Yes, sir.

The CHAIRMAN. Very well. We will adjourn now and proceed with the Office of Price Administration this afternoon at 2 o'clock.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

(Whereupon, at 2 p. m., the committee reconvened, pursuant to the recess.)

The CHAIRMAN. The committee will be in order.

The Office of Price Administration officials are here this afternoon and they desire to present the story on price control.

Mr. Rogers, I understand, is going to take charge of the presentation. If he desires the other witnesses to proceed in order, he may designate whom he wishes to proceed.

Mr. ROGERS. Mr. Chairman, this morning it was stated that the Office of Price Administration, this afternoon, would make a presentation.

STATEMENTS OF PAUL POTTER, ADMINISTRATOR OF THE OFFICE OF PRICE ADMINISTRATION, JAMES G. ROGERS, DEPUTY ADMINISTRATOR, ZENAS L. POTTER, RICHARD FIELD, GENERAL COUNSEL, GEOFFREY BAKER, DEPUTY ADMINISTRATOR, STEPHEN AILES, ASSISTANT GENERAL COUNSEL.

The CHAIRMAN. State your connection with the Office of Price Administration, Mr. Rogers.

Mr. ROGERS. Deputy Administrator.

The CHAIRMAN. You may proceed.

Mr. ROGERS. We would like, if we may, this afternoon to go through the charts which have been prepared to state the case for the Office of Price Administration.

Mr. Zenas Potter will read through the charts and answer any questions on those charts that members of the committee have.

I also have with me, Mr. Richard Field, General Counsel, and Geoffrey Baker, Deputy Administrator for the Price Department.

The CHAIRMAN. I do not think we ought to just introduce them indiscriminately. I think we ought to proceed in order, and let Mr. Potter take charge of the charts. Is that the way you intend to do it?

Mr. ROGERS. Yes.

The CHAIRMAN. Otherwise, it does not make a very good record, if you introduce various witnesses indiscriminately. We ought to

introduce the witnesses singly. It will be easier on the reporter and make for better procedure.

Mr. Potter may proceed.

Mr. TALLE. May I ask a question, Mr. Chairman?

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Do I understand that those charts contain information we have not already had presented to this committee?

Mr. POTTER. Yes, sir. This is the basic economic situation of the country, and we are answering particularly ten of the most important questions which Congress has asked about price control, and its effect upon the economy.

The CHAIRMAN. What charts are these?

Mr. Potter. You have not been over these yet.

The CHAIRMAN. Proceed, Mr. Potter.

Mr. POTTER. Four times this committee and Congress have faced the decision which is the greater evil:

1. Temporary and limited control of free enterprise, while the inflationary pressures created by war persist, or
2. Inflation.

Four times the decision has been to protect the Nation from inflation.

Congress is by now so familiar with the blows inflation inevitably visits upon the people and has so clearly indicated its determination to protect them from such punishment, that it seems unnecessary to again review those dangers. Instead, let us take up and seek to answer 10 questions Congress is being asked and which it must answer before it makes its basic decisions.

First. Is it true, as is being alleged, that inflation already is here, that more of it is inevitable, and that we may as well let it have its way?

Second. Is it true that a little inflation may help solve some of the Nation's problems and will not really hurt anyone?

Third. Is it true that the Office of Price Administration is too inflexible and has not conformed its policies to meet the needs of the postwar period?

Fourth. Is it true that production, which everyone agrees is the principal cure for inflation, is being curtailed by price control, and that while seeking to prevent inflation the Office of Price Administration is perpetuating it?

Fifth. Is it true that the Office of Price Administration pricing policies have driven low-end goods off the market, forcing the public to buy higher-priced goods and defeating the purpose of price control?

Sixth. Are the Office of Price Administration's policies creating business and landlord hardships?

Seventh. Is it true that the Office of Price Administration is so slow in reaching decisions that it interferes with the forward planning of business?

Eighth. Since subsidies are a large item of expense, is it not time they were dropped?

Ninth. Is it true that the Office of Price Administration is trying to control the prices of too many things: that Congress should cut the number when it renews the act?

Tenth. When will inflationary pressures end so that we can get rid of price control without inflation?

We shall review these questions one at a time.

Question 1. Is it true, as is being alleged, that inflation already is here, that more of it is inevitable and that we might as well let it have its way?

It is true that inflationary pressures are at a very high level.

In uncontrolled areas of our economy, the stock market, residential real estate and farm lands, dangerously inflationary conditions are evident.

But control of commodity prices, in spite of very great inflationary pressures, has been outstandingly successful.

Let us examine the facts. A substantial drop in public income, lasting for many months, was anticipated after the war's end. Actually, the drop was 6 percent from the first to the last half of 1945. These bars you see here represent the expendable income; in billions of dollars in 1939 it was \$68,000,000,000; in 1944, it was \$137,000,000,000. The first half of 1945 was at the rate of 139.9 billion dollars, and the last half of 1945 was at the rate of 131.8 billion dollars.

The expendable income at the end of 1945 was up 95 percent over that at the start of 1939.

Last August the McMahan report by the Nation's leading retailers said:

"The drop in munitions production, the unavoidable displacement, the cut in work week and overtime premium, mean a major reduction in income payments. Retail sales will be adversely affected.

This is what actually happened. This dotted line down here represents 1939 department store sales. This longer dotted line represents 1944 sales.

The solid line represents 1945 sales. December, 1945, sales were up 12 percent over those of 1944, which were the greatest in history, and they were up 95 percent over the department store sales of 1939.

The volume of money in circulation, both currency and checking account balances which are drawn against as a medium of exchange, is above any previous levels. Currency in circulation at the start of the war was 7.2 billion dollars. In November, 1945, it was 28.2 billion dollars. Balances in checking accounts in banks, at the start of the war, was 27.4 billion dollars; in November, 1944, it was 60.5 billion dollars.

Mr. BUFFETT: Mr. Chairman, are we going to have a chance to ask questions on these charts?

Mr. POTTER: I will be glad to stop at any moment to clarify the record, if anybody wants to ask a question.

Mr. BUFFETT. Mr. Potter, that \$80,000,000,000: that is an inflationary force, is it not?

Mr. POTTER. Yes, sir.

Mr. BUFFETT. How do you propose to dispose of that?

Mr. POTTER. I think that that will be gradually absorbed as we get into goods production on a very large scale, that will gradually be absorbed into our economy.

Mr. BUFFETT. Is it not true that all goods production automatically produces its own buying power?

Mr. POTTER. Goods production produces its buying power, yes, to a great extent, not entirely, because capital goods do not produce their own buying power.

The CHAIRMAN. I suggest you let Mr. Potter get through.

Mr. BUFFETT. Mr. Spence, we do not want to come back to these charts.

The CHAIRMAN. That is all right.

Mr. POTTER. Capital goods do not produce their own buying power. Goods shipped abroad in relief to other countries do not produce the goods for their buying power.

Mr. BUFFETT. They produce dollars in the market here that add to buying power, do they not?

Mr. POTTER. That is right.

Mr. BUFFETT. They make it bigger?

Mr. POTTER. That is right.

These inflationary conditions are increased by \$145,000,000,000 in wartime savings hanging over the market. This sum is double the public expendable income in our most prosperous prewar year.

Those are the inflationary pressures that are pressing on the price level in the country. In uncontrolled areas, they are represented in substantial increases in prices. In other words, the soaring stock-market prices reflect the inflationary condition of the country. They have gone up 22 percent since VJ-day. Even a hundred percent cash payments for stocks has not been able to check the boom.

That the inflationary trend in residential real estate was powerful in the last 6 months of 1945 is shown by these facts.

This is the ratio of the sales prices of single family homes to the monthly rentals in 63,300 sales of single family houses reported to the Office of Price Administration.

The formula has always been estimated in the real estate market as approximately a hundred times monthly rentals. In the second 6 months of 1945 these sales registered 149 times monthly rentals.

Rise in farm land prices is close to that which, with the price collapse, led to 451,000 farm mortgage foreclosures after World War I. From 1914 to 1920 the increase in farm lands was 65 percent. From 1939 to 1945 it has been 58 percent.

Inflationary pressures, as we have seen, are at an all-time peak. In uncontrolled areas of our economy dangerous inflationary tendencies are evident. But control of commodity prices ordered by Congress may be an outstanding curb.

Mr. BUFFETT. May I ask a question?

Mr. POTTER. Yes.

Mr. BUFFETT. Is it not true that those inflationary pressures are increasing every month by the amount of the national deficit?

Mr. POTTER. By the amount of the national debt?

Mr. BUFFETT. National deficit.

Mr. POTTER. Well, that is a factor in the situation, but when we get really rolling in production, we are going to see a trend in the opposite direction. We have not yet gotten into full production in this country.

Mr. BUFFETT. What is your definition of the basic cause of inflation?

Mr. POTTER. The basic cause of inflation—of course, there are a number of factors operating in the inflationary market—the basic cause of inflation is a public income far in excess of available supplies of goods. That is the basic cause.

Mr. BUFFETT. Then, in order to stop inflation, we have got to attack——

Mr. POTTER. We need production and more production.

Mr. BUFFETT. The income beyond the supply of goods; is that not right?

Mr. POTTER. We need production and more production in this country to wipe out this surplus of buying power that exists and these goods shortages that have carried over since the war.

Mr. BUFFETT. How are you going to get a goods production that will not generate its own purchasing power? That is something that I have never had satisfactorily explained to me.

Mr. POTTER. Well, I think you are going to get a good production, and it will generate its own purchasing power to a considerable extent, of course. But when we get an economy operating at full capacity—at the present time we have a very high purchasing power without the production of goods, because we are reconverting our plants, but we are not yet in full operation, and consequently we are keeping up our purchasing power without the goods to offset that situation.

Mr. BUFFETT. Yes; but is it not true that as long as we indulge in deficit financing, we are issuing more dollars than the amount of goods produced?

Mr. POTTER. I take it that the Government is going to come to the end of deficit financing in the relatively near future. It is exceedingly important, I think, as the President has recognized, that that should be done.

Mr. BUFFETT. Mr. Eccles testified before this committee that inflation is caused by appropriations beyond tax collections, and he seemed to think that that was the basic cause of inflation.

Mr. POTTER. I think that is a secondary factor in the situation. The biggest factor is that during the war we produced, as we did, an enormous quantity of goods—46 percent of them went off to war, leaving the money paid for that production competing in the market for the remaining goods. That was the basic cause, I think.

The CHAIRMAN. Might I suggest that you continue, Mr. Potter.

Mr. POTTER. Well, I am glad to answer questions as we go along.

The CHAIRMAN. Yes, but these questions are not questions addressed to this particular chart, they are general questions, and we want to get through with the charts first. We are going to call the committee. We will establish the old rule that we will call the committee and give every member a chance to interrogate the witness.

Mr. POTTER. All right.

The point that I made was that in the uncontrolled areas we have a lot of inflation, and in controlled areas we have done a remarkably good job, and this chart shows the trend of wholesale prices. This is the last war, they went up to 148 percent and then collapsed. And in this war, up to May 1943, which is about here on the chart, we hit a dead level, which we carried very well. Here is the trend in consumer prices, for the last war, up to 108 percent, and then collapse set in, and in this war we are on this level.

The next chart will show the distribution. Most of the price rises resulting from World War II took place before the hold-the-line order became effective in May, 1943.

In wholesale prices, 38.8 percent occurred; 38.8 percent of the inflation occurred over 35 months; 4.2 percent occurred over 31 months, the last 31.

In consumer prices, 26.9 percent occurred in the first 45 months, 3.8 percent in the last 31 months.

In areas of our economy under control, stabilization has been an outstanding success.

That inflation is here, and is sure, and that there is little we can do about it has been proved untrue by what has been done. Although inflationary pressures are at a peak, and are creating dangerous inflation in uncontrolled areas of our economy, controlled wholesale and consumer prices have been held practically stable in the past 2 years and 8 months. We are very confident Congress will not believe the interests of the Nation will be served by weakening or ending controls and throwing the Nation into a spiral of inflation that inevitably will end, as it did in 1920, in collapse and depression.

Now, question 2. Is it true that a little inflation may help solve some of the Nation's problems and will not really hurt anyone?

People who ask that question have varying ideas, but they all want standards more generous to business than the Office of Price Administration has applied. Their demands run all the way from a moderate relaxation of pricing standards to a passing through to consumers of all the wage and material cost increases without examination of ability by business to absorb. The Office of Price Administration's policy has been to make only such price increases as are necessary to meet the standard set up by Congress and Executive orders.

First, to encourage essential production.

And second, to maintain generally fair and equitable prices.

These policies have proved themselves in the astounding success of wartime production, and the almost complete absence of hardship in the business world. Since VJ-day, as we shall show you, the Office of Price Administration has adapted its standards to meet the changed conditions and needs of the transition period. Any substantial departure from these basic standards, in view of the great inflationary pressures just reviewed, will set in motion forces which no one can control.

If our economy were made up of isolated and unrelated areas, a program of having a little inflation would work. Prices in one area could be advanced without affecting those in others.

Actually, areas are inseparably interrelated. Apart from a cushion for cost absorption, increases in raw materials raise the prices of semi-manufactured goods. Increases in prices of such goods raise the prices of finished goods. Increases in the prices of such goods raise the cost of living. Increases in the cost of living raise wages. Increases in wages raise all production costs. Then, you are ready for another round of increases, starting at a higher price level.

This is how inflation grew when wholesale prices turned upward in March 1919, after the slight set-back that followed the armistice in World War I.

The first month that prices turned up—this red area on the chart shows the monthly increase; the first month it was 2.2, the next 2.5, the next 3.4, then it fell back to half a percent, then it went to 8.4, and in the tenth month we ended up with an increase in that single month of 8.9 percent; in the eleventh month we had an increase, in a single month, of 10.7 percent. Note the pyramiding effect of monthly price increases, and I may say that pressures today are far more explosive than they were when that record was made.

This is how an inflationary spiral operates: Material price increase, finished goods price increase, living cost price increase, production increased cost, living cost increase, production cost increase, and then you have the bust. The only safe way to deal with an inflationary spiral is not to set it in motion.

Once we depart from sound standards geared to encourage production and to maintain equitable prices, designed to keep business in general good health, there is nothing to keep a little inflation from becoming a big inflation.

Question 3. Is it true that the Office of Price Administration is too inflexible, and has not adjusted its policies to meet the needs of the transition period?

Actions speak louder than words. Since VJ-day, we have taken 11 important steps to fit our pricing policies to the needs of the postwar period. Let us review these evidences of flexibility in the Office of Price Administration's policy.

Step 1. Reconversion prices: The Office of Price Administration has reviewed the ceiling prices of products largely off the market during the war (1) by adjusting 1941 costs for increases in (a) basic wage rates of factory employees, (b) general legal increases in materials prices and by adding the industry 1936-39 market profit.

In addition, an expansive program of individual adjustments for reconverting manufacturers was adopted particularly liberal to small firms.

Step 2. New products: The end of the war was certain to bring a flood of new consumer durable products for pricing. To help new small business firms get started in the manufacture of durable consumer goods, the Office of Price Administration allows them to self-price on the basis of their own costs, plus a profit margin. Such small businesses file their costs and prices, and if they do not hear from the Office of Price Administration in 15 days, they may sell at those prices.

This order took out of the Office 75 percent of the work load in pricing new products. It allowed more time for pricing new products for established firms. The benefits from this program far outweigh any difficulties arising from unusual differences in prices of similar goods.

Price increases to help break bottlenecks. A few commodities occupy a strategic role in reconversion. Among them, building materials and iron castings. Where it is clear that these are in short supply, and that, together with other steps being taken, higher prices would stimulate production sharply, the Office of Price Administration raises prices.

For example, ceilings were increased on brick, cast-iron soil pipe, and other building materials to aid in breaking a bottleneck in construction. In some of these cases, price increases are being correlated with wage increases to help solve manpower problems.

Bottleneck Committee: And I would like to enter in the record, Mr. Chairman, if I may, at this point, a statement from the chairman of the Bottleneck Committee set up by the Office of War Mobilization and Reconversion.

The CHAIRMAN. That may be inserted.

Mr. POTTER. I would like to read the first paragraph:

OPA price actions in the building-materials field since VJ-day have included many items not designated as bottlenecks by OPA, accounting in some measure un-

doubtedly for the shortness of CPA's list. Since VE-day, OPA has made one or more general price increases applicable either to large areas or Nation-wide on the following building materials:

Thirty-six are listed, and then it says:

The above list reflects approximately 60 separate price actions.

The CHAIRMAN. That statement may be inserted in the record.
(The document above referred to is as follows:)

STATEMENT OF BOTTLENECK COMMITTEE ON OPA BUILDING MATERIAL PRICE ACTIONS

OPA price actions in the building-materials field since VJ-day have included many items not designated as bottlenecks by CPA, accounting in some measure undoubtedly for the shortness of CPA's list. Since VE-day, OPA has made one or more general price increases applicable either to large areas or Nation-wide on the following building materials:

- | | |
|--|--|
| 1. Vitrified clay sewer pipe and allied products. | 20. Douglas fir and minor species of plywood. |
| 2. Building lime. | 21. Window and picture glass. |
| 3. Rough quarry limestone blocks. | 22. Enameled cast-iron plumbing-fix-
ture ware. |
| 4. Lineal sash and frame stock. | 23. Clay drain tile. |
| 5. Douglas fir stock millwork—screen
doors and door frames. | 24. Domestic oil burners. |
| 6. Cast-iron soil pipe and fittings. | 25. Gas-fired and liquid-petroleum-fired
furnaces and unit heaters. |
| 7. Gypsum lath and linerboard. | 26. Brass plumbing fixtures. |
| 8. Concrete blocks. | 27. Southern pine lumber. |
| 9. Cast-iron tube radiation. | 28. Yellow cypress lumber. |
| 10. Cement. | 29. Douglas fir boards. |
| 11. Calcined gypsum bag goods. | 30. Redwood lumber. |
| 12. Common and face clay brick. | 31. Western pine 4/4-inch boards. |
| 13. Structural clay tile. | 32. Walnut lumber. |
| 14. Hinges and butt hinges. | 33. Lake States logs. |
| 15. Builders' hardware. | 34. White birch logs. |
| 16. Automatic electric temperature con-
trols. | 35. Hardwood handles. |
| 17. Ready-mix concrete. | 36. Northern hardwood and softwood
lumber. |
| 18. Stokers. | |
| 19. Douglas fir open-window sash. | |

The above list reflects approximately 60 separate price actions. Some of the actions were discretionary, and many simply fulfilled the legal minimum standards. Some involved relatively small price increases, other substantial raises. Further adjustments will undoubtedly become advisable within some of these same commodity categories.

Mr. POTTER. The Bottleneck Committee to consider production problems of materials in seriously short supply and essential on reconversion, was set up by the Office of War Mobilization and Reconversion. On it was represented the Office of War Mobilization and Reconversion, the Office of Stabilization Administration, the Office of Civilian Production Administration, the Office of Price Administration, and the United States Employment Service.

Any agency may bring cases before this committee and recommend action.

The Bottleneck Committee studies the needs, then recommends appropriate action, and traces adoption. The committee has been acting also for the National Housing Administrator.

The Office of Price Administration has put into effect committee recommendations in every case in which price action has been proposed. There is one action now in process.

Dollar-and-cent prices on building materials.

To further encourage building, we are replacing ineffective freeze

regulations controlling prices on building materials and standardized contractor services, with community ceiling prices similar to those that have proved so effective for foods. These will not change the level of legal prices, but by enabling persons building or remodeling homes to know when they are being overcharged, will make compliance far easier. Shift to dollar-and-cent pricing will also iron out the inequities among firms frozen with different price levels.

Next, extension of individual adjustments. Wartime cost increases and other developments affect firms within the same industry quite differently. For example, some companies were located in war production centers. Others were not.

Some firms, with a long record of success, found themselves unable to operate under prices that were generally profitable for their industries. Recognizing this, the Office of Price Administration has greatly extended its provisions for individual adjustments where this could be done without upsetting effective price control. Provisions for individual pricing for reconverting manufacturers has been described above.

Individual price adjustments since VJ-day. This is August 1 to December 31: Applications, protests, 6,809; granted in full, 3,567; granted in part, 1,290; making the total about 4,700 or 4,800. Denied, 1,221; dismissed, 435; withdrawn, 296.

I think that shows that the Office of Price Administration has adopted a flexible policy toward the needs of the reconversion period.

Here is another chart which shows the extent to which the Office of Price Administration's flexibility is meeting the situation, the changed situation, or the needs of individual petitioners.

Landlords petitions filed: In 1945 a total of 278,000 individual landlord petitions were considered and acted upon by the Office of Price Administration. Of these, rental increases were granted in 192,600 cases.

Reasons for granted increases, major capital improvements, 63,000; increased services, equipment, and so forth, 82,000. I will not go into the others.

General rescue order: As part of the individual adjustment program, we adopted a general rescue order. This is designed to give individual manufacturers losing money under ceilings generally profitable to their industries prices sufficiently high to cover their total costs. These are people who cannot be taken care of by all the other individual price adjustments. If they do not fit any man, then, we give him a bale-out under this general rescue order.

In general, this adjustment order is available to all manufacturers, except where individual firm adjustments would impair effective price control—that is, where you have dollar-and-cent prices, for example. An example of the exception is commodities with uniform dollar-and-cent prices.

Stimulation of low-end production: Rising costs usually hit first low-end items, on which producers ordinarily have low margins. It should be emphasized that many profitable low-end items have been dropped because manufacturers could, in a seller's market, concentrate on high price-high profit lines. It is true, however, that wartime increases in labor materials have made some low-end goods unprofitable to produce. We are granting special increases on such low-end goods to encourage their production, and I would like to file,

with the record, if I may, Mr. Chairman, a list of these low-end orders. It is quite lengthy and I do not want to read it all.

The CHAIRMAN. That may be incorporated in the record at this point.

(The document above referred to is as follows:)

Office of Price Administration list of low-end price actions

Commodity	Regulation	Date	Nature of action
Foods: Cigars.....	MPR 260.....	November 1944....	Differential increase for low-end (MAP).
Consumer durables:			
Miscellaneous listed commodities.....	SO 148.....	Mar. 8, 1946.....	Individual adjustments and cut-off prices.
Furniture.....	MPR 188.....	Dec. 28, 1945.....	General increase on low-end items.
Radios.....	Order 4800, MPR 596.....	October 1945.....	Differential percent increase on low end.
Textiles:			
Cotton blankets.....	SO 131, amendment 4.....	Oct. 24, 1945.....	Increases on lower half of each seller's line.
Bedspreads, nappy woven decorative fabrics.....	SO 131, amendment 7.....	Nov. 30, 1945.....	
Snowcloth, meltons.....	MPR 163.....		Differentially higher mark-ups on low-end items.
Textiles produced under WPB directive.....	SO 86.....	Apr. 12, 1944.....	"Vinson formula" of cost plus 2 percent.
Heavy-weight underwear.....	SO 131.....	Mar. 11, 1946.....	5-percent increase.
	SO 137.....	Oct. 17, 1945.....	Adjustment provision allowing cost plus 4 percent on individual items.
Low-end garments, underwear, shirts, pajamas.....	SO 139.....	Nov. 13, 1945.....	Permits increases up to 15 percent on items below specified cut-off points.
Machinery products:			
Fractional horsepower motors.....	Amendment 17 to MPR 136.....	Oct. 16, 1945.....	9 percent over 1941 prices.
Metal stampings.....	Amendment 11 to MPR 136.....	Sept. 19, 1945.....	8 percent over March 1942.
Drop forgings.....	do.....	do.....	Do.
Screw machine products.....	do.....	do.....	8 percent over March 1942 prices.
Steel drums, 55 gallons and 58 gallons.....	Amendment 3 to SR 14 G.....	Jan. 2, 1946.....	8-11 percent over base period prices.
Building materials:			
Gypsum lath and board.....	Amendment 17 SO Order 1, MPR 592.....	Nov. 16, 1945.....	\$3 per thousand square feet.
	Amendment 3 SO Order 1, MPR 592.....	Aug. 21, 1945.....	26 percent.
Neet plaster.....	Amendment 17 SO Order 1, MPR 592.....	Nov. 16, 1945.....	\$1.50 per ton.
Stokers.....	Amend 6, Order 48, MPR 591.....	Jan. 16, 1946.....	10 percent.
Builders' hardware.....	Amendment 6, RPS 40.....	Oct. 8, 1945.....	10 percent over base prices.
	Amendment 4, MPR 413.....	do.....	Do.
	Amendment 2, Order 1, MPR 591.....	Nov. 13, 1945.....	Do.
Brass plumbing fixtures-supply fittings, and trimmings.....	Amendment 5, Order 48 MPR 591.....	Jan. 16, 1946.....	3-15 percent over average increase of 9 percent.
Plaster lath.....	Amendment 21 RMPR 26.....	Feb. 26, 1946.....	\$4 per thousand.
Rubber:			
Mechanical rubber products (soft) (base period lines).....	Amendment 20 MPR 149.....	Oct. 29, 1945.....	Up to 15 percent over base period prices.
Same for hard rubber goods.....	Amendment 24, MPR 149.....	Mar. 1, 1946.....	Up to 15 percent over base period prices.
Paper and paper products:			
Gummed cloth tape.....	Amendment 3, MPR 129.....	Dec. 27, 1945.....	26 cents per thousand inches.
Groundwood specialty papers (19 grades only).....	Amendment 5, MPR 449.....	Dec. 29, 1945.....	10 percent over ceilings.
Book paper, finishing and packing differentials.....	Amendment 3, RMPR 451.....	Jan. 9, 1946.....	\$14 per ton over ceilings.
Wrapping paper, sheeting and slitting differentials.....	Amendment 13, MPR 182.....	Feb. 15, 1946.....	25 cents per hundredweight over ceilings.
Standard boxboard.....	Amendment 25 RPS 32.....	Feb. 1, 1946.....	\$0.75-\$1.75 over average increase.
Contemplated:			
Plywood.....			
Douglas fir doors.....			

Mr. POTTER. Field office adjustments: Channeling individual adjustments through the national office created difficult administrative problems and resulted in delays. We therefore, delegated to our field office authority to grant most individual firm adjustments affecting smaller firms. For similar reasons, most new goods pricing also was delegated to the field. As a result, there inevitably will be some unusual variations in prices on similar products, but the gains from the program far offset this disadvantage.

Decontrol: We worked out, with the Office of Economic Stabilization, standards for decontrol which became OES Order 68. Suspension of price control of any commodity is authorized when in the Price Administrator's judgment the price will not go up. Termination of control is later authorized if the price, in fact, does not go up, or threaten to do so.

Decontrol may also be adopted: (1) When a commodity does not enter significantly into the cost of living or into business costs, and

(2) When the administrative difficulties are disproportionate to the effect of this control or to the contributing or contribution of stabilization, and (3) when there is no threat to substantial diversion of materials, facilities, or manpower from production of other commodities.

(4) When it does not impair effective control of the prices of other commodities.

A transition standard: It has been the Office of Price Administration's policy, when the multiple product industry was making not less than its prewar profits, but losing money on an individual product, or minor products, to raise prices to cover the out-of-pocket costs to the industry generally. This is one of the situations which Mr. Brown discussed this morning.

Usually the average manufacturing cost was used as the measure of this adjustment. General overhead and sales expenses were not included. Now, save in special circumstances, the Office of Price Administration will, under such conditions, make price increases to cover average total costs of the industry. That is a change from just covering out-of-pocket manufacturing costs to a covering of total costs.

Mr. WOLCOTT. Will you yield for a question there?

Do I understand it is going to be the policy of the Office of Price Administration to set their ceilings on the basis of cost of production costs, from now on?

Mr. POTTER. It has been the policy of the Office of Price Administration to adjust prices for two basic reasons, Mr. Wolcott. First, when an industry as a whole was not earning its prewar profits. Then the price for the whole industry was increased. In the second place, in multiple-product industries, and industries that produced many different items, it was the policy, through the war, to bale out on the basis of out-of-pocket costs, which covered total manufacturing costs. The new standard, with certain limited exceptions, is to cover on an individual product of an industry that is making its over-all profits on an individual product, the total costs, which include overhead, sales costs, and so forth.

Mr. WOLCOTT. Let us see if we can put our finger on something. You said that, excepting in special circumstances, your ceilings were going to take into consideration cost of production. Now, why can we not have an outright statement as to what the policy is going to be?

Mr. ROGERS. I will ask Mr. Baker, Deputy Administrator for Price, to answer that.

Mr. BAKER. Mr. Wolcott, we have not yet released this policy. We have listed two cases which would be illustrative of those special circumstances not finally decided. They will be decided before this hearing is concluded, and we will then present the list.

As illustrations of two, the first case would be in some instances where we have small products, which are manufactured characteristically by multiple-product industries, where the item does not present a special problem, through being produced at a loss by single-line producers.

Mr. WOLCOTT. You mean that they absorb the loss on one line by an average over-all profit?

Mr. BAKER. Yes, sir. Another case, which partly duplicates that, as I am sure you will recognize, is a case where the item characteristically sold at a loss during the peacetime period. We have examples of such instances, as you know, in many industries. For example, the sale of steel rails, by the steel industry. In some cases we might even move those up to a total cost basis. But there may be cases where, as you point out, they may merely be part of the pricing policy of the industry as a whole, and we would then probably leave them in that situation, unless substantial areas of single line producers would be in a loss as a result of doing so.

Mr. WOLCOTT. Will you go back to that chart again, Mr. Potter? That chart says that now, save in special circumstances, the Office of Price Administration will, under such conditions, make price increases to cover average total costs for the industry. Frankly, I do not know just what your policy is going to be from that language. That is why I am asking you if, from now on, your policy is going to be: excepting in such special circumstances as you have mentioned, that the ceilings are going to be cost-production plus?

Mr. BAKER. May I continue on that, sir?

Mr. WOLCOTT. Yes.

Mr. BAKER. Remembering what Mr. Potter has said, that our first standard is the earning standard, and assuming—

Mr. WOLCOTT. You mean the first standard—the profit?

Mr. BAKER. The first standard we look at is profit, which is the 4-year base period profits, with which you are familiar, where, if we find that in an industry that is being currently satisfied, we then have that same problem that we have had before, where a given product may be sold at a loss, and where single line firms, producing either that product only or, let us say, where that product presents an important percentage of their total production, are in difficulty because of the fact that we are looking at the industry as a whole—that is the setting in which we have established our product standard.

Now, we start with that setting: during the war we used average manufacturing cost as the figure that we would cover. We are now changing, in those cases, to average total cost. In other words, we will still make the finding that we have a case where our product standard should be applied, as I have described it, and as it has been described to this committee before, and this merely is a change, sir, in the measurement of it, but not a change in the area or scope of the application of the standard.

Mr. GAMBLE. Is that not a cost-plus policy?

Mr. WOLCOTT. We do not know yet what such a policy is going to be. Can we not get some simple rule, which you applied by that language? You say that except in special circumstances, the Office of Price Administration will make price increases to cover total cost for industry. Now, as I interpret that, and I think the public have the right to interpret it so as I read it there, it means that, excepting in special circumstances, your ceilings are going to be high enough to cover total cost. How do you want us to interpret it otherwise than what that language said?

Mr. BAKER. One of the difficulties is the one you pointed out in the first place, the fact that we have not spelled out what the special circumstances are. That makes it difficult. We must do so to make it clear.

But going to the illustration which I gave, let us suppose that a multiple-product industry produces, let us say, steel rails, and only multiple-product industry produces steel rails.

Mr. WOLCOTT. I understand that.

Mr. BAKER. In such a case we would not apply the product standard at all.

Mr. WOLCOTT. All right. What are you going to do where the multiple-products industry says, "We are not going to produce the product on which we take a loss, but are only going to produce the products on which we make a profit," and, consequently, the industries which are dependent upon the product which they are not manufacturing?

Mr. BAKER. Sir, that is a matter which we have taken care of by so-called incentive pricing. You are familiar, I think, with our so-called low-end pricing.

Mr. WOLCOTT. Who would you give the incentive to?

Mr. BAKER. It would be given to those who produce the product.

Mr. WOLCOTT. Let us take a concrete case. Here is a woolen mill, fabricating different kinds of cloth, for different units of the clothing trade. A concern had been buying from this mill a certain grade of cloth, taking the whole output. And this concern cannot get this product any more because it is one of the items on which they take a loss. It does not make any difference how you raise the price to the fabricator, or to the processor of that material if the mill does not produce it.

Mr. BAKER. That is correct.

Mr. WOLCOTT. What do you plan to do in that case?

Mr. BAKER. In that case, let us suppose it was an item of heavy weight worsted which we encourage for the production of suits for returning veterans. In such a case our approach would be to do two things: First, to make sure that the profitability of that item, that particular item, was at least equal to the profitability of other items which those weavers, those manufacturers of that fabric, were making.

Having done that, we would then ask the Civilian Production Board to issue a channeling order, which would require the production of that item, or a certain proportion of that item, relative to the amount of yarn being secured by those mills. In other words, by a joint production and incentive pricing action, we would endeavor to secure, if not an adequate supply, at least avoid an impediment to supply.

In this case, however, sir, we are not attempting to cope with that particular problem. That is an additional thing, which we would do beyond the application of this ordinary standard, which would not be applied to products because they are essential, or because they are low priced, but would be applied generally to products which come under the classifications that I have described, of being produced to some substantial extent by single line industries. In other words, that is a general applicability not related to essentiality. The incentive proposition always that I have described in the illustration would be over and beyond such an approach.

Mr. WOLCOTT. Now, let me give you still a further example that I had in mind when I asked the question. A concern with which I am familiar, which employs 200 people and which makes a very high grade of children's snow suits—they have developed children's snow suits, to begin with—and they make them out of very fine fabric, which is almost as tough as suede. They buy the entire output of a mill in Pennsylvania. They sold this snow suit, before the war, for I believe, about \$10, in round figures. The mill says, "Sorry, but we cannot afford to make this fabric any more. It is a very high grade fabric and we cannot afford to make it any more and sell it to you so that you can sell it for the same price that you sold it for before the war."

So the mill is not weaving it, and the factory is not fabricating it, is not making it into snow suits. They have asked, I think, for an over-all increase in price of something like 50 or 60 cents on snow suits to put the mill in production on this high grade material and also to put this fabricating mill, cutters, and so forth, to work in making these suits. The suit would sell for \$10.50 or \$11.

In the meantime, their principal complaint is that manufacturers of children's snow suits, making snow suits of a sleazy material, are allowed to sell these sleazy snow suits for \$15 and \$18. That is the principal objection to the manner in which the price control would be administered, and what I am trying to get at is: Does your new policy contemplate that you are going to give some relief eventually to such cases as I have mentioned. It shows that it gets the American people to thinking that they are not saving any money when they have to buy two \$15 suits to get through the same period of time that one \$10 or \$11 snow suit would.

Mr. BAKER. May I suggest, sir, that that problem, and it is a very real one, is not the one that this standard attempts to answer.

Mr. WOLCOTT. Well, have you got some other policy?

Mr. BAKER. Well, with your permission, sir, I would like to bring that forward at another time, when I can ask Mr. Livittes, the head of our Consumer Goods Division, to be here, or to take it up at a time connected with another part of this presentation. But I would like to suggest that that is a twofold problem.

First, it involves the methods of giving prices to people, new manufacturers, and so forth, as compared to old manufacturers. *

Second, it involves the problem of quality deterioration, which nothing like this will do anything about, unfortunately. That is another problem—an entirely separate one, sir, which we have not coped with up to this time.

Mr. WOLCOTT. It seems to me you could do the job if you priced in such a manner as to give encouragement to the weaving and the fabrication of quality materials.

Mr. BAKER. Well, may I make this suggestion—

Mr. WOLCOTT. That was my point, that if parents can buy snow suits for \$10.50, which will last their children twice as long as a \$15 snow suit, then, I think you should give consideration to adjusting these prices.

Mr. BAKER. We certainly ought to, sir; yes, without question. Let us suppose that the item you refer to is a certain weight of fabric, a certain construction, which is known in the trade and describable, having a certain weight or a certain weave, that is. That constitutes a product.

Now, if that particular product, that particular construction, which is sufficiently different from others to be known as a product, is generally being produced by the industry, at less than the total cost, and if that industry has in itself some substantial elements of single line manufacturers, like the one you described in Pennsylvania, then, this standard would give them total cost. It would go that far. It would not, however, perhaps go as far as you would need, since if he produces nothing else, the prospect of total cost may not be attractive enough to keep him in production. That is why we would next have to decide whether that construction was one where we wanted to divert yarn from other constructions to that one and then we have a problem of essentiality on which we lean heavily on the Civilian Production Administration for a decision.

It is obvious we cannot give incentives to all the constructions or we are right back where we started from, and it becomes a question of choosing certain essential items, usually the least expensive ones, for that purpose. That does not, however, solve your quality point, and the deterioration point.

Mr. WOLCOTT. Well, I brought it out because I think that is rather basic, and I think most of the complaints against the Office of Price Administration in the past have been based on it. Also, I might say that I do not think there are too many people who are opposed to the continuation of price controls. I think the opposition is to the manner in which price control has been administered.

A great many people believe that you are using the power to control prices in order to control our economy. That is why there is this perhaps overwhelming demand to kill all price controls, because they do not think that you have administered price controls in a manner designed to get full production. Our files are full of these cases. I picked this one out as more or less typical, and it would seem to me that for the Administration to tell parents, in this case, to pay \$30 to \$36 for two children's snow suits when it would be quite logical for you to raise the price of snow suits 50 cents, is the point. You would still have price control and have production.

Mr. BAKER. This is still a question that requires full discussion and a full statement by us.

Mr. WOLCOTT. It has been discussed ever since price control came in, but we realized that while we were in the war, probably one reason why they were not getting the yarn and why they were not fabricating—just using this as an example—was because of the war effort, and everybody went along with it. But now we have a little different proposition here.

Mr. BAKER. I would certainly agree, sir; our plan had been, with the chairman's permission, to present and submit to questioning on the

whole textile question, and, as a separate portion at a time convenient to the chairman, when we could review wool, cotton, and rayon, what items were being given incentive pricing and so on.

Mr. WOLCOTT. Well, what I want is just your over-all policy, as to what you are going to do about it. Because we have a similar case in toys.

Mr. BAKER. What is the question on toys, sir?

Mr. WOLCOTT. Well, it might have been corrected, but I have in mind a toy concern which sold a popular brand of toy for a dollar before the war. They were manufacturing metal toys. They converted to war production during the war. On VE-day their contracts were canceled and they came to the Office of Price Administration and wanted a price on this same toy, so that they could get back into production. The War Production Board at that time gave them the materials, there was no question of materials, but that plant stayed idle for months. Perhaps you have made some adjustment since then on it, but that plant stayed idle for weeks and weeks that I know of before you would give them a price, because they could not afford to produce under the price under which they had produced back in 1941.

You said, "You are an old-established concern, you have a price history, therefore, you must go back to the 1941 price," and negotiations went on—perhaps they are still going on, I have never heard of the case being definitely settled, although it is not a case I was particularly interested in—at any rate, for weeks and weeks you were determining this question of price for this little concern.

In the meantime, 3,000 toy industries came into existence and you gave them a price of production-plus.

Mr. BAKER. You are right, sir, in saying that that question has been answered by the exemption of toys and games from price control on January 28. That is just a coincidence, however. It does not answer your basic question, of course.

With respect to the rest of the question, I take it that part of it relates to slowness of administration, which is the thing that I am sure concerns all of us, and, second, to the necessary technique of in-line pricing, which has often resulted in prices for new manufacturers, which are higher in terms of cost-price relationship than those for old ones.

It is not a satisfactory situation, but the best way we know in which to handle the pricing of that class of merchandise. It does result in some freaks, there is no question about that, freaks of pricing.

Mr. WOLCOTT. Well, could we not take a more or less definite formula, the same as the Little Steel formula for wages, and say that the cost of production generally has gone up 8 percent or 10 percent, or whatever the percentage is, and say to people, "Go back into production and charge no more than 110 percent"? They would get back into production under that new formula; would they not?

Mr. BAKER. With respect to small manufacturers, our order 4342 does substantially that, by permitting them to calculate their own prices on the basis of their own costs, and we have no limitation, except that they are only permitted to use them unless we tell them not to. In general, our practice has been——

Mr. WOLCOTT. When you get around, a few months after, to tell them not to, what happens?

Mr. BAKER. Our general practice has been not to review those determinations until they had had actual cost experience.

Mr. WOLCOTT. You mean a concern can put its own price on a product after reconversion?

Mr. BAKER. Yes; that is true of only new small manufacturers.

Mr. WOLCOTT. If an old-established concern, having an established price history on its commodity does that, you crack down on him. He has to go back to his 1941 price; does he not?

Mr. BAKER. We have to take an illustration. The toy one does not fit any more. But if you care to have another illustration given, we would have to look that up and give you the right application.

Mr. WOLCOTT. Where is the logic and reasoning behind such a ruling? A new concern, you say, can establish their own price, on a cost-of-production-plus basis without coming to the Office of Price Administration, and then later on you adjust that, and say he has to bring it down, if nothing happens to it in the meantime. But here is an old-established American concern, just by way of example, that has a price history, and because they have a price history, they cannot turn a wheel until—that concern cannot say, "Our cost of production is 10 percent more than it was in 1941, so our commodity is going to sell for \$1.10 instead of a dollar." Where is the reasoning behind that?

Mr. BAKER. The implication is that we do not have individual adjustment provisions. We do have individual adjustment provisions in practically every regulation that we issue. Whether a particular provision would fit the case you have in mind would depend on what item was under discussion. We have provisions which, in some cases, at the very least, permit a total cost over-all basis. We have other provisions which permit a profit, an individual profit over and above total cost in other cases, generally fitted to the type of regulation.

For instance, in machinery, our regulation permits, on an over-all basis, the full base-period profit of the individual firm, and they grade on down from there, depending upon the essentiality of the item. But there are individual adjustment provisions, sir, which, at least, allow total cost to be recovered in such cases, on a product basis, and at least total cost and sometimes a profit in addition, on an over-all company-wide basis.

We would be glad to present, for the record, a list of our individual adjustment provisions, explaining the items they are applicable to, and what their provisions are, so that the committee can judge for themselves as to whether they, in general, cope with this problem.

Mr. WOLCOTT. You mentioned machinery. I have a case right in my own town where a foundry was making manhole covers, and some machinery before the war. They were in war production. Then they reconverted. In the meantime they had developed a new wood-working machine. They made application for a price on the other things that they had been manufacturing, and they could not get a price that would authorize them to go back into production. Now, you have given them a price where, if they were a single-unit manufacturer, if they wanted to manufacture only this new woodworking machine which they had developed and which you had given them a price on, if they had a market sufficient for it, they could get back into production. But the fact that they have got to produce all these other things means they cannot make sufficient profit on the wood-

working machinery to offset their losses on manhole covers, and so forth. And all over the United States today cities and villages are all crying for manhole covers that they are not getting.

Mr. BAKER. I should think that would be a very good case for the application of an incentive price.

Mr. WOLCOTT. That has been before the Office of Price Administration, to my knowledge, since VJ-day.

Mr. BAKER. I would like the opportunity of looking up the case and reporting back to the committee after I have had a chance to examine it. I am sorry not to be able to reply here now.

Mr. WOLCOTT. I did not intend to take up that much time.

The CHAIRMAN. Mr. Potter, you may proceed.

Mr. POTTER. "Step 11, Price Adjustments for Industries," affected seriously by sharp drop in war orders.

The Office of Price Administration adjustments of ceiling prices on reconversion goods by use of our reconversion formula has been almost completed. We are now prepared to adjust these ceiling prices further when—

(1) Bulge costs, such as buying materials from new sources of supply, and so forth, results in a hardship, or

(2) Operating results after good volume of production is reached, show that prices are too low.

For nonreconversion industries whose operations were radically changed by VJ-day, the Office of Price Administration uses quarterly or semiannual operating statements in making price increases needed to keep industries profitable until more complete financial statements from postwar operations become available.

Industry-wide adjustments. Since VE-day, 459 industry-wide adjustments have been made, classified as follows:

(1) To maintain or increase supply—that is, incentive pricing, 115 orders.

(2) To keep prices generally fair and equitable, as is required by law, 170 orders.

(3) To make controls more effective, 12.

(4) To correct maladjustments and inequities and to prevent certain inequities, 77 and 85.

A total of 459.

These 11 changes fit our policies to present needs. The Nation's economy, however, is in a very fluid state. Continuous changes are needed to keep abreast of changing conditions. If and when they are needed, they will be made.

Question 4. Is it true that production which everyone agrees is the principal cure for inflation is being curtailed by price control, and that while seeking to prevent inflation, the Office of Price Administration is perpetuating it?

I do not know how many of you saw the advertisement of the National Manufacturers Association in the morning papers, but I would like to read it, because it is exactly the question that we now seek to answer. [Reading:]

ADVERTISEMENT OF THE NATIONAL MANUFACTURERS ASSOCIATION

You do not want your dollars to buy less and less and less. You do not want your savings to melt away, or the value of your life insurance to dwindle. Yet that is what inflation can do to all of us.

Therefore, thoughtful people everywhere are concerned with ways to smother it before it gets out of hand.

One major cause of inflation is a shortage of goods, when people have money to spend for the things they want. That cause can be eliminated by the production of goods, fast, in quantity.

During the war there was not enough labor and materials to meet the needs of war and still produce all the civilian goods people wanted and could buy. Therefore, price control on civilian goods were substituted for competition to keep prices down.

Today this country has all the labor and materials necessary to turn out the things people want. Yet goods are still scarce. Store shelves are still bare. The national pocketbook continues to bulge. Inflation grows.

Why? Because price controls in peacetime hinder the production of goods. Business cannot live by producing at a loss, and so goods that cannot be made to sell at the prices fixed by the Government, just do not get made, nor will the raising of price ceilings solve the problem, when costs and selling prices are subject to change at any moment by Government action, Production has to be on a day-to-day basis. That means uncertainty, reduced output, more inflation.

Remove price control on manufactured goods, and production will step up fast. Goods then will pour into the market, and within a reasonable time prices will adjust themselves naturally, as they always have in line with the real worth of things.

Competition has never failed to produce this result. This is the way you can get the goods you want at the prices you can afford to pay.

Please think this over, then tell your Representatives in Congress what you believe should be done. You owe it to yourself and to your country's welfare.

Certain business interests are seeking to bring about termination or crippling of price control. Among these are the powerful National Retail Drygoods Association. They are endeavoring to persuade Congress and the public that the Office of Price Administration pricing policies are responsible for existing goods shortages.

A careful analysis of existing shortages and their causes is highly important to Congress and the Nation.

The first fact worthy of note is that instead of being at a low level, industrial production 5 months after VJ-day was at a rate exceeding that of any prewar year, even 1941, when defense production had lifted output above real prewar levels.

This chart shows the 1939 level, counted at 100.

1941 industrial production was stepped up to 149.

In December 1945 it was at the rate of 151. One can hardly consider an output of 51 percent above the 1939 level and above that of any prewar year as a production failure.

Mr. SMITH. May I ask a question, Mr. Chairman.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. In terms of what do you reckon your last figure there? In terms of dollars?

Mr. POTTER. This is in terms of output, volume of output, as measured by the Federal Reserve Board index. The volume of output as measured by the Federal Reserve Board index.

Mr. SMITH. Do you understand that index?

Mr. POTTER. Yes, sir.

Mr. SMITH. And do you think that index is valid?

Mr. POTTER. I do not make up the index. It has been the standard for measuring industrial production for a great many years.

Mr. SMITH. I have examined it and I seriously doubt its validity, and, therefore, I doubt your figures.

Mr. POTTER. Well, I do not say that I am an expert on that, except that that has been the standard of measurement for a great many years.

Mr. WOLCOTT. Will you yield, Dr. Smith?

Mr. SMITH. Yes.

Mr. WOLCOTT. Let us clear up this situation of whether that index is on the dollar basis or goods basis.

Mr. POTTER. That is not the question, I think.

Mr. SMITH. Yes; it is.

Mr. WOLCOTT. That is what I asked you. We had an increase of 51 percent in production of goods in dollar use or units?

Mr. POTTER. This is in units of production.

Mr. SMITH. Well, now, just a minute. If you are using the Federal Reserve Index, it also gives weight to price, and that is why your figures are not correct. They do not take into consideration depreciation of the money.

Mr. POTTER. My understanding is that this is a measurement not of dollars but of volume.

Mr. SMITH. I have gone into that just in the last few days, and that does take into consideration, and does give weight to prices.

Mr. POTTER. Mr. Chairman, I suggest that we have our experts on this matter get the basic information from the Federal Reserve Board, which gets this up and determine the question.

Mr. SMITH. Apparently you do not understand, yourself, the proposition that you are setting up.

Mr. POTTER. I have stated my understanding of the situation, sir.

Mr. PATMAN. That index has been accepted by business for 25 years, Mr. Potter.

The CHAIRMAN. Well, now, as I understand it, you will bring the experts here who formulated that index?

Mr. POTTER. That is right.

The CHAIRMAN. You may proceed, under those circumstances.

Mr. WOLCOTT. Well, may I ask one more question? Has that been adjusted for an increase in population of 10 million people?

Mr. POTTER. No, this has not been adjusted. This is physical volume, as I understand it.

Mr. WOLCOTT. What is the increase in industrial production since 1939 on a per capita basis?

Mr. POTTER. I do not know. Of course, you have got your soldier situation thrown into that picture.

Mr. WOLCOTT. We have 10 million more population now than we had in 1940, according to the estimates.

Mr. POTTER. You have your soldier situation thrown into that picture, Mr. Wolcott. It is very difficult, I think, to estimate.

Mr. BUFFETT. Mr. Potter, would you yield for an addition to the record at this point? I inspected that Federal Reserve Board index yesterday, and I find that durable goods production declined from a high of 346 percent in terms of the 1935-39 average down to a low of 187 percent of the 1935-39 average in December 1945.

Mr. POTTER. I would expect that, sir, because we had \$40,000,000,-000 worth of cut-backs in war contracts, most of which was durable goods.

Mr. BUFFETT. Yes; I think so. But there has been a very serious shrinkage of production of durable goods.

Mr. POTTER. But to offset the \$40,000,000,000 cut-back there was an increase of \$20,000,000,000 in civilian goods, which I will show you in just a minute.

The CHAIRMAN. You may proceed, Mr. Potter.

Mr. POTTER. As a matter of fact, the job of reconversion has been extraordinary considering that less than 6 months ago the Nation was engaged in an all-out war.

Said the Committee for Economic Development on January 13, 1946:

Employment in this country today is at the highest peacetime level in our history. Despite current labor-management disputes, approximately 52,000,000 workers are now holding productive civilian jobs, and unemployment is only a fraction of that officially predicted at the conclusion of hostilities with Japan. This reflects more rapid reconversion than anticipated. In many areas reconversion is 90 percent complete. Pay rolls and individual earnings, which turned downward immediately after Japan surrendered, are now only slightly below wartime peaks, and rising. Production of civilian goods is now 50 to 75 percent above July 1945, levels, and that is expanding rapidly.

That is the statement of business' own organization for postwar planning.

The remarkable speed of reconversion is revealed in the January report of the Office of War Mobilization and Reconversion.

In 8 months the Nation—

this is a quotation—

In 8 months the Nation has swung full-cri from all-out production for war to the threshold of all-out production for peace. At VJ-day goods and services were being produced at the annual rate of just over \$200,000,000,000, nearly half of which was for war. Now, although the war's share of output has fallen by about \$40,000,000,000, total national production has fallen much less, and stands at about \$180,000,000,000. We already are producing for our civilian market at the rate of \$20,000,000,000 more than we were 4 months ago. Our industries are on the threshold of mass production of peacetime goods.

And I would like to say, to give \$20,000,000,000 worth of production an understanding, that our total industrial production in 1933—the peak of the depression—was \$31,000,000,000.

Mr. SMITH. What was the volume?

Mr. POTTER. I say that was the volume of production of industrial goods—

Mr. SMITH. That is in terms of dollars?

Mr. POTTER. Yes.

Mr. SMITH. What was the cost of living then compared with the cost of living now?

Mr. POTTER. Well, it would be considerably up, sir, but \$20,000,000,000 is still a very large production of civilian goods to gain in 4 months.

Very few household appliances were included in the output of 1945. These, however, are due to reach large volume in 1946. The manufacturers of such goods estimated to Civilian Production Administration that June 30—made these estimates of their putput as of June 30 compared with 1939 shipments—and all reconversion industries—this prediction was made last November, before our present flurry of labor difficulties—1939 as a hundred, mid-1946, 300; 200 percent gain, they predicted. Internal-combustion engines from 100 to 444, radios from 100 to 396. Farm machinery from 100 to 334; tires and tubes from 100 to 276; hardware from 100 to 191; clocks and watches, 100 to 186.

Strikes and parts shortages may delay attainment of the July 1 goal. That it will be reached later, is not questioned. When reconversion goods are added to the retail sales of 1945, we shall reach a

civilian goods output far exceeding our wildest dreams of the prewar period.

The basic reason for shortages is not production failure, but a greatly increased demand growing out of a remarkable increase in the public spendable income.

Counting 1939 spendable income as 100, it rose to 131, up 31 percent, in 1941, and in 1945 attained 195, or 95 percent greater spendable income on the part of the public than in 1939.

Mr. SMITH. Would you explain that a little bit further?

Mr. POTTER. How is that?

Mr. SMITH. Just what do you mean by "spendable income"?

Mr. POTTER. This is the total——

Mr. SMITH. Current income?

Mr. POTTER. Total current income of the public.

To expect our economy, 5 months after an all-out war, to meet without shortages a demand so far above prewar levels, is to expect the impossible. To blame those shortages upon price control is to distort the truth.

I would like to say, just expanding on this a little bit, before the war the average meat consumption in this country was 129 pounds per person, carcass weight. We have gotten up around 165 or 170 pounds per person carcass weight.

Liquid milk consumption has increased somewhere around 20 to 25 percent.

I had lunch recently with the biggest egg producer in America. He had 60,000 laying hens. And he told me that the public today was eating 100 more eggs a year than they were eating before the war. So that we have not only a production problem of meeting prewar production, but because of this largely increased spending power, we have the problem of meeting an enlarged consuming capacity on the part of the public.

Mr. BROWN. Is that a hundred eggs per person per year?

Mr. POTTER. Per person per year. A hundred more eggs per person per year, he told me, than in the prewar period.

Mr. BROWN. They cannot get any bacon. They have to eat eggs.

Mr. POTTER. That might be, sir.

Mr. HULL. How about the production of butter?

Mr. POTTER. Well, that is a very complex question, and if you want that answered, we can attempt to answer it. It is going to get us into a long argument.

Mr. HULL. I do not wish to interfere with your statement at this time.

Mr. KUNKEL. We would like to have it answered, though.

Mr. POTTER. We would be very glad to answer it. We will come back and we will answer the butter question fully.

Mr. BARRY. Is that income before or after taxes?

Mr. POTTER. That is before taxes.

Mr. BARRY. That makes quite a difference, does it not, in the spendable power?

Mr. POTTER. Oh, yes, it makes some difference; but 95 percent up is still high.

Mr. BARRY. It is still high; yes.

Mr. POTTER. Yes. Wait a minute. I am told that that figure is after taxes. Spendable income is after taxes.

Mr. BAKER. Mr. Chairman, may I just say, with regard to butter, that the matter is before the Stabilization Administrator for approval and, with the indulgence of the committee, we would prefer, if we may, to return to the question upon a ruling by the Stabilization Administrator, which we expect momentarily. There is some discussion among the various agencies. It might be a little better if we could do that.

Mr. KUNKEL. Do you expect that ruling will take as long as the one on steel?

Mr. BAKER. I cannot answer that question, sir. I trust not. I would like to say, also, sir, if I may just put it in the record, that it turns out for our benefit, that manhole covers were also exempted on December 31, 1945.

Mr. WOLCOTT. I am glad to hear that, because they have been trying since VE-day to get a price on it.

The CHAIRMAN. It looks like we are getting a lot of questions answered satisfactorily.

You may proceed, Mr. Potter. We will discuss the butter question later.

Mr. POTTER. Those who blame existing shortages upon pricing policies fail to give recognition to the size of our labor force and to the extent to which it is employed. This line shows the number of persons employed in the United States from 1939, average monthly figures, through 1944, and then monthly for 1945.

We start in 1939 at 34.9 million persons. At the very peak of the employment, which was July 1945, we got up to 54,300,000 employed persons.

In December 1945, we had employed 51,400,000 persons.

Mr. GAMBLE. What was your peak?

Mr. POTTER. The peak was in July at 54,300,000 persons.

Mr. GAMBLE. And it went down to 51 million, you say?

Mr. POTTER. 51 million in December; yes.

Mr. GAMBLE. Thank you.

Mr. POTTER. Note that in December 1945, employment was 6½ million above 1939, 2 million above 1941 levels.

Unemployment was estimated, in December, at 2 to 3 million, 2 million being considered normal unemployment, arising out of transfers between jobs. I think that with all the war-migrated workers that are going home today, probably the normal at the present time is a little above that 2 million which has been considered normal.

In other words, there are labor shortages all over the country today. When a labor force is rather fully employed, general price increases to raise production cannot substantially increase general output. You can increase the price of a particular product to stimulate that, if it is out of line with the others, but you cannot increase general production by general price incentives when your labor force is pretty generally employed.

Now, as we demobilize our armed services, as those people become available, we will have more people to go to work, and people figure that the labor force will run somewhere around 58 to 60 million.

There is nothing whatever incompatible between effective price control and attainment of large postwar production. On the contrary, if history teaches anything, it is that a sharp rise in prices harms, while stable prices aid production.

Mr. Bowles referred this morning to what happened to production and prices in the two wars. That production is handicapped by run-away prices and aided by stable prices is very clearly shown by price and production trends of the two wars.

In World War I, industrial prices went up 88 percent. Production went up 24 percent.

In World War II, with price control, industrial prices, in the same period, went up 21 percent, and industrial production went up 116 percent.

Mr. SMITH. May I ask a question there?

Mr. POTTER. Yes.

Mr. SMITH. What was the increase in production following the war, up to 1929?

Mr. POTTER. I do not have the whole record through to 1929 here. We will be glad to file it. But I have the record for the immediate years after the war, which I will reveal in just a minute.

Mr. SMITH. The reason I ask the question is: We had no price control but we did increase our production about 100 percent; is that not a fact?

Mr. POTTER. Yes, sir. I realize that, and I am not claiming that price control—I think price control aids production, but it is not the only factor that creates production. I am saying that it is not standing in the way of production. The reason for these remarkable comparisons—

Mr. WOLCOTT. Mr. Potter, your increase in industrial production, does that include or exclude war production?

Mr. POTTER. These are both war years; comparison of the two wars.

Mr. WOLCOTT. Does your increase in industrial production include machinery for war?

Mr. POTTER. Yes; both wars.

Mr. WOLCOTT. Then, what good is your chart?

Mr. POTTER. Both wars.

Mr. WOLCOTT. Nobody contests the fact, I do not think, that we had a production effort in this war—you rather disappoint me that it is not higher than it is on that chart. We are dealing in prices of consumer goods, and not in prices of machine guns and tanks.

Mr. POTTER. I am only claiming that, Mr. Wolcott—

Mr. WOLCOTT. Well, what I am bringing out is the fact that price control on consumer goods had no relationship or any influence whatsoever on the manufacture of tanks and guns.

Mr. POTTER. I will agree with that. All I am saying is this: that during the last war, without price control, we got a small growth of production, and a very high increase in price—

Mr. WOLCOTT. What was the relationship between price control in World War I and the manufacture of Smithfield rifles and machine guns and so forth?

Mr. POTTER. This is total production, civilian goods and war goods.

Mr. WOLCOTT. Yes.

Mr. POTTER. In World War I—

Mr. WOLCOTT. In this war your chart is the same. Now, of course, we all know that we produced ever so much more during this war than we did during the last war. The point is, what relationship is there between price controls on consumer goods and the manufacture of war goods. There is not any, of course, you know that.

Mr. POTTER. I am not comparing.

Mr. WOLCOTT. I am just keeping this record as straight as we can as you go along.

Mr. POTTER. Yes.

Mr. WOLCOTT. We have had these illustrated lectures every year, you know, since price control went in and we have gotten so we do not take these charts for granted any more, we start to ask questions about them.

Mr. POTTER. That is quite right, sir.

Mr. WOLCOTT. Then, why bring in that chart and try to show us or indicate to the American people that industrial production has increased so rapidly, even though we have had price controls, when probably the major part of your industrial expansion there is in the field of war materials?

Mr. POTTER. It is shown with that understanding, sir. But the prices of industrial goods, to get that production, last time, rose 88 percent, and this time 21 percent. Last time we got 25 percent gain in production; this time 160.

Mr. WOLCOTT. I can make a chart, Mr. Potter, to show that the production of consumer goods during this war, proportioned to total production, was much less. What would that prove? I would not advance that as a proof that price controls prevented the manufacture of consumer goods during the war. So I do not think that your charts in that respect are effective.

Mr. POTTER. All right.

Mr. TALLE. May I ask a question?

The CHAIRMAN. Mr. Talle.

Mr. TALLE. The greater part of your production as indicated on your chart is war production, is it not?

Mr. POTTER. Last time it was 25 percent and this time 46 percent.

Mr. TALLE. Well, I am saying the greater portion of your production is war goods production?

Mr. POTTER. Practically half of it, 46 percent.

Mr. TALLE. How much?

Mr. POTTER. Forty-six percent was war production.

Mr. TALLE. And did price control apply to that production?

Mr. POTTER. Yes, to great areas of it.

Mr. TALLE. You are sure that price control was applied to that?

Mr. POTTER. All your basic metals, all the material prices, were under controls.

Mr. TALLE. Was that not done under cost-plus?

Mr. POTTER. No.

Mr. TALLE. Why, certainly.

Mr. WOLCOTT. The manufacture of war materials was not under price controls, you know that, the manufacture of ships and everything else.

Mr. POTTER. The materials, Mr. Wolcott, were all under price control.

Mr. WOLCOTT. They were on a cost-plus or fixed-fee basis.

Mr. BAKER. Mr. Wolcott, all the basic materials, such as aluminum and so forth, were under price control. You are right in saying that finished airplanes and such items were not.

Mr. WOLCOTT. Yet that is included in your total production, is it not?

Mr. BAKER. On the other hand, their price reflected the fact that the basic price had not gone up.

Mr. WOLCOTT. It did not make any difference what the price of the finished product was.

Mr. BAKER. The price was of the sum of the margin plus the cost.

Mr. WOLCOTT. You were paying higher prices for those raw materials, subsidies?

Mr. BAKER. On copper, for example, yes, sir.

Mr. WOLCOTT. So that did not control the fact that you put a price on copper, and paid a subsidy to get maximum production, was not reflected in the ultimate cost of the battleship?

Mr. BAKER. Mr. Wolcott, the subsidy on copper, if you will remember, was paid only for marginal production.

Mr. WOLCOTT. That does not make any difference who it was paid to. The price control on the copper and the subsidies we paid on copper have no relationship whatsoever to the cost of the battleship?

Mr. BAKER. Sir, I think I would like to take exception to that, if I may. It is obvious, is it not, that the sum of the subsidies paid for copper and the price paid for the copper is the total cost of the copper? That cost was kept down. That cost was kept down by price control. It did not rise under the absence of price control as it did in the first war. To the extent that it did not rise, subsidy plus price, of course, you are right there, that was a saving to the taxpayer. Is that not so, sir?

Mr. PATMAN. I would like to ask Mr. Potter a question at this point.

In 1944, price control had saved \$80,000,000,000 on the cost.

Mr. WOLCOTT. You have raised that now, Mr. Patman from \$60,000,000,000.

Mr. PATMAN. Well, now, just a minute. I am going to ask this question myself. Up to a point in 1944, price control had saved \$80,000,000,000 on the cost of the war; that is, by keeping down the price of steel, which did not go up at all; plate glass, which did not go up at all; cement, which did not go up at all; and a number of materials like that; used in the war effort, did not go up at all from 1939 clear on through the war. By reason of holding those prices down, compared with the last war, there was a saving of \$80,000,000,000. In other words, the war debt would have been \$80,000,000,000 more had the prices gone up as they did during the first war. That was in 1944. Up to the end of the war, how much was that saving? Do you know?

Mr. POTTER. I think your figure of \$80,000,000,000 was to the end of the war, Mr. Patman.

Mr. PATMAN. To the end of the war, in 1945, instead of 1944.

Mr. POTTER. That is right; that figure, however—let us understand exactly what we are talking about when we talk about that. It is not quite right to talk about it as a saving, because that is an estimate of how much more this war would have cost had prices increased as they did in the last war.

Mr. PATMAN. Well, do you not assume—

Mr. POTTER. Whether they would have, we do not know.

Mr. PATMAN. Is it not fair to assume they would have increased a lot more, because the pressures were a lot greater than during the other war?

Mr. POTTER. That is my opinion, but that is purely—let us not call it a saving because we do not quite know about it, it is based upon the assumption that if they had increased to that extent, it would have cost that much.

Mr. PATMAN. Well, I do not think there is any doubt about that. I think pressures were so much greater that the savings would have been a whole lot more.

Mr. WOLCOTT. Mr. Potter, just in that connection, the Metals Reserve Corporation had complete control over the production and distribution of most all strategic materials, did they not? They had the authority to channel all strategic and critical materials into war production or civilian production? In other words, for a large percentage of the strategic and critical materials, the Government was the only market which the producers had, and there was price control right there, independent of the Price Control Act, was it not?

Mr. POTTER. That is very true, sir. That was another part of the Government's control program.

The CHAIRMAN. You may proceed, Mr. Potter.

Mr. POTTER. We tried the production incentive of soaring prices in 1919. As was to be expected, although prices rose 25.8 percent during the year, production fell below 1918 levels.

There, on the chart, you see 1914 at 100; 1918 was 125 percent; 1919, 117 percent.

The production story is not completed, however, until we study the end result, when inflated prices dropped 44 percent in 13 months, between May 1920 and June 1921.

1921 industrial production fell far below that of 1919, almost to the 1914 level. Here on the chart, you see 1914 as 100 percent; 1918, 125 percent; 1919, 117 percent; and 1921, back almost to the 1914 basis, 104 percent.

Mr. SMITH. Is that according to the index, again, of the Federal Reserve Board?

Mr. POTTER. This is according to the index of the Federal Reserve Board.

If we want long-standing full employment and production we should not apply the price solution to production problems that we tried after World War I.

Last November, the Bridgeport Chamber of Commerce hired a firm of industrial engineers to survey Bridgeport's industries to determine the full effect of Office of Price Administration regulations upon full employment and production. On January 19, 1946, the findings of the survey were quoted by Mr. Robert R. Wasson, president of the National Association of Manufacturers, as evidence of how OPA is hampering production. The Bridgeport Chamber of Commerce got out this booklet, which I hold in my hand, entitled "This Is Bridgeport, Conn., under the OPA."

The first of their findings was that unless price controls were removed or relaxed, 8,700 workers would be laid off in Bridgeport by February 15, 1946—that is last Friday.

Mr. PATMAN. When was the booklet gotten out?

Mr. POTTER. The book was gotten out some time in November, when the prediction was made. Now this is what has happened up to January 15: Loss predicted by February 15, 8,700 workers; gain made by January 15, 4,800 workers. According to the United States

Department of Labor, Bridgeport employment reached an all-time peacetime high in January 1946.

Mr. SMITH. Do you attribute that to the Office of Price Administration regulations?

Mr. POTTER. I attribute to the Office of Price Administration regulations the fact that, instead of driving 8,700 people out of jobs, the employers, who were going to do this, instead added 4,800 workers.

Mr. SMITH. That still does not answer my question. Do you attribute that to the Office of Price Administration regulations?

Mr. POTTER. I do not attribute it to the Office of Price Administration regulations. It was stated that if OPA was not abandoned or radically changed, 8,700 men would be put out of work. They were not. That is the only statement I make.

Mr. GAMBLE. You would like to show that somebody else can be wrong once in a while, is that right?

Mr. POTTER. That is right.

Mr. BUFFETT. The CIO sent me a bulletin back on last September 1, saying that 10,000,000 would be out of employment by January 1. That suggestion was a little bit overly pessimistic too, was it not?

Mr. POTTER. Oh, yes; there have been many bad predictions.

Mr. KUNKEL. Mr. Potter, just what does that Bridgeport matter prove, or what is it intended to prove?

Mr. POTTER. It proves that the Bridgeport Chamber of Commerce, quoted by the National Association of Manufacturers, set out to try to prove that OPA was hampering production, and driving people out of jobs, and it did not turn out to be true.

Mr. KUNKEL. But it does not have anything to do with our problem here. It is just a "straw man" that you have set up in order to knock down.

Mr. POTTER. I did not set it up; the Bridgeport Chamber of Commerce set it up.

Mr. KUNKEL. You brought it in to knock it down. It has nothing to do with the question at issue, does it?

Mr. POTTER. I think it has a great deal to do, sir, with what the National Association of Manufacturers and a great many—

Mr. KUNKEL. Well are you representing the National Association of Manufacturers or the Office of Price Administration? I have been having a little trouble deciding.

The CHAIRMAN. Proceed, Mr. Potter.

Mr. POTTER. We have heard a great deal about the Office of Price Administration hampering the production of lumber by refusing to grant price increases. Let us see what has happened to lumber prices, production, and employment since 1939.

The price rise on lumber, since 1939, is 66.4 percent. That is the highest, I believe, of any of the major industrial products, with the average being about 25 percent. We have put it up repeatedly, on the recommendation of the War Production Board, that we needed an incentive increase in prices.

This is what happened to production: It went up a little bit, and then it went down, and today, in 1945, rather, it was 9.5 percent below the 1939 production level—a very bad record. But employment was down 21.8 percent.

9.5 percent as against 66.4 percent; clearly price increases granted to stimulate production were ineffective. The trouble was a steadily dwindling labor supply.

Mr. GAMBLE. You had a strike out in the West, too, did you not?

Mr. POTTER. At times we had strikes in the picture, yes, sir.

Prices in World War I rose 231 percent over the 1914 level by 1920. A very great stimulus to production. But production dropped, during that period, 13.6 percent, or more than it dropped this time.

Mr. WOLCOTT. Mr. Potter, will you go back to that lumber chart for a moment. Do you claim that the production of lumber decreased because you increased the price of lumber?

Mr. POTTER. No; we say that—

Mr. WOLCOTT. Well then what is your chart intended to prove?

Mr. ROGERS. The point there, Mr. Wolcott, is simply that the problem in lumber production has been labor; there has not been enough labor to get the wood out, with the result that price increases—

Mr. WOLCOTT. I have never heard it contended that the decrease in lumber production was due to the increase in lumber prices, or to lumber prices going down. I think we all recognize the fact that the reason you do not have any lumber is because you have not been able to settle the wage-price formula for lumber, as you have for steel.

Mr. ROGERS. No, sir, so far as lumber is concerned—well let us take southern pine as an example: The main problem there has been the lack of manpower for quite some time. There are other factors that go into it, such as the weather conditions, lack of proper machinery, and so on.

Mr. WOLCOTT. Why did you not get manpower into the lumber industry?

Mr. ROGERS. Well, the bottleneck committee and the Civilian Production Administration have done everything possible.

Mr. WOLCOTT. Why did you not get manpower into the lumber industry? Why are they striking?

Mr. ROGERS. There is no strike in the South, that I know.

Mr. WOLCOTT. But there is in the West.

Mr. ROGERS. Yes; there has been there, and it is now settled.

Mr. WOLCOTT. Why are they striking? They are striking for higher wages, are they not?

Mr. ROGERS. Yes, 15 cents higher wages.

Mr. WOLCOTT. What are you going to do about prices? Are you going to give an increase in the price of lumber sufficient to give the the increase in wages?

Mr. ROGERS. We will, in all probability, give some increases there. But I think the point of the chart, however, is this: We are not trying to draw the conclusion you suggest; we are trying to indicate, on the other hand, that in some of these cases—we thought, in the case of southern lumber, for example, that there should be a price increase—or, going back over the entire period of the war, we have made several price increases—but the fact is that production is still down.

Mr. WOLCOTT. Does it not also prove that price controls are ineffective when applied to nonexistent goods?

Mr. ROGERS. Well, I do not know about that.

Mr. WOLCOTT. Have you given consideration to adjusting the demands of labor and considering increases in prices to absorb that in order to get full production of lumber, as you have done in the case of steel?

Mr. ROGERS. Yes, we have; particularly on those bottleneck items, we have done that consistently, all the way along.

Mr. WOLCOTT. We are interested, of course, because we think that lumber is one of the important materials in home construction, and that much of the trouble in housing is due to lack of materials, the most important of which is lumber.

Mr. ROGERS. We feel that way, too, and that is why we have worked with this bottleneck committee, to try to analyze and determine just what the problem has been, all the way along.

Mr. WOLCOTT. Has the bottleneck committee made any recommendations?

Mr. ROGERS. With respect to price, yes; they have; and we have followed those recommendations.

Mr. WOLCOTT. Have you increased the prices as a result of their recommendations?

Mr. ROGERS. Yes, sir.

Mr. WOLCOTT. What are they doing with respect to the labor situation, as to increases in labor costs?

Mr. ROGERS. I do not know specifically what the recommendations with respect to labor are.

Mr. WOLCOTT. Does not that seem to be the bottleneck in lumber?

Mr. ROGERS. It does—one of them; the main one with respect to southern lumber is labor; yes.

Mr. WOLCOTT. The reason you have not had sufficient manpower in the lumber industry is because that industry cannot pay wages high enough to attract manpower.

Mr. POTTER. We will cover that in just a moment, Mr. Wolcott.

Mr. PATMAN. Mr. Chairman, Mr. Potter has only gotten down to the fourth question so far, and he has 10 of them. We have been sitting for 2 hours now.

Mr. WOLCOTT. Well we have other things to do, too, besides just listening to this illustrated lecture. I, for one, have things that need my attention in my office, and that is the reason I have been asking these questions, in the event it should become necessary for me to leave.

Mr. PATMAN. Can you not make notes of the points on which you wish to ask questions, and ask them later on?

Mr. WOLCOTT. We will not have an opportunity to cover it later on, and I think we can cover it better as we go along.

Mr. KUNKEL. It seems to me, Mr. Patman, that there has been one important thing brought out by the evidence just given in connection with this chart, which is that the chart does not include many items of great importance, and therefore that the chart is highly inaccurate, and it is important that it should be supplemented by the evidence given.

Mr. PATMAN. Of course that is your own opinion, that it is highly inaccurate; that is merely your point of view.

Mr. KUNKEL. It is borne out by the evidence just given by Mr. Rogers.

Mr. WOLCOTT. Just a minute. What I am trying to get at is this: The President, in his statement releasing the steel settlement characterized the increase in the price of steel as a bulge; he said that it was not a breaking of the line, but rather a bulge in the line, and that he expects Congress to do something to help him prevent a break-

through. Now do we understand that, in the case of lumber, there is another bulge in the line?

Mr. ROGERS. I think the President's point there is with respect to, and that he was referring to, the whole cost-of-living line, and when he spoke of a bulge, he meant a bulge in a certain part of it. He did not mean a bulge in steel, but in the entire cost-of-living line.

Mr. WOLCOTT. If you increase the cost of lumber to absorb the increase in cost of production, you will just increase the bulge a little more.

Mr. ROGERS. There will be some increases in various areas, and all during the war there have been necessary increases in lumber.

Mr. WOLCOTT. What can the Congress do, and what do you recommend that Congress do to prevent that bulge from finally breaking through? You are doing it in steel; you are doing it in lumber; why not be realistic and recognize that you may have to give consideration to an over-all, horizontal, percentage increase in prices in order to absorb an increase in production costs.

Mr. ROGERS. We believe, and we believe it can be shown, that in large areas the line as it is now can be held—particularly with respect to foods and rents, which make up a very, very large proportion of the total cost-of-living index, something approaching 60 percent—and that also, in the other areas, there are a very great number of industries which will not require an increase, and that the bulge will be confined to certain specific areas—those using metals obviously being one.

But if we take the contrary position, and say "Let us raise the general level of prices 5 percent or 10 percent," we will not be able to contain those increases, and the necessary increases which will follow, within anything like that level, because we will then be started, will lead, as the charts indicated, to inflation.

Mr. WOLCOTT. Incidentally, I asked that question following up the question I asked earlier, namely, as to whether it was possible to develop an over-all policy so that there would not be so much uncertainty as to what the governmental policy is going to be in that respect.

Mr. ROGERS. Uncertainty as to what?

Mr. WOLCOTT. For industries that are reconverting to peace production, so that they will not be help up, and so that we might formulate some policy that would allow them to get back into production—old firms, as well as new concerns. New concerns, as I understand it, can set their own prices, and then you adjust those prices later on; but if an old firm, which has a price history, does the same thing, they are violating the regulations, unless you give them a price. It seems to me we could get rid of much of our difficulty here if we were realistic and recognized that the same rules should apply to the old industry as apply to the new industry, and maybe we could prevent so much pressure on this bulge by doing so; perhaps we could hold the line, and there would not be any bulge.

Mr. ROGERS. With respect to the comment you made as to firms fixing their own prices, the point that Mr. Baker was discussing includes only the price adjustment to new manufacturers only—only a certain kind of new, small, manufacturers.

As to the broad point, however, it seems to me that the most constructive thing we could do would be to give you, for the use of the committee, a general statement as to all of OPA's pricing standards, which is the policy under which we operate with respect to these

various industries which, all taken together, we believe, will allow the line to be held, except for the bulge of which you spoke.

MR. CRAWFORD. Mr. Chairman, may I ask a question in connection with this bulge?

The CHAIRMAN. Mr. Crawford.

MR. CRAWFORD. I hesitate to ask this question, because the chairman made a definite ruling that Mr. Potter was not to be interrogated while in the course of his presentation, and I agreed to it. But if it is going to be the custom to interrupt and ask questions, I would like to ask this one:

I would like to ask the witness who is now speaking whether or not it is a fact that Mr. Bowles called in the farm leaders last week—the Grange, the bureau, the producers, the Farm Union—and explained to them at the time that he proposed this bulge, and requested them at that time, to go along with him without any increase in farm prices?

MR. ROGERS. I think the best thing to do, in connection with that question, Mr. Crawford, would be to ask it of Mr. Bowles directly.

MR. CRAWFORD. I will not have an opportunity to ask Mr. Bowles. MR. ROGERS. He will be here tomorrow morning. I cannot answer it, because I do not know.

MR. CRAWFORD. You do not know whether the conference was held or not, do you?

MR. ROGERS. I know there was a conference with farm leaders; but what transpired, I do not know.

MR. CRAWFORD. Are you familiar with the paragraph, on page 9 of Mr. Bowles' statement of this morning, on this same subject, namely, the bulge and farm prices?

MR. ROGERS. Yes, sir; I know what his attitude is toward the subject in general.

MR. CRAWFORD. But you do not know what he said this morning?

MR. ROGERS. No, sir; I was not here.

MR. CRAWFORD. Do you think it fair to raise the price of steel, and wages of the steelworkers, and to tell the farmers of this country that their labor, in the form of the products they put on the market, has to be held down, in order to hold the line, and in order to hold the bulge, and at the same time force the farmer to pay a higher price for every piece of steel that comes to his farm? I am asking you for your opinion, now. Do you think that is fair?

MR. ROGERS. If I may, I would like to say that this matter that you are bringing up deals with the relationships of the entire stabilization program. Mr. Bowles has been——

The CHAIRMAN. Mr. Bowles is coming back tomorrow.

MR. CRAWFORD. I am asking you for your opinion, now. I am not asking about Mr. Bowles. I am trying to get your opinion.

MR. ROGERS. My personal opinion on the matter?

MR. CRAWFORD. Yes, sir; on this matter of farm wages, and incident to this bulge. You have been discussing the bulge for several minutes, and I think the question is pertinent.

MR. ROGERS. I feel that I would be glad to answer the question personally, although I really do not feel that it is my affair, since it is a matter for the Economic Stabilization Director.

MR. CRAWFORD. What is your position with the Administration?

MR. ROGERS. I am Deputy Administrator of the Office of Price Administration.

Mr. CRAWFORD. All right; go ahead and answer it personally, if that is your attitude.

Mr. ROGERS. My personal attitude is that, after VJ-day, labor has been cut from 20 to 40 percent. Even with increases to labor, they will still be getting a level of over-all income lower, in relation to the formula, and as compared to what it was 6 or 8 months ago. The farmer will depend, for his income, a great deal upon how much income goes to the wage earner. His level of income is being maintained.

Mr. CRAWFORD. You are speaking about gross income now, are you not?

Mr. ROGERS. Yes.

Mr. CRAWFORD. All right. Now suppose his costs, by reason of these labor increases pulling the workers away from the farmer and into competitive industry, rise to a point where his gross income does not cover the cost. What are you going to do then? That is the crux of the whole situation. And yet Mr. Bowles says here that— it is not unreasonable or unfair to ask labor to accept temporary Government controls over wages—

And further on—

let me repeat, it is not unreasonable or unfair to ask the farmer to accept the present general level of prices for his products.

So, if the farmer's cost goes up, due to his having to bid for labor, said labor having had its wages increased, and prices going up because of everything he buys having advanced in price, do you still think that his gross income covers the proposition?

Mr. ROGERS. Well, it would seem to me that, without knowing the details of the farmer's net and gross income, and what the effects of the increases might be in the near future, and particularly what the effect might be on parity, which again affects the farmer's income, that at this stage of the game it would not seem to me that the United States can sit by, with the inflationary problem we have confronting us, and say: "We must have exact equity all the way through the economic system." I do not think we can, under the circumstances.

Mr. CRAWFORD. I want to say that I think it is absolutely unfair for the Office of Price Administration to take the attitude that it can economically guillotine one section of the population, namely, the farm operators and owners, and protect the other section. I will close with that statement. Thank you.

The CHAIRMAN. We have heretofore proceeded in an orderly fashion, and I wish to adhere to that procedure. Otherwise we will never be through with these hearings. I will concede to every member of the committee who desires it the right to attack the presentation at the proper time, but I think we ought to allow Mr. Potter an opportunity to complete his statement. You will then have ample time in which to introduce your witnesses and make your arguments, as well as to attack all the charts that have been presented. Proceed, Mr. Potter.

Mr. WOLCOTT. Mr. Chairman, I desire to say that I do not see how I can draw these charts for future reference, or how I can make notes fast enough to remember the charts, or what the problems are. However in view of your ruling, I am not going to interrupt further. Mr. Potter may complete his statement without any interruption, as far as I am concerned, but I—

The CHAIRMAN. I did not mean to imply that a member could not interrupt for an explanation, or, if he misunderstood the chart, to ask for the correct explanation. But let us not go into the broad field at this time; we will have to go into it later on, when the other witnesses are presented. I think we ought to allow them to get through with their general presentation first.

Mr. POTTER. I would like to say, Mr. Chairman, that there has been given to each and every member a statement which contains the factual information which is presented in the charts.

The CHAIRMAN. Very well; proceed.

Mr. POTTER. Now, Mr. Chairman, we had gotten down to the point where lumber prices had increased, during the last war, to 231 percent and then had dropped very substantially, and overnight, until they were only 78 percent, in 1 year, above 1914 prices. That is a drop from 231 percent. And at that time, production dropped 27.4 percent.

The Office of Price Administration has a sincerely cooperative spirit in seeking greater lumber production. These two lumber charts, however, raise serious doubts if the problem can be solved by price action. The mills themselves appear to have a job to do.

Mr. BUFFETT. Mr. Potter.

Mr. POTTER. Yes, sir.

Mr. BUFFETT. Sometime during January, there was issued a price order raising the price of southern pine \$3.25 as of May 1, 1946; is that right?

Mr. POTTER. That is right.

Mr. BAKER. May I correct that, sir?

Mr. BUFFETT. I think that is right, because I have a copy of the order in my office.

Mr. BAKER. There was originally a directive issued by the Administrator, which said the price would be raised \$3.25 if a certain production goal were achieved. That was later revised and an order has just gone out which raises that price effective immediately, and it is good for a 6 months' period and will be continued if a certain production goal is achieved during that period.

Mr. BUFFETT. Let me ask you this: Did you ever know of anything surer to stop production than telling a man that by holding off until a future date he is going to get a higher price?

Mr. BAKER. I am not certain I understand what you mean.

Mr. BUFFETT. I say, do you know of a surer way to stop the sale of lumber produced than to tell the producer that after May 1, 3 months away, or 5 months away, the price is, in all probability, going to be raised?

Mr. BAKER. I would certainly agree with that, sir. But I will remind you that the order reads that the price is increased at once. If you are directing your statement to the original directive, I would certainly agree with you.

Mr. BUFFETT. Yes. It was a mistake, and it has been changed?

Mr. BAKER. That is one reason why it was changed.

Mr. BUFFETT. And that is one case where raising prices could lower production, if that policy were adhered to?

Mr. BAKER. That is very well stated.

Mr. SMITH. Did you not have the same sort of an order out respecting sewer pipe?

Mr. BAKER. Sir, the order on sewer pipe contemplates an immediate increase, without any strings attached to it. It has no production quota attached to it.

Mr. SMITH. Why did you take the strings off?

Mr. BAKER. I do not recall, sir, that there were ever any strings on sewer pipe.

Mr. SMITH. I am talking about lumber.

Mr. BAKER. There are still strings on lumber, sir, but it is turned around. What we say, in effect, is: "Here is your increase now; use it to get more production; if you get a production goal set by Civilian Production Administration in 6 months, we will continue it, because that will be evidence that this price increase really could help you get production."

Mr. SMITH. And if they do not get production, do you mean to say that you are going to reduce the price of lumber?

Mr. BAKER. The present price of lumber, prior to this \$3.25 increase, is entirely satisfactory under our earnings standards, sir. It returns to the industry the proper earnings which it should have under our standards. The \$3.25, which is now granted for 6 months, is in excess of our requirement by that amount and therefore is only justified if it turns out to have been an incentive. If it is not an incentive, it is not authorized under the law and under Executive Order 9599, under which we operate.

Mr. SMITH. What makes you take into consideration the possibility of an incentive on a proposition of that sort?

Mr. BAKER. I do not understand your question, Mr. Smith.

Mr. SMITH. Well, you say that if it is not an incentive and if you find out, in the course of 3 or 4 months, that it has not been an incentive—why do you think about incentive in the first place?

Mr. BAKER. We take that chance. The southern pine industry has made representations that a higher price will get more production. We are in some doubt about it. I am frank to tell you that I just do not know whether it will or not, and whether this lowered production is not due to labor difficulties, the weather, the shortage of equipment, and so forth, which Mr. Rogers has described. We are taking a chance on it. The building-construction program is so important that we do not dare not to take a chance, and that is why we are giving them an incentive price now, even though we are not quite sure about it.

Mr. KUNKEL. You were sort of in the same position, on that first order, as the Bridgeport Chamber of Commerce, were you not?

Mr. BAKER. Let us say the Government is, sir.

Mr. POTTER. That lumber companies have not been put in a position where they could not operate or expand production because of losses due to inadequate prices is shown by these facts: The earnings of 98 logging, lumber, and plywood companies—this is the average return on percentage of sales—are as follows: 1936-39, 3 percent on sales; 1944, 12.1 percent.

Earnings on net worth: The average for 1936-39 was 1.8 percent; 1944, 12.2 percent.

Clearly there is plenty of profit margin for the mills at present prices. The problem of turning out more lumber is clearly in their hands.

Mr. BUFFETT. Mr. Potter, those 1944 figures, though, are before

the loggers went on strike, are they not, and take no cognizance of the new wage scale?

Mr. POTTER. I will grant you, sir, that there may, unquestionably, be some increase in costs in 1945 over 1944. Unfortunately we do not have later figures. But I would say that the increase from 3 to 12 percent, and from 1.8 to 12.3 percent, allows a fairly adequate margin for some absorption of increased costs, and still could keep them in a satisfactory operating position.

Mr. BUFFETT. Certainly, but the lumber production was down, in the first part of February, 34 percent under a year ago, and you would not contend that a man making 12 percent on his money should try to reduce his business if he was making that much money?

Mr. POTTER. The figures show a drop in production from 1939.

Mr. BAKER. If I may say so, the reduction in production in spite of what you describe as a good profit, is an illustration that price is not the problem at the moment.

With respect to the northwestern loggers, who have been recently given an increase of 15 cents an hour, that increase will come under our provisions under the new price policy, and will be considered as part of cost and an appropriate adjustment made.

Mr. BUFFETT. Do you mean that prices have already been adjusted to effectuate that increase, or they will be?

Mr. BAKER. They will be.

Mr. BUFFETT. When did the strike out in the Northwest begin?

Mr. BAKER. I do not recall when it began, sir. I do recall that it ended recently.

Mr. BUFFETT. It has been going on for several months; has it not?

Mr. BAKER. Yes, sir.

Mr. BUFFETT. And all the time, it must be costing production of lumber.

Mr. BAKER. Well the attitude of the employers with reference to the strike, I believe, sir, was not based upon the price situation.

Mr. BROWN. All right, Mr. Potter; you may proceed.

Mr. POTTER. The American Association of Taxpayers is reported to have sent to Congress a resolution recommending an ending of price control so that we may get houses to wipe out the housing shortage. Let us see what happened after World War I, when we took the medicine which they say will cure our scarcity of houses.

This is what happened to construction costs from the armistice, 1918, to 1920; construction costs rose from 77 percent above the pre-war level to 189 percent; 40 percent of the rise was before the armistice, and 60 percent after the armistice.

And here is what happened to construction: Construction rose from 174,000 units in 1918 to 405,000 units in 1919. And then there was a buyer's strike against those high prices, and it dropped in 1 year to 247,000 units, with a great accumulated demand. The housing boom lasted just 1 year. We certainly want no such solution of our housing shortage this time.

There are, of course, firms whose costs are so high that they cannot make out under Office of Price Administration ceilings. There were, before the war, firms similarly unable to operate profitably under prices set competitively by free enterprise. The difference is that the number unable to make out now are far fewer than they were before the war.

Here you see failures of manufacturing and mining companies as reported by Dun & Bradstreet: 1929, 2,919; 1945, 280, of which, 68 in the last quarter.

As to firms in difficulty: Most of the Nation's 810,000 manufacturers are operating successfully; a few are in price-profit difficulties, and come in to see us. And, I may say also, they come in to see Members of Congress.

Some are entitled to relief under our regulations, and get it. Others are from industries just getting into difficulties through rising costs. Industry-wide adjustments usually solve their problems.

Occasionally changing conditions present new difficulties. These have to be worked out by amendment of our regulations.

The many policy changes made since VE-day to keep goods and firms in production already have been reviewed. And I may say that there are, in certain areas at the present time, firms in difficulty, and we have cost accountants who have just collected a great deal of information from them, especially firms in the process of reconversion, and we are about to adjust our policies to the conditions revealed in those studies.

Too, most, though not all, of the firms in difficulty, are high-cost concerns that would have little chance for survival under normal conditions. They may not survive when competitive conditions are again restored. Now, however, inflationary buying power and goods shortages make it possible for them to sell at prices based upon their high costs.

We seek to keep every possible manufacturing firm in business when it can be done without wrecking price control. However, we cannot fix industry-wide prices on the basis of costs of high-cost producers, without complete abandonment of effective price controls.

In summary, December 1945, industrial production was at an all-time peacetime peak, although millions of our workers were engaged in reconverting factories; production of reconversion goods, due to rise 200 percent above 1939 output had hardly begun.

Second, existing shortages do not arise from production failure primarily, but from vastly expanded demand for goods.

Third, run-away prices hurt and do not help production, as was proved by our experience during the two world wars, and by what happened after World War I.

Fourth, evidence offered to show that price policies are hampering production, is full of misrepresentations.

Five, a far larger percentage of our producers are able to operate profitably than were able to so operate before the war.

The unanswered question is: Whether the period of large production we are entering will be stable and long-lasting or if we are in for another inflationary "boom and bust."

Is it true that Office of Price Administration pricing policies have driven low-end goods off the market, forcing the public to buy higher-priced goods and defeating the purposes of price control?

High-priced goods before the war yielded producers bigger dollar profits than low-priced goods. Frequently they also yielded higher margins of profit.

Producers therefore sold all the high-cost goods they could. They produced low-priced goods only because markets for high-priced goods were very limited. To get volume, they had to produce low-priced merchandise.

Mr. BROWN. Is that true now?

Mr. POTTER. I am coming to that right now, sir.

The war did not change the greater profitability of higher-priced goods; neither did it change the desires of producers to earn maximum profits, and those are legitimate desires. What it did was to vastly increase the buying power of the public, and create goods shortages. It added largely to the number of persons able and willing to pay high prices.

Responding to enlarged profit possibilities, many producers reduced or dropped production of low-end lines. Unable to find enough low-end merchandise in the stores, the public has had no choice but to buy higher-priced goods.

But the higher-priced goods available, unfortunately, have not always been the quality goods of the present war period, but low-end goods, overstyled, and overpriced.

Mr. KUNKEL. May I ask a question there, Mr. Potter?

Mr. POTTER. Certainly.

Mr. KUNKEL. Is that statement, embodied in those last two paragraphs, taking into account your cost of living index?

Mr. POTTER. The depreciation of quality of goods is not reflected in the cost of living index.

Mr. KUNKEL. Neither is the disappearance of low-end goods, is it?

Mr. POTTER. The disappearance of low-end goods is reflected in the cost of living index, because they take the next item up in cost.

Mr. TALLE. In other words, the poorer quality is another bulge?

Mr. POTTER. The poorer quality is another problem; yes, sir.

Mr. TALLE. It is a bulge?

Mr. POTTER. That is right, sir.

Mr. KUNKEL. That renders inaccurate your figures depicting how you have held the cost of living index?

Mr. POTTER. Yes; except that we measured the two wars by the same yardstick, both subject to the same error.

Mr. BROWN. You may proceed.

Mr. POTTER. Seeking to check this inflationary practice, the Office of Price Administration adopted its highest price line limitation. This bars producers of products covered from the sale of goods in lines above the highest price lines they delivered in the base period, and the maximum average price order requires manufacturers to sell at the average prices they charged during the base period.

The highest price line limitation sets a top price limit; it does not prevent trading up of all production to the highest price line delivered in the base period.

Mr. SMITH. What is the base period?

Mr. POTTER. The highest price line limit.

Mr. BAKER. 1942.

Mr. POTTER. And the maximum average price basis is 1943 and 1944.

Mr. SMITH. When you speak of that average, you mean through the year?

Mr. POTTER. It means the average price. They have maybe six different lines, complete production, and they are required to charge not in excess of the maximum average price they charged in the base period.

Mr. SMITH. During that year?

Mr. BAKER. With the chairman's permission, Mr. Ailes can explain how that is taken. It is not an annual basis.

Mr. AILES. Are you talking about the highest price line or the maximum average price?

Mr. SMITH. I am talking about the base.

Mr. AILES. For the highest price line, that is used mostly in apparel, which is a seasonal industry. So that you have a base period in the fall for the fall line, and a base period in the spring for the spring line. So there are two different periods that are used as the base.

In the case of the maximum average price line, you can either work on a quarterly basis, or half year basis, or on a full year basis, whichever way you want. The regulations provide an option there.

Mr. SMITH. It resolves itself into an average over the year, then; does it not?

Mr. AILES. That is what it comes down to.

Mr. POTTER. The maximum average price line, while difficult to administer and requiring frequent adjustments to keep out of the way of production, brought up-grading to a stop.

Mr. BROWN. Mr. Potter, why did you let this inferior material get in there? Why did you not put a ceiling on it? Why did you let it go so high? You said they made a lot of profit out of it. That is the point covered by the Bankhead-Brown amendment, and that was its main objective, to get the low-priced merchandise on to the store shelves. You have stated that it just went out of sight, and that these mills, by making merchandise just a little bit better than they were accustomed to making, and marking it up, made a greater profit.

Mr. BAKER. There are two problems; first, a frank admission that during the early stages of price control, our control of textiles and apparel was not good, and these results occurred.

Secondly, we did not have the opportunity to put quality standards into operation. If we had started, at the beginning of the war, with a program of quality standards, we would have done a much better job than we have. We have done a poor job because of the fact that we do not have them.

The difficulty of trying to price items which can be varied by the addition of a belt or a buckle, is very great. and our problem, therefore, was to place on them some kind of an over-all control, which would be that much better than no control.

In our opinion, the highest price line achieves that result, since it says to the manufacturer: "We do not care what you do with this garment; you are limited to the highest price line that you used in the base period." That is not entirely satisfactory, but it is a far cry from no control at all.

Mr. BROWN. Of course my argument on that was that you had ceilings, in certain items, which reflect parity, and on a great many other items you had a ceiling which did not reflect parity. The latter, of course, controlled the price of cotton.

In addition to that, you took the position that you would put a ceiling on all the textile items, and you would get back the cheaper garments selling, at that time, at a much higher price. That was the purpose of it, and I thought we were going to get it immediately. It seems as though we have not gotten it yet. We have not gotten the low-priced garments onto the shelves of our stores yet.

Mr. BAKER. That is true, sir, and it is our opinion that most of

that is due to a lack of yarn, due to the lack of labor. You are more familiar than we are with that question, and I think you will realize the labor and facilities problems which have confronted the mills during this time, when they have been way below capacity, and when the lack of yarn has prevented the Civilian Production Administration, the channeling program, and our own low-end program, which you know about, from coming to fruition as quickly as it should have.

However, there has been a big increase in labor—I think the figure is 24,000 additional workers in the textile mills—which means that we will be seeing increased quantities of fabrics, and then, eventually, increased quantities of apparel in the low-end cotton items.

Mr. GAMBLE. Would the gentleman who spoke on the highest price line explain the maximum average price to us? He touched on one, but not the other.

Mr. AILES. I think I stated what the base period was for the M. A. P. regulation, sir. Are you interested in that, or what the regulation is?

Mr. GAMBLE. I am interested in getting rid of it, but I would like to have you explain it a little bit more.

Mr. AILES. The regulation incidentally does not apply to cotton textiles at the mill, it applies to rayon and wool, and at the garment level applies to most of the important garment categories. It provides that each mill covered by it, or each manufacturer, will find out what his average price was, of particular categories of merchandise, in the base period.

The base period is the year 1943, except with respect to woolsens, in which case it is 1944. Then he is told that he is to arrange his production currently so that at the end of each quarter, his average price, in each category, will be the same as the average price back in the base period.

Very briefly, that is what the regulation does. In fact today as an operating document, it is more complicated because we have exemption levels in there which say that if your average in the base period was below this figure, you take this as your average.

We also have tolerances, which allow you to miss by a certain amount without being in jeopardy under it, and the sanctions in the regulation are rather complicated, too. But, briefly, that is what the regulation is.

Mr. GAMBLE. It seems to me there is a terrific amount of opposition to it, judging from the mail I have received from the trade; at least, they are not very happy about it.

The CHAIRMAN. Suppose a manufacturer is making child's dresses that sell for \$1.98, and one for \$2.98, and one for \$3.59. Do you put in, as a price line, the highest price, and then all of them can go to that line? Is that the highest-price line?

Mr. AILES. That was the effect of the highest price line limitation.

The CHAIRMAN. Would that not have the effect of making the cheaper goods go to the highest line?

Mr. AILES. I do not think that it caused that. That situation was developing, and the highest price line limitation was a first step in an effort to control up-grading. You see, at the time it was put out, the manufacturer who was making those three lines was dropping them all and was making five-, six-, or seven-dollar lines. So as a first step, we put the highest price line limitation in, to keep him from

going into a new bracket. That proved ineffective to do the whole job, so we followed it up with the maximum average price regulation. The highest price line regulations were put in, for the most part, back in 1942. There are some commodities that have had highest price line limitations put on them at a more recent date, but the maximum average price regulations were put into effect beginning June 1, 1945, when it became clear that the highest price line controls were no where near adequate to conserve the supply of those low-priced lines which a manufacturer could drop under the highest price line limitation.

The CHAIRMAN. Well, could the lower-priced goods rise to the highest-price line? There was no way to prevent them doing that, was there?

Mr. AILES. Let us get one thing clear, Mr. Spence; each of those items also had a ceiling price on the item itself. In other words, if you take a simpler commodity, like men's shirts, which were under the the general maximum price regulation, if a manufacturer had a \$1, a \$2, and a \$3 shirt, he could not, because of the highest price line limitation, charge \$3 for his \$1 shirt. That still had a ceiling of \$1 on it; but what he could do was this: there is considerable interchangeability of fabrics, and he could take the fabric that he used to put into the \$1 shirt, give it the trim, and put the buttons on it, and so forth, and make a \$3 shirt out of it, and in that way drop his lower-priced line.

Mr. BROWN. That is what was done on overalls and work shirts.

Mr. AILES. That is what was done on a lot of commodities.

Mr. KUNKEL. Do you have any way of handling the problem of the new store, or the new business, to which I cannot see how your highest-price line or your maximum average price line can apply?

Mr. AILES. That is an extremely difficult problem, sir, and one we have spent a great deal of time on. We have worked out standards for handling that situation.

Briefly, if the manufacturer has ownership experience in the base period, we give him the highest price line limitation, or the maximum average price which the business that he owned in the base period would have. Other than that, we bring new manufacturers in at a level a little below the average. In some instances, they come in at the exemption level, where the exemption levels are pretty high.

Mr. KUNKEL. Is there any way in which you can use your allocations program to control that?

Mr. POTTER. That is the thing I am going to talk about next, allocations program.

An effective program has been that under which the War Production Board, or the Civilian Price Administration, has allocated materials for the production of clothing of specified types to be sold at prices fixed by the Office of Price Administration. Fifty percent of the 90 essential clothing items has been covered by this program.

The retail value of goods produced under it is estimated to have an annual value of \$3,000,000,000. At present, all clothing produced under the program bears a price tag, attached by the manufacturer, clearly showing the retail price to the consumer.

Insofar as it has gone, that has been a very effective program.

Mr. WOLCOTT. Mr. Potter, why are we not getting white shirts?

Mr. POTTER. Do you want to answer that, Mr. Baker, the white shirt problem?

Mr. BAKER. We have just issued, about 6 weeks ago, a regulation on men's shirts, shorts, and pajamas, which takes these items out of general maximum, and in our opinion gives them prices which will make the production of these garments as profitable as the use of the same fabrics would be in other garments.

Mr. WOLCOTT. Why was it necessary to exempt them from the maximum price regulation?

Mr. BAKER. Our whole process, sir, of operation, since the issuance of the general maximum price regulation, has been to bring items out from under it and to put them under regulations which recognize increases in cost, and so forth, and which are peculiarly suited to the needs of those items.

Mr. WOLCOTT. You mean your policy in those respects has been to increase prices to obtain a maximum amount of production?

Mr. BAKER. I think we can say this: That with respect to low-end items of that sort, we have established arbitrary increases in percent for the lowest end items, which are calculated to encourage production of those items.

In addition, we have recently also increased the allowance for the average price of shirts, and I will have to ask Mr. Ailes for the exact figures on it. Was the increase in the exemption level on shirts, Mr. Ailes, amounting to about 34 cents, per shirt, about 3 weeks ago?

Mr. AILES. Yes.

Mr. BAKER. An increase from \$17.50 to \$21.50, roughly, per dozen in the lower price which must be used by the manufacturer in calculating his maximum.

To take away the technical parts, this has in effect increased the profitability of low-priced men's shirts.

Mr. WOLCOTT. So that a \$1.65 shirt should be sold for \$2. That still does not answer my question, however. Why are we not getting them?

Mr. BAKER. The first question goes back to Mr. Brown's point, sir, about the fact that we are not getting the fabrics.

Mr. WOLCOTT. Why are you not getting the fabrics? Can you not allocate the fabrics?

Mr. BAKER. Well, we have what we consider to be a reasonably satisfactory plan for channeling the fabrics. The problem now is to get them manufactured, and that problem is largely one of labor supply, as I said to Mr. Brown. We are beginning to get the fabrics, sir.

Mr. WOLCOTT. I remember that, in the early part of October, Mr. Small was before the House Committee on Postwar Economic Policy and Planning, and we had up housing at that time, and I asked him, preliminarily to asking him if he did not have the authority to channel building materials into low-cost construction, I asked him whether he did not have the authority to channel fabric into the manufacture of men's shirts. He readily admitted at that time that he did have. Now why the lag between October and now?

Mr. BAKER. The principle lag, sir, has been in the lack of yarn and fabrics to be channeled into these garments. That, however, has improved substantially.

Mr. WOLCOTT. Well, now, wait a minute; I called his attention, at that time, to the fact that if we could afford to buy an \$8 shirt, or a \$10 shirt, or a \$15 shirt, that we could buy them. They took

this cloth, put an extra button on the sleeve, a half inch on the collar, and called it a sport shirt and charged us \$12 or \$15 for it. There was no question of fabric. At that time, and I suppose the situation still prevails, the shirt shops were full—and they are full today—of white shirts called sport shirts, which you can buy for from \$8 to \$15. Why are they manufacturing the \$8 to \$15 shirts and not manufacturing the \$3 shirts?

Mr. BAKER. That is the product, sir, of the situation that existed prior to the effectiveness of this program. Our present regulation, we believe, now makes it as profitable to produce a regular white shirt—not a sport shirt—as a fancy sport shirt.

On the other hand, the total lack of yarn has meant that although we have a program which theoretically is workable, and will work, it is a shell which waits for the production of fabric to go into it. That production is only just starting, with the gradual return of workers to these somewhat low-paid operations, the textile mills.

That return has been substantial, but I think you will realize that it is a long time from the return of a worker to a yarn factory and the arrival of a shirt in a retail store here in Washington. It is regrettably long, and longer than we contemplated at the time this program was initiated.

Mr. BROWN. Are you not giving a little more preference to rayon than you are to cotton or wool?

Mr. BAKER. We do not think so, sir.

Mr. POTTER. Shall I proceed?

Mr. GAMBLE. You told us about this allocations plan last June, when we had price control up for consideration; you told us that it would settle everything. Instead of that, here we are, 8 or 10 months from that time, and we still do not have shirts and cannot buy clothes.

Mr. BAKER. Mr. Gamble, most of these controls were discontinued at the conclusion of the war.

The final result of discussions with the Civilian Production Administration was the issuance of order 328-B, which did most of what was desirable at that time. It is quite possible that some more controls will be necessary, and I understand from Mr. Bowles that he plans to review at once the need for that.

I also know that a committee of our people and Civilian Production Administration people are meeting this afternoon to make final plans for additional activity in connection with textiles, cotton textiles in general, which we think will be helpful. I cannot say how quickly they will be helpful.

Mr. GAMBLE. Some of those controls were taken off, you say, last summer?

Mr. BAKER. Yes, sir; at the conclusion of the war.

The CHAIRMAN. Do I understand you are about half through, Mr. Potter?

Mr. POTTER. About two-thirds through, Mr. Chairman.

The CHAIRMAN. We will adjourn until tomorrow at 10:30. A. M.

(At 4:30 P. M. the committee adjourned to the following day.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

TUESDAY, FEBRUARY 19, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Hon. Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

Mr. Bowles has returned this morning to subject himself to interrogation. I understand that he would like Mr. Potter to proceed with the charts, and he will be here to answer any questions that arise, in order that the presentation of the charts may be completed before he subjects himself to interrogation.

Mr. PATMAN. Mr. Chairman, I would like to ask Mr. Bowles one question, by reason of the developments here in the last 24 hours, concerning certain organizations which want all price controls taken off manufactured goods, and the Ford Motor Co.

Now, I know the Ford Motor Co. has been accusing the Office of Price Administration of holding up production and stating that all price control should be taken off cars. I think it is a matter of tremendous public interest to know what the prices of cars would be in the event price controls is taken off them and if Mr. Bowles has any information about what the Ford Motor Co. wants to charge for cars if price control is taken off them.

STATEMENT OF CHESTER BOWLES, DIRECTOR OF STABILIZATION—Resumed

Mr. BOWLES. Well, Mr. Patman, Mr. Ford made the statement, I believe, that he was losing \$300 on each car. He also made a statement that the reason he was in difficulties was because of the high ceilings the Office of Price Administration had placed on parts.

I think it is important to understand, first of all, that Mr. Ford was in difficulty and losing \$300 on each car in November. In November I do not know what his production was, but I know it was only a thousand cars a day in January, which is about a third of his 1941 production. I assume it was considerably less than that in November.

I do not think any intelligent industrialist that I know would ask anyone to allow pricing on a basis of such small volume as that.

What would the first typewriters cost, or the first few hundred bicycles, or vacuum cleaners? They would probably cost hundreds and hundreds of dollars; perfectly ridiculous prices.

Of course, on any such small volume as that, you lose money. That is what tax adjustments were arranged to help pay for. Obviously, at any such small volume he does not make money.

In the second place, it is inconceivable to me that Mr. Ford did not know that the Office of Price Administration removed all parts from price control, automobile parts, except those sold through dealers, back in September or late August. In other words, the Office of Price Administration does not price those. They are priced by the manufacturers, who take the bids in the normal way, and those are out from under control. We did that because there were so very many of them, and the field was so complicated that we simply removed controls and left it to the bargaining of the manufacturers.

Most important of all, I think the facts should be known—although normally I would not make them known, as to the prices Mr. Ford asked be placed on his cars last summer; they should be known because of the many statements that Mr. Ford has made, which I think could be termed fairly irresponsible statements. Of course, he may not have had the facts himself; he is not an old hand at that. At any rate, the Ford Co. requested the Office of Price Administration to increase its price 55 percent last summer. They requested a 55-percent increase. I think that figure gives everyone a little better understanding of what would happen were price control abandoned and why Mr. Ford is anxious to get rid of price control on cars.

I think it also serves as a pretty good answer to those who say that the automobile industry would compete and hold prices down of their own accord. A 55-percent increase is, I think, an outrageous increase even to ask, much less to charge, yet that was the request we received from Mr. Ford last July.

Mr. PATMAN. If you were to take the price control off, you would take the price control off with the knowledge there would be an immediate 55-percent increase on Ford cars?

Mr. BOWLES. Mr. Ford has it on record saying he would like a 55-percent increase under price control. I have no idea what he would ask for if there were no price control.

Mr. CRAWFORD. Mr. Chairman, a while ago you asked me about procedure. I did not know this Ford proposition was coming up, and when I came in I stated to the men on this side of the committee that I was going to submit a request to the committee today for the committee to invite Mr. Ford to appear in these hearings. I now submit that request, because I think it is going pretty far when the President of the United States gets up and attacks an American industry, or a company, as he did General Motors, and when the machinery of government, through the Office of Price Administration, is directed in an attack against Henry Ford II. The reputation of that company has always been to make a better product at a lower price, and this issue is so far-reaching that I think the committee should invite Mr. Ford here to present his case in the interests of the consumers of the United States.

Mr. PATMAN. I am very much in favor of that myself.

Mr. BOWLES. Mr. Chairman, I would be very much in favor of that, although it is not my affair, obviously. I would like to point out that Mr. Ford has made several statements which I think are rather misleading. I do not believe he intended them to be that way,

but I think they have left an impression which is not quite accurate. I think it is time those were corrected. I have waited a long time to have him correct them, and only when these statements have been repeated over and over again have I been willing to make the statement I have made this morning. Ordinarily we do not print or publish what anybody's requests are for price increase. It is only in view of the public confusion that has arisen over this that I have made the facts public.

I would like to say another thing: That I do not think Mr. Ford's action in requesting a 55-percent increase is in line with the traditions of the Ford Co. You are quite correct in saying that the Ford Co. has always been a company that believed in high wages and low prices, Mr. Crawford. I think they have been a leader in selling that idea to American industry. I am only sorry to see that young Mr. Ford seems to have departed from it.

Mr. CRAWFORD. It is so fundamental, Mr. Bowles, that we should get him down here to clear it up.

The CHAIRMAN. We will invite Mr. Ford to appear before the committee.

Mr. BUFFETT. Mr. Chairman.

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. Mr. Bowles, last Saturday the Office of Price Administration issued a publicity release attacking Henry Ford II. I am interested in knowing under what provision of the Price Control Act Congress gives you the authority to issue that kind of a formal attack villifying Mr. Ford.

Mr. BOWLES. The statement on Saturday, if I read it right, and I read it in the newspaper myself, was in answer to a statement which he made. It corrected a false or misleading statement which had been made. I think that Congress, certainly, when they set up these agencies, did not expect them to sit idly by when misleading statements were made, without correction. Certainly, I think you would want to correct it if it was said about you, and very properly.

Mr. BUFFETT. Do you think, then, that Congress gave you the authority to issue public statements, formal statements, under the Office of Price Administration, to attack an individual like Henry Ford, and to either undermine public confidence in his company, or browbeat him personally into keeping still?

Mr. BOWLES. I think you had better go back and look at the record. If you do you will find that these statements have been going on for quite a while, these statements by Mr. Ford. I know nothing in the statute that states that it is illegal to have those corrected. If Congress wants to make it illegal to have false and misleading statements corrected, naturally, that is another matter. I do not think it is illegal today.

Mr. BUFFETT. Of course, your statement went beyond that. Your statement said that Henry Ford was representing a group of selfish people.

Mr. PATMAN. Do you have the exact statement, Mr. Buffett?

Mr. BOWLES. I do not have it here.

Mr. PATMAN. I think Congress has the right to use its franking privilege to answer attacks.

Mr. BUFFETT. Congress is in an entirely different position from a governmental agency.

The CHAIRMAN. We are going to have Mr. Ford here if he wishes to come.

Mr. BOWLES. I have made my statement. Mr. Ford can answer it in the way he sees fit.

The CHAIRMAN. Mr. Bowles, the head of the building industry this morning made a statement to me. He said that the production of building materials is about one-fifth of normal, if I recollect his statement correctly, and that it was due largely to the pricing policies of the Office of Price Administration. What do you say about that?

Mr. BOWLES. One-fifth of normal?

The CHAIRMAN. One-fifth of normal, is my recollection of his statement to me.

Mr. BOWLES. Well, I have here some figures. First of all, lumber, I believe, is about 9 percent down from 1939, before the war. Brick is about 60 percent of previous volume and going up each week. Clay sewer pipe is roughly 80 percent—75 to 80 percent of prewar volume and going up each week.

Mr. CRAWFORD. You say clay, Mr. Bowles?

Mr. BOWLES. 1,380,000 tons in 1941, and 930,000 tons now.

Mr. CRAWFORD. You said clay sewer pipe, not cast iron sewer pipe?

Mr. BOWLES. Yes.

Mr. BROWN. Did I understand you to say these items are lower than in 1941?

Mr. BOWLES. Some of them are coming up. Cast iron sewer pipe, 550,000 tons in 1941; 400,000 tons now, and going up rapidly.

Mr. BROWN. That is production you are speaking of?

Mr. BOWLES. Yes. Now, all those industries in the building industries, most of them, were practically out of business during the war. They just were not war industries. The manpower in those industries was always at rather low wage rates. The manpower, naturally, drifted away during the war, and the process is now on of getting that manpower back, in some cases raising wages in the substandard areas or just above substandard levels to get manpower.

As I pointed out yesterday there have been 36 different building materials on which price increases have been granted since VJ-day to help along as far as the Office of Price Administration can in bringing this production up, and I think, however, Mr. Chairman, the statement of production being only one-fifth of normal will not stand up under an examination of the facts. It is just not accurate.

The CHAIRMAN. What effect did the pricing policy of the Office of Price Administration have in causing the scarcity of these materials?

Mr. BOWLES. Well, I would not say it had any effect at all. Of course, when VJ-day came, many of these things were out of production entirely, or practically out of production, and the Office of Price Administration immediately began to increase prices to get price out of the way of resumption of production.

As I pointed out yesterday, there is the Bottleneck Committee, so-called, that studies all bottlenecks where there is lack of production, and tries to find out what is the reason for it. There have been six requests of that Bottleneck Committee, in the building field, for an increase in price, to get production. Each of these requests has been granted. We will work very closely with Wilson Wyatt on building materials, and either through subsidies, if Congress grants them, or through whatever means we can, we will see beyond question that

price does not stand in the way of production of needed building materials.

I believe we were asked yesterday to put a statement in the record on each of those items, as to what increases were granted and when they were granted. That, we are doing.

The CHAIRMAN. We will now proceed with the charts and then you may subject yourself to interrogation.

STATEMENTS OF PAUL PORTER, ADMINISTRATOR OF THE OFFICE OF PRICE ADMINISTRATION, ZENAS L. POTTER, DIRECTOR, OFFICE OF CONGRESSIONAL INFORMATION, GEOFFREY BAKER, DEPUTY ADMINISTRATOR, STEPHEN AILES, ASSISTANT GENERAL COUNSEL, SAM LEVITTES, DIRECTOR, CONSUMER GOODS DIVISION

Mr. POTTER. I would like to say we have eliminated a lot of these charts, so you will get an opportunity to spend more time with Mr. Bowles.

NATIONAL RETAIL DRY GOODS ASSOCIATION HORROR EXHIBIT

The National Retail Dry Goods Association recently prepared and displayed in both House and Senate Office Buildings a horror exhibit intended to prove that the Office of Price Administration pricing policies have driven low-priced good-quality merchandise off the market. Displays usually consisted of two articles of a kind. One was of good quality and the second decidedly shoddy. The first presumably had been forced out of production by established manufacturers through the Office of Price Administration's refusal to grant price increases.

The shoddy article, made by a new manufacturer, bore a high price. If the Office of Price Administration would give established manufacturers moderate price increases, it was inferred, the public would be able to buy better goods at lower prices.

A typical display was that showing men's shorts. In this case three pairs were displayed with these descriptions:

The Office of Price Administration expects an established manufacturer to market fine printed sanforized cloth shorts at \$3.55 a dozen. A second manufacturer is allowed to market shorts made of 80 by 60 broadcloth for \$3.50 a dozen. But a third manufacturer is permitted to market shorts made of white sheeting of the type commonly used in chenille bedspreads at a charge of \$7.35 a dozen. What are the facts?

The National Retail Dry Goods Association has repeatedly been asked to supply the names of the manufacturers whose goods were shown in the exhibit, so that the statements might be checked. To date, no name has been supplied to the Office of Price Administration.

In the case of six displays, however, the Office of Price Administration was able to trace the names of one or both producers. Investigation proved the Office of Price Administration wrong in one case; in the other five, the National Retail Dry Goods Association statements were misrepresentations.

Here is the truth about men's shorts: Jack Goldfarb, president of the Union Underwear Co., of New York, who made the fine printed sanforized-cloth shorts, testified before the Senate Small Business

Committee that he is making one and a half million shorts a week. One-quarter of them are selling at 39 cents retail. He is selling these shorts at \$3.55 a dozen, below his approved ceiling price of \$4. His output is above his prewar production.

And I would like at this point to have entered in the record a statement regarding all six of those cases.

The CHAIRMAN. That may be placed in the record.

(The document above referred to is as follows:)

STATEMENTS AND FACTS REGARDING SIX DISPLAYS IN NATIONAL RETAIL DRY GOODS ASSOCIATION "HORRORS EXHIBIT"

The National Retail Dry Goods Association has repeatedly, on request both of OPA and of the Senate Small Business Committee, failed to provide the names of the manufacturers whose goods were shown in the "horrors exhibit."

In the case of six displays, however, the names of one or both producers were discovered. Here are reports on the six cases:

I. MEN'S SHORTS

The exhibit stated, "The OPA expects an established manufacturer to market fine-printed cloth shorts at \$3.55 a dozen."

Facts.—The manufacturer is producing half a million pairs of shorts a week. A fourth of his production is in shorts to sell at 39 cents retail. These are 1942 prices and his production is higher in units than it was prewar. He is selling his low-priced shorts at below-ceiling price.

II. CHILDREN'S SCOOTERS

The exhibit stated, "The scooter in the foreground is made of scrap material. Its manufacturer is permitted a ceiling of \$3.75 on his product. The big, sturdy scooter in the background with good rubber tires, brake, and stand is limited to a ceiling of \$1.92 by OPA. Its manufacturer cannot afford full production at that price. He is making only 20 percent of his capacity."

Facts.—The manufacturer of the "scrap" material scooter does not today have a \$3.75 price. He had that price for the 1944 Christmas season only to cover the high cost of making the scooter out of aluminum. The next cheapest scooter on the market that Christmas was a wooden one at \$10.

The manufacturer of the "big, sturdy" scooter has made 250,000 of these scooters in 1945 and is in full production. He has not even taken the 14 percent price adjustment granted manufacturers of metal toys.

III. TOY BLOCKS

The exhibit stated, "Established manufacturer A has an OPA ceiling of 25 cents for a box of 24 blocks. He can't produce at this ceiling. He needs a ceiling of 28 cents. OPA says 'No.'"

Facts.—The manufacturer tells us he never has applied for a price increase. He has been out of production since 1942 on these blocks because he could not obtain ponderosa pine. He is making dominos and checkers at his 1942 ceilings.

IV. MEDICINE CABINET

The exhibit stated, "OPA restricts established manufacturer A to a ceiling of \$1.47 for a medicine cabinet with mirror. He needs an increase of 22 cents. OPA says 'No.'"

Facts.—The manufacturer tells us he never has applied for a price increase. He is out of production today because he cannot yet obtain a fabricated part he needs.

Manufacturer B in this comparison was shown with a legal ceiling of \$2.15. It turns out that he is not a manufacturer but a jobber. The validity of his jobbing price has not yet been determined.

V. 80 SQUARE PERCALE

The exhibit stated it was not being made because of unfavorable ceilings. Broadcloth fabrics were said to be out of production for the same reason. The

price discrepancies are falsified by the showing of finished piece goods rather than grey goods. Thus an inferior fabric is made to appear to have a higher price.

Facts.—Eighty square percale and standard broadcloth still are being produced in large volume. The decline in their production is about the same as the decline in all cotton textiles. The reason for this over-all decline has been the shift to a 40-hour week, some strikes, and long-standing inability to obtain an adequate force of experienced workers.

VI. ELECTRIC IRONS

The manufacturer of the "good" electric iron has been out of production because of an inadequate price. We gave him a 40-percent increase last January. We recently gave him an over-all adjustment on all his products; but it did not raise his iron price because his 40-percent iron-price increase exceeded his over-all increase. We are working on a low-end order which should cover irons. This is the case of the sixth where the exhibit charge of impeding low-end production was justified.

Another similar charge was made by a retailer before the Senate Small Business Committee. Investigation revealed these facts:

CHILDREN'S WHEELBARROWS

It was stated that a manufacturer used to produce wheelbarrows to sell for \$9.53 a dozen. Refused a price increase by OPA he dropped the item. Another producer, however, was given a price of \$14.40 for an inferior item.

Facts.—The firm supposed to have discontinued production is making 30,000 wheelbarrows a month, working three shifts—to the limit of his ability to produce. Up to the first of the year he was selling at his 1942 price of \$9.53. Then he was given a 14-percent increase. This wheelbarrow is shipped unassembled. The "inferior" one is shipped assembled. The wheelbarrow supposedly out of production weighs 4½ pounds. The "inferior" one weighs 7½ pounds.

Mr. PATMAN. Has the National Retail Dry Goods Association made an application to appear, Mr. Chairman, against the continuation of the Office of Price Administration?

The CHAIRMAN. Yes.

Mr. PATMAN. When do they expect to be here?

The CHAIRMAN. We have not set any date for them as yet.

Mr. POTTER. I hope, if they appear, they will be asked to present the names and addresses of all the manufacturers in that exhibit.

Mr. GAMBLE. What is the purpose of that, sir?

Mr. POTTER. So that it may be known whether those exhibits told the truth or distorted the truth. So that the truth will be known to Members of Congress.

Mr. GAMBLE. Will they not speak for themselves?

Mr. POTTER. But the information in them, as in the case of these shorts, is misinformation.

Mr. GAMBLE. You want the names so you can crack down on them?

Mr. POTTER. We want the names so we can determine the facts and tell Congress the truth about those situations.

Mr. KUNKEL. Can you not track them down without the names?

Mr. POTTER. We cannot. We have got 6 names out of perhaps 40. And we think that if their exhibit tells the truth, they should be willing to provide the names and addresses of the manufacturers producing the goods shown. In six cases we found the facts, in five of them they were completely misrepresentations.

Mr. BOWLES. Mr. Chairman, I would like to say one thing. I think it is obvious that the average department store carries a hundred thousand items, the average good-sized department store, priced by the Office of Price Administration. Obviously all those prices cannot be right. Some of them must be wrong, and there must be some that are careless or wrong in some way.

I would be amazed if you could not go into a whole lot of prices and find some errors in pricing. We try to correct those naturally wherever we can. The point of this exhibit was that a large group of those comparisons were made. I am sure that some of the cases there—maybe a majority of the cases—were correct. I think it is quite possible that they were. The point is that they would not submit them to a survey by people in our own staff. Jerry Nye, who is a retailer and owns a department store himself, is the one I would have appointed to look into it very carefully. If the six that we did investigate—and we stumbled on them by accident—five of them were incorrect. In one case we were incorrect.

Now, I, for one, do not think that they were wrong in five cases out of six. I would question whether that percentage carried for all of them. I think probably they were wrong in more of that group than we discovered. That would be a normal assumption. I am not for one minute saying that all those cases are wrong. I just say I do feel that we ought to be able to take the same kind of look at them that we are able to take at those men's shorts, where the manufacturer himself came down and stated the National Retail Dry Goods Association statements were, in his case, simply misrepresentations. He said that. We did not say it.

Mr. CRAWFORD. Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Potter, I think your difficulty is illustrated by your statement on page 11 of your formal statement, where you refer to Jack Goldfarb, of New York. Now, you would not expect us to sit here and accept your brief analysis and statement of the facts on that particular case?

Mr. POTTER. Mr. Crawford, Mr. Goldfarb appeared before the Senate Small Business Committee and testified on the facts.

Mr. BOWLES. All you have to do is look into the transcript of that committee.

Mr. CRAWFORD. Oh, no; we do not run this committee that way.

Mr. POTTER. You are at liberty to call Mr. Goldfarb.

Mr. CRAWFORD. You spoke about the names being given so you could inform us as to the facts. Now, here is an illustration of the information. I would not want to be a jurymen on that kind of a case, with only one side presented. Now, let me ask you this: In the exhibit which you presented over in the House Office Building, and I went over and studied that with as much interest as the one which you call the horror exhibit, did you have the names of all those manufacturers posted up there?

Mr. POTTER. Mr. Crawford, the Office of Price Administration presented no exhibit.

Mr. CRAWFORD. Well, it was certainly portrayed to me, as a Member of Congress, as the Office of Price Administration exhibit and the lady in charge told me she was representing the Office of Price Administration and I am prepared to take an oath to that effect.

Mr. POTTER. The Office of Price Administration put on no exhibits. There was a group of consumers who put on an exhibit.

Mr. CRAWFORD. Well, I do not know anything about that, but it shows you how difficult it is to get this information properly, and I had quite a discussion with her, and I asked her, I said, "How long have you been here in charge?". And, without wanting to embarrass

anyone, she told me that she was in charge while Mrs. Woodhouse was away, and she strictly led me to believe that it was an Office of Price Administration exhibit, and I assumed it was. Now, I am not charging you with it. I am simply telling you what the lady said.

Mr. WOODHOUSE. Mr. Chairman.

The CHAIRMAN. Mr. Woodhouse.

Mr. WOODHOUSE. It was a group of consumers who sponsored that exhibit. We had the assistance of the Consumers Advisory Committee.

Mr. POTTER. Those are not paid employees.

Mr. CRAWFORD. Were the names of the manufacturers of those articles portrayed in that exhibit?

Mr. POTTER. I do not know, Mr. Crawford.

Mr. CRAWFORD. You do not know about that?

Mr. POTTER. That was not our exhibit, therefore, I have no responsibility for it.

Mr. CRAWFORD. Well, I think it would be just as important to have those names as it would be to have the others.

Mr. POTTER. Question No. 6: Are the Office of Price Administration's policies creating business and landlord hardships? I want to go through these very rapidly because you gentlemen are familiar with them.

The profits of the corporations of the country before and after taxes are far above what they were in the prewar period. Industrial manufacturing profits, in 1944—we do not have the 1945 figures because of the tax adjustment situation—were 450 percent above '36-39. Retail profits also run very high. Department-store profits are the only ones I call particular attention to. Small department stores' profits are up 1,102 percent; medium stores' profits are up 617 percent; large stores' profits are up 362 percent; the average profits of all are up 609 percent.

Mr. GAMBLE. Do you mean that you are taking credit for all these things? Are they all due to the Office of Price Administration?

Mr. POTTER. No; this is due to the war economy, and these earnings were achieved in spite of price control.

Mr. GAMBLE. I see.

Mr. POTTER. Price control did not prevent them from being achieved.

Mr. GAMBLE. In other words, price control did not make it, but—

Mr. BOWLES. Mr. Chairman, if I might add something I would go a little further than that. I have heard many businessmen say that one of the reasons why production did not go up substantially during the inflation of 1919 and 1920, and one reason that production increased so very little during the last World War, only about 25 percent, was due to the fact that the costs of operating businesses were in such a terrific state of flux all during the war, with increasing costs all the time. Steel, for instance, went up something like 500 percent, or steel plate did, during the war. And some of those items were going up so fast that it was difficult to plan production ahead. To that extent—and only to that extent—I do think that stable prices are a help in allowing business firms to know where they stand.

And the less stable costs are, the more difficulties you have. I think it is a contributing factor, but we certainly are taking credit for it, obviously.

Mr. SMITH. Mr. Chairman.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Right at that point, Mr. Bowles, let me ask you this question: You say that the producers of war supplies that involved steel, were hampered because of fluctuating steel prices.

Mr. BOWLES. They went up. They did not fluctuate. They went up.

Mr. SMITH. Now, let me ask you this question: Was the desired production of steel achieved?

Mr. BOWLES. During the first war?

Mr. SMITH. Yes.

Mr. BOWLES. Production in 1918 actually dropped, which is the last year of the war, industrial production went down 1 percent.

Mr. SMITH. I thought you said during the war.

Mr. BOWLES. No; during the last war, the First World War, production increased only 25 percent, as against, in this war, about 120 percent.

Mr. SMITH. All right. But you say that the difference is due to the fact that we have not got fluctuating prices now?

Mr. BOWLES. No.

Mr. SMITH. I misunderstood you, then.

Mr. BOWLES. I do not think anybody would ever say that, but I do say that many businessmen I have talked to have said:

Thank Heaven for the fact we have fairly stable costs. We do not have to go out and gamble and accumulate inventories, hoard raw materials, and, in effect, speculate on our inventories all the time. We know that prices are going to be reasonably stable.

Mr. SMITH. Well, the question I want to ask you at this point is this, Mr. Bowles: Did that situation hamper the production of ships and other war supplies?

Mr. BOWLES. In the First World War?

Mr. SMITH. Yes.

Mr. BOWLES. I would say it was a factor.

Mr. SMITH. Well, now, wait a minute. You have got to prove that. It is my understanding that they achieved every goal that was aimed at.

Mr. BOWLES. Well, I will be surprised if the goal was to have production go down 1 percent at the height of the war effort.

Mr. SMITH. That was after the war; was it not?

Mr. BOWLES. No; it was 1918.

Mr. SMITH. That was after the war.

Mr. BOWLES. The war ended in November 1918.

Mr. SMITH. That is right.

Mr. BOWLES. The last year the fighting took place, at the time of the German drive and all the crises of the First World War, industrial production dropped 1 percent.

Mr. SMITH. Well, of course, that 1 percent would hardly be—

Mr. BOWLES. No; but it did not go up, sir. I am not saying it did not go up because of that. But my statement was only that some business and economists have said and do say that the unstable prices we had in the last World War were an unsettling factor; to the extent to which they were unsettling, production was hampered, obviously nobody knows.

Mr. POTTER. I just happen to have a chart on this very thing that

Mr. Bowles is talking about. This is the fluctuation of pig-iron prices in World War I, running from 1914 through 1920. [Large fluctuation shown.] This is the price of pig iron through the present war. [Steady prices shown.]

Mr. SMITH. What do you prove by that?

Mr. POTTER. I prove only this, by that: That forward planning of business and costs, and the scheduling of production and prices, is an exceedingly difficult thing in the face of a tremendous variation in the prices of raw materials out of which products are made.

Whereas here [referring to chart showing steady prices in World War II] a man can concentrate on production and not worry about speculating on buying his raw materials all the time.

Mr. SMITH. Did you have contracts in the other war that involved these fluctuating steel prices you are talking about now?

Mr. POTTER. No, sir; but I was on Mr. Baruch's staff, watching all production in the last war, and I can state that we did not get an airplane to France until the war was over.

Mr. SMITH. Because of the fluctuating steel prices?

Mr. POTTER. Because of difficulties of production. I think we did a very much better production job in this war.

Mr. BUFFETT. Mr. Potter, that chart is ancient history since last week; is it not?

Mr. POTTER. Prices shown on this chart unquestionably will show some increases, but we still will maintain a steady level of prices. They have got to go up a little.

Mr. BOWLES. It is 7 percent; that is all it amounts to. It is too much, and I do not like it, but—

Mr. POTTER. I will hurry through wholesale profits.

This chart shows small business profits. Manufacturers doubled their profits through the period; retailers the same, and wholesalers the same.

Mr. SMITH. What is your base period there?

Mr. POTTER. Here is 1929. This is 1939. There is 1940. There is 1944.

Mr. SMITH. In terms of the depreciated dollar?

Mr. POTTER. These are profits before taxes—

Mr. SMITH. I know, but in terms of the depreciated dollar? Let us keep that in mind.

Mr. BOWLES. Not depreciated over 1929.

Mr. SMITH. You mean the dollar has not depreciated over 1929?

Mr. BOWLES. It is about the same.

Mr. WOLCOTT. Mr. Bowles, you do not mean that, do you?

Mr. BOWLES. I think you will find that price levels today are about the same as they were between 1926-29. That is a matter of fact. Mr. Riley is here. Perhaps he can give you the exact figure on that.

Mr. RILEY. I do not have the exact figure but that is approximately correct.

Mr. BOWLES. Mr. Riley, the head of our Research Department, says that is approximately correct.

Mr. WOLCOTT. Is that based upon the study of the seven-hundred-and-some-odd commodities which were used by the Bureau of Labor Statistics in determining the cost of living?

Mr. BOWLES. It is based on the indexes of industrial wholesale

prices, industrial prices, wholesale prices, consumer items. But the same index was used in 1929 and at present. Whatever imperfections there may be in it were in it in both periods.

Mr. POTTER. While we are on this question of index—

Mr. WOLCOTT. You could not possibly have used the same index, because you did not have the same type of goods. It is true, is it not, that the Bureau of Labor Statistics used seven-hundred-some-odd commodities in determining the cost of living index?

Mr. BOWLES. Well, it is not merely a matter of cost of living, it is your industrial price indices and your wholesale price indices. I think you will find that any economist who studies this will tell you that the price levels in 1926-28 and 1929 are not too far different from the price levels you have today.

Mr. WOLCOTT. In 1929 they took into consideration refrigerators, automobiles, and electric irons and everything else, and they surely could not have taken those into consideration in determining the cost-of-living index in 1945, because we did not have them.

Mr. BOWLES. Wholesale prices are 95 in the index against 107 in December; a gap of 95 to 107. That is about 7 or 8 percent. It fluctuates a little bit a'll the time, but it is not too different.

Mr. POTTER. I would like to say, while we are on this question of indexes, that I have checked on the Federal Reserve Board Industrial Production Index, and it is an index of volume of production and not of prices charged.

Mr. Eccles, I understand, will be a witness before this committee at a later date. It is his index. I am sure he would be glad to provide information about it.

Mr. FOLGER. Mr. Chairman, I do not want to break the rule, but I would like to break in here to ask a question, if I may.

The CHAIRMAN. Mr. Folger is recognized.

Mr. FOLGER. Mr. Bowles, I believe you are proposing to proceed now upon the prewar-profit basis. What years does that contemplate?

Mr. BOWLES. The base period?

Mr. FOLGER. Yes.

Mr. BOWLES. Well, that is the same base period we have had right along through the war, the average of 1936 to 1939. That is how the Price Control Act has been interpreted ever since I have had anything to do with it, and I guess it goes back to 1942.

When Congress said that an industry shall have prices which are generally fair and equitable, that was interpreted by the Office of Price Administration and later confirmed by the courts, and discussed at great length here in Congress, as meaning that any industry would have at least its prewar earnings, 1936-39.

Mr. FOLGER. Now, I would like to ask you in that connection: What provision has the Office of Price Administration made or does it propose to make to insure fair and adequate ceiling prices on manufactured articles made from a farm product on which there is no ceiling, when this farm product represents from 60 to 80 percent of the cost of the manufactured article, as in the case of cotton yarn? I have been having a lot of trouble with that.

Mr. BOWLES. Well, I think we reflect it. Mr. Baker can answer that.

Mr. BAKER. Mr. Folger, in the case of carded yarn, there seems to be no doubt that it is necessary to preserve our earning standard to reflect the actual cost of the raw material that went into the production of the yarn.

Mr. FOLGER. Well, do you have somebody in your department, Mr. Bowles, who is acquainted with those things? I am not throwing rocks at you. I am with you, I think, but I would like to discuss it with someone in your department. You have had experience in these things, have you?

Mr. BAKER. We have, sir. Here is Mr. Sam Levittes, Director of Consumer Goods Division, and carded yarn is in that division. Mr. Levittes is a garment manufacturer. We also have in that Division manufacturers of textiles and manufacturers of garments working on our items.

Mr. FOLGER. Now, we have had, for a year, I think, the example of the very unfortunate experiences of manufacturers of brick. I remember the testimony of Mr. Eric Johnston, who said he manufactured brick and lost \$2.50 a thousand on them, but he made that up because he had an industry-wide base, and he could stand the loss.

Mr. BOWLES. When was that, Mr. Folger?

Mr. FOLGER. About a year ago.

Mr. BOWLES. Since then there have been a great many price increases on brick.

Mr. FOLGER. You understand I am talking about policy now. Here is a question: Does the Office of Price Administration permit a division of an industry into groups and segments and consider them on a group basis in determining ceiling prices of their products, rather than treating them as part of an over-all industry? I am thinking about small manufacturers now.

Mr. BOWLES. We would certainly call the brick industry an industry by itself, even though bricks may be just a small item for one manufacturer. We view the brick industry generally. A big manufacturer who has bricks as a side line, would get the same increase the others got.

Mr. FOLGER. I am referring to that, Mr. Bowles, as an example only. Now, if you take an industry-wide operation, are ceiling prices based upon that and not taking into consideration the small manufacturer who may not manufacture some of the things that other people do, and you will find one company making a great big profit and another about ready to go out of business.

Mr. BOWLES. Well, where there is a substantial single-line item—shirts, for instance—we look at that and see that, separate from all the rest, it is in good shape. Also, we have had, since VJ-day, an entirely new program, as far as individual adjustments are concerned, and we have made a good many thousand individual adjustments since VJ-day, taking care of exactly the kind of problems you are talking about.

Mr. FOLGER. I am thinking this, Mr. Bowles. That since the war is over, and the Government surely is not going to purchase 30 or 40 or 60 percent of the output of this country, then, we have got to look to some flexibility, to which I think you referred in your testimony yesterday.

Mr. BOWLES. You definitely have to, and I think that the changes in

the basic price policy since VJ-day have been very numerous. One of them, for instance, is the so-called general rescue clause, which covers practically every firm not under dollars-and-cents ceilings which make it administratively a little difficult, and which practically guarantees them against loss. Now, when you think that a very high percentage of business, before the war, operated in a low position, in 1 year or another, you will see that this provision is liberal. That particular standard allows an individual firm relief, even though the rest of the industry is in good shape, and that individual firms is the only one having difficulty. We make a lot of individual adjustments we did not use to.

Mr. FOLGER. You are saying the policy now will be to employ a legitimate flexibility that will allow these people to live.

Mr. BOWLES. A great many of those adjustments have been made since VJ-day, and all those regulations, practically all of them, have individual adjustments.

Mr. FOLGER. Thank you.

The CHAIRMAN. I wish to say that the committee will have to appear before the Rules Committee to obtain a rule on the housing bill this afternoon, so there will be no session this afternoon; and also we will meet in executive session after adjournment this morning, to consider some amendments that have been proposed to the housing bill, so we will have to adjourn at about 10 minutes to 12.

All right. Proceed, Mr. Potter.

Mr. POTTER. I will pass over this very rapidly.

Mr. SMITH. Mr. Chairman, before we close with this point, will Mr. Bowles be back?

The CHAIRMAN. Oh, yes, Mr. Bowles, I understand, will come back.

I am not the custodian of Mr. Bowles, but I think he will be back.

Mr. BOWLES. I will be here as much as you want me to. I know that every member of this committee has individual questions on individual items. You accumulate a good many during a year. I know also that you will get some more questions you will want to ask as you listen to witnesses during the next 2 or 3 weeks. At least, you will if this year is like the past years, and I assume it will be. I would like to say that if you will accumulate those questions until the end of those hearings, so that all questions on individual items may be answered at that time, we will get our staff over here and answer them all fully. I think we could then give you much more sensible and complete answers and save a lot of time. Obviously we are at your service.

Mr. KUNKEL. Mr. Bowles, this is rather restful after what you have been doing for the last 3 weeks; is it not?

Mr. BOWLES. Extremely.

Mr. SMITH. Mr. Chairman, are we going to have Mr. Bowles back tomorrow morning?

The CHAIRMAN. Well, now, I have not complete custody of Mr. Bowles. He is winding up the Office of Price Administration as far as he is concerned, and he has a new and very important position. I do not know whether he can come back tomorrow or not.

Can you come back tomorrow, Mr. Bowles?

Mr. BOWLES. Yes; I can. I just make the suggestion for whatever it is worth, and the committee obviously may do what it wants to, that, I think you will get a much more intelligent picture of individual questions on individual companies and products, than if you wait

until the end of the hearings and then ask us back for as long as you want us.

The CHAIRMAN. I think we can accede to your request.

Mr. SMITH. That does not mean that he is not coming back tomorrow, though?

The CHAIRMAN. Oh, no.

Mr. FOLGER. Mr. Chairman, I think Mr. Bowles' suggestion is a good one.

The CHAIRMAN. I do not think it is so essential that he come back tomorrow. If he comes back and subjects himself to interrogation at a proper time, as he says, he might be able to give you more information. What is the disposition of the committee: Do you want Mr. Bowles to come back tomorrow?

Mr. WOLCOTT. Mr. Chairman, of course, we want Mr. Bowles back.

The CHAIRMAN. Of course we do.

Mr. WOLCOTT. Of course, these are not individual complaints that we are making, Mr. Bowles. As we examine the witnesses, we use these only as examples.

Mr. BOWLES. That is right.

Mr. WOLCOTT. In the development and crystalization of these issues.

Mr. BOWLES. That is right.

Mr. WOLCOTT. We must do that as we go along, otherwise we will not have a clear understanding of the issues. I do not think you have in mind that the members of this committee are merely using this as a sounding board to clear up some of their own correspondence.

Mr. BOWLES. Of course not.

Mr. WOLCOTT. We are merely using these examples as typical examples in developing the issues.

Mr. BOWLES. That is right. The only point is that many of them involved technical questions affecting various products that only an expert working on them all the time can answer. I do not know all the facts. All I or Mr. Baker or Mr. Porter can do——

Mr. WOLCOTT. Well, what we want you to do, before the committee, is to discuss policy, relating to individual cases only insofar as they relate to policy.

Mr. BOWLES. Yes. All I was suggesting was the same procedure that we had last year, that the questions stemming from all the individual items came in to one group. We were here 2 or 3 days and covered all of them. But we will handle it in any way you want us to.

The CHAIRMAN. I think it is essential that you should hear the complaints.

Mr. GAMBLE. Some of those questions were helpful to you, too. You and Mr. Brownlee, I know, took on a number of those questions that you afterward settled in one way or another and cleared them up.

Mr. BOWLES. If you will remember, Mr. Gamble, that was so very true that I wrote to this committee and to the Banking and Currency Committee of the Senate and asked them for permission to come before them every 2 months, or every month, to go through the same kind of interrogation, so that we could get your help and advice here on the individual cases that brought forth and illustrated policy questions, and I would welcome doing this each month. I think that is quite a strain on your time and ours, but I think every other month; it would be the healthiest thing in the world to get agencies working closely with committees of this kind.

Mr. GAMBLE. I think it helps when we get the bill on the floor to have these problems explained in the hearing.

Mr. BOWLES. That is right.

The CHAIRMAN. The people who have complaints are going to be invited to appear and we want you, Mr. Bowles, and members of your staff to hear them.

Mr. BUFFETT. Mr. Chairman, I think one error should be corrected there. Last year we never got down this far on the committee with questions to Mr. Bowles. We finished up in a hurry.

The CHAIRMAN. Well, I think members of the committee have always been able to take care of themselves.

Miss SUMNER. We very seldom get this far on the committee.

The CHAIRMAN. You may proceed.

Mr. POTTER. I just call attention to this chart, that business failures were, last year, 810, the lowest in the history of the country, whereas in 1939 they were 14,700 and in 1929, 22,000.

Mr. BARRY. Mr. Chairman.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. What is that top one?

Mr. POTTER. That is 1932: 31,800.

Mr. BARRY. 31,800?

Mr. POTTER. Yes; in 1932.

Mr. FOLGER. May I ask a question in that connection?

The CHAIRMAN. Let us have some little order.

Miss SUMNER. I thought it was every man for himself.

Mr. FOLGER. Mr. Potter, the 810 figure that you speak of is for 1945?

Mr. POTTER. Yes.

Mr. FOLGER. Do you have a list of those failures, in order to determine what character of businesses have failed during that time?

Mr. POTTER. I have a complete break-down, which I will be glad to enter in the record.

Mr. FOLGER. I would like to see that.

Mr. POTTER. There were 280 which were engaged in manufacturing and mining.

Mr. FOLGER. Yes.

Mr. POTTER. Out of the 810.

Mr. FOLGER. You say you can enter it in the record?

Mr. POTTER. Yes; we will enter it in the record. These are Dun & Bradstreet figures.

(The document above referred to is as follows:)

OFFICE OF PRICE ADMINISTRATION,
DIVISION OF RESEARCH,
January 29, 1946.

Business failures, by industrial groups, 1939, 1944, and 1945

Groups	1939	1944	1945
Total.....	14,768	1,222	810
Mining and manufacturing.....	2,919	352	280
Wholesale trade.....	1,534	94	61
Retail trade.....	9,050	493	290
Construction.....	646	164	92
Commercial service.....	619	119	87

Source: Dun's Statistical Review, January 1946.

Miss SUMNER. Mr. Chairman.

The CHAIRMAN. Miss Sumner.

Miss SUMNER. I have not noticed the failures, but I have noticed little businesses, when they hit the ceiling and cannot get any consideration from the Office of Price Administration, and the delay, and low price ceilings, and they wait and wait until they have to sell out to somebody else. And here comes a carpetbagger always ready to take them over, who buys the factory and then gets a high ceiling and then produces the product at a higher price, perhaps a substandard product, but useful for the same purpose. Now, that is the kind of industry that is being taken out. We want to know how many industries were taken over that were forced to sell out by the Office of Price Administration's lack of consideration in that manner. That is the big complaint. I would like to know how many figures you have on that.

(The letter above referred to is as follows:)

OFFICE OF PRICE ADMINISTRATION,
Washington, D. C., March 8, 1946:

The Honorable BRENT SPENCE,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D. C.

DEAR MR. SPENCE: We were asked by Congresswoman Jessie Sumner to enter in the record of the Banking and Currency Committee a statement of the number of business failures and firms going out of business annually since 1924.

I find on investigation that there is no record of firms going out of business prior to 1940. That record and the record of new firms began in 1940.

I am, therefore, sending you herewith the information requested, insofar as it is available.

Business failures since 1924

(Source, Dun & Bradstreet)

Year	Number of failures	Year	Number of failures
1924.....	20, 615	1935.....	12, 244
1925.....	21, 214	1936.....	9, 607
1926.....	21, 773	1937.....	9, 490
1927.....	23, 146	1938.....	12, 836
1928.....	23, 842	1939.....	14, 768
1929.....	22, 909	1940.....	13, 619
1930.....	26, 355	1941.....	11, 848
1931.....	28, 285	1942.....	9, 405
1932.....	31, 822	1943.....	3, 221
1933.....	20, 307	1944.....	1, 222
1934.....	12, 091	1945.....	810

Below is the record of new businesses and business discontinuances from all causes since 1940. Figures are in thousands.

Year	Total firms operating at start of period	New businesses	Businesses discontinued	Excess of new firms over discontinuances
1940.....	3, 307. 4	431. 2	434. 2	- 3. 0
1941.....	3, 304. 4	516. 9	480. 1	+36. 8
1942.....	3, 341. 0	408. 3	678. 0	- 269. 7
1943.....	3, 071. 0	163. 4	394. 8	- 131. 4
1944.....	2, 849. 3	349. 1	172. 6	+ 167. 5
1945.....	3, 030. 6	421. 4	¹ 182. 9	¹ + 238. 6
First quarter.....	3, 030. 6	134. 2	51. 0	-----
Second quarter.....	3, 136. 5	88. 2	42. 4	-----
Third quarter.....	3, 186. 4	93. 7	43. 8	-----
Fourth quarter.....	3, 236. 3	(?)	(?)	(?)

¹ Annual estimate based on ¾ figures.

² Not available.

The significant thing about these figures seems to be a large excess of firms going out of business in 1942 and 1943 over new firms entering business; and a sudden reversal in 1944 and 1945, when new firms entering business considerably exceeded firms going out of business.

Taken with the business-failure figures, these data strongly suggest that there is less business hardship today than there has been since statistics on failures and data on firms entering and going out of business have been kept.

No doubt you will wish to enter these facts in the record of the hearings.

Sincerely,

ZENAS L. POTTER,
Special Assistant to the Administrator.

Mr. POTTER. I have no figures. If you have figures, I would like to know what they are, but I think that the record of failures also is a pretty good indication or gage of the record of hardship.

Miss SUMNER. Well, now, just a minute. Your figures on failures do not include that class of person, do they?

Mr. POTTER. No; they do not. They only include those who go broke.

Mr. BOWLES. Miss Sumner, those figures on failures in 1945 do not include firms that went out of business without bankruptcy. Neither did any of the figures of other years include them. Obviously in 1929 or in any year when you had a great many business failures, you had a secondary group which was in difficulty and sold out. Proportionately they probably run pretty well together each year.

Miss SUMNER. Well, obviously, we could not have any figures previous to your figures to include that class of person because this is an Office of Price Administration category.

Mr. BOWLES. Well—

Mr. PATMAN. Mr. Chairman, being chairman of the committee that has just investigated this very question, I would like to make this observation: It is true that a lot of these small businesses are selling out; they are not closing up. They are selling out because these large concerns are buying their sources of supply. There are two brothers, we will say, who built up the business. They have this alternative; they can stay in and, if they make profits, they will have to pay a large percentage of that in taxes. They can sell out and their taxes will not be over 25 percent capital gains, and for that reason there is a great inducement for small businesses to sell out to big businesses now. They are not closing out. They are just selling out. Big concerns are buying the sources of supply. It is a very dangerous situation, and the trend is a very bad one.

Mr. KUNKEL. Do you have any figures you could put in the record, Mr. Patman, showing the variation in fluctuation in the number of firms during the past 5 years?

Mr. PATMAN. Dun & Bradstreet furnishes that.

Miss SUMNER. You mean changing hands?

Mr. KUNKEL. No. I mean whether the number of small businesses in the country has increased or decreased.

Mr. PATMAN. Small businesses have not been hurt during the war. One-man grocery stores have been making \$10,000 a year net profit in many places.

Mr. BOWLES. The number of firms has decreased substantially.

Miss SUMNER. The business goes on, in the type of cases I mentioned. The little business goes on. Say he is a packing company, or a little textile man, or a stocking manufacturer. He sells to the

carpetbagger. The carpetbagger gets a higher ceiling price; he can make money under it, and the business goes on. So you cannot say that the little business is failing. It is just the old established man who built it up who has failed under this form of government.

Mr. BOWLES. Now, just a minute. Nobody gets a higher price because he has bought out somebody else. There just is no regulation that allows that. The only place where you might get new firms having higher prices than old firms is under what we call in-line pricing. We try to give a new item the same price as a similar item already on the market. Well, that is obviously subject to a lot of rough justice. Mistakes occur and sometimes those prices have been set too high, which has caused justified ill feeling.

But the point is this: The number of firms in business went down during the war. A lot of your small businessmen went to war. They were drafted. I do not know how many thousands of gas stations closed up. Others closed because they couldn't get goods to sell. Gas for instance was only 50 percent of what it was prewar in volume. An awful lot of local stores closed up when the men went to war, or closed up because they could not get materials. In my home town there were probably 25 stores, and I would gamble that eight closed during the war. They were small stores. The boys went to war or went into defense plants. A very heavy proportion of small stores, during the war, only had a sales volume of \$15,000 or so in a year. They made a pathetically small amount of money. Their owners could go into a defense plant and make \$50 or \$60 a week, and a great many of them did. They never heard of that kind of money out of retailing.

Now, a lot of people are coming back into these small businesses. You are having a tremendous and rapid increase in new businesses, and people are setting up stores and going back into retailing—veterans, and so on—a reversal of the trend.

Now, there is one thing about these figures that does not show a fair picture. I pointed it out yesterday and I think the committee ought to understand it. One reason why there were so very few failures in 1945 is because very few small businesses started in 1945. At least, during the early part of the year, the war period, and what happens is that the casualty list of small business is chiefly among the new small business. A very high percentage of them always go out of business in the first 2 or 3 years. Someone takes a chance and borrows some money from his Uncle Joe. He does not know how to operate or run a business very well, or tries to make or sell something that nobody wants, so he goes out. That happens in peacetime. One reason why you have this extremely low figure of failures here—and I think we ought always to temper that chart by explaining this—is the fact that during the war you had so very few new businesses starting.

Nineteen twenty-nine was obviously a prosperous year, yet you had 22,000 failures. One reason for that is because you had so many new firms beginning.

Miss SUMNER. Well, let us face it. The reason you do not get the failures is because no matter what you have, there are plenty of people around with money in their pockets and you can sell it even though it is a bankrupt business.

Mr. BOWLES. Well, I am only trying to be very fair on that chart and not give a false picture of it.

Miss SUMNER. I am trying to help you to be fair.

Mr. SUNDSTROM. Mr. Bowles, what I am trying to find out is what are you trying to prove by all these charts on business failures, retailing, wholesaling, showing that everybody is successful? We are not trying to blame the American businessman for being successful, are we?

Mr. BOWLES. Of course, we are not.

Mr. SUNDSTROM. Is it not a perfectly obvious thing that we are going to have less failures and better business when the Government is doing deficit financing? Therefore, if you people in the Government today do that, how are we going to balance the Budget? And if we do not, we are not going to be able to keep those people from failing. They are going to rest on their own competition.

Mr. BOWLES. That is right. I hope that from the production lessons we have learned during the war we can create greater production on the farms and in factories after the war, so we will have greater prosperity than we have ever had before in peacetime. The only point of these charts—and I think it is important—is that many times people are misled from hearing some story over the lunch table about the troubles of a few firms and get the impression that American business generally is having a pretty hard time.

Now, generally, that is certainly not so.

Mr. SUNDSTROM. They are going to have a lot tougher time now that the war is over and the Government is not going to go to deficit spending?

Mr. BOWLES. Not necessarily, if we handle this thing right. I think you can go into the greatest period of prosperity this country has ever seen.

Mr. SUNDSTROM. I agree with you.

Mr. BOWLES. And I think it can be maintained. There is no reason why the \$200,000,000,000 gross national product that we had during the war cannot be maintained in peacetime, which will mean 50 percent higher standard of living than we have ever had in this country before, with plenty of profit for business, high wages in your factories and plants, a minimum of unemployment, and very high farm income. That obviously is what we are all shooting at.

Mr. BARRY. Mr. Bowles, one of the main criticisms directed at the Office of Price Administration is that it is putting businesses out of existence. It is a common criticism.

Mr. BOWLES. That is one of the reasons for these charts.

Mr. BARRY. If that chart is correct, that criticism is totally unfounded.

Mr. BOWLES. All I can say is that the dividends for the last quarter of last year were as high as they have ever been in history.

Mr. BARRY. That is a Dun & Bradstreet—

Mr. GAMBLE. Will you—

The CHAIRMAN. Just a minute. We got along pretty well in this committee when we adopted some rules, and I think we ought to adhere to them.

Miss SUMNER. May I ask a question? I think I had the floor.

The CHAIRMAN. We certainly cannot proceed in an orderly fashion with everybody talking at once.

Miss SUMNER. I have a point to cover. I do not see how you can expect an established man to operate under your ceilings in view of

the way you interpret that provision on accounting, subsection 2 of section 8, or subsection 8 of section 2, I guess it is. You have adopted an interpretation, according to your counsel, that was given by Senator Wagner in a report on the conference bill in 1944, and under that interpretation, your costs, the way you consider them, with business from Illinois, at least, does not include the following items, which were an established part of accounting procedure, an established part of costs, prior to the Office of Price Administration regime, and those costs, I—I would like to hear the committee listen to these because you all know these are established costs of a business—include: increases in administrative and general selling costs; any increases like that, they cannot get consideration for.

They include increases in factory overhead; retroactive wage increases; increased costs due to reduced inefficiency of employees—perhaps they do not want to work or they do not want to work so hard—increased pay-roll-tax deductions; increased cost from buying from new sources of supply, where the old source of supply at the old price can no longer sell an adequate amount; increased costs where you have a change in a wage rate, where it goes from 80 to 90 cents, for example, and the Office of Price Administration insists on using the 85-cent rate, in other words, it just takes an average of that instead of using your actual increased wage rate. You do not include the in-grade increases where they move up from one grade to another. If they move from 80 to 90 cents, you take the 80 cents. You do not include items of increased cost, there are paid vacations, or bonuses to workers, or wage-incentive plans. You do not include shift differentials for night work; increases for overtime. A great many workers have come, during the war, to expect time and overtime, and the employer wants to pay them, and he cannot get an allowance for that from the Office of Price Administration.

You do not include increased cost of employment benefits of miscellaneous kinds. These are notes. I am taking these from notes made from various businesses.

Mr. BOWLES. Miss Sumner, what you refer to is the reconversion formula, which covers a limited part of the economy in its shift from war production to peace production. That is your reconversion formula, so-called.

Miss SUMNER. What do you mean "reconversion formula"? Those are costs that are added to a business. There is no reconversion about it. It is just a change—

Mr. BOWLES. Well, let me try to explain it. You have a washing-machine manufacturer who, during the war, has been making tanks or machine guns, or something of that kind. He has not made washing machines since back in 1941 or 1942. Or it may be an automobile manufacturer, a vacuum-cleaner man, any item such as that, which has been out of production during the war. You do not know what his actual costs are going to be. It is not like the food industry or the apparel industry or any other industry which has operated continuously and, by going in and taking current accounting studies, you can determine what are his actual costs. In the case of any reconversion industry you are guessing and the owners are guessing and you are doing your best to arrive at a reasonable estimate of what the costs are going to be after the industry shifts from war production to washing-machine production.

In order to arrive at that, we developed a formula, which had some elements in it that might be called tight, and some elements in it that might be called loose. I think they balanced out pretty well. The price is set by that formula temporarily. When current costs are discovered by renewed operations the formula is then scrapped, and he comes under the regular pricing standards. All elements of cost, once they are shown to be real, lasting, and continuous, are accepted by the Office of Price Administration as part of their pricing. In other words, it is for a temporary period that the reconversion formula applies.

For instance, in that formula, we assume 1941 volume. Well, obviously, the washing-machine companies are going way beyond 1941 volume, just as fast as they can get their production built up. So are automobiles, vacuum cleaners, radios, and so on.

Miss SUMNER. Well, I do not see that what you are saying has any relation to what I am saying, because I am telling you definite costs that the man has, for which he comes down to the Office of Price Administration today, and you say you do not consider. He knows exactly what he is going to have to pay the new supplier, for a part for his motor, and you refuse it to him. He knows exactly what his increased tax deductions for pay roll are, and you do not take that into consideration. Now, who is doing the reconverting: you or the man? I do not get it.

Mr. BOWLES. There are a great many reconversion costs that are temporary costs. If they turn out to be permanent costs, they are included in fixing prices. But as long as they are of a temporary nature, you are quite right in saying they are not included. That reconversion formula was discussed with you last spring in great detail. We went over it before this committee and showed you exactly how it worked. That is the same formula we discussed last spring with you.

Miss SUMNER. Did you ever tell our committee that the provision that was first put into this thing by Dr. Smith, on accounting, which provided that you should not interfere with traditional methods of accounting—you know the words of the statutes that I refer to—did you ever tell him or any of us that there was no limitation in that provision on you which would prevent your using absolute discretion in deciding what the elements of cost were?

Mr. BOWLES. Well—

Miss SUMNER. Now, that is your counsel's provision. He takes it from a conference report stated on the floor of the Senate in 1944 by Senator Wagner.

Mr. BOWLES. I do not think there is any question of the legality of it. If there were, it would have been in the courts a long time ago. If it were, you would long since have had a court case on it, which you have not had. At least, I know of none.

Now, Mr. Brownlee, last spring, as a part of his presentation gave a careful exposition of that formula, which would be used for a temporary period to provide some kind of rough justice. There would be some elements which I say would be a little tight. You mentioned some. There would be others which would be a little loose. For instance, if there was down-grading of workers—

Miss SUMNER. Those are enough to break a man.

Mr. BOWLES. If there is down-grading of workers, which obviously

there is in many cases, that was not put in as a deduction. What we did was to take legal increase in material costs, the legal increase in basic hourly rates, and add prewar profit on sales. In addition of those elements to 1941 costs put the industry above the 1942 price, it got the new price. If, on the other hand, the 1942 price is higher than that, he kept the higher 1942 price.

Miss SUMNER. By the way, how did you happen to pick 1936-39? That was the worst depression period since 1932.

Mr. BOWLES. The Internal Revenue picked it. We have discussed it with you for 3 years. Congress has discussed it, debated it at length, and it seems to me that question has been settled in the past.

Miss SUMNER. I was just curious. I did not recall the reason for it.

Mr. BOWLES. The Bureau of Internal Revenue uses it. It is considered the latest typical prewar period.

Miss SUMNER. 1937, that was the year of the recession that worried the administration to death, I thought.

Mr. BOWLES. Well, it is just a typical prewar period. It would not be right to take all bad years, nor would it be right to take all perfect years. You take a typical average period. Now, when a business lost money in those years, we obviously raise it up to zero. But 1936-39 is accepted not only by us but everybody that I know of who has gone into the question, as the best—not as perfect, however—of the typical prewar periods.

Now, if for any industry that is a very untypical period—and obviously unfair—we change and give that industry another base period. We might take 1939 and 1940 or some other.

Miss SUMNER. You are not going on the idea that just because a man does not go to court, it proves that he does not think he has any legal rights, do you?

Mr. BOWLES. No; but in 4 years of this policy somebody, somewhere in the United States, were it illegal, would have challenged its legality in the court.

Miss SUMNER. I would not advise any man to go into court to try to fight the Office of Price Administration.

Mr. BOWLES. Why is that? That seems to me an indictment of your courts. The court record has been pretty good.

Miss SUMNER. Whatever it is, I would not advise him, no matter how much legal right he had.

Mr. BOWLES. I have got great respect for the courts. I think they have done a pretty good, honest job.

Mr. SMITH. Mr. Chairman, I ask unanimous consent that Mr. Bowles revise the chart we are looking at so as to include columns beginning with 1932, corresponding columns to the ones that follow those columns, showing the annual increase in the Federal debt.

The CHAIRMAN. Is that a request?

Mr. BOWLES. I would be glad to do it, Mr. Smith. What is the point?

Mr. SMITH. I would like to have you show the increase in the Federal debt from 1932 in columns corresponding to the columns you have there in red.

Mr. BOWLES. You mean as the debt went up, failures went down? Is that the point?

The CHAIRMAN. I do not know whether that would be a proper request of Mr. Bowles.

Mr. PATMAN. Mr. Eccles will be here.

The CHAIRMAN. Yes, Mr. Eccles will be here.

Mr. SMITH. But this only shows one-half of the picture. We want the rest of the picture.

Mr. BARRY. Well, those are business failures, and I do not see the relationship between the public debt and failures.

Mr. SMITH. The relationship is that we spent all this money, and we do not expect the failures that took place during the depression.

Mr. BARRY. You did not spend the money in private enterprises except for war plants.

Mr. SMITH. Pardon me?

Mr. BARRY. You did not spend the money in private enterprise except for war plants.

Mr. SMITH. But it went into private enterprise.

The CHAIRMAN. What is the necessity of putting it in a chart?

Mr. Eccles will be here and will be able to give us the statistics, which is just as good.

Mr. BOWLES. I will be glad to do it.

The statement above referred to is as follows:

Federal debt and business failures, 1914-45

Year	Business failures	Gross Federal debt	
		Total	Increase or decrease (-)
1914	18,280	\$1,188,000,000	-\$5,000,000
1915	22,156	1,191,000,000	3,000,000
1916	16,993	1,225,000,000	34,000,000
1917	13,855	2,976,000,000	1,750,000,000
1918	9,982	12,455,000,000	9,480,000,000
1919	6,451	25,484,000,000	13,029,000,000
1920	8,881	24,299,000,000	-1,185,000,000
1921	19,652	23,977,000,000	-322,000,000
1922	23,676	22,963,000,000	-1,014,000,000
1923	18,718	22,350,000,000	-614,000,000
1924	20,615	21,251,000,000	-1,099,000,000
1925	21,214	20,516,000,000	-735,000,000
1926	21,773	19,643,000,000	-873,000,000
1927	23,146	18,512,000,000	-1,131,000,000
1928	23,842	17,604,000,000	-908,000,000
1929	22,909	16,931,000,000	-673,000,000
1930	26,355	16,185,000,000	-745,000,000
1931	28,285	16,801,000,000	616,000,000
1932	31,822	19,487,000,000	2,686,000,000
1933	20,307	22,539,000,000	3,052,000,000
1934	12,091	27,053,000,000	4,514,000,000
1935	12,244	28,701,000,000	1,648,000,000
1936	9,607	33,779,000,000	5,078,000,000
1937	9,490	36,425,000,000	2,646,000,000
1938	12,836	37,165,000,000	740,000,000
1939	14,768	40,440,000,000	3,275,000,000
1940	13,619	42,968,000,000	2,528,000,000
1941	11,848	48,961,000,000	5,994,000,000
1942	9,405	72,422,000,000	23,461,000,000
1943	3,221	136,696,000,000	64,274,000,000
1944	1,222	201,003,000,000	64,307,000,000
1945	810	258,682,000,000	57,679,000,000

Source: Debt (direct obligations only), U. S. Treasury Department. Business failures—Dun & Bradstreet.
Office of Price Administration, Division of Research, Mar. 11, 1946.

Mr. SMITH. You do not see any objection to it, do you, Mr. Bowles?

Mr. BOWLES. No, sir.

Mr. PATMAN. Well, start in 1930.

Mr. BOWLES. Or 1929. Would you mind, Mr. Smith, if we started in 1929?

Mr. SMITH. It does not make any difference where you start, just so you include—

Miss SUMNER. Start in 1924 and you will see what happens when you do not have a debt.

Mr. BUFFETT. Mr. Bowles, a chart like that, in my judgment, to be worth while, should be a double chart, showing the number of new businesses started and the number of businesses closed.

The CHAIRMAN. I recognized Mr. Talle. Mr. Talle.

Mr. BUFFETT. I am sorry.

Mr. TALLE. Mr. Bowles, data concerning business failures have been brought before the committee recurrently every time this matter has come up, and I have always contended that those data are of no account, they are meaningless, under the present circumstances, for the reasons which I stated the first time they were brought in here, and for the reasons which you repeated today.

Mr. BOWLES. The fact that we have not got so many new firms starting?

Mr. TALLE. That is right. Now, may I ask one thing? You have just repeated that the reason is that new firms do not start, and the high mortality rate is among them?

Mr. BOWLES. Largely.

Mr. TALLE. Now, is it the purpose of this chart to prove that if business continues to enjoy the help of the Office of Price Administration, there will be no business failures?

Mr. BOWLES. No; although I would say, though, that if the benefits of the Office of Price Administration were removed too soon, you might repeat the spectacle that you had following the last war when price control was removed and you had over a hundred thousand business failures in a very short period of time. I think in the meantime you would have probably no business failures for a while. But the collapse that came before, and that I think would inevitably come again, if you let the lid off here, is certainly going to result in more business hardship than this country perhaps has ever seen, and I am including 1929 and 1932.

Because if this thing blows up and if we really get the inflation that I think a great many people toy with, the number of business failures and business hardships, and disasters, in my opinion, is going to be one of the most frightful chapters in the history of this country.

Mr. TALLE. You said some time back that if we do this thing right, then, great prosperity lies ahead. What did you have in mind when you said that?

Mr. BOWLES. By doing this thing right, I mean simply this: As long as we do not have a competitive condition, which we do not have yet, we shall need price control but, however, to get rid of controls as rapidly as production builds up and get us on a supply-and-demand basis. When ceilings begin to be meaningless and we do not need them, we will pull off price control. At that time obviously some prices will go up a bit here and there. Slight rises, however, will come no matter if production is at a high level and war accumulated shortages have been met. I definitely feel that you ought to put some end to price controls at a reasonable point, and assume that at that time supply and demand generally are in good balance, production is there, the price controls can be safely removed.

If you wait until then, you are not going to get this inflationary

spiral that feeds back into wages and farm prices and food prices and everything else, leading you to a very high price peak, and then bringing about a collapse that will, cause widespread business failures. You will have to make this line representing business failures far higher, I think, to get in the number of businesses that will fail if we take the controls off too soon.

I would like to point out another thing: In the past your inflationary spiral of rising prices has tended to check itself at a certain point, because wages and income generally have not kept pace with the increase in prices. There has been a lag. Prices have gone up and up, but purchasing power has gone up less rapidly. Finally, a gap between the two become so great that at that point people cannot afford to buy. Their savings have been, to a degree, exhausted. The whole market slows down, and you get a collapse.

Very strong labor organizations have been built up since the last depression, or since 1919 and 1920. They are determined, and I think quite properly, that if cost of living moves up, to see that wages move up, too. Escalator clauses are being written into numerous contracts. Increased purchasing power will not lag therefore so far behind increases in price as it did in the past. This will tend to force that higher. When the collapse comes, you will, I think find that it would be even more violent. No one knows quite how important that factor is, but it may make whatever happens, if we lose our grip, more severe by far than past situations of this kind. That is something nobody knows.

Mr. TALLE. Do I understand, then, that you are watching the clock for the right hour to discontinue the Office of Price Administration?

Mr. BOWLES. That is correct, of course.

Mr. TALLE. I yield to Mr. Sundstrom.

Mr. SUNDBROM. I was going to follow—

Mr. BOWLES. I am watching not the clock but economic conditions.

Mr. SUNDBROM. What is your estimate, under present conditions, when the Office of Price Administration should be removed entirely?

Mr. BOWLES. Well, last fall our estimates were pretty wrong. We assumed, as I pointed out in my testimony yesterday, that a drop in farm prices would be quite substantial by Christmas, and we assumed that that drop would continue on through this period. That was based on an assumption of considerably more unemployment than has developed and also a considerable drop in purchasing power that has not materialized to the extent that we all expected.

We assumed that we would be out of 15 or 20 percent of our food price ceiling by Christmas. We thought we would be out of all food price control by May or June. As I remember it, our estimates on apparel made us feel that we could get out of those mostly by summer. Consumer durables, building materials, and so on would hang along.

As to rent control, we were looking forward to getting rid of about 150 rental areas, or about 10 percent of the total areas covered, by July. Actually pressures have been so much greater that we have had to go into certain rent areas. We are under great criticism today because we do not get into some of these university towns where a lot of married soldiers are coming back to live, where rents are going up, but which we are not able to get into there because of lack of funds. It is nobody's fault save that we underestimated our needs.

Now, I certainly would hesitate to guess on any timetable of dates for decontrol here, but my feeling is that if this bill, is renewed for a year from this June 30, it will see us over the bulk of our difficulty, with probably the exception of perhaps building materials in some areas, and perhaps rent—I am pretty sure about rent control needing to last longer.

Mr. SUNDSTROM. What I am trying to get is: Even under the worst conditions, when do you think all controls ought to be removed?

Mr. BOWLES. I think that you can safely get rid of almost all price controls in a year from June 30. I think you can get rid of many of them between now and then.

Mr. GAMBLE. You intend to do that, do you not, as production allows you to?

Mr. BOWLES. Oh, yes. We have had a very serious set-back in our decontrol program, but I am looking forward to the fact that as production moves up, this summer and spring, and in the summer months and fall months and winter months of next year, we will have a progressive decontrol. After June 30, of the following year—1947—you will certainly have the rent problem. But I think that you will have mainly odds and ends as far as the rest of control is concerned. I will go further than that and say this: To hold price controls in place to the last technical point would be a mistake.

What we are trying to do is avoid inflation. We are trying to avoid a blow-up in our economy. We are not trying to get out on a slide-rule basis, so that nothing moves up in prices after the Office of Price Administration moves out. We are trying to get the explosive elements out. Right now they are at their peak. I would say a year from June 30, unless I am very, very surprised, we will be on our way out of controls, save for remnants, plus rent control.

Mr. GAMBLE. That does not mean total decontrol during that period.

The CHAIRMAN. The committee will now have to go into executive session, and we will adjourn to meet tomorrow at 10:30.

Mr. TALLE. Mr. Chairman, I had the floor and lost it. May I be assured that I will have an opportunity to question Mr. Bowles further?

The CHAIRMAN. Yes. We will give you the opportunity.

The committee will now adjourn.

(Whereupon, at 12:10 p. m., the committee recessed, to reconvene at 10:30 a. m., Wednesday, February 20, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

WEDNESDAY, FEBRUARY 20, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

Mr. Bowles and Mr. Potter may proceed.

You may proceed with your presentation of the charts, Mr. Potter.

Mr. CRAWFORD. Mr. Chairman, while we are waiting for Mr. Potter, may I ask the committee a question? Mr. Bowles has these two responsibilities: Moving out of the Office of Price Administration into War Mobilization and Reconversion, and I wonder if it would be satisfactory all the way around for Mr. Bowles to be permitted to appear before the committee at a subsequent date, so that during the next several days he can devote his time and energies to getting the new job started, and let us go ahead with some of his other people?

The CHAIRMAN. I think that would be a very sensible solution.

Mr. BOWLES. I appreciate that, Mr. Crawford, very much. I thought if I could appear here today, I would. But I am trying to handle two jobs, and I think I can speed things up a bit if I can get on with them.

Mr. CRAWFORD. I think it would be a great thing for the country as a whole if Mr. Bowles could proceed to get himself established in his new work and thus speed this whole readjustment along.

The CHAIRMAN. I am sure the committee wants to cooperate with Mr. Bowles.

Mr. BOWLES. I appreciate that. The wage-price policy has to be defined in many areas, many groups do not know just what it means, and my job is to get that clarified with public statements so that everyone knows where we stand so we can get started to get the production out, so I appreciate that.

The CHAIRMAN. Mrs. Woodhouse.

Mrs. WOODHOUSE. Mr. Bowles, the women, of course, are very interested in the clothing and textile program, and I wonder if you would be good enough to tell us briefly just what effect this new policy will have on clothing, and particularly low-priced clothing?

STATEMENT OF CHESTER BOWLES, DIRECTOR OF STABILIZATION—Resumed

Mr. BOWLES. I am very glad to answer that. During the war, by directive of the War Production Board, certain of their looms were

frozen to certain kinds of construction. For instance, the work shirts going out to Navy people, uniforms, shirts for men in the Army and Navy, the items of cloth going into that type of production were frozen.

After VJ-day, those controls were dropped. At that time we had a system of priorities, and any garment manufacturer could get a priority which would allow him to go back to the mill to get certain kinds of cloth, if he wanted to do so, which could go into low-priced garments. And that was the low-priced garment program we had at that time.

However, what has happened is that the mills shifted away from the textiles and cloth that they made for the Navy to a large degree into higher-priced materials which were not helping to get our shirt problem solved, and the other problems that needed solving so badly.

So what we are planning to do now is to establish priorities to the garment manufacturer, which he must manufacture, based on a certain percentage of his base period volume. The result will be that he will take them to the mill and the mill must produce certain types of that cloth. It is not just a request or a priority or an opportunity but it will be directed to produce it.

The Office of Price Administration, in turn, will make price adjustments to the mills to more or less bring it up for them and to give them more incentive to go into those low-cost items, including certain price increases going back to their 1941 volume, the same proportion of these various cloths that they made in 1941, and it will affect about 40 percent of all the cotton garments. We hope to see that 40 percent increased to about 50 percent through that program. All these garments will be dollar-and-cent priced, just as they have been before, but we feel the production of them will be stepped up very sharply and very rapidly as that program gets under way.

In other words, the old priority was more or less of a hunting license to go and try to find the cloth if you could. We are now assuring all levels that the garments will be produced and putting enough profit incentive in there so that they will be.

The prices will be reasonable and the quality will be better and we expect to get at least a 50 percent increase in volume.

Mrs. WOODHOUSE. That is very encouraging.

Mr. BOWLES. That is being discussed today and will go into effect very soon.

The CHAIRMAN. Mr. Bowles, we have invited Mr. Ford to appear before the committee to testify if he desires to do so. He sent me a long telegram, which I will ask the clerk to read.

The CLERK (reading):

Hon. BRENT SPENCE,

Chairman of the House Banking and Currency Committee:

I have been informed that your committee is prepared to invite me to appear before you to comment on price controls as they affect the Ford Motor Co. I shall, of course, be happy to appear before the committee, if there is really any public interest to be served.

However, my opinions on this subject have already been expressed publicly in a telegram to the Director of War Mobilization and Reconversion on January 29 and again in an address in San Francisco on February 8. Copies of both of these are being mailed you. I am sure that everyone who has the best interests of this Nation at heart is doing what we are doing—everything we can to stop the present trend toward inflation.

There are differences of opinion on how this can best be done. Our part, as we see it, is to produce motorcars and trucks—as many as we can and as fast as we can. That has been our purpose since VJ-day. Our employees have cooperated. There have been no strikes at the Ford Motor Co. We have been forced to curtail production time and again because of strikes and shut-downs in the plants of our suppliers. Shortages of steel, caused by a dispute over both wages and prices, finally forced us to stop assembly lines completely. Of course, we know that price ceilings on most finished parts for new automobiles were removed last fall. But the statement of Mr. Bowles in this respect does not reflect all the facts. He does not make it clear that the manufacturers who supply our suppliers with parts do have price ceilings. He also ignores the fact that parts for trucks and all automotive replacement parts are still subject to ceiling prices.

The Office of Price Administration supplementary order of August 29, 1945, to which Mr. Bowles referred, exempts passenger-car original equipment from price ceilings, but specifically excepts tires, batteries, radios, ferrous and non-ferrous castings.

The regulation also states examples under which such items as glass, electrical wiring, forgings, upholstery, and similar items are not classified as parts unless they are at least partially fabricated.

As I said in San Francisco, a foundry which has supplied us for many years with gray iron castings told us they lost \$330,000 during 1945 because the cost to them of producing the castings we needed was above the price at which they were allowed to sell to us. They stopped supplying.

Another supplier had been making thousands of small but vital truck parts for us for 50 cents each. His material prices had gone up so much after VJ-day that he asked the Office of Price Administration for permission to charge us 61 cents. The Office of Price Administration said "No." They were willing to go as high as 54 cents; the supplier could not produce parts at that figure, and so he stopped manufacturing.

We finally got two new suppliers. One is now furnishing us with the necessary parts at 82 cents, and one at 84 cents each, both with Office of Price Administration approval.

In making public our estimate of last summer, that motorcars would cost 55 percent more to make during the first postwar year than they cost in 1941, Mr. Bowles failed to make it clear that these estimates were submitted to the Office of Price Administration before the Office of Price Administration had announced any price regulations on new cars. More than a month before the Office of Price Administration had given us even the basis on which price ceilings were to be calculated.

What Mr. Bowles had to say on this point, and the manner in which he chose to say it, left the impression that we had secretly applied for a 55-percent increase in existing price ceilings. Actually, we have applied for no price relief on any of our cars since the Office of Price Administration ceilings were established.

Incidentally, those estimates of last July turned out to be pretty accurate. We estimated, for example, that our most popular model, which cost \$512 to make in 1941, would cost us, under postwar conditions, about \$935. These figures do not include the cost of advertising and selling or any profit. We found in November, before we reached scheduled production, that it was costing us \$963 to make this model.

Since then we have cut that cost somewhat by increased production efficiency, but in the meantime, we have added about \$41,000,000 to our annual bill for wages, and have still to absorb increased cost to us and our suppliers, due to the new price of steel.

Our Office of Price Administration price to dealers on this model is \$728. We do not want to get into public arguments with the Office of Price Administration or any other Government agency at this time, especially since the President late last week announced a new wage-price policy. However, I have stated publicly my opinion that inflation is based on scarcity, and that the way to prevent inflationary prices of manufactured products is to produce goods for people to buy with the money they have to spend. We at the Ford Motor Co. are going to continue to act in that belief. Our job at Ford Motor Co. has always been to make more and more products at lower and lower prices, so that more and more people can afford them. We look forward to the time when American industry can get back to this job under the constant stimulus of free competition.

(Signed) HENRY FORD II.

The CHAIRMAN. I thought you might want to comment on that, Mr. Bowles.

Mr. BOWLES. Well, it appears that on many areas Mr. Ford and I would be in full agreement and in some others we would not.

As far as the parts are concerned, I stated the other day that there were certain parts that were under price control. I think the figure would be roughly 80 to 85 percent of the number of material value going into a car, which is not under price control. He is quite right that some is. I pointed that out in my testimony, but I do not think it was fully reported that way. So Mr. Ford was probably quite right as he read it in the paper, in missing that statement that I added to it.

I naturally would like to know who the gray-iron-castings manufacturer was; I would like to know who all those parts people are, and, with your approval, I would like to write Mr. Ford, as to who they are, look into it, and see if we can learn anything from it, and see if there is any correction we should make, and find out just who they are and what their problem is. It may be that there is a problem there and I would like to know about it if there really is.

I agree. I do not see any sense of carrying on an argument of that kind. I will be glad to put a statement in the record, with all the dates attached, as to exactly what happened to the pricing of Ford cars, if anyone wants to see it.

The CHAIRMAN. Well, you can ask him for that information.

Mr. BOWLES. I will be glad to do it.

Mr. SMITH. May I ask a question, Mr. Chairman.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. You made the statement yesterday, Mr. Bowles, that the Ford Motor Co. requested the Office of Price Administration to increase their price 55 percent last summer. Now, Mr. Ford says in his statement that he did not make any application to the Office of Price Administration for a price increase.

Mr. BOWLES. Well, no; he said that he did not apply for a price increase after the ceiling was set, Mr. Smith, if I heard that right. The ceiling was not set until November.

Mr. SMITH. Did he ask for a price increase before that?

Mr. BOWLES. He asked for a price increase in July.

Mr. SMITH. Can you furnish a copy of that request to the committee?

Mr. BOWLES. Yes, we can. We will be glad to do that.

Mr. SMITH. He flatly asked that he be granted such a price increase?

Mr. BOWLES. Last July. We will be glad to furnish you with the document.

Mr. SMITH. 55 percent?

Mr. BOWLES. That is correct. We will put it in the record.

Mr. SMITH. I would like to have that put in the record.

The CHAIRMAN. It will be inserted.

(The document above referred to is as follows:)

OFFICE OF ECONOMIC STABILIZATION
Washington, D. C., March 12, 1946.

The Honorable BRENT SPENCE,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D. C.

DEAR MR. SPENCE: At the hearing of your committee on February 20 on the extension of the Stabilization Act, it was suggested that a statement be placed in the record dealing with some of the topics discussed at the committee hear-

ing relating to the contentions of Mr. Henry Ford II, in his telegram addressed to your committee on February 20. I am glad to do this, since I feel that your committee should have in its possession a more nearly complete statement of the facts than has heretofore been presented.

My views on the vital necessity of continuing price controls during the present emergency have already been fully presented to your committee. As you know, I cannot subscribe to the basic philosophy expressed by Mr. Ford of removing price controls in the hope that it would stimulate industrial output. It is my firm conviction that the adoption of such a course could lead only to unbridled inflation resulting eventually in an abrupt industrial collapse similar to that which we experienced following the last war.

In this letter I should like to record with your committee my comments on some of the detailed points in Mr. Ford's telegram particularly those concerning OPA's position on automobile parts and the adequacy of present ceilings on Mr. Ford's products. But first, in order that the committee may have the background of this controversy, I should like to relate the steps which were taken by OPA in the pricing of passenger cars, with special reference to OPA's experience with the Ford Motor Co.

1. OPA'S ACTION IN PRICING PASSENGER CARS

In the late fall of 1944, OPA called a meeting in Washington of all automobile producers in the interests of developing a sound approach to the price problems which would arise when production of new cars was again resumed. The military reverses which came in December of that year made it apparent that our efforts were somewhat premature, although further discussions were subsequently held with representatives of individual companies.

On May 11, 1945, our basic plans for review of the old ceilings on reconversion products were publicly announced in a statement which received widespread attention. It related to automobiles as well as to other consumer durables, referring specifically to them at one point. After quotas for automobiles had been worked out by the War Production Board, a second series of meetings was held by OPA with individual automobile companies in Detroit in July 1945 at which automobile pricing was the subject of discussion.

In August, OPA representatives went again to Detroit and presented a proposed program of automobile pricing to the automobile companies individually in some considerable detail. At the end of the month, after some modifications to reflect industry views on particular points, the necessary regulations, including the order suspending the ceilings on original equipment automotive parts, were issued. I might say that throughout this 9 months' period, the initiative in automobile pricing was consistently taken by OPA rather than by the automobile industry.

In the course of his visit to Detroit in July, Mr. John S. Clement, Director of the Industrial Materials and Manufacturing Price Divisions of OPA, learned that the Ford Motor Co. had prepared for submission to OPA a formal application under the general maximum price regulation for price increases on automobiles averaging 55 percent over March 1942 ceilings. This was duly filed with the Office of Price Administration with an accompanying letter dated July 20, 1945. This formal application for higher ceilings, signed by Mr. H. L. Moekle, secretary of the Ford Motor Co., was referred to by Mr. Ford in his telegram to the committee, as "an estimate of last summer that cars would cost more to make during the first postwar year than they cost in 1941."

A copy of the Ford application, with certain confidential cost data deleted, is submitted herewith.

In a telegram which I received on February 22, Mr. Ford first explicitly acknowledged the fact that his company had applied for a 55 percent price increase over March 1942 levels. A copy of this wire is attached. In it Mr. Ford complained that I either did not know or refused to reveal to the committee the fact that his application was made in wartime and covered the limited number of cars which the Ford Co. was then permitted to produce. This charge was reported in a number of radio broadcasts. Little as I wish to continue a controversy with Mr. Ford, I think you will agree that it is essential for the record to be straight on this point.

In my testimony before your committee, I made it clear that the Ford Co.'s application was made before the end of the Japanese War. I stated accurately that it was made "last July." I think it a matter of common knowledge that the war with Japan was still continuing in July and that the wartime controls on the production of automobiles were also continuing. Since the only new automobiles

to which the Ford application could apply were the automobiles which it was then allowed to produce, I see no special significance in the fact that the application was directed to the pricing of those cars. Apparently the Ford Co. also did not readily detect any special significance in this fact for Mr. Ford's telegram to the committee of February 19 failed to make the point.

Furthermore, I do not see why the fact that the Ford Co.'s desire to increase its 1942 ceilings by 55 percent was expressed in wartime invalidates either my characterization of the proposal as "outrageous" or my inference as to what would happen to Ford prices if price controls were removed from new cars.

The idea underlying the Ford Co.'s application and Mr. Ford's subsequent telegrams seems to be that the Ford Co. should be able to impose on the purchasers of new automobiles the full burden of the extra costs of producing cars before volume production is attained, plus a percentage of profit on those inflated costs. If anything, this view seems to me to be less excusable in wartime than in peacetime.

Moreover, the Ford Co.'s application was made with full knowledge that the reconversion pricing standards of this Office were designed to protect the American consumer from just that kind of pricing. As I had said in my May 1945 statement, "Of course we all know that there will be a temporary bulge in production costs at the beginning of the reconversion period as a result of low volume and change-over problems. Most business leaders have advised us not to base prices on these early, artificial costs. They realize that from every point of view business and the country would be hurt if we allowed such a temporary bulge in costs to be reflected in high prices."

Subsequent meetings with the automobile manufacturers both here and in Detroit had made it clear that no special exception from this rule could be accorded the automobile industry.

After the issuance at the end of August of the new regulation for pricing new cars, which carried out the policy previously stated in some detail, this Office authorized a substantial increase factor to be applied to the prices of 1941 model Ford cars, plus additional allowances averaging about 3.5 percent for specification changes between the 1941 and the 1946 models. The use of this factor has resulted in new Ford ceilings averaging about 4 percent above the 1942 ceilings, disregarding the specification changes.

We experienced some delay in issuing these prices because the Ford Co. had submitted inadequate information on our pricing forms. (Other companies gave us exact and carefully worked out data.) However, to speed action, OPA sent several of the principal officials of its Automotive Branch to Detroit to iron out the difficulties with the company. A final delay in price action occurred when OPA was requested by the House Small Business Committee to defer action on retail prices in order to permit further consideration of objections which had been raised by the National Automobile Dealers Association.

Subsequently, Mr. Ford made several public statements attacking OPA's automobile pricing. In those statements, he failed, in my judgment, to disclose the efforts which OPA had made to facilitate automobile pricing by suspending price control with respect to most automobile parts. This matter, which I touched on in my testimony, is discussed at greater length below.

Very recently, the Ford Motor Co. has filed another application for increased ceilings. Under the new wage-price policy, OPA is now in a position to take approved wage increases into account in adjusting ceiling prices. On Thursday, March 8, OPA was notified that the Wage Stabilization Board had approved the new Ford schedule of wage rates, and on Monday, March 12, OPA authorized the company and its dealers to sell on an adjustable pricing basis pending a reexamination of the Ford ceilings.

2. THE SUSPENSION OF AUTOMOBILE PARTS FROM PRICE CONTROL

As I stated above, in late August of last year OPA suspended the price ceilings on most original equipment automotive parts. This action was taken on the recommendation of the parts industry and most of the automobile manufacturers. The suspension order, a copy of which is attached, applies generally to parts, sub-assemblies and accessories originally designed for use in passenger automobiles, and includes sales of such parts to manufacturers of related products, such as trucks, tractors, stationary and marine engines. It also applies to sales made to parts and subassembly manufacturers.

It is clear, therefore, that the suspension order does cover a great many parts and subassemblies going into the manufacture of finished parts and completed

parts assemblies. Indeed, we estimate that, depending on the degree of integration of the producing company, from 75 to 90 percent of the material value of passenger automobiles is as a result free of price ceilings. Moreover, there are no price ceilings on those identical parts when sold for assembly on other types of vehicles.

To be sure, we did not then feel it desirable, nor do we now consider it practicable, to suspend price ceilings on basic materials such as steel, forgings, stampings, glass, and upholstery fabrics unless specifically designed, cut to size, or otherwise fabricated as to be clearly identifiable as automotive parts, whether sold directly to an automobile company or to a parts fabricator.

In suspending ceilings on automotive parts, we were frankly counting on the purchasing power of the automobile companies to help keep parts prices from reaching exorbitant levels. In the case of the basic materials, which have many possible end uses and in the sale of which there is often unequal bargaining power between the buyer and the seller, we felt that the same considerations were not present and that the possibility of unwarranted price increases and diversion of output was quite serious.

As to those materials which both automobile manufacturers and other manufacturers use, a suspension of ceilings on sales to the former alone would have been grossly unfair to the latter since it would have enabled the automobile manufacturers to bid the materials away from the other industrial users. If, to avoid this, we had suspended these ceilings on sales to all manufacturers, the result would have been highly inflationary since the other manufacturers lack the bargaining power which, in the case of the automobile manufacturer, can keep prices in line.

It is true that the general stringency of supply of basic materials is a limiting factor on the production of many end products. We have had no reason to feel, however, that the production of automobiles in particular has been hampered by the continuance of price ceilings on basic materials. Indeed, you may be interested to know that one of the reasons that price ceilings were retained on ferrous castings for automotive use was the specific suggestion to that effect made by Mr. Charles Carroll, director of purchasing of the Ford Motor Co., who kindly made available to us late last summer the results of a survey which his company had completed on the supply outlook for these castings.

For some time OPA has had under consideration the amendment of its suspension order to include truck parts, feeling that the same reasons which led us to suspend price ceilings on original equipment automotive parts were in general present in the case of truck parts. Action has been delayed for three principal reasons. In the first place, while OPA's experience in the suspension of automotive parts has generally been quite satisfactory, a number of cases have come to its attention in which parts suppliers were seeking price increases of such size as to require further investigation. Secondly, while the production of passenger automobiles is concentrated in less than a dozen companies, there are 50 or 60 small truck companies whose position in the market might possibly be imperiled were price ceilings lifted on the parts they buy. Finally, it has been necessary for OPA to examine the suspension of truck parts ceilings in the light of the new wage-price policy recently announced by the President. I might add that OPA expects to announce its decision on the matter within the next few days.

In his telegram to the committee, Mr. Ford mentions two instances in which parts suppliers claim losses under present ceilings. One of these concerns a supplier of grey-iron castings. The other instance concerns a similarly unidentified manufacturer of certain truck parts. The price regulations on both grey-iron castings and truck parts make provision for individual company adjustments in cases of hardship, and I am somewhat at a loss to comment on these two instances without further information. As your committee suggested, we have telegraphed Mr. Ford, asking for full details on these cases so that OPA might make an immediate investigation. Copies of that telegram and Mr. Ford's cooperative reply are submitted herewith.

Although presumably not in connection with the production of new cars, Mr. Ford also mentions the fact that price ceilings continue in effect on automotive replacement parts. Since these parts are usually sold directly to consumers, either alone or in conjunction with repair services, we felt it unwise to lift the price ceilings in view of the direct impact of anticipated price increases on consumer expenditures. The question of price adjustments in this field has been thoroughly canvassed with OPA's industry advisory committee, however, and certain changes in the present individual company adjustment provisions are being made.

This letter has told the story of our problems and our progress in pricing automobiles and of our incidental disagreements with the Ford Motor Co. I have expressed my views plainly and so has Mr. Ford. The record has been spread before the committee and I hope there need be no occasion for further controversy. Instead, may I reiterate our desire to work with the company toward the solution of the problems which still confront it.

I know that this has been a trying time for Mr. Ford, marked by a succession of perplexing difficulties. He has my cordial good wishes for success in his efforts to get his production lines rolling despite the manpower, and the resulting materials, shortages. But I think that if he had gone through the aftermath to the First World War, he would realize that there are difficulties and dangers far more serious than those he has lately been experiencing. I think, too, that he would be far less willing now to listen to those advisers who seem to have been counseling him to take his chances with inflation.

If, by the exercise of patience and restraint for a time longer, the Nation can escape the calamitous experience of an inflationary spiral followed by a protracted slump, I foresee a period of a high prosperity for the Ford Motor Co. Under Mr. Ford's leadership I hope it will continue to symbolize for the entire world the American way to prosperity through high wages, low prices, and high production.

Sincerely,

CHESTER BOWLES, *Director.*

Enclosures:

- (1) Copy of letter from G. J. Crimmins, Government contract department, Ford Motor Co., dated July 20, 1945, submitting 5 copies of application for adjustment.
- (2) Copy of application for adjustment to the general maximum price regulation.
- (3) Copy of telegram from Henry Ford II to Chester Bowles as Price Administrator, dated February 22 (sent from Hollywood, Calif.).
- (4) Copy of telegram from Chester Bowles, Price Administrator, to Henry Ford II, dated February 21, 1946.
- (5) Copy of telegram from Henry Ford II to Chester Bowles, Director, Office of Economic Stabilization, dated February 25, 1946.
- (6) Amendment 1, supplement order 129 (suspension from price control of automotive parts).

ENCLOSURE 1

Copy

FORD MOTOR CO.,
Dearborn, Mich., July 20, 1945.

OFFICE OF PRICE ADMINISTRATION,
Federal Office Building, Washington, D. C.

(Attention: Mr. Fred Holder.)

GENTLEMEN: Submitted herewith are five copies of an application for adjustment in maximum prices on Ford passenger automobiles. In accordance with the suggestions of Messrs. Clement and Kelly at the time of their recent visit to this office, these are being submitted to your attention.

Since a number of the body types covered by this application are already in production, it is requested that the enclosed application receive your prompt attention.

Yours very truly,

FORD MOTOR CO.
G. J. CRIMMINS,
Government Contract Department.

ENCLOSURE 2

APPLICATION FOR ADJUSTMENT

TO

GENERAL MAXIMUM PRICE REGULATION

BY

FORD MOTOR CO., DEARBORN, MICH., APPLICANT

Ford Motor Co. herewith makes application pursuant to provisions of revised procedural regulation No. 1 for an adjustment to the general maximum price regulation, and as a basis therefor alleges as follows:

1. Applicant, the Ford Motor Co., is a corporation organized under the laws of the State of Delaware, with principal offices at 3000 Schaefer Road, Dearborn, Mich. Applicant is subject to the provisions of the general maximum price regulation, which determines its maximum prices for the sale of passenger automobiles, produced in 1945, as the highest prices charged for such items by the applicant during the month of March 1942.

2. This application is filed pursuant to section 18 (c) of the general maximum price regulation. The information required by the terms of section 18 (c) of the general maximum price regulation is as follows:

(a) An adequate supply of passenger automobiles for essential transportation in the Detroit area, and other areas in the United States is considered necessary to the war program and essential to a standard of living consistent with the prosecution of the war. The War Production Board has authorized production by applicant of approximately 39,910 passenger automobiles by December 31, 1945, production to commence at any time after July 1, 1945, which total will include approximately 32,750 Ford units. The production of less than the number authorized by the War Production Board would undoubtedly result in a shortage in the Detroit area, as well as other localities where they may be required, as no passenger automobiles have been produced for civilian use since February 1942. The maximum prices for the sale of Ford automobiles produced by the Ford Motor Co., F. O. B., Rouge Plant, Dearborn, Mich., are as follows:

	Suggested retail price	Net wholesale price
Ford:		
Super de luxe Tudor.....	\$895	\$671.25
Super de luxe Fordor.....	930	697.50
Super de luxe sedan coupe.....	920	690.00
Super de luxe convertible club coupe.....	1,090	817.50
Super de luxe station wagon.....	1,125	843.75
De luxe Tudor.....	850	637.50
De luxe Fordor.....	885	663.75
De luxe coupe.....	815	611.25

These are the highest prices at which such units were sold in March 1942. Estimated cost for the purchase of necessary materials at present market prices and production of other necessary materials in the Ford plants, and for the production of such automobiles, including commercial expense, are shown on the attached sheet labeled "Exhibit A." The adjustment of prices herein requested is to cover cost increases on the models as last manufactured during 1942, together with refinements and changes made in engine, chassis, and body since 1942.

(b) Adjustments of the maximum prices for the sales of the passenger units referred to by applicant will enable applicant to purchase materials and promptly produce the units in question, and will substantially reduce the possibility of a shortage of passenger automobile units in the Detroit area, and also in other localities where they may be required.

(c) Such a price adjustment will not create or tend to create a shortage, or a need for increase in prices in another locality, as it has been indicated that automobiles authorized by the War Production Board at this time will be rationed only to qualified purchasers and therefore, regardless of locality, the ability of the purchaser to qualify under the rationing program will determine his eligibility as a purchaser.

3. Section 18(c) of the general maximum price regulation is the only provision in the price regulation at the present time which is applicable to the circumstances of applicant in attempting to secure ceiling prices on these new passenger automobiles. Inasmuch as the Administrator has not seen fit, up to the present time, to provide other means of seeking relief for such passenger automobiles, applicant is now proceeding under this section 18(c) as the time to produce these units, and make them available to the public is very limited. Such adjustment will effectuate the purpose of the Emergency Price Control Act of 1942 in that it will relieve the present shortage of transportation essential to the prosecution of the war and the maintenance of a satisfactory civilian economy.

4. Applicant requests prompt action on this petition as it expects to produce and sell passenger units during July of 1945, and it requires an adjustment in its maximum prices in order to accomplish that end.

Therefore, applicant requests the adjustment of its ceiling prices on the said new passenger automobiles manufactured in 1945 in the amounts shown on exhibit A under "Total wholesale price," and that adjustment also be made in

the retail ceiling prices of such automobiles in the amount shown in exhibit A under "Total retail price, f. o. b., Rouge." and that—

(a) Applicant be allowed to add items of special equipment to the units mentioned in its selling prices in effect in March 1942.

(b) Applicant be permitted to use its March 1942 distribution and handling charges in connection with the sale of the units in question.

FORD MOTOR Co.,
By H. L. MOEKLE, *Secretary.*

EXHIBIT A

	Material ¹	Labor ¹	Burden ¹	Total
8-cylinder 114-inch wheel base Ford super de luxe Tudor:				
Estimated manufacturing cost				
Commercial expense ¹				
Total estimated cost				
Profit ¹				
Total wholesale price				\$1,041.15
Dealer's discount				347.05
Total retail f. o. b. Rouge				1,388.20
8-cylinder 114-inch wheel base Ford super de luxe Fordor:				
Estimated manufacturing cost				
Commercial expense ¹				
Total estimated cost				
Profit ¹				
Total wholesale price				1,071.97
Dealer's discount				357.32
Total retail f. o. b. Rouge				1,429.29
8-cylinder 114-inch wheel base Ford super de luxe sedan coupe:				
Estimated manufacturing cost				
Commercial expense ¹				
Total estimated cost				
Profit ¹				
Total wholesale price				1,047.68
Dealer's discount				349.23
Total retail f. o. b. Rouge				1,396.91
8-cylinder 114-inch wheel base Ford super de luxe convertible club coupe:				
Estimated manufacturing cost				
Commercial expense ¹				
Total estimated cost				
Profit				
Total wholesale price				1,235.48
Dealer's discount				428.49
Total retail f. o. b. Rouge				1,713.97
8-cylinder 114-inch wheel base Ford super de luxe station wagon:				
Estimated manufacturing cost				
Commercial expense ¹				
Total estimated cost				
Profit ¹				
Total wholesale price				1,308.37
Dealer's discount				436.12
Total retail f. o. b. Rouge				1,744.49

¹Omitted confidential information.

EXHIBIT A—Continued

	Material ¹	Labor ¹	Burden ¹	Total
8-cylinder 114-inch wheel base Ford de luxe Tudor:				
Estimated manufacturing cost.....				
Commercial expense ¹				
Total estimated cost.....				
Profit ¹				
Total wholesale price.....				\$1,004.50
Dealer's discount.....				334.83
Total retail f. o. b. Rouge.....				1,339.33
8-cylinder 114-inch wheel base Ford de luxe Fordor:				
Estimated manufacturing cost.....				
Commercial expense ¹				
Total estimated cost.....				
Profit ¹				
Total wholesale price.....				1,033.58
Dealer's discount.....				344.53
Total retail f. o. b. Rouge.....				1,378.11
8-cylinder 114-inch wheel base Ford de luxe coupe:				
Estimated manufacturing cost.....				
Commercial expense ¹				
Total estimated cost.....				
Profit ¹				
Total wholesale price.....				958.17
Dealer's discount.....				319.39
Total retail f. o. b. Rouge.....				1,277.56

¹ Omitted confidential information.

ENCLOSURE 3

HOLLYWOOD, CALIF., February 22, 1946.

CHESTER BOWLES,
OPA, Washington, D. C.:

Your public statement of today leaves me no other course but to make public certain facts which you either do not know or refuse to reveal.

Our application to OPA on last July 20 was made while we were still at war with Japan. Since fighting had stopped in Europe, the War Production Board decided that limited production of automobiles was in the public interest. A total of 39,910 was fixed by WPB as the maximum number of passenger cars the Ford Motor Co. could produce during the last 6 months of 1945. Obviously, you cannot make 39,910 cars in 6 months in a plant designed to produce more than 100,000 every month without greatly increasing production costs per unit. Low costs depend on volume production, as everyone knows, so when the United States Government, not the Ford Motor Co., fixed production volume, it thus determined cost and selling price.

Let me give a specific example. We decided that 32,750 of the 39,910 automobiles should be Fords. The rest were to be Mercuries and Lincolns. The limitation on quantity fixed our estimated cost on the most popular Ford model at \$991.57. The f. o. b. sales price, which included the 5 percent profit and the usual dealer's commission, thus became \$1,388.20. This turned out to be 55 percent more than our last peacetime selling price of \$895.

We immediately filed application on prices for these low-volume, high-cost wartime cars under OPA's wartime general maximum price regulation.

This action had nothing whatever to do with peacetime price ceilings. It was not until early in September, after the end of the Japanese war, that OPA first issued any regulations having to do with peacetime price ceilings on automobiles.

These facts illustrate the point I have been trying to make in my public statements that high costs and high prices of automobiles are caused by low-volume production.

Our one aim since VJ-day has been to get into maximum production as quickly as possible. We have spared no cost. We have paid higher prices for materials. We have used propane gas when we could not get coal, and we have agreed to add \$41,000,000 to our annual bill for labor.

But our assembly lines have run by fits and starts, because we could not get parts and materials. Actually, we were able during 1945 to produce only 34,439 Ford cars. Our cost per unit on this production has been almost exactly what we estimated for that small volume.

Have no fear that the Ford Motor Co. will charge the American people one penny more than it has to for cars. If we did, competition would take care of such a situation very quickly.

For your information, Mr. Bowles, to meet competition we are now selling one of our truck models at \$100 below OPA ceilings.

We would like to sell all Ford cars below OPA ceiling prices, not above, but low cost and low prices depend on large-scale production. That, in turn, depends upon an uninterrupted flow of parts and materials to our assembly lines. When you say that only some 10 to 25 percent of our parts are under OPA price control, you miss the point. Shortage of only a few parts can stop the whole assembly line. That, in fact, is what has happened time and again since VJ-day.

May I add that I question the propriety of Government officials calling "outrageous" actions taken in strict accordance with wartime Government regulations.

HENRY FORD 2.

ENCLOSURE 4

FEBRUARY 21, 1946.

Mr. HENRY FORD II,
Ford Motor Co., Dearborn, Mich.

I have read with considerable interest your telegram of February 20 to the Honorable Brent Spence, chairman of the House Banking and Currency Committee, particularly your mention of a supplier of gray-iron castings who lost \$330,000 on sales to you during 1945, and a supplier of truck parts who is unwilling to produce at present ceilings. Our regulations on both gray-iron castings and truck parts permit price adjustments in the case of individual companies suffering hardship. In order to investigate these two cases further, therefore, as well as any other similar specific instances, I should appreciate the names of these suppliers and any further details which you can give which would aid us in making such an investigation.

CHESTER BOWLES, *Administrator.*

ENCLOSURE 5

DEARBORN, MICH., *February 25, 1946.*

CHESTER BOWLES,
*Director, Office of Economic Stabilization,
Federal Reserve Building, Washington, D. C.:*

I returned from a west coast business trip this morning to find your wire of February 21 on my desk.

I welcome the opportunity to describe the situations which have time and again impeded production in our plants. To that end I have asked that a full accounting be prepared of our difficulties in obtaining necessary supplies. This statement will be as complete and specific as possible, and will be sent to you as soon as possible. Meanwhile, I am sending a copy of your wire to those suppliers whom I have already cited as typical examples, and also to other suppliers and vendors who have reported having difficulties because of Government regulations, so that they may take their problems up directly with you. Now that we have settled our immediate postwar problems with our employees, our big objective is maximum production. An uninterrupted flow of material and supply to our assembly line is absolutely necessary if we are to achieve that objective.

We are hopeful that with the help you offer and with proper application of the new wage-price policy that maximum production will be possible in the very near future.

Sincerely yours,

HENRY FORD II.

ENCLOSURE 6

OFFICE OF PRICE ADMINISTRATION

SO 129
AMDT. 1
AUG. 29, 1945

(Document No. 49140)

PART 1305—ADMINISTRATION

[Supp. Order 129, Amdt. 1]

SUSPENSION FROM PRICE CONTROL OF CERTAIN COMMODITIES

A statement to accompany this amendment to Supplementary Order 129 has been issued simultaneously herewith and filed with the Division of the Federal Register.

Supplementary Order 129 is amended in the following respects:

1. Section 14 is added to Article II, to read as follows:

SEC. 14. *Motor vehicles and equipment.*—(a) *Passenger automobile parts, certain sales.* (1) Passenger automobile parts are suspended from price control.

(i) When sold to passenger automobile manufacturers for use as passenger automobile original equipment;

(ii) When sold to parts or subassembly manufacturers for use in the production of parts or subassemblies to be sold to manufacturers of passenger automobiles or other complete assemblies for use as original equipment;

(iii) When sold to manufacturers of complete assemblies other than passenger automobiles for use as original equipment in such assemblies, except that prices for sales under this subdivision (iii) shall not be higher dollarwise in relation to the seller's general level of prices for sales under subdivision (i) than was the case in March, 1942. For example, a parts manufacturer sold a certain part to automobile manufacturers in March, 1942, for \$5.00, and he sold the same part to a farm machinery manufacturer for \$6.00, or \$1.00 more. If he now raises his price to the automobile manufacturers to \$5.10, he may not charge more than \$6.10 to the farm machinery manufacturer, that figure being \$1.00 greater than the price to the automobile manufacturer. If the seller was not in business of selling automotive parts in March, 1942, he shall be guided by the March 1942 price differential of his most closely competitive seller of the same class.

(2) *Notification from purchasers of original equipment requirements.* Before delivery, a purchaser of automotive parts to be used as described in subdivisions (i), (ii) or (iii) shall notify the seller in writing of the quantity of the part required for use as original equipment in passenger automobiles or other complete assemblies or for use in the production of parts or subassemblies to be used as original equipment in passenger automobiles or other complete assemblies. The seller may rely upon the buyer's notification and treat as suspended from price control the sale and delivery of the number of parts stated by the purchaser.

(3) *Definitions.* As used in this supplementary order

(i) "Complete assembly" means an assembly in its final form and which will not be later incorporated in another product. Examples are commercial vehicles and farm tractors.

(ii) "Passenger automobile part" means any specific part, subassembly or accessory, except as excluded below, originally designed for use in a passenger automobile and fabricated to such an extent that it may be identified as to its ultimate use in a passenger automobile. "Passenger automobile parts" do not include tires; batteries; radios; or ferrous and nonferrous castings covered by regulations 41, 125, 214, 235, 241 and 244.

Examples: Glass is not a passenger automobile part unless cut to size to be incorporated in an automobile. Electrical wire is not a "part" within the meaning of the definition unless sufficiently fabricated so that it may be identified with its ultimate use in automobiles, as in the form of wire harness assemblies. Forgings are not "parts" unless they can be identified as to their ultimate use in a passenger automobile. Among such identifiable forgings are spindle bolts, axle shafts, and crankshafts. Examples of stampings that are passenger automobile parts are fenders, bodies, bumpers and brackets. Automobile fabrics in general are not parts, but when the fabric is cut to size and made part of a seat, the seat is a "part." Upholstery tacks are not "parts," since they were not originally designed for use in a passenger automobile. Automobile jacks are "parts," as they are accessories meeting the requirements of the definition.

There follows a general but not exclusive list of passenger automobile parts:

Automotive gears	Automotive transmissions
Automotive steering assemblies	Automotive oil filters
Automotive knee action front ends	Automotive coils and electrical parts
Automotive conventional type front axles	Automotive heaters and defrosters
Automotive suspension springs	Automotive brake parts
Automotive wheels and hub and drum assemblies	Automotive engine assemblies
Automotive bearings	Automotive radiators
Automotive connecting rods	Automotive horns or warning signaling devices
Automotive valves	Automotive drag links
Automotive valve springs	Automotive mouldings
Automotive shock absorbers	Automotive oil and water pumps
Automotive body hardware	Automotive propeller shafts
Automotive fan belts	Automotive window regulators
Automotive armatures (motor and generator and wiper motors)	Automotive rear axle shafts
Automotive brake systems	Automotive ring and pinion gears
	Automotive cylinder sleeves
	Automotive speedometers

2. Section 18 (b) is amended by the addition of the following subparagraph (1):

(1) *Passenger automobile parts*—(i) *Industry questionnaires*. Each manufacturer who has been requested to furnish the Office of Price Administration financial information on the form bearing Bureau of the Budget No. 08-45104 shall furnish such information not later than ten days from September 8, 1945.

(ii) *Reports of increased prices*. Each seller of passenger automobile parts shall mail to the Automotive Branch,¹ Office of Price Administration, Washington, D. C., within five days of the agreement to sell, the following information regarding every price charged for the sale of a passenger automobile part suspended by this supplementary order which is higher than the maximum price prior to suspension:

- (a) Description of the part.
- (b) Name and address of buyer.
- (c) Selling price.

(d) Former maximum price (not required where maximum price would have been established under section 8 of Maximum Price Regulation 452).

Once the above information has been reported as to a new price, reports need not be made for later sales at or below that price.

This amendment shall become effective August 31, 1945.

Issued this 29th day of August 1945.

CHESTER BOWLES,
Administrator.

STATEMENT OF CONSIDERATIONS INVOLVED IN THE ISSUANCE OF AMENDMENT I TO SUPPLEMENTARY ORDER 129

This amendment to Supplementary Order 129 suspends from price control certain sales of passenger automobile parts. Passenger automobile parts are parts, subassemblies, or accessories originally designed for use in passenger cars and fabricated to such an extent that they can be identified as to their ultimate use in passenger cars. This amendment specifically excludes from the coverage of the order tires, batteries and radios and ferrous and nonferrous castings.

The amendment relates only to original equipment and not to replacement parts. Parts, as described above, are suspended from control when sold to passenger car manufacturers for use as original equipment, when sold to manufacturers of other complete assemblies for use as original equipment, and when sold to parts or subassembly manufacturers for use in the production of parts or subassemblies to be sold to manufacturers of passenger cars or other complete assemblies for use as original equipment.

The suspension of control over parts prices is desirable because continuation of control would mean a difficult and time consuming job for the industry at a time when swift action is essential to the establishment of automobile ceilings. Reconversion pricing for the parts industry, while subject to price control, would raise a number of problems. That industry is more properly considered as a

¹ Sellers of parts subject to MPR 149 shall mail these reports to the Rubber, Drugs and Chemicals Branch.

group of industries because of the variation in product lines made by different groups of manufacturers. As a result, no single reconversion factor could properly be used in order to measure the appropriate increase in ceilings under this Office's reconversion formula. The work of preparing and processing the necessary data would have been great both for manufacturers and this Office. Also, the variety of automotive parts would have made it difficult to separate the groups of commodities that should be considered as constituting distinct products or product lines for purposes of the reconversion formula. Apart from the tremendous job of establishing a series of reconversion factors, it would have been necessary to process a number of individual applications for further increases, such as are allowed under Supplementary Orders 118 and 119 for reconversion products.

Another advantage of price control suspension is freedom of individual sellers to adjust the relationship of prices for particular items and lines. The application of the reconversion formula to individual sellers or groups would result in continuation of pricing inconsistencies. With price control suspended, appropriate adjustment may be effected. It is probable that cost-price relationship varies from item to item more with original equipment automotive parts than with most industries because of circumstances peculiar to the original equipment business. Suspension affords both to parts manufacturers and to automobile manufacturers the needed flexibility to cope with such situations without necessitating an increase in the general level of parts prices.

In view of the above circumstances and the importance of expediting passenger automobile production to the greatest possible extent consistent with sound price control, there is no doubt in the Administrator's mind that control of automotive parts should be suspended if that can be done without endangering the stabilization program.

The soundness of this action depends in large measure upon whether parts manufacturers will increase their prices excessively, thereby exerting pressure upon car manufacturers and in turn upon passenger car ceilings. The Price Administrator has great assurance that suspension of parts prices from control will not have that result. Car manufacturers have been able to exercise a great deal of influence upon the price level for parts for a number of reasons. Car manufacturers have made their own parts in varying degrees, and have frequently found it advantageous to produce a part whenever suppliers' prices for that part appeared unduly high. The large volume of original equipment sales has made that type of business attractive to parts manufacturers who also make the same part for replacement sales. In general, there has been a degree of interdependence between the industries that militates against parts manufacturers using suspension from price control to squeeze car manufacturers. It is important to note that almost all car manufacturers have expressed their approval of the suspension of control on original equipment parts, indicating their confidence that they will not be unduly squeezed as a result of such action.

This Office will require notification of price increases so that it will have up-to-date knowledge as to going prices, and it will intervene by restoring control at the first indication of inflationary consequences.

Continued control over passenger automobiles and other complete assemblies containing automobile parts makes possible effective, though indirect, control over the parts prices. This suspension of parts prices is a companion action to the new passenger automobile regulation, to be issued shortly. Under that regulation manufacturers may sell cars similar to their 1942 models at 1942 prices adjusted for cost differences due to specification changes, or they may use an optional method of pricing, which embodies the reconversion pricing principles developed by this Office, that may result in higher prices in individual cases.

This optional pricing formula include an adjustment for increased costs for materials such as automotive parts. However, under the passenger car regulation, if it appears that the prices being paid for parts are inflationary in that they reflect temporary and artificially high elements of cost or profit margins materially greater than were prevailing in a representative peacetime period, the Administrator may establish materials cost increase factors applicable to particular parts or groups of parts. These factors, so far as may be reasonable and practicable, shall be in line with the price increases which would be permitted if OPA's reconversion pricing policy were applied to adjust the maximum prices for the parts. Where a materials cost increase factor is established, OPA will apply it in place of the increase reported by car manufacturers in passing on manufacturers' requests for approval of higher prices upon the individual pricing method.

Thus, it will be seen that the effect of increased parts prices upon passenger car prices has been anticipated, and that appropriate action has been taken to preclude

undesirable consequences. It is the opinion of the Administrator that, coupled with the economic factors noted above, the control of prices for passenger cars and other products may be relied upon to prevent an increase in the general level of parts prices beyond that which would have been allowed if the reconversion pricing formula, which has been approved by the Economic Stabilization Director, had been applied to such price. If, therefore, an increase in parts prices in line with that allowed by the reconversion pricing formula should result in higher prices for any automobile manufacturer sufficient to cause an increase in the cost of living that increase would be within the range authorized by the Economic Stabilization Director in approving the reconversion formula as in accordance with Executive Order No. 9599.

It does not appear at this time that automobile batteries and radios should be included in the suspended items. Those items differ from automotive parts in general as to the nature of price control problems, relation to other items made by the same manufacturers for non-automotive use, and the problems that might arise from suspension. While automobile tires are not included within this suspension action, they are being given further consideration by the Price Administrator.

The amendment contains a limiting condition which will keep prices for parts sold for use in complete assemblies other than passenger automobiles in their normal relationship to prices for sales to automobile manufacturers. Manufacturers of some of the complete assemblies do not have the same bargaining power as car manufacturers and it was thought that unduly high prices to such purchasers might result from the suspension in the absence of such a condition.

It is the opinion of the Administrator that it would not be feasible to suspend original equipment parts sold for use in automobiles while keeping under control the same part when sold as original equipment for use in other complete assemblies. Hence, both are suspended from control.

This Office has requested a number of parts manufacturers to file information on a form prepared by this Office. Such information is necessary in order to process car manufacturers' price applications. A number of sellers have not yet returned the report. In view of the importance of this information to the agency's automobile program, speedy filing of the report is made compulsory by the amendment. Having the required data is so vital at this time that failure of a large number of persons to file as required may result in revocation of this suspension action and the restoration of price control.

Issued this 29th day of August 1945.

CHESTER BOWLES, *Administrator*.

The CHAIRMAN. Do you intend to go on with the charts, Mr. Bowles?

Mr. BOWLES. What I would like to do is cover some points that apply to this whole program. We have cut down the number of charts. We had many additional ones which we have cut out because I know you wanted to get along with this, and we all would. But I have maintained here the charts on subsidies, because that is something on which we would like to see the facts—and at least, I would like to state our point of view.

I said the other day that it is my opinion that the continuation of consumer subsidies, into the next fiscal year, was essential to the stabilization of our economy. I also stated that I appreciated very well the reason why farmers do not like subsidies. They would not be anyone's choice, I am sure, if we could avoid using them.

The point is not the amount of money that subsidies actually save. You spend a billion and a half dollars and your direct saving to the consumer is only \$2,100,000,000, or something like that. But what subsidies do is to provide stable living costs which keep you from getting into a further spiral of wage increases.

If the cost of living moves up sharply during the next few months, I think it is clear that there will be further adjustments in wages, wage rates, salaries, and everything of that nature, which will further increase costs and further push you into another round of spiral.

Here is the way consumer prices have risen. According to the Bureau of Labor Statistics Index, since the beginning of the war period, this big block here, representing 13.6 points, is a rise from August 1939 to January 1942, when the Price Control Act was passed. In other words, you had that much inflation in the cost of living before the Price Control Act.

Now, here is a rise from January 1942 to May 1943. This was a period when price control was getting started. The Stabilization Act, I think, very properly had in it various provisions protecting agriculture's position. As I pointed out in my testimony the other day agriculture started from a very low point in 1939.

Many people point to the fact that farmers have had a more than 200-percent increase since 1939 in their net operating income per farm. However, they usually fail to add the fact that agriculture started from an extraordinarily low point. It was much more depressed even than other sections of the economy. I do not think anybody begrudges the farmers the increases they have had.

Nevertheless, under the act, as we were operating, there were certain farm products which were not under price control, because they had not reached parity, and there were certain others on which no feasible means of price control had yet been devised. For instance, fruits and vegetables were a very difficult product to get under control.

The British had a great difficulty in getting fruits and vegetables under control. The Canadians did. We did. Every country that stabilized its economy found more difficulty in that field of food pricing than perhaps in any other.

So you had this rise, even after the act was passed, up to May 1943.

Of course, other elements are in here besides food. I am talking about food, but this is also clothing, rent, and other things that go into the cost-of-living index.

The rise from May 1943, through December 1945, from the type of the hold-the-line order, at the time when your firmer controls were established all along, and from the time when food was first begun to be subsidized in order to hold down its cost, it has been 4.8 points in the index or 3.8 percent. In other words, this is 31 months, before the war even began, and this is 31 months at the height of the war, and directly after it, and this is 16 months in the middle.

Now, here are your subsidy price costs:

Canned and frozen vegetables—the cost is \$39,000,000; dairy production payments, \$534,000,000; dried edible beans, \$4,600,000; flour production payments, \$190,000,000; livestock slaughter, \$535,000,000; beef cattle production \$40,000,000; sheep and lambs, \$36,000,000; peanut oil, \$10,000,000; raisins and prunes, \$21,500,000; regional fluid milk subsidy that goes to 21 key industrial areas, \$13,000,000; soybeans, \$48,000,000; sugar, \$107,000,000. Total \$1,579,000,000.

That is, roughly, a billion and a half dollars, which is a lot of money, and, as a taxpayer, I would never state that that money was money that should be spent if I did not think it was not only desirable but absolutely and completely essential to the success of our stabilization efforts during the next 12 to 18 months.

Mr. BROWN. That included all the subsidies up to what date?

Mr. BOWLES. Covering food products. It is a 12-month budget. That is the current amount that is being spent in this fiscal year.

Mr. SMITH. What did you say that figure is?

Mr. BOWLES. \$1,600,000,000.

Here is what has happened to food prices since the hold-the-line order.

Mr. WOLCOTT. That is the total amount of subsidies paid?

Mr. BOWLES. Total amount of food consumer subsidies. I think it is the total amount on food designed to hold down prices.

Mr. WOLCOTT. May we have that chart back again?

Mr. BOWLES. Yes. Of course, you have other metal subsidies, petroleum subsidies, and so forth, but this is food.

Mr. WOLCOTT. Have you added to that chart subsidies for the Reconstruction Finance Corporation?

Mr. BOWLES. Yes; that is in here, such as dairy production payments.

Mr. WOLCOTT. What about the butter subsidies?

Mr. BOWLES. Part of the butter subsidy is out. That was abandoned last August.

Mr. WOLCOTT. Is that included?

Mr. BOWLES. No, this is the current amount that is being spent on the current basis.

Mr. KUNKEL. That is the year 1945?

Mr. BOWLES. Right, it is the annual rate during these months 1945 to 1946—as it stands today.

Mr. PATMAN. What about petroleum subsidies? How much are you paying on petroleum?

Mr. BOWLES. I do not know.

Mr. PATMAN. Why would you continue to have price control on oil? It seems like there is no scarcity of oil.

Mr. BOWLES. Well, that was probably trying to get production out. I would like to go into that a little more myself.

Mr. PATMAN. We have a large surplus of gasoline now.

Mr. BOWLES. I know.

Mr. PATMAN. And a surplus of crude petroleum.

Mr. BOWLES. That has come up in the last 3 weeks, and I am ashamed to say I am not up to date on it.

Mr. PATMAN. I am going to urge you to give it consideration until you know.

Mr. BOWLES. I would like to know more about it before I discuss it. I should know, but the last 3 weeks have been very hectic ones.

Mr. MONRONEY. The subsidy program, excepting for the stripper well production, is all off, is it not? That is, the transportation subsidy is off?

Mr. BOWLES. Yes.

Mr. MONRONEY. And there is just a small amount for small-well production?

Mr. BOWLES. Right.

Mr. KUNKEL. Mr. Bowles, could you make an estimate that would translate the subsidies into the cost-of-living index?

Mr. BOWLES. I am coming to that in a moment, Mr. Kunkel, and if this does not cover your point, we will get one that does.

Here is what has happened to food prices since the hold-the-line order. Food prices of May 1943, the index showed 152.9. That is

the hold-the-line period. At that point, the different price control programs, including subsidies, really took hold and went into effect. From that time on the weakness in the program has been clothing. We did not, in the early stages of the war, do the proper things on apparel to get it really under proper control. We have been struggling ever since on a sort of a half-baked job, where we did not really meet some of the fundamental issues early enough, and we have been trying to make up the lost ground, and the new program that I have just told you about today is a long step in that direction. But food is 40 percent of your cost-of-living index, and clothing is about 13 percent. You can see the different weighting of the two.

Now, here is what happened to food. Food prices went down a bit, continued on down, turned up, then down, then up again, and they are today about 1.7 points below where they were in May of 1943. That would be roughly 1 percent. In other words, they are roughly where they were in May of 1943. We had a chart—I do not know whether it is here or not—showing the actual prices in the stores as they are today. Everyone who looks at that is always a little skeptical. I always suggest when they are that they go to a newspaper office and get out the chain store advertisements of May 1943, and compare them item by item with the same advertisements that ran last week. I think you will begin to see that the prices run right along at about the same level.

Here is what would happen to the index if, on July 1, all these subsidies were pulled out on foods and we put in corresponding adjustments in price, which I think, with perhaps some very rare exceptions, we certainly would want to do. Your food prices, which have been very stable, would suddenly shoot up 12.3 points on this index—which is a little over 8 percent. You would get that kind of an impact right away.

I could give you specific figures this way: Meat prices would rise 3 to 5 cents a pound; milk would go up 2 cents a quart; bread would go up a cent or more a loaf; canned fruits and vegetables, a cent or 2 a can for the so-called big four canned vegetables: beans, peas, corn, and tomatoes, which are 80 percent of all the production of canned vegetables; cheese, 7 cents a pound; butter, 12 cents a pound.

Mr. BARRY. Mr. Bowles, would that be an increase right along the line, from the farmer to the finished product?

Mr. BOWLES. Yes; you could not absorb that in the retail-wholesale area to any degree. In other words, it would go right through to the consumer. Now, that kind of an increase, affecting our whole economy, with that kind of a shooting up of food prices at that time, I believe, would make the success of this stabilization program absolutely impossible.

Mr. MONRONEY. Mr. Bowles, Mr. Barry's question would not mean, though, that the farmer would get 3 or 5 cents more for his meat because you would magnify the small amount that the farmer would get all the way through the process?

Mr. BOWLES. The farmer's return would not be affected. And, except under removal of the feeder subsidy, his price would remain the same. But with the removal of the subsidy he would, of course, gamble on whether he could always get the full benefit of the higher consumer price. Take milk. Let us say you dropped the milk subsidy in June. That is a flush period of milk production. Let us say

we raise the price generally 2 cents a quart. Is the dairy farmer able to get that 2 cents a quart at the flush season of the year, with milk production at a high point, with all the wholesalers and other people trying to beat him down all along and trying to increase their margins? There are a lot of experts who say he will not get the 2 cents.

Now, the dairy farmer's point of view, if you pull off the dairy subsidy at a time when he can get the 2 cents, in the more scarce period of the year referred to, between November and April, in that period he is pretty certain of getting the increase. But the farmers obviously speak for themselves. I cannot speak for them. The ones I have talked to are concerned about the fact that when you pull subsidies out, if you wait too long, you pull them out in a period of a soft market, you give them the ceiling price that they would like to have, but they cannot get the ceiling price, and their concern is that as a result their income will drop. That places a heavy responsibility on the Government to make sure that when those subsidies are pulled out they are pulled out in a way and in manner which will allow the farmer to get that price and to maintain his income.

Farmers are always worried on that point, and I think they are justified in being worried. I can say that we understand that problem and certainly take it dominantly into consideration to get the job done in a way that will not hurt him. At the same time, an up of 12.3 points in the index—remember that is not 12 percent, the percentage would be 8 percent—but the impact on the cost of living would be about $3\frac{1}{4}$ percent—

The CHAIRMAN. What would the increased cost of living be, in money? What would it cost the American people in excess of the amount they now pay?

Mr. BOWLES. It would be something over \$2,000,000,000, Mr. Spence, directly—2.1 billion dollars. But what you are doing in a sense is transferring that cost to the consumer and away from the Government, and obviously, many people argue that the consumer can afford to pay it, that you work out your debt structure, and get your budget in better balance, and so forth. The point is that is not the end of it. That is only the beginning of it. Because off you go again on a whole new spiral of increasing wages, increasing salaries, increasing everything, to catch up with your tail you are chasing around the tree. And at that point I do not think you are going to be holding rents down.

Mr. BROWN. Mr. Bowles, in the winter months, the dairyman does not get the same ceiling prices?

Mr. BOWLES. No. I said he is much more apt to get it in the winter, because production of milk is down in the winter and it is more out of line with demand.

Mr. BROWN. I know, but that production is down because he cannot get as much feed in the winter months as he can in the other months.

Mr. BOWLES. That is right. Therefore, if you pull your milk subsidy out in December, January, February, or March, he has an assurance then that he can get that price, and once he gets it, he is pretty sure to continue to get it. If you pull it out in the first period, he does not get it and he is at the mercy of a lot of middlemen distributors whom he has to bargain with, and he may get a cent, a cent and a half, or maybe the 2 cents, but I think he is taking a great deal more risk.

Mr. KUNKEL. Mr. Bowles, that 12.3 points is made up by taking the amount that you pay in subsidies and adding that to the sales price?

Mr. BOWLES. No; it is made by taking each individual product that has a subsidy on it, and taking the subsidy out, and seeing what would happen to the price of that product as a result of taking the subsidy out, and seeing what that, in turn, would do to the index.

Mr. KUNKEL. Then, it is not taking the exact amount of the subsidy and adding it to the cost price of the product?

Mr. BOWLES. No; in the retail prices of food, the volume at retail is roughly \$30,000,000,000, I think. Food prices would go a little over 2 billion dollars. In the B. L. S. retail food price index that comes out at something over 8 percent.

Mr. KUNKEL. Could you give us the figure the way I suggested?

Mr. BOWLES. Yes. The total annual cost of the subsidy is, of course, the \$1,500,000,000 I mentioned. This is about three-quarters of the cost that consumers would pay if subsidies were removed. The other \$500,000,000 or \$600,000,000 results from distributor's mark-ups.

Mr. KUNKEL. And could you add to that the administrative cost of the subsidy program?

Mr. BOWLES. Yes. We will be very glad to do that.

Mr. KUNKEL. Would you put that in the record?

Mr. BOWLES. Yes, sir.

(The document above referred to is as follows:)

(Mr. Bowles later supplied the following statement:)

The following estimates of the annual administrative costs of the food subsidy programs have been furnished by the paying agencies:

Reconstruction Finance Corporation.....	\$3, 000, 000
Commodity Credit Corporation.....	25, 000, 000
<hr/>	
Total administrative costs.....	28, 000, 000
Total subsidy payments.....	1, 579, 000, 000
<hr/>	
Total program costs including administration.....	1, 607, 000, 000

It will be seen from the above that the administrative costs are so low in proportion to total costs that their inclusion does not affect the rounded figure of \$1.6 billion.

Mr. BOWLES. I only hope I have made my point clear. I think you have a necessary evil here. It has some very bad characteristics to it, which you do not want in your economy over a period of time, but you are caught in a position where if you move it out, it is not the moving it out or the extent of the raising of those prices that is going to hurt so much, although it is bad, but it starts your spiral going again, and I think, under those circumstances, your chances of holding down prices on rents and other products is nil.

Mr. TALLE. Mr. Bowles, what you really advocate there is a spiral of another sort?

Mr. BOWLES. I do not understand, Mr. Talle.

Mr. TALLE. When you pay your subsidy, and you borrow money to pay it, and as you borrow money to pay it, you manufacture credit through the commercial banking system, you have another spiral started that is just as inflationary as anything can be.

Mr. BOWLES. Well, that is true. But remember that if you put your prices up, you are not only putting those prices up, you are putting wages up, salaries up, costs up, and the whole business starts moving.

Mr. TALLE. It does the same thing in the other spiral.

Mr. BOWLES. You get much more money, you amplify that \$2,000,000,000 much further.

Mr. TALLE. The other spiral is more vicious because through the manufacture of credit in the commercial banking system, you get a greater expansion of media of payments than you do the other way?

Mr. BOWLES. Well, I will argue that point with you. I am just for getting a balanced budget as fast as we can, but I do not think we ought to worship it as a god, because we had a balanced budget in 1929, we were retiring our debt, and we had plenty of inflation in the stock markets and other areas of our economy and we ended up in an awful jam. So I am all for getting back to a balanced budget and when we do, this job will be easier. I am fully in agreement with you on that. Still I do not think that is by any means the answer. I think the answer here, a lot of it, is psychological, a lot of it is bidding up, is hoarding, is fear that prices are going to be higher, is the effort of every group to try to protect himself against what seems inevitable, that gets you into a panicky state of mind that I think leads to entirely explosive proportions.

Then, this vast amount of savings that you have, all your credit facilities, that you worry very properly about, your credit expansion, moves in and then you really explode.

Mr. TALLE. I realize that the psychological aspect of the business cycle is exceedingly important. That is why it was very unwise the other day, so far as the President of the United States was concerned, to talk about the shortage of white flour. Now, it is being bought up so that in many localities it cannot be had. There was a psychological effect that I think could have been foreseen.

Mr. KUNKEL. Mr. Bowles, there is a potential credit expansion there on the borrowing of 10 for 1.

Mr. BOWLES. Yes. Now, please do not think I underestimate what you are talking about. There are many ways in which we can get inflation. But this subject, I think, is very important, too.

Mr. KUNKEL. I am not disputing what you say, I think what you say is sound, too, but I think the credit inflation angle is one that has been completely neglected in the public eye and it should be emphasized. That is the reason I feel that Dr. Talle is doing a great service in bringing it forward, particularly as it has that current effect which is not evidenced now purely because there is no demand for the money.

Mr. BOWLES. I am very glad there is beginning to be a worry that the Office of Price Administration cannot stop inflation by itself.

Mr. KUNKEL. We have argued that for 4 years.

Mr. BARRY. As Mr. Talle pointed out, to increase the public debt is undesirable, and it is inflation. At the same time, if food prices go sky high, there is a great class of white-collar Americans whose income has not increased at all during this war, who would be unable to buy food. And when it comes to a choice of evils, it is far better to subsidize to keep the prices down for that great group of people at the expense of putting up the public debt.

Mr. BOWLES. That is right. I did not bring that point out. I merely brought out the spiraling effect of those who would get the higher wages and the effect it would have on anything else, but for the sake of common fairness, I think the millions of white-collar workers, and the millions of people living on savings, insured policies, pensions, and all that, who are, I would say, about the most unrepresented people in America, have a terrific stake in what I am talking about here.

Mr. BARRY. It seems to me from your charts, so far, that the farmers have increased their production 25 percent. Their prices, since 1941, have increased about 40 percent. Manufacturers have made money. Organized labor has increased its wages. Everybody has made money but that big mass of Americans you have just described, and they are the real sufferers—during the war—and will be terrible sufferers if we have inflation.

Mr. BOWLES. And they are getting very impatient about it.

Mr. KUNKEL. Along that line, Mr. Bowles, are you planning anything, going over to the wage side, anything to contribute to raising salaries throughout industry—I mean the salaries paid to white-collar workers? Labor generally has gotten a 16½ percent increase. Is there going to be any step taken to see that that is reflected in the salaries of the white-collar workers also?

Mr. BOWLES. Well, of course, the Government is not setting wages under the new program. It is approving wages that have been established by collective bargaining.

Mr. KUNKEL. I know, theoretically.

Miss SUMNER. Why, your organization, in that formula that you have been using for 10 months, your so-called reconversion formula, absolutely prevents industry giving increases to white-collar workers.

Mr. BOWLES. Well, an awful lot of firms have given them.

Miss SUMNER. A man cannot get a price increase on his product, if his costs increased due to raises of pay to white-collar workers.

Mr. BOWLES. A great many manufacturers, however, have given those wage increases.

Miss SUMNER. Well, they have had to take it out of their pockets, if they did. You do not permit them a wage increase.

The CHAIRMAN. Mr. Bowles, I understand that you will not be back this afternoon. I suggest you go along with the charts.

Mr. BOWLES. All right. I will get the amplification of that chart for you.

Mr. SMITH. Mr. Chairman, is Mr. Bowles not coming back?

Mr. BOWLES. I have just a few more things to touch upon. There is a disturbing willingness at present on the part of various groups in our economy to sacrifice economic stability, if they can, in the initial stages gain some advantage for themselves. Every group is trying to see who got what out of whom, and it is natural and human, and I understand it, but it is going to lead us into chaos, and, I think, disaster, if we do not keep it in check. I would like to run through this very quickly.

Mr. BUFFETT. Do you contend that that has not already happened in the metalworking industries?

Mr. BOWLES. Well, there is your crisis again. That is exactly what I am talking about. I say there never was perfect fairness in an economic system that kept our average farm income at \$500 a

year, or whatever it was before the war, that left many people unable to pay for a doctor or a dentist, or to get good schooling, and so forth, and so forth. You could go to work and find unfairness to almost unlimited degrees, if you go looking for it in any period of our history up to now. The point is today you have probably got less unfairness than you ever had between various groups. Everybody is better off. But the trouble is today, because you have price control, everyone says, "Well, the Government is at fault," or "Somebody is at fault," for any unfairness that exists. When this thing is over and we get rid of price control, we can turn the unfairnesses back for everyone to work out in some other way.

Now, they all go to price control for it.

There is less unfairness now, however, not because of price control, although you do not get much fairness in an inflated boom and bust sort of situation—but all I say is if you go to work to fix all the unfairnesses in the economic system today, you are going to assure disaster. It is a tempting thing to try to do, but I think it is the road to disaster. I may be wrong.

Here is the farmer. World War I. He has exactly the same increase in prices that he pays. I am getting for Mr. Barry some figures to explain just how that works against parity.

Mr. BARRY. Does that 113 percent mean 13 percent above parity?

Mr. BOWLES. No. He was below parity. Do you want to explain that, Mr. Riley?

Mr. R. H. RILEY. All right.

Mr. BOWLES. Mr. Riley is the head of our Division of Research Department.

Mr. R. H. RILEY. It means that prices received by farmers have risen 113 percent since 1939.

Mr. BARRY. Well, last year Judge Jones testified that the average price to the farmer, of agricultural products, was 117, or 17 percent above parity.

Mr. BOWLES. That is right.

Mr. BARRY. He testified that in 1941, with the average price, it was 194 above parity.

Mr. BOWLES. This is a statistical situation here that I do not have clear in my own head, and I was getting a memorandum to you on it to explain the discrepancy between those figures.

Mr. BARRY. I misunderstood you there. Of course, it may have fallen that much in a year. I do not know.

Mr. BOWLES. No, it has not. It has gone up. If you like, I will get a memorandum explaining that.

Mr. R. H. RILEY. If I may just say this: The comparison between these two sets of prices—prices received and prices paid—is what determines the level with respect to parity, and the increase in the parity rights is shown here at the bottom of the chart.

Mr. PATMAN. Suppose you indicate what you are talking about.

Mr. R. H. RILEY. This bar here shows the increase in the parity index during this war.

Mr. BARRY. From 10 to 15 percent?

Mr. R. H. RILEY. Yes; 10 percent during World War I and 52 percent during World War II.

Mr. BOWLES. Parity is computed each month. It is reported by the Bureau of Agricultural Economics.

Mr. BARRY. So there is a 42 percent increase?

Mr. BOWLES. Fifty-two percent increase.

Mr. BARRY. What is that 10 percent, then?

Mr. BOWLES. That is what it was during World War I. The farmer has had 113 percent increase generally in income, and the things he bought in the last war went up 94 percent. In this war it went up 40 percent. For instance, farm machinery went up 68 percent in the last war, and 14 percent in this one.

I would like to say this: The story of the economics professor who asked how deep the stream was and was told it had an average depth of 3 feet and tried to walk across it and was drowned in an 8-foot spot applies here. Averages can get you into a lot of trouble. This does not apply to all farmers. There are some farmers who have not shared this, have not had this kind of income increase. However, these are averages and the inequities in them apply to both periods.

Mr. SMITH. Mr. Bowles, I would like to know from the gentleman who made up that index whether he took into consideration increased cost of machinery, fencing, and other farm supplies, which the farmer has not been able to acquire during this war because of shortages, but which he has to buy in the future. Have you put that in there?

Mr. BOWLES. Let me just say this: For instance, lumber and building materials which, of course, have been scarce during this war, of which he could get some during the last war, but not too much, went up 130 percent during the last war inflationary period. So far they are up about 45 percent in this one, and we are trying to stabilize them at that point.

Mr. SMITH. What I want to know is: Have you got that 45 percent in this index?

Mr. BOWLES. Well, it is in this 94——

Mr. SMITH. No. I mean your parity index. If you have not, then, you might as well throw that out, because it does not mean a thing.

Mr. BOWLES. Well, I think the Bureau of Agricultural Economics works out those parity figures and it is a very intricate job. I would like to have somebody explain it to you. It is very complicated.

Mr. SMITH. Let me ask the gentleman who made up this index why it was not included.

Mr. BOWLES. I did not make up the index.

Mr. MONRONEY. He did not say it was not included.

Mr. BARRY. In the parity calculation, I understand, you figured everything the farmer has to buy.

Mr. SMITH. But not which he has been unable to buy and has to buy in the future. Is that in that index? If not, it is no index and does not mean anything.

Mr. BOWLES. Then, there was no index during the First World War.

Miss SUMNER. It was not being used during the First World War.

Mr. BOWLES. Well, the B. A. E. has gone back and figured what these indexes for those war years are, so we do not know how they behaved during that war.

If we are going to try to get every group on a slide-rule basis, it is going to be hopeless. I am just trying to point out some general situations here which I think are true.

Now, in the First World War your farmer got an increase in farm production of 5 percent. In this war, because he has worked endless

long hours, because his mother and grandmother and all the kids got out and worked under the most difficult conditions in the world—I said the other day a record that I do not think is appreciated thoroughly enough—he got out 25 percent more production. So that is where his income went up more, because he got more production through his own efforts, plus a much better break in the price things cost him and the prices he received.

Miss SUMNER. Mr. Bowles, has it ever occurred to you that if you would raise your prices on your milk, that he could expand his production and he could produce more milk, and he could be giving you butter?

Mr. BOWLES. Well, that would be quite a feat, because in order to expand milk production, you have got to get more cows.

Miss SUMNER. No, you are wrong. You just do not know.

Mr. BOWLES. I have got a cow. I do know.

Miss SUMNER. Well, we have a dairy, with a capacity, before this war, for milking 65 cows. It is absolutely closed today. Why? We sell our calves. There is no money in selling milk or selling butter, so we do not produce.

Mr. BOWLES. I think you will find that dairy farmers are enjoying incomes 3 and 4 times what they had before the war.

Miss SUMNER. And Mr. Barry wants the price held down. If he would let it up a little bit, he would get the butter and chances are soon the supply would be such that you could keep your prices.

Mr. BOWLES. It would take a couple of years before the calf is giving milk.

Miss SUMNER. If you do not take that loss, sooner or later you are going to get to the place where you do not have half the milk.

Mr. BOWLES. Where would you get the feed right now to feed the calves?

Miss SUMNER. Why, we are plowing under the ensilage that we used to feed cattle. We are plowing it under the ground.

Mr. BOWLES. There is a terrific feed shortage in the country, and I believe you will find there are more cows in the country than there have been in history.

Miss SUMNER. That does not mean that there are enough.

Mr. BOWLES. That is right, but it takes 2 years to grow one. Am I not correct? Is not the price of a good dairy cow about double what it was before the war?

Miss SUMNER. I could not tell you the price of them.

Mr. BOWLES. I think you will find they are about double in price, and somebody must be getting some income out of it.

Mr. GAMBLE. Put a ceiling on it.

Mr. CRAWFORD. Will you yield, Miss Sumner?

Miss SUMNER. Yes.

Mr. CRAWFORD. Mr. Bowles, if a dairyman bought a herd of 50 or 100 cows for beef purposes, I mean so that the offspring will go into beef, and shifts them from milk production to the production of beef, would that not have a material effect on the production of fluid milk?

Mr. BOWLES. You mean if we could raise more of them as heifers, that you would have more—

Mr. CRAWFORD. Oh, no—

Miss SUMNER. Just not butcher them.

Mr. CRAWFORD. You are not raising milking animals. You are raising beef animals. And when you shift to the breeding process, and the feeding of the creature, from the production of fluid milk to the production of a beef animal, you are not shifting your breeding to produce future milk producers, but to produce future beef on the hoof. Now, would not such a change in policy on the part of an individual dairyman have a material effect on the production of fluid milk?

Mr. BOWLES. Yes; I should think that is right.

Mr. CRAWFORD. Quickly?

Mr. BOWLES. Yes.

Mr. CRAWFORD. Now, the dairymen tell me that is exactly what they are being forced to do, and that it will result in a material reduction in the production of fluid milk, of which there is, we will say, a shortage at the present time. In other words, they inform me that as against 123,000,000,000 pounds of fluid milk produced, say, in the year 1945, that the consuming public faces a very material reduction in 1946 and 1947 because of this changed method of breeding.

In other words, if you go out here to my farm, and if I am feeding a cow to produce milk, I certainly feed her in a different manner from that in which I would feed her if I were feeding her to produce a beef creature. I was wondering if you could give us any light on that, because it is a hot issue among the dairy people at the particular moment.

Mr. BOWLES. Well, I think, first of all, you have right now a very serious feed shortage, as we all know. Up in New England it is very dangerous and very bad, and they are scrambling for feed. I think milk production during the war has gone up 20 percent or 22 percent, something of that kind. You have had some big increases, and you have more cows in the country. I do not say for one minute that you could not get more, or might not, by some other way in the past, have gotten more, or cannot get more in the future, but I do feel that we must get more in the future. I think milk is one thing we want to get much more production of in the period of the next 5 years. We have never had nearly enough of it, but it is a long-range problem. I want to get back to the point that if you go to work to try to eliminate every angle that has been caused by this trouble we have been through, a world war of terrific proportions, you are going to end up by fixing some of the problems, but getting inflation, which will create a lot more.

Miss SUMNER. Do you not think the time to take your loss on this is now? It is just like having a tooth pulled. Do you not think—and, by loss, I mean the increase in the butter and milk—is at the time when the housewife could not get the butter, anyway? In other words, it is an academic question with her to a great extent, whether the butter goes a cent or two higher right at the present, and if this process is going on and she cannot get it, anyway, it is not going to hurt her very much, is it?

Mr. BOWLES. Well, Miss Sumner, if you could see the letters that poured in to us when we raised the butter prices, when the subsidies came off in November—by the thousands and thousands.

Miss SUMNER. I am surprised you do not get millions when you consider the kind of propaganda you put out. You have men like Mr. Barry, not understanding the milk situation, for instance. I

would write you, too, if I could not look out the window and see this thing happening right under my eyes in the pasture.

Mr. BOWLES. All I can say is, the dairy farmer is doing better today than he did in 1939.

Miss SUMNER. I am not worrying about the dairy farmer; I am worried about the babies who are not getting milk, the people who are losing their teeth because they cannot get butter. They tell me that if you do not get butter you have dental trouble. The dentists all know that. Those are the people you are supposed to take care of, and the only way to take care of them is to take your loss now while it is easy and not wait until it is going to be so hard for us to find dairy cattle that we will not be able to open our dairy barn.

Mr. BARRY. We still need more cows.

Miss SUMNER. If you wait until 2 years from now, you will have an awful time getting herds together. It takes about a year or so to get a good dairy herd together. You have to cull them out and all that sort of thing.

Mr. MONRONEY. Mr. Bowles, do you think that we could have gotten a 20 or 22 percent increase in production if the price ceilings and controls on dairy products had been as devastating as alleged here today?

Mr. BOWLES. Well, no; I certainly do not. Moreover, where would you have gotten the men to milk all these mythical cows?

Miss SUMNER. Do you not know we use electric milkers?

Mr. BOWLES. What percent of dairy farms have electric milkers in the country?

Miss SUMNER. There is another one of the mistakes the Government made during this program. The Government went out and bought good dairy cattle, gave it to the Farm Security people, many of them from WPA, who did not understand milking, and, as a result, a cow which ordinarily, in the hands of a man who understood the dairy business, would be giving surplus to the market, went into a family-sized farm, where she only produced enough milk for the farmer, because the dairy business is a very technical business. There is one of the reasons we do not have milk.

Mr. BOWLES. Well, we have had a feed shortage ever since the war started. We have had great feed production, bigger than we have ever had before, but if you had a great percentage increase in dairy, you would have taken it out of cattle, we would have taken it out of poultry, and other areas. But we had just so much feed. Where would you have gotten your extra feed?

Miss SUMNER. The stalks and the corn sitting on the farm that the corn pickers do not get were plowed under every year, and that was the kind of food we have been putting up in our silos and feeding to our dairy cattle.

The CHAIRMAN. Mr. Bowles, how many more charts have you to display?

Mr. BOWLES. About three.

To get back to a major point, we have fought the biggest war in history, we have put half our energies into it. We won it. In winning it, we had more consumer production, including more food, that we have ever had before, including more milk, more citrus fruits, more of everything, and we have not had inflation, and there undoubtedly have been some things we might have adjusted here or there that would have

been better, but I, personally, do not think everybody—I am not saying the Office of Price Administration only, but the Congress, the country, and everything else—has done too bad a job. I think we have all done pretty well financially. We have eaten pretty well. We have managed to get 12,000,000 men into the armed services and we won the war. I do not think the record is really as bad as some people think.

MISS SUMNER. Just one more point, Mr. Bowles. When you talk that way, you ignore the production phase. Everywhere you look, where you got production, you got a high price. Now, you mentioned your farm production. You said yourself you gave the farmers a higher price. You go into your war production. Everything connected with the War Department, there was a terrible fight between Patterson and Henderson when Henderson wanted to put price control in the War Department in April of 1941. They put in renegotiation, but they refused to let Henderson and his price-control boys go into it. And we got production. In other words, you are trying to put price control in the reconversion program when it was lack of price control that got the only production we got. We did not get production in the consumer goods where you had price control.

MR. BOWLES. Well, I think the record again is against you. During the First World War we had just the kind of conditions that you seem to advocate, which is an inflationary condition, no control over anybody or anything, to any degree.

MISS SUMNER. Was it not after the war that you got the inflation?

MR. BOWLES. Most of the inflation came before the armistice, and you only got a 25-percent increase in industrial production. In this war industrial output expanded nearly five times that much. All farm products were under price control in this past war. You got a 25-percent increase in farm production, again, five times the increase achieved in the World War I. There was an increase in price, but your whole program of price control and production control were exactly reversed. In the last war you got not too big an increase in production and a terrific increase in price. In industrial production you had the same thing, but even more striking.

MISS SUMNER. But you did not have your price control on any of these things that were produced for war, where we got the tremendous production—the airplanes, the tanks, the tractors, all those things which we are bragging about, the 50,000 airplanes.

MR. BOWLES. Steel, copper, glass, rubber. Of course you had price control.

MISS SUMNER. Not for the thing that went to the War Department. Mr. Patterson would not let Mr. Henderson operate in the War Department.

MR. BOWLES. Well, Miss Sumner, I am afraid you are very wrong and the record shows you are wrong. How about steel which is your basic commodity and from which all war goods are made? Was that or was that not under price control?

THE CHAIRMAN. Mr. Bowles, what is the sugar situation? I would like to go into the sugar question for a moment. Just recently we passed, in the House, a bill providing that the Commodity Credit Corporation purchase the Puerto Rican and the Hawaiian sugar crop, which I thought might relieve the situation. I would like to know

what the future of sugar may be. This is not something in the past. This is something that concerns us all in the future.

Mr. BOWLES. I understand that the situation on sugar will improve through this period of months ahead. It is our last lagging farm product, that we have kept under rationing, of course, and my understanding is that if the crop is what everybody expects, we will be getting out of the woods later in the year on it. I do not know that. I would prefer to get a memorandum on sugar for you. I might point out that sugar, in the last war, went to 30 cents a pound, and then dropped to 6 cents a pound or less.

Mr. CRAWFORD. What do you mean now by "during the last war"?

Mr. BOWLES. The period of inflation following the war.

Mr. CRAWFORD. That is a different story.

Mr. PATMAN. It was during the war.

Mr. CRAWFORD. That occurred subsequent to the end of hostilities, which you testified as in November 1918, only yesterday.

It came in 1920, a year and a half after the war.

Miss SUMNER. It came at a time when we were giving billions of dollars in foreign loans and creating inflation just as we are going to do during the next few months.

Mr. BARRY. Well, if that is the point, there is more danger now, because this war is over, too.

Mr. BOWLES. That is exactly the thing we are trying to avoid now, and I hope we will avoid it.

Mr. KUNKEL. What is the dollar size of inflation pressure today?

Mr. BOWLES. I have heard that the total of liquid assets is something about \$300,000,000,000.

Mr. KUNKEL. You say that is the inflationary pressure and it is to guard against that that you want to continue the Office of Price Administration; is that right?

Mr. BOWLES. Until we get production in balance with demand.

Mr. KUNKEL. Is it not true that the next 12 months' production will automatically create its own buying power?

Mr. BOWLES. Well, it will automatically create buying power, but on top of that, you have \$300,000,000,000 of liquid assets on top of it, which, if they get frightened, go into commodity markets and into goods.

Mr. KUNKEL. Then, if this \$150,000,000,000 of new buying power as created in the next 12 months is exercised, there will be no chance to use the \$300,000,000,000 of buying power that today exists; is that not right?

Mr. BOWLES. Well, there will be a chance by bidding up the price. What you do is start out with some thing at a dollar and if it becomes \$3, the cost is three times as much, and you use up three times as much money to buy it.

Mr. KUNKEL. Suppose we continue price control and it is successful.

Mr. BOWLES. Yes.

Mr. KUNKEL. That \$150,000,000,000 of newly created buying power in the next year will use up all the goods in the next year, will it not?

Mr. BOWLES. That is right.

Mr. KUNKEL. You will still have your \$300,000,000,000.

Mr. BOWLES. That is right, but at that point, though—I see your point, and it is a very proper one—you have got your production rolling, you have got the whole psychological difference. Goods will

be in the stores. In some goods competition moves in and prices drop a bit. There is no longer the feeling that you have got to go into the stock market or real-estate market to protect yourself. You settle down. You hold onto those savings for your old age or to buy a new home, or for sickness.

Mr. KUNKEL. Mr. Bowles, you still have the \$300,000,000,000 at the end of the year?

Mr. BOWLES. Yes, sir.

Mr. KUNKEL. Plus the addition of all new purchasing power created by governmental deficit, plus the additional purchasing power created by foreign loans which are spent for goods in this country; isn't that right?

Mr. PATMAN. Are you not presuming you will freeze certain dollars and certain other dollars?

Mr. BUFFETT. Mr. Chairman, can I keep the floor?

Then, your inflationary pressures at the end of the year will be fully as large or larger by the amount of the deficit than they are today; is that not right?

Mr. BOWLES. No, I cannot agree. Your basic problem, production, will be rolling at prices that people can afford to pay. People tend to calm down. They will not feel this speculative urge to the extent that they do today and you will begin to get out of this on a real basis. Even before the war we had a sizable total of liquid assets, but we didn't get inflation from them because production was up to demand and there was no speculative incentive.

Mr. BUFFETT. How are you going to calm them down when you raised the great metal working industry to the tune of hundreds of millions of dollars in wages already?

Mr. BOWLES. You calm them down by getting production of the things that they want and need, and can afford to pay for out of current income plus a little savings, perhaps.

Mr. BUFFETT. Yes, but you still have that purchasing power with no outlet.

Mr. BOWLES. That is correct. But it is a great cushion against possible deflation.

Mr. BUFFETT. And you add to it by the amount of the deficit.

Mr. BOWLES. You have outlets for it. You are going to build new plants, new factories. New machines are going to equip new factories. You are going to build new homes, equip those homes. If you have got goods to begin to satisfy demand, you have still got the possible danger, but, for instance, you could have what you had in 1929, we will agree, a lot of that money going into the stock market, and going into night clubs and one thing or another. There was plenty of excess there, even under different circumstances, and that led to a collapse, but the price levels did not go up. You look at your price levels from 1925 to 1929, and they actually declined slightly during that period.

Mr. BUFFETT. Yes; but you did not have a deficit financing creating purchasing power not matched.

Mr. BOWLES. No; but you had huge purchasing power going into profits of corporations and dividends which could not get reinvested. A lot of money going in there that could find no place to invest, and, therefore, moved into your Florida land booms and your stock market, and so on.

Mr. BUFFETT. We expanded our credit facilities, and we are doing the same thing now, are we not?

Mr. BOWLES. They have expanded, I will say.

Mr. BUFFETT. They are still doing it.

Mr. BOWLES. The quicker we can get our budget into reasonable balance, the happier I will be and the easier my job will be.

Mr. BUFFETT. Do not the inflationary pressures continue to mount as long as we have deficit spending and foreign loans?

Mr. BOWLES. To a degree, that is correct. You have to balance some of those moves that you want to make against the risk.

Mr. BUFFETT. Then, we have that big amount of excess purchasing power, and that is being added to by foreign loans and deficit financing.

The CHAIRMAN. Let us let Mr. Bowles finish with his charts, please.

Mr. BOWLES. I just have two more and then I will be through.

The CHAIRMAN. Proceed.

Mr. BOWLES. Here are the percentage gains in take-home pay of factory workers during the 6-year period of the World War influence. That is, from 1914 to 1920, and in 6 years following the outbreak of World War II, that is, 1939 up to the present. You had 140 percent increase in take home pay of factory workers during World War I. You have 75 percent in World War II, roughly only about 55 percent or 45 percent as much. On the basis of this showing it would appear that labor did much better during World War I. Actually, however, the buying power of the dollars the workers received measured the true gain of labor.

This is what happened to living costs during the 6 years of World War II and the 6 years following the outbreak of World War I. You had the 108 percent increase in your living costs, against 31 percent.

Mr. SMITH. May I ask Mr. Bowles a question?

Mr. PATMAN. He just had one more chart. Let us let him continue.

Mr. BOWLES. I am sorry. I shall have a couple more here.

The CHAIRMAN. I would suggest you let Mr. Bowles get through with the charts first.

Mr. BOWLES. Here is the measurement of what earnings buy. Labor did far better under price control in World War II.

Here is the gain in real take-home pay measured against the cost of things they got. They got a gain of 15 percent in World War I, and they got 34 percent in this World War.

Now, here is one of those figures that I always question. Perhaps I should not show it. If your consumer prices rose as much between now and next spring—that is, a year from this spring, 1947—as they did in the inflationary period following World War I, your total bill on the consumer would be 30 billions of dollars.

Mr. PATMAN. You mean the increase?

Mr. BOWLES. The increase. They would have to pay 30 billion dollars more for goods.

Mr. GAMBLE. That would be increased cost of living?

Mr. BOWLES. Yes; it would be up \$30,000,000,000. That is one of those "if" questions. If something happens, something else happens. I like to stay away from them, but I thought it was interesting.

So, on the same basis, taking this chart as the value of the dollar today, if you had the same increases in prices and rents that you had

in the same period following the last World War, you would have that kind of a nick out of the dollar, or 22 cents. In other words, the dollar would be worth 78 cents of what it is today at that point.

After the last war, as we remember, we had profits, corporation profits after taxes of six billion and a half dollars in 1919, four and a half billion dollars in 1920. There was an actual \$55,000,000 loss in the next year. Business as a whole was actually in the red in 1921. I believe that these are the only 3 years in modern history when that kind of sharp drop has occurred.

During the 5 years following the war you had more than 100,000 failures.

Mr. WOLCOTT. Mr. Chairman, I would like a question. You have been comparing conditions in World War II to World War I. We have not in the record yet any information as to when they put on price controls, during or right after World War I. When was that?

Mr. BOWLES. Well, your price controls, of course, were of a very different nature.

Mr. WOLCOTT. When did they put them on? Let us not go into detail.

Mr. BOWLES. They took them off, if that is your question, in 1918.

Mr. WOLCOTT. Let us not go into the details of the program. When did they start their program of price controls?

Mr. BOWLES. What controls they had, I believe, started about the time we got into the war.

Mr. PATMAN. They were very limited, were they not?

Mr. BOWLES. 1917. They were taken off in November and December, 1918. Right after the armistice. There was then an effort to reconstitute them and to put some of them back in. They went back and tried to pull some of the controls back in, but it was too late to pull the organization together and get them going.

Mr. WOLCOTT. When did they try to put controls back in?

Mr. BOWLES. There were various efforts; I think in petroleum and steel they made some efforts.

Mr. Chairman, if I might suggest it, Mr. Baruch had that whole period very clearly in mind, and was in charge of it more or less, and if I might suggest, I think the committee might be interested in hearing his views on this whole thing. They will think I am a little conservative when they get through listening to Mr. Baruch.

Mr. WOLCOTT. I thought you might tell us the dates when the controls went on and went off.

Mr. BOWLES. I cannot tell you exactly, but practically all price controls went off 6 weeks after the war was over. I know they tried to get some of them back in but it was impossible. They were pretty loose controls even at the peak.

Mr. BARRY. Mr. Bowles, you have, through your prosecuting agencies, caught up with a number of black marketers, have you not?

Mr. BOWLES. Yes; 52,000 last year.

Mr. BARRY. I was just wondering if you could ever compile these statistics to show what the average prices were in the black market.

Mr. BOWLES. It is pretty hard to do. For instance, take poultry. The worst black market that we ever had was in poultry last June, and it was extremely bad. No one knows fully how bad. There have been various estimates made on food, when it was at its peak, which

was last summer and spring, as running as high as three quarters of a billion dollars. I do not know how anyone knew that. I do not even know where those estimates came from.

The Bureau of Labor Statistics figures are not the price ceilings, as you probably know. The Department of Labor cost of living index figures are the prices that are quoted to a stranger walking into a store. In other words, if they are over ceiling, they are put down as over ceiling. Now, remember, it is a stranger, and to someone they know, they might charge something extra. But they do not just simply take the ceiling price and add all that up to make the index. The shoppers find out what is actually being charged. It is expected that will frequently average a little higher than the ceiling.

Mr. BARRY. If it is possible to get that together, it might give some indication of what a free market might be, a market without price control.

Mr. BOWLES. Well, on gasoline, for instance, during the period of shortage, you had gasoline black market, gasoline selling as high as 75 cents a gallon, which was, roughly, three or four times the ceiling price. That gasoline black market was pretty well eliminated by VJ-day. It was very bad about a year and a half ago, but we finally learned how to get it under control.

Miss SUMNER. Mr. Chairman.

The CHAIRMAN. Mr. Monroney is recognized.

Mr. MONRONEY. The President states wages will be stabilized according to a pattern of wages established since VJ-day. Just what does that mean?

Mr. BOWLES. Well, the pattern of wages since VJ-day, in some industries, might be 7, 10, 12, 15, 17, 18½ cents, depending on the industry, it has varied all the way through the economy. By pattern, the President meant just exactly that. Industry by industry, what had already been established in free collective bargaining since VJ-day. He did not necessarily mean 18½ cents. There has been some confusion on that.

Mr. MONRONEY. It is not a new Little Steel formula?

Mr. BOWLES. No; it is not a limit. It is whatever has been established through collective bargaining, industry by industry. Now, what, we have to do, in the new Wage Stabilization Board is to work our criteria and standards which will allow exemptions in some cases of hardship and explain the whole operation, exactly where it is. Hopefully, we will get those out so that both labor and management will know where they stand, in the next few days. I am glad to be able to say that, to explain what was meant by pattern. It did not mean 18½ cents, but whatever had been established since VJ-day, industry by industry.

A new industry, where no wages had been established, perhaps by the fact that the contract was already in existence, that would be fitted into some other similar type of industry very likely.

Mr. PATMAN. Mr. Chairman, I want to make a suggestion, that, in view of what has come up here this morning, and in view of Mr. Baruch's knowledge of this situation, we invite him to appear to testify before the committee.

The CHAIRMAN. We will be very glad to invite Mr. Baruch to testify.

Mr. BROWN. Mr. Bowles, you are quoted as saying that steel would only be raised 7 or 8 percent. My understanding is that steel would be raised \$5 per ton. If steel was selling for \$36 per ton, \$5 would be about 15 percent.

Mr. BOWLES. We do not raise each ton.

Mr. BROWN. I know, but I am talking about average. That is a 15-percent average instead of 7 or 8 percent.

Mr. BOWLES. Well, your 7 or 8 percent is figured on the total value of all steel production, I assume, with the total—

Mr. BROWN. I know, but you said that \$5 per ton would be 7 or 8 percent. I cannot figure how it would be anything but 15 percent. If it sold for \$36 per ton and now sells for \$41 per ton, that is 15 percent.

Mr. BOWLES. I think steel average price per ton is closer to \$60 per ton:

Mr. BROWN. I understood that it was \$36.

Mr. BOWLES. It may be a different type of steel. The average is closer to 60.

The CHAIRMAN. That is \$5 a ton on a great number of items?

Mr. BOWLES. It will be \$5 per ton on some, \$2 on some, more on others.

The CHAIRMAN. It is not \$5 per ton on an item of \$150 per ton and \$5 on an item selling for \$30 per ton?

Mr. BOWLES. No, it is average; it will vary.

Mr. BROWN. Some of it sells for \$30 a ton?

Mr. BOWLES. Some sells for \$1,800 a ton.

Mr. BROWN. I am talking about average.

Mr. BOWLES. He says it is \$30 a ton.

Mr. BROWN. Then, my expert is wrong.

Mr. BOWLES. My guess was \$40, so I was in between.

Mr. CRAWFORD. Mr. Chairman, I would like to ask Mr. Bowles a question on the charts. Mr. Bowles, has there been calculated by your department, at any time, a comparable figure on take-home pay of farmers, as related to the take-home pay of factory workers, as indicated by your charts?

Mr. BOWLES. No, but I think it would be a very interesting figure to get. I think it is inherent in that statement of the prices that farmers received against the farmers that pay. Increases.

Mr. CRAWFORD. I do not believe that covers it.

Mr. BOWLES. No, I do not think it does, either, but I say I think it was inherent in that, and I would like to get it for you, I think it would be interesting to see what his actual take-home pay would be after he has paid his living expenses, his food, apparel.

Mr. CRAWFORD. And taxes.

Mr. BOWLES. And taxes.

Mr. CRAWFORD. And Farmers Union fees, National Grange fees—because that is his protection as is union for organized labor.

Mr. BOWLES. Mr. Riley says that that figure is really what the Bureau of Agricultural Economics calls farm operators' net income. It is after taxes and other costs.

Mr. CRAWFORD. Does the Bureau of Labor Statistics net farm income—is that a figure after he pays his taxes?

Mr. BOWLES. Yes, net farm income after taxes and interest.

Mr. CRAWFORD. All I am talking about are income taxes.

Mr. R. H. RILEY. No, it is not after income taxes.

Mr. CRAWFORD. Not at all. Nor the take-home pay of the factory worker. The take-home pay of the factory worker is not net income after the employer deducts the taxes.

Mr. R. H. RILEY. I am afraid there is some misunderstanding, sir.

Mr. CRAWFORD. Well, what is take-home pay?

Mr. R. H. RILEY. "Take-home pay" is a term which traces back to the time when there were no pay-roll deductions. It is inaccurate today. The term "take-home pay" is still used to mean exactly what it meant before there were pay-roll deductions, namely, the total amount of earnings in the course of a week. It does not reflect simply the hourly earnings, but it is what the man is able to earn by the end of the week. Before pay-roll deductions were begun, that was the amount he took home on Saturday night. That is what it used to mean. It still means the week's earnings, although what he takes home is not that full amount. He does not have that in his pocket, because taxes and other deductions have been taken out. The figure we have used is the average of these weekly earnings before taxes.

Mr. CRAWFORD. Now, do his average weekly earnings, as you have defined them, provide for that savings evidenced on the deduction on the pay roll for investment in savings bonds?

Mr. BOWLES. They show the amount earned, before any deductions of any sort.

Mr. CRAWFORD. See what I am getting to? Now, what I would like to have—and I am not asking you to prepare it, because it might take a lot of work—but if such a thing is prepared, I would like to see a comparison of the take-home pay of the farmer and those who perform productive labor on the farm, involved in that farm figure, whether it is his wife or child or whatever it is, the take-home pay of those productive labor producers compared with the take-home pay of the factory workers as the term is used.

Mr. R. H. RILEY. Do you mean take-home pay after taxes?

Mr. CRAWFORD. No.

(The following tables were supplied later:)

Earnings in manufacturing and in agriculture, 1939-45

MANUFACTURING

	1939	1940	1941	1942	1943	1944	1945
AVERAGE WEEKLY EARNINGS							
All manufacturing:							
Dollars.....	23.86	25.20	29.58	36.65	43.14	46.08	44.42
Indexes: 1939=100.....	100	106	124	154	181	193	186
Durable goods manufacturing:							
Dollars.....	26.50	28.44	34.04	42.73	49.30	52.07	49.08
Indexes: 1939=100.....	100	107	129	161	186	197	185
Nondurable goods manufacturing:							
Dollars.....	21.78	22.27	24.92	29.13	34.12	37.12	38.30
Indexes: 1939=100.....	100	102	114	134	157	170	176

Earnings in manufacturing and in agriculture, 1939-45—Continued

AGRICULTURAL

	1939	1940	1941	1942	1943	1944	1945
AVERAGE ANNUAL EARNINGS ¹							
Hired farm workers:							
Dollars.....	378	390	473	616	803	940	1,040
Indexes: 1939=100.....	100	103	125	163	212	249	275
Farm family workers: ²							
Dollars: assuming 5 percent return on farm equity.....	408	443	728	1,170	1,447	1,366	1,451
Indexes: 1939=100.....	100	109	178	287	355	335	356
Dollars: assuming 6 percent return on farm equity.....	366	411	676	1,120	1,387	1,298	1,375
Indexes: 1939=100.....	100	112	185	306	379	355	376

¹ Cash earnings plus allowance for value of board and room.

² See following table, "Returns to farm labor and investment, 1939-45."

Source: Weekly earnings—Bureau of Labor Statistics, U. S. Department of Labor.

Annual earnings—Calculated from data of the Bureau of Agricultural Economics, U. S. Department of Agriculture.

NOTE.—There is no wholly satisfactory comparison of "take-home" pay in manufacturing and agriculture, because the factory data, being weekly, take no account of weeks not worked during the year. In addition, there is no satisfactory comparison of urban and rural costs of maintaining comparable standards of living.

Returns to farm labor and on farm investment, 1939-45

	1939	1940	1941	1942	1943	1944 ¹	1945 ¹
(1) Net farm income.....millions of dollars...	4,566	4,767	6,753	10,197	12,571	12,159	12,900
(2) Net rent to landlords not on farms, do....	440	459	654	961	1,130	1,189	1,225
(3) Income of farmers and farm landlords.....millions of dollars.....	5,006	5,226	7,407	11,158	13,701	13,330	14,125
(4) Farmer's and landlord's equity.....do....	33,700	33,536	34,131	39,303	46,682	53,235	58,331
(5) 5 percent of farmer's and landlord's equity.....millions of dollars.....	1,685	1,677	1,707	1,965	2,334	2,662	2,917
(6) 6 percent of farmer's and landlord's equity.....millions of dollars.....	2,022	2,012	2,048	2,358	2,801	3,194	3,500
Balance to farm family workers:							
(7) Assuming (5).....millions of dollars...	3,321	3,549	5,700	9,193	11,367	10,668	11,208
(8) Assuming (6).....do....	2,984	3,214	5,359	8,800	10,900	10,136	10,625
(9) Number of farm family workers.....thous.	8,145	7,829	7,924	7,855	7,857	7,810	7,725
Labor income per farm family worker:							
(10) Assuming (5).....dollars.....	408	443	728	1,170	1,447	1,366	1,451
(11) Assuming (6).....do....	366	411	676	1,120	1,387	1,298	1,375
(12) Annual income per hired farm worker ².....dollars.....	378	390	473	616	803	940	1,040
(13) Profit on farmer's and landlord's equity assuming paying family workers as hired workers.....millions of dollars.....	1,914	2,088	3,699	6,306	7,373	6,010	6,092
(14) Percent return on farmer's and landlord's equity in (13).....	5.7	6.2	10.8	16.0	15.8	11.3	10.5

¹ Preliminary.

² Based on 1st-of-the-month average employment.

Source: Bureau of Agricultural Economics, U. S. Department of Agriculture.

Mr. R. H. RILEY. That comparison is available.

Mr. BOWLES. The way we did it for labor?

Mr. CRAWFORD. Yes.

Miss SUMNER. Do you mean for the tenant farmer or farm owner? It makes a difference. Because if he is a farm owner, there is a difference.

Mr. CRAWFORD. When the thing is presented, we will take the bugs out of it, I can tell you that.

Now, one other question, Mr. Bowles, which concerns me and a great many people with whom I have contact. It was partly developed here awhile ago in your prior testimony. If we accept the philosophy

that the Office of Price Administration, as now administered, and as now authorized, is sound procedure, and a sound Government policy, good for everybody in general, until the supply of goods catches up with the demand, and at that time to eliminate controls, that is one thing. But if we accept the philosophy that the Office of Price Administration or a similar control shall govern so long as the people of this country are thrifty and have a great backlog of buying power, as you stated here this morning, that is entirely a different proposition.

Mr. BOWLES. I agree with you.

Mr. CRAWFORD. Now, if you do not mind, I would like to ask you this question. I am not asking you to embarrass you, but I think it is a very fundamental thing. So long as you are Administrator, do you take the position that these controls should go off as we bring supply in balance with demand, or do you take the position that the controls should continue as long as there is a great backlog of pent-up buying power, which, in the absence of control, can be exercised by the citizen at his will?

Mr. BOWLES. Well, I will agree that is a very fundamental question. Yesterday, to work backward, I stated that in my opinion you should be out of price controls on all products except rents—and in addition some remnants, possibly building materials or something else that is in extremely short supply, and I do not know what it would be at that point—a year from this June 30. I also stated that at that time, whatever you get out of price control, you are going to have some ups of prices here and there. I do not think that is what we are worried about. If you do get a jump at that time in one item or another item, you have got production going, you are going to have other items going down, you are going to have competition driving this down, and better methods lowering that cost, and you are going to get balance in there through some things going up and others going down, but even though that does not balance out and the net result a somewhat higher general level of prices, that again does not concern me. What I am concerned about is a jump in prices now, as, for instance, when you withdraw subsidies, setting off a whole spiral in the midst of all these shortages. It leads you not to 5- or 10-percent higher prices, but 50-, 75- or 100-percent higher prices, followed by what is bound to be a collapse.

Now, I feel this: That part of our problem is economic and part is psychological. Let me take oranges as an example. Economically, there was no reason in the world why price control should not be removed from oranges last fall. It is true that there was a slow-up, in that week or two, of freight. It is true that they had some rainy weather in there that added to it. But that should have wiped itself out in 3 weeks. The oranges were there. The supply was there.

The industry, and ourselves, going over it very carefully, felt that it was safe to do. It was, in a sense, a risky product because oranges have a big impact on the cost-of-living index. However, we moved out. But because of the general tight situation in the markets, apparently, regardless of the big supply of oranges against demand, prices went up in many areas where there was no apparent economic reason for it. A lot of people cooperated, the industry cooperated very well with us. A lot of stores cooperated very well with us, also associations. Others, however, charged more. In other words, the economic reasons were right to move out, there was something in the

atmosphere, inflationary psychology and all, that allowed that price to jump.

Now, my feeling is that potatoes, however, worked the other way. In some places they went a little above ceilings, but it was all right, and we have no intention of going back in there, and it looks as though we are in good balance.

I think that, starting next summer, next fall, next winter, you are going to find, as production moves up, a very rapid ability to get out of these things. Sure, you will get some jumps here and there. Practically everything we moved out of was jumped up. I do not think that at that point you are going to begin to worry very much, provided your indexes are kept reasonably level and we begin to rid ourselves of this psychology. "I have got to get into stock," or real estate or commodities, or whatever it is, to get protection. And we will get production, it is obvious there is not going to be any sense in going out and scrambling for radios, because there will be plenty of radios. In other words, I do not think you have to wait until you wash out your \$300,000,000,000. Otherwise, we will be here forever.

Mr. CRAWFORD. That is what I wanted to bring out. Then, would you care to go on record—and I am not going to press this, but I am going to give you an opportunity to answer it because most of my correspondence revolves around this proposition—would you care to go on record before the committee that insofar as you are personally concerned, your philosophy is that when supply reaches balance with demand, that you feel there would no longer be a material necessity for the Office of Price Administration?

Mr. BOWLES. Generally, when supply and demand is in balance, I believe that is correct.

Mr. CRAWFORD. Remove controls at that time?

Mr. BOWLES. Yes; and I think that point will certainly come, area by area, at different periods, but in my opinion, as I say, you will have only remnants left by a year from next June.

Mr. CRAWFORD. That is the least I would like to see us do.

Now, then, if we, through discussing the disaster of inflation so much, condition the minds of our citizens for the acceptance of a continuation of these controls, so long as there is thrift, so long as there is a great excess buying power, then, it seems to me we are conditioning our minds to accept perpetual economic controls in our economy.

Mr. BOWLES. Under which system your free-enterprise system would be ended at that point.

Mr. CRAWFORD. That is right. I was hopeful that you would take the position that you have, namely, that when supply reaches balance with demand, that that is the time to remove controls.

Mr. BOWLES. Generally speaking.

Mr. CRAWFORD. Yes.

Mr. SMITH. Mr. Bowles, your figure here of \$300,000,000,000 of liquid assets: What do you include in that?

Mr. BOWLES. I probably should not have used the figure, Mr. Smith. I have heard the figure, I thought, from the Federal Reserve Board, but I had better get you their figure. I do not know what it includes. It probably includes savings, increases in currency, increase in savings, cash, bank balances, and all that, and bonds that can be cashed.

(The following table was supplied later:)

Private liquid asset holdings as of the end of June 1945

[Billions of dollars]

Item	Holdings as of end of 1939	Accumulation 1940—first half 1945	Holdings as of end of June 1945
Individuals:¹			
Liquid assets:			
Currency and deposits.....	44	60	104
Savings and loan association accounts.....	4	2	7
Federal securities.....	9	49	59
State and local government securities.....	8	(²)	8
Corporate and other securities.....	93	-2	91
Total, above assets.....	158	110	268
Current liabilities:			
Consumer short-term debt ³	8	-2	6
Farm short-term debt ⁴	2	(²)	2
Total, above liabilities.....	10	-2	8
Net liquid assets.....	148	112	260
United States corporations: ⁵			
Liquid assets:			
Currency and deposits.....	11	13	24
U. S. Government securities.....	2	20	22
Receivables from U. S. Government.....		4	4
Other notes and accounts receivable.....	22	0	22
Other current assets ⁶	1		1
Total, above assets.....	37	37	74
Current liabilities:			
Advances and prepayments, U. S. Government.....		2	2
Other notes and accounts payable.....	22	3	25
Federal income tax liabilities.....	1	15	16
Other current liabilities ⁷	7	2	9
Total, above liabilities.....	30	22	51
Net liquid assets.....	7	15	23
Total net private liquid assets:			
Individual.....	148	112	260
Corporate.....	7	15	23
Total.....	155	127	⁸ 283

¹ Including farm and nonfarm unincorporated business, and private educational, eleemosynary, and other institutions.

² Less than \$500,000,000.

³ Federal Reserve System series. Excludes interindividual debts.

⁴ Bureau of Agricultural Economics series. Excludes Commodity Credit Corporation loans, which are treated as an income item.

⁵ Excludes private banks and insurance companies which are treated in effect as associations of individuals.

⁶ Includes chiefly holdings of State and local government securities.

⁷ Includes renegotiation reserves, withholding tax receipts not yet turned over to the U. S. Treasury, other tax liabilities, and miscellaneous payables including chiefly interest and dividends due.

⁸ Of this total, \$209,000,000,000 represents holdings of currency, deposits, and Federal securities (with no offset for current liabilities) and corresponds to the Federal Reserve Board figure for these categories in June 1945. By December 1945, the Federal Reserve indicates this total had grown to \$225,000,000,000. (Federal Reserve Bull. February 1946, p. 123.)

Source: Adapted from data of Securities and Exchange Commission, Federal Reserve Board, and Bureau of Agricultural Economics.

OPA, Division of Research, March 11, 1946

Mr. SMITH. Assuming this is \$300,000,000,000, that would be your volume of inflation, would it not?

Mr. BOWLES. Yes. That is right.

Mr. SMITH. That is the inflation. Now, then, what you are really doing here is fighting the effects of inflation and not inflation itself; is that not true?

Mr. BOWLES. I do not know what we are fighting, if you want to define it that way. But I know we are keeping people's food, rent, and so on, from costing a lot more in a blow-up. I know what your point is. People refer to this as the thermometer that I am talking about. But inflation, as it affects human beings, the tremendous credit sitting in the bank in Connecticut does not bother me as much as some consumer living there, working on a farm, or in a factory, unless it reflects itself in a blow-up of prices on rents, commodities, food, and everything I buy. So, whether it is the hen or the egg, I think is an argument you can get into at quite some length. But I know what it means as a citizen.

Mr. SMITH. What I am getting at is this: There can be no question that this is the inflation, this excess purchasing power, whatever you want to call it—media, I think is better than power—but that is your real inflation, and what you are doing is fighting the effects of the inflation. You are advocating, on the one hand, holding down the effects, and, on the other, you are asking for more Government spending, which is inflation.

Mr. BOWLES. If you are saying, Mr. Smith, so that we should triple all prices, so that we would absorb this practical money out there, so everything would be in balance at a vastly higher-price level—

Mr. SMITH. I am not saying that. I am just asking you, Mr. Bowles.

Mr. BOWLES. Well, that would put all your money in balance with goods. You would then have \$450,000,000,000, including the \$150,000,000,000 we will create this year, \$450,000,000,000 worth of goods, and \$450,000,000,000 worth of money to buy them. I don't know what kind of balance that would be. We would have an awful mess.

The CHAIRMAN. There is a roll call. The committee will now adjourn to meet tomorrow at 10:30 a. m.

(Whereupon, at 12:30 p. m., the committee adjourned, to reconvene at 10:30 a. m., Thursday, February 21, 1946.)

(The following was submitted for the record:)

PROGRESS REPORT ON DECONTROL

Since VJ-day price controls have been removed or suspended on thousands of items which do not enter significantly into business or living costs, or of which supplies have reached or are approaching a safe margin of demand.

The broad areas in which most significant progress has been made are:

INDUSTRIAL MATERIALS AND PRODUCTS

(1) *Basic metals and metal products.*—Aluminum and magnesium ingots, castings, mill products and scrap; all nonferrous forgings; tool-steel scrap; nickel, monelmetal, and stainless-steel scrap; stainless steel; and drawn steel wire.

(2) *Motor vehicles and transportation equipment.*—Sales to manufacturers of all automobile parts, except tires, batteries, radios, and some castings; all marine vehicles and equipment; aircraft and aircraft parts; and used automobiles of model year 1925 or earlier and all foreign makes except Canadian and Mexican.

(3) *Building materials and equipment.*—Prefabricated nondwelling structures, such as garages, barns, and sheds; numerous structural and ornamental iron products, such as tie rods, balustrades, fences, gates, brackets, cornices, etc.; cast-iron pressure pipe and fittings; and practically all types of pipe fittings and valves.

(4) *Electrical equipment.*—Custom-built and designed lighting fixtures; radio tubes and wet-cell storage batteries sold to a brand owner; X-ray equipment, except tubes; and electrical measuring and testing instruments for laboratory use.

(5) *Miscellaneous industrial machinery and equipment.*—All textile machinery accessories and parts made primarily of wood; spring-winding and spring-forming machinery; broom-sewing machines and parts; optical-processing machinery; steam engines, except locomotives; laboratory and industrial-control instruments, parts, and accessories; ingot molds used in the steel industry.

CONSUMER GOODS

(6) *Personal and household accessories.*—Most jewelry and practically all novelty and decorative household accessories, such as bookends, serving trays, pictures and picture frames, shoe and tie racks, etc.

(7) *Housewares.*—Food dehydrators, portable fireplaces and ornamental mantle-pieces, shopping carts, bird and dog houses, carpet and rug beaters, clothespins, garden-hose reels, etc.

(8) *Sporting goods.*—Practically all sporting goods and accessories, except apparel, shoes, and equipment requiring frequent replacement.

(9) *Household furniture and floor coverings.*—Custom-made wood furniture and rugs; all glass furniture; and such other articles as folding screens, footstools and hassocks, magazine racks, portable bars, tea wagons, umbrella stands, and wooden radiator enclosures.

(10) *Professional goods.*—Dental, surgical, watch repair and scientific instruments for professional use; exercise machines and devices; and laboratory instruments built to purchasers' specifications.

(11) *Commercial equipment and supplies.*—Advertising novelties and signs; coin-operated machines and parts; commercial and institutional kitchen appliances and fixtures; except refrigerators, freezers, and cooking utensils; and custom-built commercial furniture and fixtures.

(12) *Textiles, furs, and apparel.*—All of the more expensive furs and peltries and garments made therefrom; nonelastic narrow fabrics; raw silk and raw silk waste; cotton threads; and decorative fabrics.

(13) All toys, except wheel goods of the more expensive types.

FOODS AND RELATED PRODUCTS

(14) *Fresh and processed fruits and vegetables.*—About one-half of all frozen and dried fruits and vegetables; fruit juices and other processed citrus products; white potatoes and fresh cucumbers, eggplant, lettuce, peppers, etc.

(15) Cigar tobaccos, and imported cigars and snuff.

(16) All imported distilled spirits and wines, except imported whiskies. All domestic wines.

(17) Processed fish and sea foods including canned and frozen oysters; fresh, frozen and canned crab meat; and fresh Canadian lake fish.

(18) Practically all of the common prepared spices and condiments except black pepper; and numerous other miscellaneous imported and domestic grocery items.

TITLE 32—NATIONAL DEFENSE

CHAPTER XVIII—OFFICE OF ECONOMIC STABILIZATION

(Directive No. 68)

Part 4004

Price Stabilization

EXEMPTION OF CERTAIN COMMODITIES AND TRANSACTIONS FROM PRICE CONTROL

Pursuant to the authority vested in me by the Act of October 2, 1942, entitled "An Act to Amend the Emergency Price Control Act of 1942, to Aid in Preventing Inflation, and for Other Purposes," and by Executive Order No. 9280 of October 3, 1942, and Executive Order No. 9328 of April 8, 1943, *It is Ordered:*

Sec. 1. The Price Administrator is authorized to suspend price control with respect to any commodity, upon such terms and conditions as he deems appropriate, whenever in his judgment such action will not result in an increase in prices above the general level of existing ceilings for the commodity. If after

such suspension, prices for the commodity rise or threaten to rise above the level of preexisting ceilings, the suspension shall be terminated and such ceilings reinstated. If after a reasonable period of suspension, prices for the commodity do not rise or threaten to rise and the Price Administrator is satisfied that they will not do so, he may exempt the commodity from price control. Any proposed action by the Price Administrator under this section suspending or exempting a commodity which enters significantly into the cost of living shall be submitted to the Director of Economic Stabilization five days in advance of issuance in order that the Director may examine the relationship of the proposed action to other elements in the stabilization program; such action may be issued by the Price Administrator upon expiration of the five-day period unless previously disapproved by the Director.

Sec. 2. The Price Administrator is authorized to suspend price control with respect to any commodity or transaction, or in his discretion to exempt the commodity or transaction from price control, in the following classes of cases not falling within section 1 of this directive:

(a) In the case of any commodity if in the judgment of the Price Administrator:
 (1) The commodity does not enter significantly into the cost of living or into business costs; and

(2) Control of the commodity involves administrative difficulties which are disproportionate in relation to the effectiveness of the control or the contribution to stabilization; and

(3) Suspension of control with respect to the commodity, or exemption from control, presents no threat of diversion of materials, facilities or manpower from war production or any substantial diversion from the production of other commodities, and does not impair effective price control with respect to other commodities; or

(b) In the case of any special type of transaction if in the judgment of the Price Administrator the sales involved are in the aggregate insignificant in the economy and their control involves administrative difficulties which are disproportionate in relation to the effectiveness of the control or the contribution to stabilization.

Sec. 3. The Price Administrator may recommend to the Economic Stabilization Director the suspension of price control with respect to any commodity or transaction, or the exemption of a commodity or transaction from price control, in any specific case, not falling within section 1 or section 2 of this directive, in which in his judgment such action is not inconsistent with the purposes of the stabilization laws.

Sec. 4. Nothing in this directive shall be construed to impair the authority of the Price Administrator to reduce ceiling prices for any commodity or transaction in any case in which, prior to the issuance of this directive, such action was authorized by the stabilization laws and the executive orders issued thereunder. Nothing in this directive shall be construed to dispense with the requirement of approval by the Secretary of Agriculture in any case in which such approval is required by law.

This Directive shall become effective July 25, 1945.

Issued this 25th day of July, 1945.

[s] WILLIAM H. DAVIS, *Director*.

Certified to be a true copy of the original.

TITLE 32—NATIONAL DEFENSE

CHAPTER XVIII—OFFICE OF ECONOMIC STABILIZATION

(Directive No. 68—Amendment No. 1)

Part 4004

Price Stabilization

EXEMPTION OF CERTAIN COMMODITIES AND TRANSACTIONS FROM PRICE CONTROL

Pursuant to the authority vested in me by the Act of Congress of October 2, 1942, entitled "An Act to Amend the Emergency Price Control Act of 1942, to Aid in Preventing Inflation and Other Purposes," and by Executive Order 9250

of October 3, 1942, Executive Order 9328 of April 8, 1943, and Executive Order 9599 of August 18, 1945, it is ordered:

Directive 68, Exemption of Certain Commodities and Transactions from Price Control, issued July 25, 1945, is hereby amended in the following respects:

Section 2 (a) (3) is amended to read as follows:

Suspension of control with respect to the commodity, or exemption from control, presents no substantial threat of diversion of materials, facilities, or manpower from production which is essential to the effective transition to a peace time economy, and does not impair effective price control with respect to other commodities.

(E. O. 9250 and E. O. 9328, 3 CFR. Cum. Supp. pp. 1213, 1267, E. O. 9599 (10 F. R. 10155.))

Issued and effective this 30th day of August 1945.

/s/ William H. Davis,
WILLIAM H. DAVIS,
Economic Stabilization Director.

Certified to be a true copy of the original.

/s/ BARBARA DUVALL,
Secretary to Director.

TITLE 32—NATIONAL DEFENSE

CHAPTER XVIII—OFFICE OF ECONOMIC STABILIZATION

(Directive 68, Amendment No. 2)

Part 4004—Price Stabilization

EXEMPTION OF CERTAIN COMMODITIES AND TRANSACTIONS FROM PRICE CONTROL

Directive No. 68, Exemption of Certain Commodities and Transactions from Price Control, issued July 25, 1945 (10 F. R. 9338) is hereby amended in the following respects:

Section 1 is amended to read as follows:

"The Price Administrator is authorized to suspend price control with respect to any commodity, upon such terms and conditions as he deems appropriate, whenever in his judgment such action will not result in an increase in prices above the general level of existing ceilings for the commodity. If after such suspension, prices for the commodity rise or threaten to rise above the level of preexisting ceilings, the suspension shall be terminated and such ceilings reinstated. If after a reasonable period of suspension, prices for the commodity do not rise or threaten to rise and the Price Administrator is satisfied that they will not do so, he may exempt the commodity from price control. Any proposed action by the Price Administrator under this section suspending or exempting a commodity which enters significantly into the cost of living shall be submitted to the Director of Economic Stabilization four days in advance of issuance in order that the Director may examine the relationship of the proposed action to other elements in the stabilization program; such action may be issued by the Price Administrator upon expiration of the four day period unless previously disapproved by the Director.

(E. O. 9250, E. O. 9328, 3 CFR, Cum. Supp. pp. 1213, 1267; E. O. 9599 (10 F. R. 10155.))

Issued and effective this 18th day of September, 1945.

(Signed) William H. Davis
WILLIAM H. DAVIS,
Economic Stabilization Director.

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

MONDAY, FEBRUARY 25, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

Chairman Eccles, of the Federal Reserve Board, is our witness this morning.

We are always glad to hear from you, Mr. Eccles. Have you a prepared statement?

Mr. ECCLES. I have a short prepared statement, Mr. Chairman, but I finished it only this morning, and I have not had time to have it mimeographed. I hope to have the mimeographed copies up here later.

The CHAIRMAN. Would you like to conclude the reading of that without interruption and then subject yourself to interrogation?

Mr. ECCLES. Yes, sir.

The CHAIRMAN. All right. You may read your statement without interruption, and then subject yourself to questioning.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, FEDERAL RESERVE BOARD

Mr. ECCLES. This committee would agree, I think, that inflationary dangers exist when the supply of money in the hands of people who wish to spend it far exceeds the volume of goods and services available. The more this money supply exceeds the supply of goods, the greater the inflationary pressures are certain to be.

It is beyond dispute that the money supply today is at an all-time high level, that there is a greater backlog of demand for all kinds of goods than ever before, and that while reconversion has proceeded more rapidly than had been expected, in many important categories goods available to meet domestic, let alone foreign, needs are and will continue, for an indefinite time, to be far short of demands.

Accordingly, there can be no doubt that the Emergency Price Control Act of 1942 should be extended for a sufficiently long period to enable production to become reasonably correlated with demand.

Price controls, however irksome and difficult to administer and adjust, are virtually our last bulwark against increasing costs of living. This is so because of the extent to which we have removed, reduced, or avoided other wartime control mechanisms. We did away with the

War Production Board and its allocations of scarce material, and its construction permits. We discarded the War Labor Board and its wage controls. Rationing has been largely abandoned. The excess-profits tax has been eliminated altogether, and individual taxes have been reduced. The workweek has been sharply cut. We have avoided adequate measures to curb speculation in capital assets, particularly in the real-estate field.

Because we have discarded, diminished, or avoided other controls, while incomes have remained very high, it is all the more urgent to retain the Price Control Act until this country's immense capacity to produce, so amazingly demonstrated during the war, brings about an equilibrium between the income and savings which people have to spend and the availability of the goods and services they wish to buy.

What is the money supply today? Measured by demand deposits—that is, checking accounts and currency—the general public, excluding banks, insurance companies, and so forth, but including Treasury deposits—has available in demand deposits and currency over \$125,000,000,000, or more than three times as much as in June of 1940.

In addition, the public holds another hundred billion dollars of Government securities, or eight times as much as in June 1940, and nearly \$50,000,000,000 of savings deposits, or nearly twice as much as in June 1940.

To the extent that dollars borrowed by our people, or foreign-owned or borrowed dollars, are added to these resources, the inflation potential will become all the greater. Even allowing for a larger postwar national income, there can be no doubt that on the money supply side of the equation, the total today is nearly five times the amount prior to the war, and is at present vastly in excess of available goods and services.

It is important to understand how such a tremendous increase in the money supply came about, because the process should be stopped, and if possible reversed now that the war is over.

Necessary as it is to retain price and other essential controls for a while and to clear away obstacles, particularly wage and price disputes that prevent or reduce vitally needed production, these objectives need to be accompanied by an equally strong determination that the Government shall not add further to the money supply.

There is not a sufficiently widespread realization of the fact that our money supply expands through borrowing, whether by private interests or by the Government, from a commercial banking system, and that, conversely, the money-supply contracts when bank loans are paid off or their Government bond holdings are reduced. To the extent that we failed to cover the cost of the war by taxation, or by borrowing from the general public, we relied on the banking system to furnish the money.

Thus, between June 30, 1940, on the eve of our defense program, and the end of 1945, the Government raised over \$380,000,000,000. Of this, \$153,000,000,000 came from taxes, or only 40 percent; \$228,000,000,000, or 60 percent, came from borrowing and of this, \$133,000,000,000, or about 60 percent, came from selling Government securities to others than commercial banks and the Federal Reserve banks, while \$95,000,000,000, or 40 percent was raised by selling Government securities to the commercial banking system and to the Federal Reserve banks—a process which created an equivalent amount of new money.

This tremendous expansion of bank credit, which has so greatly swollen our money supply, is a primary source of inflationary pressures at this time, and will continue to be until goods and services are available in sufficient quantity to balance more evenly the factors of supply and demand. It is evident, therefore, that on the money side of the inflation problem, the Government should stop and, if possible, reverse the process whereby it creates bank credit. It can stop further creation of bank credit by bringing about a balanced budget. It could reduce the existing supply of money in two ways: One would be by paying down the public debt. The other would be by having the commercial banks sell some of their Government securities to non-bank investors. Since this should be accomplished without any increase in interest rates, which would, in turn, increase the cost of carrying the Federal debt, it would be desirable to have the commercial banks sell some of their long-term holdings to nonbank investors and to have commercial bank holdings more concentrated in shorter term securities bearing a lower rate of interest.

Stopping further monetization of public debt in the banking system will tend also to stabilize interest rates so that they will reflect the volume of savings and investment funds in relation to demand, instead of reflecting an increasing volume of bank credit. This, in turn, will help to reduce the inflationary effect that a combination of increasing bank credit and decreasing interest rates has on all capital assets.

Policies dealing with the money side of the inflation equation need to be accompanied by wage and price policies on the other side of the equation that will make for rapid achievement of a high level of production on a permanently sustainable basis. Wage increases can only be justified when they can be met out of increased productivity and profits, without increasing prices. Clearly, wage increases that result in price increases to the consumer are inflationary.

It has been contended that all price controls should be removed now in order to insure full production. Where price ceilings do not, in fact, afford a sufficient margin of profit to call forth production, they can and doubtless will be adjusted, but these instances are not general. To argue against all price controls is like arguing against vaccination on the ground that it is better to contract smallpox in the hope that you may recover from the disease than it is to take necessary precautions against contracting it while efforts are being made to eradicate the sources of the infection.

To the extent that we can deal effectively with the money supply and production factors, we will be getting at the root causes of the inflationary problems confronting the country today.

Price controls, rationing, curbs on consumer credit or on stock-market credit, and similar devices, admittedly deal only with effects and not with basic causes of inflationary pressures.

In brief, prudent policy at this time calls for measures to get at the fundamental inflationary causes by curbing or reducing the money supply, on the one hand, and by increasing available goods and services, on the other hand, and meanwhile, retaining price controls, reinforced where necessary by other restraints, until the factors of demand and supply can be brought into a better balanced relationship.

Unless we pursue such a policy, we run immeasurable risks in view of the inflation potential existing today. If we were to permit a sharp

rise in prices to occur, the holders of liquid assets might lose faith in the purchasing power of their holdings. The consequences could be disastrous.

I should like to quote just a very short statement that I made approximately two years ago when I appeared before the Senate committee in connection with renewal of the Price Control Act, because it bears so directly upon this question.

At that time, I made this statement:

Inflations seldom get out of hand during wartime, but the danger carries over after peace comes and a war-weary people, tired of wartime controls and restraints, are eager to throw them off. That is just the time when it may be fatal to relax prematurely the controls of war-engendered inflationary forces. That is why it is so important to extend the life of this legislation for a sufficient period after the war to enable the country to convert its enormous productive capacity to turning out, for peacetime consumption, a supply of goods comparable to what it has shown itself capable of turning out for war purposes. If the public is led to believe, however, that the price, wage, and rationing controls are going to be weakened, or not continued as long as may be necessary, confidence cannot be maintained in the purchasing power of our money. Without that confidence, not only would the successful prosecution of the war be jeopardized, but an orderly transition to a peacetime basis would be out of the question.

That still applies today.

That, Mr. Chairman, completes my statement.

The CHAIRMAN. Mr. Eccles, I judge from your very excellent statement that you think that the economic pressures that make for inflation are as strong now as they have been at any time?

Mr. ECCLES. I think they are stronger, Mr. Chairman.

The CHAIRMAN. How long do you think the controls should be continued?

Mr. ECCLES. Well, I would say the act should be extended for at least a year. I suggested, a year ago, that the controls be continued 2 years after the war so that the public would not be waiting for the controls to go off, and would adjust itself and learn to live with them, realizing that they would be discontinued as soon as the various factors came into balance—that the controls would automatically work themselves out.

Certainly, at this time, any less than a year's extension would be a very great mistake, because there would likely be considerable waiting until the controls went off, in order to get higher prices. Instead of getting goods into consumption, you would likely find many instances where they were held back in the form of excessive stocks of raw materials, semifinished products, and finished products. That, of course, would greatly add to the pressures.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. Yes, Mr. Chairman.

Mr. Eccles, do you agree with me that full production is the best weapon against inflation?

Mr. ECCLES. Yes, it seems to me it is the only effective weapon. I do not mean by that that we must not stop the expansion of the means of payment.

Mr. BROWN. I understand. Now, do you agree with me that we should encourage those engaged in production and not discourage them?

Mr. ECCLES. I think they should be encouraged. I think they are being encouraged.

Mr. BROWN. Well, I am just asking you whether you think they should be. Then, it strikes me that we should get together on the best ways of encouraging production.

Mr. ECCLES. That is right.

The CHAIRMAN. But, Mr. Eccles, production itself will not eliminate the danger of inflation until production has supplied the necessary goods and services which the people demand; is that not true? I mean the commencement of production, even full production, would have no effect on the inflationary conditions until production has produced what the people desire to buy?

Mr. ECCLES. That is correct.

The CHAIRMAN. And we ought to retain these controls, as I understand it, until we have produced the goods that would eliminate the dangers of inflation. It would be hazardous to discontinue them just because you are in production, when production has not yet produced what the people desire.

Mr. ECCLES. We must retain, in my opinion, the controls until we greatly increase the supply of goods and services that the people want to buy and until there has been some opportunity to catch up with the backlog. But while we are doing that, we must not undo the benefits of it by further expanding our money supply.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Eccles, I think that last sentence of yours should be added to your direct reply to Mr. Brown's question with respect to production. If the answer to inflation is through production primarily, we must discontinue these inflationary forces as you have pointed out, along with the stepping up of production.

Mr. ECCLES. That is correct.

Mr. CRAWFORD. In other words, we might step up production very, very materially, and if we still continue to broadcast inflationary forces, we will certainly be operating in opposite directions.

Mr. ECCLES. We would be trying to go in two opposite directions at the same time.

Mr. CRAWFORD. Yes, sir. Now, I have three or four more questions. Along the same lines, the other day I submitted this question to Mr. Bowles. I would like to get your answer on it, as direct as you can make it. And I will read from the official transcript so that the language I submit to you will be exactly that which was submitted to Mr. Bowles.

So long as you are Administrator, do you take the position that these controls should go off as we bring supply in balance with demand, or do you take the position that the controls should continue as long as there is a great backlog of pent-up buying power, which, in the absence of control, can be exercised by the citizen at his will?

Now, that is the question I submitted to Mr. Bowles. What prompted that question primarily in my mind was his numerous statements about the forces of inflation and the disasters that would come to us if those forces were not somewhat modified or controlled. I think you have given us the finest direct statement as to the volume of these inflationary forces which we have presented to the committee. So I would like to submit this question to you now, in line with what you have already stated. Do you take the position that the controls should be continued until supply comes into balance

with demand—I mean, practically speaking—or do you take the position that these controls should be continued as long as we have that pent-up buying power which constitutes these inflationary forces, as you have defined them?

Mr. ECCLES. I think we should maintain controls until the supply comes into balance, or reasonable balance, with the demand.

What we term the pent-up inflationary forces or the inflation potential, as measured by deposits, currency, and Government securities, are not likely to create inflationary problems if the supply of goods is in reasonable balance with the desire of the people to purchase. When supply and demand for goods are in reasonable balance, people will hold their money in Government securities, or in savings deposits, or in currency, or they will invest it, possibly, in additional Government securities. If we have a balanced budget—which we should have—or a surplus, then, the bank holdings should diminish as the public invest their currency and deposits in Government securities. If the Government is not requiring additional deficit financing, we should see to it that bank holdings of Government securities are reduced, and that holdings of the public are increased. We would have been very much better off if we had been able to accomplish much more along this line during the war.

To the extent that we can shift holdings from the banks to the public we may be able to keep a large volume of potential purchasing power without it having any inflationary effect.

Mr. CRAWFORD. Now, you mentioned extending the act for 1 year. Based upon the information which is available to you as Chairman of the Board of Governors of the Federal Reserve Board, do you think it is reasonable for us to assume that that supply of goods will be in balance with demand by July 1, 1947? That is, to the practical degree that is necessary in connection with this legislation?

Mr. ECCLES. Well, that, of course, will depend on the extent to which this wage-price policy is effective in bringing about production. Certainly we have demonstrated that we have the capacity to produce enormously. If we can take the civilian production during the war, and convert the capacity devoted to war to production of civilian goods it would seem to me that, with some exceptions, we should be able to meet, pretty largely, the demand, so that the public would not be likely or willing to follow prices up.

In the construction field, there is no question but what, for some time, there will be a great shortage, and I think that building permits to determine what may be built may have to be kept on for some considerable time. Prices of scarce building materials will likewise have to be controlled. It may be that there will be excessive demand for some other items—automobiles, for instance. I cannot imagine that the supply-demand situation in the automobile field can be brought into balance within a year from this time.

But, generally speaking, in the clothing field and in food supply—if we get good crops this year—there should be an adequate supply.

Mr. CRAWFORD. What would you say about household appliances?

Mr. ECCLES. I think that will be pretty largely met. The capacity to produce is simply enormous in that field.

Mr. CRAWFORD. Then, would it be fair to summarize your thought something like this: that in the event that within 12 to 18 months we

do bring these products which people must have, and so greatly desire, largely into balance as regards production, supply and demand, and if we do some of these constructive things with respect to stopping the spread of inflationary forces which you have recommended that within 12 to 18 months we might reach a point where these controls could be very generally removed?

Mr. ECCLES. Yes; I think we can do just that.

Mr. CRAWFORD. That that is the procedure to be followed, although we may have, within the hands of the people, a very large pent-up backlog of buying power of perhaps 100 or 200 billion dollars, but which would not be crowding into the market by reason of the things you point out?

Mr. ECCLES. I certainly think that is true. That, however, as I say, is dependent upon the price-wage policy.

Mr. CRAWFORD. Very much so.

Mr. ECCLES. Upon that policy succeeding, and likewise certainly upon a balanced budget, and, if possible, a surplus. Now, that cannot be accomplished if we are going to start reducing taxes at this time, and it does not seem to me to make very much sense to maintain price controls, and other controls, while, at the same time, we increase purchasing power by reducing taxes.

Mr. CRAWFORD. I think that is a very sound statement.

Now, I have two other questions on that same subject, but which are tied to your statement issued on January 17, when the Board of Governors of the Federal Reserve System increased margin requirements to 100 percent, in order to dampen speculative activity of the stock market. And I want to read two very brief paragraphs which appeared in your statement as published in the February 1946 issue of the Bulletin:

In addition, it is important to point out that so long as the public debt continues to be monetized through the purchase of Government securities by the banking system, the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds. The resultant pressure of an increasing money supply and of lower interest rates is bound to have a further inflationary effect upon all capital assets, and to increase the difficulty of holding down the cost of living.

It is, therefore, imperative that the process of further monetizing of the public debt through the banking system be ended, so that the rate of return on investments would be stabilized and would reflect the supply of savings and investment funds in relation to the demand instead of reflecting an increasing amount of bank credits. This process needs to be stopped, not only by bringing about a balanced budget, but also through measures to check further unnecessary expansion of commercial bank holdings of Government securities.

I think that conforms very much to what you have said this morning. Now, my two questions on that point are these: First, what has been done since this statement was issued to keep the interest rates from going still lower?

Mr. ECCLES. Well, there has not been anything done.

Mr. CRAWFORD. In other words, we are still marking time on that?

Mr. ECCLES. That is correct. I would say that the announcement of the Treasury to pay off, out of their balances, \$1,000,000,000 on March 1, of Treasury certificates, and 1.3 billion dollars of 1-percent notes, and \$500,000,000 of 3¼-percent bonds, on March 15—a total of 2.8 billion dollars—is in the right direction. The Treasury raised, in the Victory drive, far more money than it needed, and it is, therefore, likely to find that it will be able to reduce substantially the debt

during the next year—as indicated in this first step. The Federal Reserve agreed fully with this first step of the program.

It is a mild step in the right direction.

Mr. CRAWFORD. The general fund is now about 24½ or 25 billion dollars, is it not?

Mr. ECCLES. That is correct.

Mr. CRAWFORD. Now, the other question I have on this same thought is this—and this gets into matters of high policy and you may not want to answer it. Is the Board, or are you likely to eliminate the preferential rate of one-half percent on advances by the Federal member banks secured by the Government with maturity of less than 1 year?

Mr. ECCLES. Well, the initiation of that, of course, comes from the 12 Reserve banks. They must propose the elimination of that preferential rate, and then it is up to the Board to approve. Of course, it would be rather premature for me to speak for the 12 banks and the Board members, as to what should be or would be done in that regard. I can say this, however, that the rate was put into effect as a war measure, to help finance the war. It was established in 1942 to make it easy for commercial banks to get reserve credit, so that they could purchase such Government bonds as were necessary to assure the financing of the war at the low interest rates on which it was determined the war should be financed.

We were undertaking an unprecedented financing operation, and nobody ever dreamed before of having to raise \$60,000,000,000 in 1 year, which we did, as I recall, in 1943 and 1944. We had to assure the Treasury that their financing would be eminently successful, and the door to the Reserve banks was opened so that commercial banks could create reserves at a favorable rate.

In my opinion, the need for that rate ceased to exist at the end of hostilities, and it only serves to indicate to the banking system that they can get funds from the Federal Reserve with great ease, and this enables them to buy more securities in the market. As you know, for each dollar of Federal Reserve funds that are furnished the banks, they can buy \$5 worth of securities in the market.

It tends, in other words, to encourage rather than discourage the creation of more bank credit.

Eliminating the rate would in no way increase the cost of Treasury financing. The preferential rate is not necessary to maintain the rates which the Treasury now pays for money. Those rates would be maintained by open-market operations.

I would like to point out, however, that the banks have used, to quite a limited extent, the discount privilege on the preferential rate. I think at the present time there is only about \$400,000,000 of credit extended to the banks on the basis of that rate.

Mr. CRAWFORD. Dr. Smith wants me to ask you what the rate is.

Mr. ECCLES. What it is?

Mr. CRAWFORD. What rate you speak of? One-half of 1 percent?

Mr. SMITH. What is this rate?

Mr. ECCLES. One-half of 1 percent. On Government securities callable or maturing in less than 1 year—1 year or less.

Mr. SMITH. Is that the rate that the Federal Reserve pays the banks?

Mr. ECCLES. No; the banks can borrow from the Federal Reserve on Government securities that mature in 1 year or less at one-half of 1 percent.

Mr. SMITH. That is the figure I wanted.

Mr. ECCLES. Yes.

Mr. CRAWFORD. Mr. Chairman Eccles, did I pick up from your statement which you read there, some reference to the inflationary effect that would follow should we, in making loans to foreign countries, carry the transactions through the Treasury, selling the bonds to our people, or to the banks? What did you say on that?

Mr. ECCLES. Well, I made this point: To the extent that credit is created through the banking system—either an expansion of domestic credit or foreign credit—

Mr. CRAWFORD. That was my point.

Mr. ECCLES. Either of them will add to the supply of money, and that, to the extent that foreign credit may be extended by the banking system, or domestic credits are extended by the banking system, or to the extent that the Government extends foreign credits, and, in turn, finances those credits through the banking system, it creates money.

Mr. CRAWFORD. Would you care to briefly comment on whether or not there is any other practical method of financing we will say, the British loan, other than through Treasury transactions?

Mr. ECCLES. I do not think there is any possible way of meeting it except in that way. However, I would like to say this, in connection with the British loan: It is something that will extend over a period of years. The impact of that does not come all at once, by any means.

Mr. CRAWFORD. All right. Thank you.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Eccles, in giving the different amounts of money now in the hands of the public, or liquid assets, you took into consideration, I guess, the amount of money in actual circulation today?

Mr. ECCLES. That is right. I took it as of the end of the year. It was as of December 31.

Mr. PATMAN. About how much was it then; about \$28,000,000,000?

Mr. ECCLES. You mean in circulation?

Mr. PATMAN. Yes, sir.

Mr. ECCLES. About \$28,000,000,000.

Mr. PATMAN. How do you account for that large amount of money being in circulation? That is about four times as much as we ever had in circulation up until this war.

Mr. ECCLES. That is right.

Mr. PATMAN. How do you account for that? Why would people draw out so much money in actual cash?

Mr. ECCLES. Well, there are several combinations of reasons. [E]

First, prices are higher. It takes more money to do business.

Mr. PATMAN. Now, which prices?

Mr. ECCLES. Consumer prices as compared with 1940 are possibly—oh, I do not know, some estimate 30, 35, or 40 percent higher than they were then.

Mr. PATMAN. Well, that is bound to be on certain prices.

Mr. ECCLES. I am speaking of the average. Some are 60 percent higher, some are 20. I mean the average increase in the cost of living is estimated to be between 30 and 40 percent.

Mr. PATMAN. All right. Well, that would account, say, for a 40-percent increase?

Mr. ECCLES. That is right.

Mr. PATMAN. Which would be very small in comparison with the large amount in circulation.

Mr. ECCLES. Well, that would be maybe \$3,000,000,000 from that source.

Mr. PATMAN. Yes, sir.

Mr. ECCLES. Then, the pay rolls are very much larger than they were prior to the war. You have 52,000,000 employed, and the wages they get are higher. We have substantially more employed and the weekly pay is substantially greater. Together these would account for—I have not estimated the exact amount, but it would account for a good many billion dollars.

Mr. PATMAN. All right.

Mr. ECCLES. Another factor in the increase is that more people are away from home, especially war workers and persons in the armed forces. There was a great shifting and moving of people from their home communities, where they had banking connections and carried their savings and other accounts. As a result these people carried more money—a good deal more money—in their pockets than they would have had they not been moving around. We figure that is an important factor.

Another factor is that the bank service charges, I think, increased the amount of currency used rather than checking accounts. I think that is to the good. To the extent that these bank accounts were small and the number of checks issued was considerable, the accounts were carried at a very substantial loss. With the increased cost of doing business, with the great labor shortage, to the extent that the total amount of small checks was reduced it was a sound banking development. That was, no doubt, a very substantial factor in increasing the use of currency and took the place of a great many small checks.

Then, there are two other important factors. The black-market operations carried on in currency—which are harder to follow—and those, of course, during the war, have been quite substantial.

And tax evasion is another factor that accounts for a substantial increase in currency.

Then, I think there is some—I do not know what amount—that is held by foreigners, who have great confidence in America and the American dollar. Where it is impossible to get gold, they felt that this was the best currency, and wherever they have been able to get hold of it, I think there are some foreign funds carried in currency.

The amount outstanding, taking into account all of these factors, is not at all alarming. The upward trend of currency expansion seems to have ended, and for the first time it appears to have turned downward.

Mr. PATMAN. I notice in one period some \$500,000,000.

Mr. ECCLES. Well, it is down about \$700,000,000 since the end of the year. That is a normal seasonal trend. Even last year, for the first 2 weeks, there was a downward trend, because during the holiday period, when shopping is great, there is always an expansion of currency, but after the first of the year currency flows back into the banks, out of circulation. But this year the downward trend has continued.

It has not turned upward in the middle of January as it did a year ago. It is our feeling that if we hold this line, and prevent inflationary developments, there is not likely to be any material further expansion of currency.

Mr. PATMAN. Now, you mentioned two things there: Tax evasion was one of them, and the other, black-market operations. Both will contribute toward inflation. I believe you will admit that?

Mr. ECCLES. That is right.

Mr. PATMAN. Have you given consideration to any plan by which you might minimize these two operations?

Mr. ECCLES. Well, the responsibility for that, of course, is in the tax field, and is up to the Treasury.

Mr. PATMAN. I have an idea, though, that you have personally given it some consideration, have you not, Mr. Eccles?

Mr. ECCLES. Well, I have, yes; but I think it would be inadvisable to discuss either of those questions.

Mr. PATMAN. Well, suppose, just for the benefit of the committee, you would tell us just what you think could be done that would be helpful in that direction?

Mr. ECCLES. I do not feel that I am qualified, Mr. Patman, to express views on that subject, because there are a good many aspects to it.

Mr. PATMAN. Well, I will not press you.

Mr. ECCLES. I believe that the Treasury, on this question of tax evasion, is making quite a drive. One of the difficulties, of course, during the war, was that it was practically impossible to add to the number of competent people in the Internal Revenue Bureau. So many men were taken out by the draft, and the volume of work of the Bureau was tremendously increased, so that the job of inspection and the job of supervising the tax-collection work was terrifically handicapped. But with the end of the war, and an adequate supply of personnel available—and I understand Congress has furnished the Treasury with such funds as they need to employ extra inspectors—I think without question they can do a great deal in stopping the tax evasion, and in collecting some of the past taxes that should have been paid.

Mr. PATMAN. I notice where you raised the requirements to purchase stock, you eliminated the margins; in other words, in stock purchases?

Mr. ECCLES. Correct.

Mr. PATMAN. Is there anything else you could do toward retarding the stock market?

Mr. ECCLES. There is practically nothing else we can do.

Mr. PATMAN. Have you made any recommendation or any plan that you would care to discuss that would be helpful along that line?

Mr. ECCLES. I made a recommendation concerning capital-gains taxation a year ago last January.

Mr. PATMAN. That is right.

Mr. ECCLES. I mentioned it when I was questioned before the Senate Banking and Currency Committee and this question came up. I have made the same recommendation upon several occasions in connection with the work of the Economic Stabilization Board, of which I am a member. In the statement that was released to the

press at that time—I happened to bring a copy of it along, thinking this question might come up—this is what was said:

The most effective way that I know of to curb speculation in capital assets would be to increase substantially the rate of the capital-gains tax, or the holding period, or a combination of both. For a long time I have advocated enactment of legislation to this end as a temporary protective measure applicable to all future purchases. This would not deter the selling of assets held at the time that the measure was introduced in Congress, but it would greatly deter buying for the speculative rise after that date. It would not affect the purchase of capital assets of any kind which have been or are being bought for personal use or a long-term investment, rather than for the speculative rise.

Mr. PATMAN. I recall that testimony, and I think you are right about it. I think one of the greatest mistakes we have made was reducing taxes so soon and so much, and I think we should have gotten more as we went along, and I think we should have increased the capital-gains tax for the reasons which you have suggested there. It would have been helpful.

Now, one other thing and then I will be through, Mr. Eccles. You mentioned that if we did not curb inflation, that there would be a flight of the dollar. That people would use their liquid assets to buy things. What do you suggest they would buy? Stocks, real estate, and things like that? Things that might increase in value along with the decrease in value of the dollar?

Mr. ECCLES. That is right. Money, or debt forms, such as mortgages, Government and other bonds are, of course, like money, and their value diminishes if there is a decline in the purchasing power of money. I do not mean their price declines, but the value of the dollars they are payable in declines. People are always looking for a hedge against inflation, and stocks—preferred and common—real estate of all kinds—farms, homes, business properties—and commodities, of course, are a way to hedge against inflation. The records in Europe, where there has been an excess supply of money and a scarcity of goods available, such as is the condition today in most of the European countries, show that there is a great pressure for prices to go up. I think that our stock market, our real estate, and even commodities that can be bought, would skyrocket if this Price Control Act were not extended, and vigorously enforced, and unless we maintain taxes, balance the budget, and maybe pay off some of the debt and unless we stop the banks from creating additional money.

Those are, I think, the things we must do to stop this potential from being effective in its inflationary effect, and to cause the public to maintain the confidence that they have today, and justifiably so, in our money. The public has money in savings accounts, Government bonds, insurance policies, retirement funds, and so forth. It seems to me that we have a terrific responsibility—this Government has—to see that the purchasing power of those funds, those investments in insurance, and in savings, and in Government bonds, are protected.

Mr. PATMAN. What do you consider the value of the dollar to be today compared with the period immediately preceding our entrance into the war?

Mr. ECCLES. Well, of course, there is a good deal of argument as to what our inflation has been. Measured by the increase in the cost of living, I think the Office of Price Administration figures that it is about 30 percent or so inflated—which is about as good a job as any country has done. I think maybe Canada has done, if anything, a

little better job than we have. But with most other countries; there has been a greater inflation than that. I would expect that with increased wages and prices resulting from the new wage-price policy, we will get some further increase. It is estimated that there is a possibility of it reaching as high as a maximum of 40 percent. I would think, if the cost of living can be held to 40 percent above the prewar level, that we will have done a fairly good job considering the size of the public financing that has been undertaken.

Mr. PATMAN. You were not here when we were considering the housing bill, which is considered an anti-inflationary bill. Have you given consideration to the fixing of prices on existing homes?

Mr. ECCLES. Yes. I have been in a discussion or two where that matter has developed. In that particular field the job of enforcement is exceedingly difficult. Theoretically, I think the proposal is fine, if it could be made to work. But the job of enforcement is going to be a particularly formidable one. Of course, as I understand the proposal, it is to freeze the price of a home after its first sale.

Mr. PATMAN. The first sale after the law passes.

Mr. ECCLES. That is right. That is the price. From then on, it is frozen at that price.

Mr. PATMAN. During the emergency.

Mr. ECCLES. That is right. Of course, that would keep the home from being sold a second and a third and a fourth time for speculative profit, but, of course, it would not keep it from selling at an inflated price the first time.

Mr. BROWN. Mr. Patman, will you yield?

Mr. PATMAN. Yes.

Mr. BROWN. Now, I do not know a home anywhere that you could get as much for as it would cost you to buy the lot, to buy all the materials, and pay the high cost to carpenters, that you could not rebuild the same house for what you can get for it today. I do not know of any anywhere in my section of the country that would bring as much as it would cost to construct the same house. Therefore, building materials and the construction of new houses will absolutely control the sale price of old houses.

Mr. BUFFETT. Would you yield, Mr. Patman?

Mr. PATMAN. Well, I am going to give up the witness.

The CHAIRMAN. We will call the committee in order.

Proceed, Mr. Patman.

Mr. PATMAN. You mentioned these sales. Was not the second, third, and fourth sale the principal cause of inflation during the last war, Mr. Eccles? That a real-estate dealer would sell the home to the family, and the family would hardly get located until the dealer would go back to him and say, "Now, get your thousand dollars profit on this," and they would keep on pyramiding them that way. Was that not one of the main reasons and one of the principal causes for inflation in housing after the last war?

Mr. ECCLES. I think it was a factor, and I think it is a factor now, and will continue to be a factor, and, therefore, the proposal, to the extent that it does stop the multiple sale of the same house, is of some value and effect.

Mr. PATMAN. You do not know of any better plan, do you, Mr. Eccles?

Mr. ECCLES. Well, I think that the capital-gains tax might be a good plan.

Mr. PATMAN. Yes.

Mr. ECCLES. In other words, I do not see any reason why we should discriminate against homes in favor of stocks, business properties, and farms. They are all capital assets.

Mr. PATMAN. That is right.

Mr. ECCLES. To the extent that you shut the door to inflation in one field, you may tend to stimulate it in another. It would seem to me that the most practical way to get at the inflation of homes as well as farms, business properties, and stocks, is to take out this speculative profit. People who are in the high-income brackets are buying for the rise, because after holding for 6 months, they can sell and pay only a 25-percent tax.

Mr. PATMAN. I realize that.

Mr. ECCLES. We have left the door wide open in that field, and there have been simply millions and millions of dollars made by speculators. We are encouraging speculation in capital assets. We have done absolutely nothing to stop the speculation.

Mr. PATMAN. Well, I do not agree with you. We are not doing everything we can. We are not doing anything to encourage it. We are just failing to act to stop it.

Mr. ECCLES. Well, possibly that is a better way to put it. In other words, we have done nothing to stop inflation in capital assets.

Mr. BROWN. Then, you say that if they put a ceiling on existing homes, they ought to put it on stocks, farms, bonds, and have everything treated alike?

Mr. ECCLES. Well, as a practical matter, you cannot solve it by putting a ceiling, it seems to me, on stocks or bonds, or farms. It would be even more difficult than it would be with homes. What I am saying is that they are all capital assets, and we should stop speculation by extending the holding period, and putting a special tax on the speculative gains.

The CHAIRMAN. Governor Eccles, would you be able to return this afternoon? There are several members who still have to interrogate you and you will not be able to conclude your testimony now.

Mr. ECCLES. I will be able to return. I would like to get through today if I can.

The CHAIRMAN. Well, if you will return at 2 o'clock, that will be all right.

The committee will adjourn until 2 o'clock.

(Whereupon, at 12 noon, the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

(Whereupon, the committee reconvened at 2 p. m., pursuant to the recess.)

The CHAIRMAN. The committee will be in order.

Mr. PATMAN. Mr. Chairman, I just want to ask one or two short questions.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Eccles, I do not want to press you for an answer on these things, but it occurs to me that the Federal Reserve Board is really an agency of Congress, is it not? Is that the way you view it?

Mr. ECCLES. That is the way I read the statute. We are required to make reports to you every year.

Mr. PATMAN. Well, being an agency of Congress, do you not think that we would be within our rights in insisting on you giving us the benefit of your views and suggestions, which would be helpful in answering the situation as it now exists or might exist in the future as regards inflation?

Mr. ECCLES. Well, I think that it is certainly the right of Congress to request the Board, as its agent, for any information and advice that we are able to give.

Mr. PATMAN. I asked you about these reserve requirements this morning. I wonder if you would mind, in view of that premise elaborating a little more fully on what the answer would be in regard to changing the reserve requirements of banks?

Mr. ECCLES. The Board has used practically all of the power it has to increase the reserve requirements of the banks. In the case of the central Reserve cities, namely, Chicago and New York, only, the Board does have authority to increase the reserve requirements against demand deposits by 6 percent. That is the limit to which our present statutory authority would enable us to go.

Mr. PATMAN. Well, if we were to press you for your views on any stand you might have, do you have any views that you would care to express or would be willing to express, which you believe would be helpful if carried out by Congress in combating inflation?

Mr. ECCLES. Well, I feel that the Federal Reserve Board has practically no power to deal with the monetary aspect of inflation that it has not already used, with the exception of increasing interest rates. To the extent that the Reserve System, or the Open Market Committee, we will say, permitted the short-term rate on Government securities to go up, that would be a deflationary factor. To the extent that the discount rate, that is, the regular discount rate, which is now 1 percent, increased, the psychological effect of that, I have no doubt would be a deflationary factor. However, it would be quite unsatisfactory, it seems to me, to try to meet the present problem by what was considered the usual or the orthodox way of dealing with inflationary forces, which was through increasing the discount rate, raising interest rates. Now, the reason for not following this course is that it would increase the cost of carrying the public debt, which is already very high, and it would likewise increase the earnings of the banking system, which are also high. Such a policy would be a very unsatisfactory way to deal with this problem. I am sure that the Treasury would have considerable objection, as Congress and the public would, to increasing the interest burden on the Federal debt for the benefit of the banking system. Therefore, the means that could be used to deal with this problem, when the Federal debt was a very small part of the total debt, cannot be used today when the Federal debt is about two times the entire private debt. It used to be about one-tenth of the private debt along in 1929, whereas today it is nearly two times the private debt. The means of dealing with the problem that would apply in a period when the public debt was small, cannot be used to deal with the problem when the public debt is as great as it is.

Mr. PATMAN. In other words, you do not have the power to deal with the problem adequately?

Mr. ECCLES. I do not think we have the power to deal with the problem at all—that is, I do not think that we have a power that we would be justified in using to deal with the problem.

Mr. PATMAN. Well, can you state any power or powers which, if given you by Congress, you could exercise, which would be helpful in this emergency?

Mr. ECCLES. It would take legislation to give to the Federal Reserve Board adequate powers to deal with the situation. There are various ways, I think, in which the matter can be dealt with.

I should like to cover that matter carefully inasmuch as it is of such great importance, and could be misconstrued or misinterpreted. I should like to see it covered in a report or in a special hearing set aside for the purpose, when I might have adequate time to prepare a statement.

Mr. PATMAN. Would that require say, a week or 10 days, Mr. Eccles? The reason I ask if you can do it within that time, or within say 2 weeks, I would like to ask for consent that you get up your statement and file it in this particular record. Then, if any members of the committee wish to interrogate you about it, they could ask you to come up for that purpose. Would you rather do it that way?

Mr. ECCLES. Well, this is a matter that the entire Open Market Committee and the Federal Reserve Board are as interested in as I am, and I would think that a report, such as you have indicated as being desirable, should be an expression of the views of those in the Reserve System responsible for the policy.

Mr. PATMAN. Yes, sir.

Mr. ECCLES. I would think that that should come up here as a report of the Board, as a part of the report which we send to Congress, or as a special report. We have sent special reports before. If it comes in that way, I imagine the report to Congress would be referred to this committee and could be put either in this record or could be used as a basis for legislation or as a basis for a hearing in connection with consideration of legislation.

Mr. PATMAN. Well, I want to make a request that you prepare a report to the chairman of this committee, to go in the hearings on this bill, if you will and if that is not unreasonable. Do you not think that would be in order and should be prepared, Mr. Chairman?

The CHAIRMAN. If Mr. Eccles wishes to do it, yes.

Mr. ECCLES. Do you mean to have the Board do it?

Mr. PATMAN. Any way you want to do it. Either yourself, after consultation with the Board, or the Open Market Committee, or as an expression from the Board and the Open Market Committee.

Mr. ECCLES. Well, I will be very glad to report to the Board and the Committee this request, and I should think they would be glad to respond.

Mr. PATMAN. To embody any and all the suggestions which you have to make which would be helpful in dealing with the present emergency, and that is asking for legislation, if necessary, and what kind. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I have no questions at this time.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. Mr. Eccles, what you have just been talking about would hardly be apropos of this legislation that we are investigating now, would it?

Mr. ECCLES. Well, certainly I would not feel that it should be tied in with it or made part of it in any way. It is my opinion that this legislation should be extended without amendments, because if the door is open to amendments, it would be difficult to get the legislation passed in time. I would think that this matter of dealing with the monetary questions which Congressman Patman raises is something which should be covered by special legislation, because it certainly would be a very controversial question.

The CHAIRMAN. I do not think it would be essential to have your report in these hearings.

Mr. PATMAN. Well, Mr. Chairman, if he will prepare it, I presume you would be willing to give the members an opportunity to hear Mr. Eccles on it.

The CHAIRMAN. This committee is open for Mr. Eccles any time he wishes to come before us. But I do not think it should be incorporated in this bill.

Mr. ECCLES. No. It would seem to me, as I suggested to the Congressman, that it might be well if the Board and the Open Market Committee are willing to make a report on this question to the Congress, then, this committee could consider such a report and could hold hearings in connection with the report, as they have done in the past with reference to our recommendations.

The CHAIRMAN. We will be very glad to hear you.

Mr. GAMBLE. But it would have no relation to this bill as far as legislation is concerned.

Mr. PATMAN. That is right. It is not contemplated that it should have.

Mr. FOLGER. Mr. Eccles, on the matter of control of prices, the necessity for it comes about, as we see every day, in large measure from the fact that our purchasing power is so great and the things to buy are so few, and we are in a position where we have the necessity of price control; is that not right?

Mr. ECCLES. That is correct.

Mr. FOLGER. Are there not other considerations that should enter into this, such as adequate tax legislation aimed at balancing the budget, and not forgiving too many taxes by reductions such as we had in the Ruml plan and others?

Mr. ECCLES. The statement that I have prepared this morning, and upon which I was interrogated, brought out the fact that this legislation is not dealing with basic causes. It is merely dealing with the effects, and that we must deal with the causes as well as with the effects. The causes were recognized as being first, one of inadequate production, which is of prime importance—that is, to get greater production. The second cause is the unbalanced budget and the need of balancing the budget and if possible getting a surplus, and maintaining taxes as they are. The third was stopping monetization of the public debt by preventing the banks from further increasing their holdings of Government securities.

A fourth one was dealing with the inflation in capital assets, such as stocks, homes, farms, and business properties, by a capital gains tax applying to future purchases. I meant a special capital gains tax and extension of the holding period. Those were the four factors that seem to me to be necessary considerations in connection with this price control legislation.

Mr. FOLGER. What I was intending to follow that up with was this: that you might, by the neglect of these other factors, place on price control too great a burden in the matter of doing what we call stopping inflation.

Mr. ECCLES. There is no question but what price control could not possibly succeed very long if we do not get increased production on a large scale, and if we do not stop increasing altogether, the supply of money.

In the months of November and December, our banking system created more than 11 billions of dollars of new money. They increased their holdings of Government securities better than 7 billion dollars.

Mr. SMITH. Which month was that?

Mr. ECCLES. In the months of November and December. They increased during the Victory bond drive their loans on Government securities—which is just the same as buying them directly, because that credit creates money—

Mr. GAMBLE. Who did that, Mr. Eccles? Pardon me.

Mr. ECCLES. Our commercial banking system—close to something like 3 billion dollars, and they made other loans and investments of about a billion dollars. Those are just rough figures. Now, to get some idea of what that means in an inflationary picture, 11 billion dollars is fully 40 percent of the total demand deposits that we had in 1929, and it is more than 40 percent of what we had in 1933, 1934, and 1935. So we created in 2 months, in new money, a volume of 11 billion dollars. That is pretty fantastic.

Now, I do not see, of course, how there is any likelihood of any such expansion even approaching that in the future, because that was due to the Victory drive. In order to subscribe to the new issues, the short-term securities that were eligible to the banks were sold to the banking system by corporations, individuals, insurance companies, and others, and they, in turn, subscribed very heavily for the Government 2½'s. Those 2½'s and 2¼'s were subscribed in the amount of nearly 13 billion dollars. The result is the Treasury got twice as much money in this drive as the quota it had fixed. Those 2½'s are now selling at a premium of over 5 percent. There is already a premium on those 2¼'s and 2½'s of 500 million dollars, from which the Government gets no benefit.

Mr. FOLGER. Is there any method or machinery that we might employ for encouraging individual ownership of Government securities? To have people buy them and hold them instead of having money in the bank? They have to have money to buy them with.

Mr. ECCLES. Well, of course, I think an effort is being made to get the people to hold them. The E, F, and G bonds, the nonmarket bonds, are the kind of securities that should be offered to the public, and not the market bonds, which they can speculate in.

The E, F, and G bonds are now available for public subscription, and I understand the public are buying more of the E, F, and G bonds than are being cashed in, of the same E, F, and G bonds. They are increasing their holdings on balance. It is true that a great many more Government bonds could be bought with the deposits that are being held idle today. There is a lot of money that is not being used, which, of course, could be invested in Government securities. If that should happen, it would mean that the banks would have to sell the Government bonds they hold and individuals and corporations

would buy them. That would reduce deposits, on the one hand, and reduce Government bond holdings, on the other. That would be reversing the process that has been going on during the war, which is a desirable thing to bring about.

Mr. FOLGER. Maybe that is the psychology we ought to get the people to understand, that this surplus money that they are not able to spend ought to be invested in these bonds which are salable to the public.

Mr. ECCLES. Well, if we can assure them there is going to be no inflation, and that we can hold prices, that is the first essential for getting people to invest money in Government bonds instead of real estate and stocks.

Mr. FOLGER. Would that not help us in holding down inflation? That is, money which we call hot money would be invested in bonds and not in high-priced commodities or real estate or other things of that sort?

Mr. ECCLES. It would be very helpful, of course. If we had been able to do all of the war financing outside of the banks, that would have been still better.

Mr. FOLGER. That is all.

The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. Governor Eccles, in your statement, you talk about getting commercial banks to sell part of their bonds, and get those bought by the public. It is a matter of persuasion, largely, is it not?

Mr. ECCLES. I do not think you are going to persuade them.

Mr. GAMBLE. Well, I have been wondering if it would not act as a little persuasion if we could stop our deficit financing and get out of the red. You speak here of balancing the budget. It seems to me that we are going to be in the red \$4,000,000,000 as contemplated under the budget program. I very much wish that Congress could save that \$4,000,000,000, so that we could just be on an even keel. I think that in itself would hearten the American people and they would be more willing perhaps to buy bonds in peacetime than they have been.

Mr. ECCLES. There is no question but what a balanced budget would be helpful in preventing inflationary developments, and would tend to give the public increased confidence in the public debt.

Of course, although there is in the budget report a deficit contemplated for the next fiscal year, there will be a reduction in the public debt due to the fact that more money was raised in the Victory Loan drive than was necessary or contemplated. That leaves the Treasury balances, of course, abnormally large, and some of those balances, without question, will be used to pay off some of the maturing debt, so that the volume of outstanding Government obligations, over the next year, should decline, I would think, in the neighborhood of 7 or 8 or 9 or 10 billion dollars, depending upon two factors: First, the amount of Government expenditures, and, secondly, the amount of tax revenue.

As to what it will be in the next fiscal year, will depend a good deal to the extent Congress further reduces taxes, or to the extent that Congress further appropriates money. But it would appear at this time that there will be some substantial reduction in the public debt.

Mr. GAMBLE. Some people say that that reduction that is contemplated is more or less of a bookkeeping transaction, but it seems

to me you have got the money, and you have paid off your bonds, so you have reduced your debt. Secondly, by doing that, using that money for that purpose, it cannot be used for something else.

Mr. ECCLES. Well, it is a bookkeeping transaction, but it is the same kind of a bookkeeping transaction that a corporation or an individual has when they have a cash balance, and they have a debt, and they use their balance to pay the debt. The Treasury has a balance here which it got through borrowing beyond what was needed, and now they are using it to pay off some maturing debts.

Mr. GAMBLE. I would like to see it used for that purpose before somebody gets an idea of how to spend \$4,000,000,000, and says, "There is the money."

Mr. ECCLES. Well, I agree with you fully.

Mr. GAMBLE. Do you consider when FHA's capacity is increased, with regard to the housing bill, for instance, that that is inflationary? Some people seem to think it is and others think it is not. It provides a means by which some people can spend their own money to build a house, they say.

Mr. ECCLES. Well, it is only inflationary to the extent that those Federal Housing Administration mortgages are financed through the banks. What I think we all favor, of course, is the banking system making private loans—such as Federal Housing Administration mortgage loans and corporate and other loans—and reducing the amount of Government loans. In other words, if the banks could make a few billion dollars of Federal Housing Administration and other private loans, and reduce their holdings of Government securities by that amount, it would be a desirable thing, and the banks would be coming more into the function of private lending institutions than has been the case during the war period.

The Federal Housing Administration mortgage lending will, of course, be offset by new houses, so that there is an expenditure that is inflationary, we might say, on the one side, but it is also deflationary to the extent that it facilitates production of more houses. The only way in which you can overcome finally the inflationary pressure in the housing field is to get enough houses, and I do not object to the kind of credit that produces more goods, and more services, where there is a short supply.

Mr. GAMBLE. And housing is one of those items that you refer to. You said that we will not be able to produce enough automobiles in the next year. I do not think we will be able to produce enough houses in the next 4 or 5 years.

Mr. ECCLES. Building materials are going to be in short supply for some time, of course. They must be controlled.

The CHAIRMAN. Mr. Hays.

Mr. HAYS. No questions.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. Mr. Eccles, I appreciate very much your bringing this inflationary problem out into the open. It is encouraging.

Mr. ECCLES. Well, this is not the first time, Dr. Smith.

Mr. SMITH. No, that is very true, Mr. Eccles, and I have always appreciated your frankness. You have been one Government official who has always been very brave in this matter. Mr. Crawford left a question here for me to ask you: you spoke about raising the reserve requirements, and at the same time having the banks make an effort

to dispose of their Government securities and holdings to the public. Mr. Crawford raised the question as to whether those two proposals or procedures might not be in conflict with each other.

Mr. ECCLES. Will you ask that question again? I did not get the significance of it.

Mr. SMITH. Well, if you raise the reserve requirements, and at the same time put in motion a policy urging the banks to dispose of their Government holdings to the public, do not those two conflict with each other?

Mr. ECCLES. No; it would work exactly in the opposite way. If reserve requirements of the banks were increased—and, by the way, as I stated earlier, there is practically no authority in the Reserve Board to increase reserve requirements, so the question is purely academic—

Mr. SMITH. Yes; I understand that.

Mr. ECCLES. The banks, to meet the increased reserve requirements, would sell Government securities, because they would have to get the cash that is in the Government securities to meet the increased reserve balances with the Federal Reserve banks.

Now, if the public bought the securities they would reduce their accounts by drawing them out, and if they buy something from the bank—if they draw the money out of the bank, and buy something—then, the deposit goes down on one side of the bank's statement, which is a liability, and the Government bond, on the other side, goes down so it is a complete offset. To the extent that individuals draw their deposits out of the banks and buy Government securities held by the banks one offsets the other.

Mr. SMITH. In other words, the newly created credit established by the process of financing the bond in the first place by the Treasury—

Mr. ECCLES. It is just reversed.

Mr. SMITH. That credit, when the nonbank holder buys a bond, the newly created bank credit is reduced by that amount; is that not so?

Mr. ECCLES. That is right.

Mr. SMITH. Now, I am interested, Mr. Eccles, particularly in your urging that the Federal Budget be balanced. When did the Treasury first begin to finance Government obligations through the banking system? They started that during World War I, did they not?

Mr. ECCLES. They did it in World War I, but in a different manner. At that time they had no open-market operation or open-market committee. They knew little about that mechanism. In World War I, the banks loaned to individuals and corporations, and the individuals and corporations bought the bonds, by paying possibly 10 percent down. That is, they borrowed the money from the banks with which to buy the bonds. So the banks created the money for the individuals and the corporations to buy the bonds, instead of buying the bonds directly as they have during this period. And the banks, in turn, borrowed the money from the Reserve banks on a rediscount, or bills-payable basis.

Mr. SMITH. So that if one bought a bond from a bank, and borrowed the money to pay for the bond, by the amount that one actually paid on the bond, there would be a reduction in the inflationary potential; is that correct?

Mr. ECCLES. To the extent the bonds were paid for, that is correct.

Mr. SMITH. Well, now, I notice—and I got this from your agency—at the close of the first war, the commercial banks held roundly \$5,000,000,000 in Government securities, so all of those securities, then, as I understand it, had been purchased by individuals and were held by the banks, the nonbank holders having borrowed money to purchase those bonds. All of that money, that whole figure, represents bonds of that character; is that correct?

Mr. ECCLES. Oh, I could not say. The banks bought some Government securities, mainly short-term issues, during the First War. At that time, as during this war, every effort was made to do the financing by getting individuals to buy securities directly but there was this difference that to the extent they did not have the cash to buy, they were encouraged to use bank credit. And then, to the extent that they wanted to pay off their loans, they sold their bonds and the banks bought the bonds in the market, as they have bought them in the market during this year. There have been very few Government bonds offered directly to the banks. I think there were some in 1942 and 1943. But in 1944 and 1945, I do not believe there was any direct offering to the commercial banks, during any of the drives that were made.

The banks acquired their Government securities as secondary holders, through purchasing them in the market, from the public who subscribed and sold the securities in the market. Now, that is true with the exception of Treasury bills. The banks can buy directly Treasury bills. That is a $\frac{3}{8}$'s bill.

The CHAIRMAN. Do you have the figure as to the amount that the banks bought, of Treasury bills?

Mr. ECCLES. Yes; there is a total outstanding of Treasury bills of approximately \$17,000,000,000. And of that amount the Federal Reserve holds about \$13,000,000,000. The banks only hold about \$2,000,000,000 of those Treasury bills. The rest is held by corporations and others.

Mr. SMITH. And the remainder of the bonds held by the banks now were actually acquired by them from nonbank holders?

Mr. ECCLES. Well, they have acquired them since the Treasury began its drive—

Mr. SMITH. In 1941?

Mr. ECCLES. 1942.

Mr. SMITH. Now, what amount of newly created bank credit is in existence at the present time? Can you tell me? I have a figure here from the Treasury as of December 31, 1945, which shows a total of \$114,000,000,000 held by the commercial banks and the Federal Reserve bank. Does that figure check with you?

Mr. ECCLES. What date is that?

Mr. SMITH. December 31, 1945.

Mr. ECCLES. That is a total of what, you say?

Mr. SMITH. A total of Government obligations held by the commercial banks and the Federal Reserve bank.

Mr. ECCLES. Our figure is less than that—considerably.

Mr. BROWN. You stated \$95,000,000,000 this morning.

Mr. ECCLES. Yes, 114 may include savings banks.

Mr. SMITH. This says commercial banks and Federal Reserve banks.

Mr. ECCLES. The Federal Reserve has a total of around \$23,000,000,000, and the commercial banks around \$72,000,000,000.

Mr. SMITH. I have the figure for commercial banks, \$90,000,000,000 from the Treasury, and \$24,000,000,000 for the Federal Reserve banks.

Mr. ECCLES. That is correct. The \$95,000,000,000 figure that I gave you was the increase in holdings from 1940. You see, I was giving the growth in deposits from 1940. Your figures show the \$95,000,000,000 plus the holdings of the Federal Reserve and the commercial banks, as of 1940. I think your figures are about right.

The CHAIRMAN. I do not think the stenographer understood you this morning. You said \$95,000,000,000.

Mr. ECCLES. Increase since 1940. It was in my statement. I was giving the growth, and the growth was \$95,000,000,000 since 1940. This is the total. So you would have to take what was held in 1940, plus the \$95,000,000,000.

Mr. SMITH. This \$114,000,000,000 represents, then, the newly created credit in the commercial banks and in the Federal Reserve banks at the present time; is that correct?

Mr. ECCLES. What is that you say?

Mr. SMITH. This figure of \$114,000,000,000 represents the newly created bank credit?

Mr. ECCLES. No, not newly created.

Mr. SMITH. Why not?

Mr. ECCLES. Because there was around \$20,000,000,000 of it in existence in 1940.

Mr. SMITH. Yes. Well, I meant to include what was created before 1940, because the character and nature of it is the same since 1940 as it was before that; is that not correct?

Mr. ECCLES. Yes, but you asked me if this \$114,000,000,000 did not represent the newly created credit.

Mr. SMITH. What I meant by newly created credit was to include all of the credit created in that manner by the banking system for the total time this process of financing has been carried on.

Mr. ECCLES. This \$114,000,000,000 represents the total amount of bank credit that has been created by the commercial banking system, and the Federal Reserve System, over the period—I do not know how long it is—since they have been purchasing Government securities. It would go over a good many years. Even in the twenties there were holdings of Government securities by the banking system, and this amount would be part of the amount that existed in the twenties or during the last war.

Mr. SMITH. Under what authority do the banks purchase these Government securities when they purchase them directly from the Government?

Mr. ECCLES. You mean the commercial banks?

Mr. SMITH. Yes. I know as to the Federal Reserve banks we passed some acts since this war began, but I am thinking about the commercial banks in particular. Could you give me the statutes, or cite to me the statutes that authorize the Treasury, or permit the banks to purchase Government securities from the Government.

Mr. ECCLES. I do not know that there is any special statute. The Treasury offers its securities, and it determines from whom it will accept subscriptions. In the drives the Treasury accepted subscriptions only from nonbank investors. It excluded the banks. Now, it could have included the banks had it chosen to do so. Although the Treasury excluded the banks from buying directly from it there

was nothing to prevent the dealers and the public from subscribing for securities and, in turn, selling them to the banks at a profit. In fact this was done and as a result it created a lot of speculation in Government securities.

Mr. SMITH. The reason I am asking this question is because I am greatly confused. I had the Law Library of Congress look this up for me, and they cited one or two statutes, under which this financing is done, and then I telephoned to the assistant general counsel of the Treasury, and asked him about it, and he replied that there was no specific statute relating to it. But after I had cited to him the two that had been cited to me by the Law Library of Congress, he seemed to change his mind somewhat and pointed out three or four additional statutes which he thought had to do with this matter. I was wondering whether you would care to look that up for me and put in the record a statement showing just what the statutes are which bear upon this subject. Would you care to do that?

Mr. ECCLES. Well, now, I would like to have our lawyers go into it, since it is purely a legal question and I am not a lawyer. If you would give me the exact question, I will be very glad to have our Legal Division answer it if they can.

Mr. SMITH. The exact question is this: Do the banks have legal authority, or are there any particular acts, which especially authorize banks to acquire Government securities of any kind directly from the United States Treasury. That is the question. And, if so, what are those statutes? I would like to have them cited.

Now, Mr. Eccles, I was not here this morning, and apparently from some of the questions that I heard after I came here and some of your statements, I suppose you stated the total amount of liquid assets that are in the possession of our people at the present time.

(The following memorandum was later received for the record:)

BANK PURCHASES OF SECURITIES DIRECTLY FROM UNITED STATES TREASURY

[Memorandum prepared by Federal Reserve Board Legal Division]

The authority of banks to purchase securities directly from the United States Treasury is a part of their general authority to purchase securities. There being no specific prohibition, the general authority includes the specific authority.

The authority of the Treasury to sell securities directly to banks is, similarly, a part of the general authority to issue securities.

The specific statutes involved are discussed in more detail below.

Section 5136 of the Revised Statutes (U. S. C., title 12, sec. 24) states, among other things, that a national bank "may purchase for its own account investment securities." Purchases of certain kinds of securities are subject to certain limitations. However, the statute makes no distinction between purchasing securities from the issuer and purchasing them from someone else. This is true whether the security is issued by the United States or by some other borrower.

State banks obtain their authority from State laws, which contain similar provisions.

United States Code, title 31, chapter 12, sets forth generally the authority of the Treasury to issue securities. Section 752 of the chapter provides in part that the Secretary of the Treasury "may reject or reduce allotments upon applications from incorporated banks and trust companies for their own account and make allotment in full or larger allotments to others." This recognizes the authority to sell directly to banks. In the absence of any specific prohibition, however, this authority exists anyway as a part of the general authority to issue securities.

Mr. ECCLES. The possession of whom?

Mr. SMITH. The total amount of assets that are now in existence or in the possession of our people. Liquid assets.

Mr. ECCLES. Well, I stated what I termed potential inflation which represented the bank deposits—demand deposits and savings deposits—currency, and Government securities.

Mr. SMITH. You mean marketable Government securities?

Mr. ECCLES. No. All Government securities are liquid in that if they are E, F, and G bonds, they can be turned into the Treasury any day. They are cashable on demand.

Mr. SMITH. Well, are the Government bonds held by Federal agencies marketable?

Mr. ECCLES. Well, I was going to say that I excluded from this figure all of the Government securities held by the Federal Reserve banks, the commercial banks, the savings banks, the insurance companies, and the Government agencies.

Mr. SMITH. You mean you excluded those?

Mr. ECCLES. I excluded those in determining the potential inflation.

Mr. SMITH. Would that be the same as the liquid assets?

Mr. ECCLES. Well, these exclusions left the bank deposits, and currency, and the Government securities in the hands of individuals and corporations. That is where the potential inflation is. There is not much potential inflation in the Government securities held by an insurance company or a commercial bank or a Federal Reserve bank because they cannot sell the securities and go out and buy real estate or buy stocks or buy commodities. There is no way in which they can convert those into things, as individuals or corporations can.

Mr. SMITH. What was your figure, then, for liquid assets?

Mr. ECCLES. I do not recall it now. It is in my prepared statement which I gave here.

Mr. SMITH. Well, if it is in there, that is perfectly all right.

Mr. ECCLES. Yes, it is in that statement, Dr. Smith.

Mr. SMITH. Could you tell me, Mr. Eccles—

Mr. CRAWFORD. Will you yield, Mr. Smith?

Mr. SMITH. I yield to Mr. Crawford.

Mr. ECCLES. According to my statement, that figure is about \$275,000,000,000, Dr. Smith. It is about five times the amount that existed prior to the war, in 1940.

Mr. SMITH. How much more is it, Mr. Eccles, than we had following the conclusion of World War I? Can you tell me that?

Mr. ECCLES. No; I cannot.

Mr. SMITH. Would you care to have that looked up and inserted in the record?

Mr. ECCLES. All right.

(The document above referred to is as follows:)

LIQUID ASSETS

For June 1920, demand deposits adjusted amounted to 19.6 billion and United States Government deposits to 300 million, giving a total of 19.9 billion. Currency in circulation amounted to 4.1 billion, making a total money supply of 24 billion as against 125 billion for December 31, 1945. Time deposits for June 1920 amounted to 15.8 billion and holdings of Government securities by the public (excluding holdings by banks and insurance companies) amounted to 18.9 billion, as compared to 50 billion dollars of time deposits and 100 billion dollars of security holdings for December 31, 1945. Total "liquid assets" thus amounted to 58.7 billion for June 1920 as against 275 billion for December 31, 1945. In making this comparison, however, allowance must also be made for the fact that the economy's output (gross national product) was valued at only 86 billion in 1920 as against around 200 billion in 1945.

Mr. SMITH. I yield.

Mr. CRAWFORD. Mr. Eccles, there, of course, would be no conflict whatsoever between the Board raising the Reserve requirements and having the banks sell bonds to the public in order to acquire the funds with which to deposit, in the Reserve banks, to meet the increased requirements, there would be no conflict there. Now, what I think would be appropriate for us to ask on this particular study would be this: Would the Board require any further statutory authority to increase those requirements above what they are at the present time?

Mr. ECCLES. That question was asked me, I think, by Congressman Folger, and I pointed out that we have used all of the authority that we have in the statute, with the exception of the authority to increase the Reserve requirements against demand deposits on central Reserve cities from 20 to 26 percent. That is the only authority that is left us.

Mr. CRAWFORD. If we wanted to materially assist the Board in moving bonds from bank portfolios into the hands of the public, we could well do so by giving you that additional authority; could we not?

Mr. ECCLES. That would require the banks to sell some securities all right. I do not know how fast the public would take them. It would be up to the Federal Reserve to support that market, of course, until such time as they were absorbed.

Mr. CRAWFORD. Yes.

Mr. ECCLES. In other words, the Federal Reserve is in a position to provide for an orderly transition and maintain stability in the market while that process is going on.

Mr. SMITH. Right in that connection, Mr. Eccles, when the bank sells its holdings of Government securities to the public, it converts illiquid assets into liquid assets; is that not true?

Mr. ECCLES. Well, no. When the banking system sells the bonds to the public, the banking system, as a whole—you see, if you had one bank, it would be easy to follow, but you have 14,000—but as the banks, as a whole, sell Government securities in the market, the deposits held by the purchasers of Government securities are canceled.

Mr. SMITH. Yes; I understand that.

Mr. ECCLES. So that one offsets the other.

Mr. SMITH. That was not the question I asked. You might have an equal amount of inflation; but my question was that when a bank sells this bond to the public—to me, for example, if I go to the bank to buy a bond, I now have something which I cannot convert into things; is that not true?

Mr. ECCLES. That is right, as long as you hold that bond, your money is tied up in that bond, and people are much less likely to use bonds than currency or bank deposits.

Mr. SMITH. Well, I suppose you read the article by Benjamin M. Anderson, where he recommended that the interest rate be raised on bonds so as to make them attractive for the public? From your statements here today, it seems to me that you would be in favor of raising that rate, or maybe I am mistaken.

Mr. ECCLES. Yes; you are. I certainly would not be in favor of raising the rate that the Treasury is now paying. The Treasury is paying 2½ percent on its market bonds, and those are noneligible to banks until they get within 10 years of maturity.

Mr. SMITH. Just what do you mean by that statement?

Mr. ECCLES. Well, I mean these 2½ percent bonds, the bank cannot own them or buy them until they get within 10 years of maturity. They are 22–27 year bonds, callable in 22 years—and when they get within 10 years of maturity, banks can buy them.

I think the rates that the Treasury pays on its E, F, and G bonds are quite adequate.

Mr. SMITH. Attractive enough so that they will be held by the public?

Mr. ECCLES. The public do hold them in a very large amount and are buying them today.

Mr. SMITH. Of course, you cannot tell what the psychology is going to be in the future; I realize that.

Mr. ECCLES. What is it?

Mr. SMITH. I say we cannot tell what the psychology is going to be in the future but—

Mr. ECCLES. I do not think you can raise the long-term rate above what the Treasury is now paying. The complaint that is being made today is not that the rate the Treasury is paying is not high enough; the complaint is that the rate that the Treasury is paying is not being maintained—that that rate is rapidly falling. For instance, the bonds that were put out in the November and December drives, the 2½-percent bonds, are selling today at more than 105. They are selling on a yield basis of not 2½, which is what the Treasury is paying, but they are selling on a yield basis of 2.2.

Mr. SMITH. Do you think, then, that Dr. Anderson was wrong in his views?

Mr. ECCLES. Well, I would be very much surprised if Dr. Anderson and I agreed, because he and I have never agreed on anything, as far as I can remember, in about 10 years.

Mr. SMITH. Just a few more questions, Mr. Eccles. You made the statement that foreigners are holding some of our currency, Federal Reserve notes, I take it. Can those people convert their Federal Reserve notes into gold? Can they buy gold with those notes?

Mr. ECCLES. I do not know where. They cannot buy it in this country.

Mr. SMITH. Why?

Mr. ECCLES. Because gold is not in circulation.

Mr. SMITH. Well, did you mean foreigners living in this country or—

Mr. ECCLES. I do not care where they are living. Those who own Federal Reserve notes cannot convert them into gold, whether they are foreigners or citizens.

Mr. SMITH. Why?

Mr. ECCLES. Because the law does not permit it. It prohibits it.

Mr. SMITH. What specific law?

Mr. ECCLES. Oh, I do not know as to that. The Federal Reserve, as a matter of fact, does not own any gold. The gold was all taken out by the Gold Act that was passed by Congress, which turned all the gold over to the Treasury, and that gold is still held by the Treasury. Any gold that comes into the Federal Reserve must be immediately turned over to the Treasury, and all the Federal Reserve gets are gold receipts, or gold certificates.

Mr. SMITH. So there is no danger at all of foreigners who hold these notes converting them into gold?

Mr. ECCLES. There is no danger of any individual converting his holdings into gold. There is this possibility: A foreign central bank or a foreign central government can get gold for its dollar balances.

Mr. SMITH. That is exactly the point that I am coming to. These notes, held by foreigners, can find their way into these central banks, and in that round-about manner, become converted into American gold; is that not true?

Mr. ECCLES. That is correct. If a Frenchman, for instance, has American dollars he may turn them into a French bank and get francs for the dollars. Those dollars would go into the Bank of France. The Bank of France would send that currency to this country, and would get credit in the Federal Reserve bank. The Bank of France would, in that situation, have dollars to its credit at the Federal Reserve Bank of New York, let us say.

Now, if the Bank of France wants those dollars converted into gold, either for export or earmark, it can make such a request. Up to now such requests have been granted, with one or two exceptions.

Mr. SMITH. Now, Mr. Eccles, you recommend balancing the budget, and we certainly cannot continue to pay subsidies and expect to balance the budget; is that not correct?

Mr. ECCLES. Well, it depends on how large the subsidies are.

Mr. SMITH. Well, we will be asked to vote an amendment providing \$600,000,000 of subsidies for the housing program, the Wyatt housing program. Where is the Government going to get that money, except through bank financing?

Mr. ECCLES. Of course, the Government already has the balances. It would mean that to the extent that the Congress appropriates more money, the Government would be able to pay off less of its outstanding debt, because there will not be any more Government financing required. It will merely mean that the present Treasury balances would be used for a housing subsidy to the extent of \$600,000,000 instead of paying \$600,000,000 on the public debt.

Mr. SMITH. Do you think, then, that President Truman's budget message on the state of the Union is correct?

Mr. ECCLES. Well, I could not say. I am not an authority on the budget. I would assume that it was correct. I cannot imagine the Budget Bureau sending up a budget that would not be factual.

Mr. SMITH. I have gone over that pretty carefully, and when I saw, for example, that, included in one of his tables, was something like \$48,000,000,000 of income by the Government, which included the income by financing of Government obligations through the banks, I could not help but feel that there was something unbalanced in his balanced budget. I do not believe it is quite correct to say that Government printing-press money is actual income.

Mr. ECCLES. Well, it is a question of definition. Of course, in the broad sense, whether the Government gets its money from taxation or borrowing, it is all income. The income can be divided, of course, into the sources of income, just as expenditures can be taken to include all expenditures, even though some of them may be money that the Government loans.

Mr. SMITH. Well, maybe we would have a better understanding of it if you would refer to it as income derived from production. There is quite a difference between income derived from production and income derived by the financing of Government obligations through the banks.

Mr. ECCLES. The taxes, of course, would be income. The Government derives practically no income from production, because it is not engaged in the business of production. The Government could not classify much of its income as income from production.

Mr. SMITH. Well, Mr. Eccles, I think you probably misunderstand me a little bit there. I mean that the taxes themselves were created by production, and were an expression of production. They would not exist if people had not produced. That is my point.

Mr. ECCLES. There are a lot of taxes collected that do not come from production. There are a lot of taxes collected that come from speculation. People make money without producing a thing. Look at the stock market trading and other operations. People make a profit and they do not always render a service, and they do not always produce something.

Mr. SMITH. Well, of course, that is more or less of an abnormal situation. It is not really a part of the question that I asked. We are talking rather loosely of bringing production up to the point where it will balance with "purchasing power." I think "purchasing powerless" would be a better expression. But let us call it purchasing power since that is the common way of putting it. I would like to know whether you have any idea as to the amount or volume that must be produced to bring about that balance?

Mr. ECCLES. No; I have no idea as to the figures.

Mr. SMITH. Have you ever seen any study of it?

Mr. ECCLES. No; I do not know that I have.

Mr. SMITH. No one has risked projecting any ideas on that point?

Mr. ECCLES. As a result of our war experience, I think that we can feel reasonably safe in saying that if in addition to the wartime civilian production we can bring into the production of civilian goods most of the production capacity and labor devoted to war—nearly half of our production capacity was producing goods that were not available for civilian use, and nearly half of our labor was either in the armed services or engaged in war production—the supply of goods, with some exceptions, of course—and I pointed out those exceptions this morning—the supply of goods would be sufficient to——

Mr. SMITH. Bring it into balance.

Mr. ECCLES. Meet the demand at least to the point where people would not follow prices up. If people felt that production was on an expanding scale, that they had a chance to purchase goods even at a current price, or at a lesser price by waiting, they would not be inclined to bid prices up. I think that with a year's extension of this legislation, given full production, there would be surpluses of a good many things. And I think that in most categories, with the exception of the construction field and automobiles, there would be sufficient production so as to take off the inflationary pressures.

Mr. SMITH. Was there a shortage of goods in the twenties?

Mr. ECCLES. There was no rise in prices in the twenties. Prices fell from an index figure of 101 in 1923 to 95 in 1929.

Mr. SMITH. That is true, but how was the index compared with 1914?

Mr. ECCLES. Well, it was higher. You never went back to the 1914 level of prices.

Mr. SMITH. Let us go a step further with that. If we are going to use the formula for peacetime production, what part of that formula

are we going to use? All of it? Or just part of it? In other words, are we going to continue deficit financing? That is part of the formula we used to carry on the war.

Mr. ECCLES. Well, I certainly do not think that there would be any need of undertaking to maintain price controls unless we are going to get a great increase in production and unless we are going to stop creating money through deficit financing. In other words, while we are dealing with the effects of inflation, through price control, we must also undertake to deal with the causes of inflation.

Mr. SMITH. The inflation itself?

Mr. ECCLES. That is right, we must deal with the causes that have created the inflation.

Mr. SMITH. That is a fine statement.

Mr. ECCLES. And if we do not, of course, we cannot lick inflation.

Mr. SMITH. The reason I bring this up is because tomorrow we begin debate on the first attempt to put into operation the war formula of production in peacetime. The Patman housing bill represents that attempt. The Patman housing bill provided for subsidies. That provision was stricken out by the committee but an amendment will be offered to restore it.

Mr. ECCLES. Well, a subsidy is not always inflationary. A subsidy may be deflationary in effect. I think subsidies can often be used to a very beneficial effect in preventing inflation.

Mr. SMITH. Preventing the effects, you mean, of inflation?

Mr. ECCLES. No; in preventing inflation.

Mr. SMITH. Well, suppose that—

Mr. ECCLES. But the way you prevent inflation is to get production, and if certain subsidies are necessary in order to get production, it may well be that the subsidy is very much less inflationary than the production is anti-inflationary.

Mr. SMITH. But if the money for the subsidy is raised by deficit financing, or Government printing press money, you certainly do not believe the effect can be other than deleterious.

Mr. ECCLES. Well, as I say, it depends on the extent of the subsidy. I have in mind, for instance, this: During the war, we needed all the copper we could get and still do need it. There are certain very high-cost producers which, at the ceiling price of copper, could not afford to produce copper. Now, to raise the ceiling price enough to induce the high-cost producer to produce copper, would give an abnormal profit to the great bulk of low-cost producers. Therefore, it was very much to the public interest to keep the price of copper, which I think was 12 cents, and in order to get the extra 10 or 15 percent of high-cost production, to give them a subsidy of 3 or 4 cents. That was very much cheaper than raising the price of all copper produced sufficiently high to keep the high-cost producer in production.

Now, I can see similar situations during this period of shortage of supply in which you may need to keep the high-cost producer in production. It may be cheaper to give him a subsidy—cheaper for the public—than to raise the price to all producers, especially if the high-cost producer represents a small part of the total production.

In this housing situation—I am not thoroughly familiar with the details of Mr. Wyatt's proposal—it may very well be that to overcome the inflation in the housing field, and to get mass production of housing, a certain amount of Government help or subsidy is necessary. That, of course, is a debatable question.

Mr. SMITH. Well, Mr. Eccles, what about the principle? The Revolutionary War was financed largely by Government printing-press money. But the moment the war ended, the statesmen did away with bills of credit, Government printing-press money. They did not set up Government-spending programs here and there and say, "Now, we can still print bills of credit to take care of these particular costs." They did away with the whole business, and I am wondering if there was justification for paying subsidies to those high-cost producers during wartime, whether there is any possible justification for this at the present time. What I am afraid of, Mr. Eccles, is this: If you have them here, you are going to have them elsewhere. We saw an illustration of this just a few weeks ago when one of the Government agencies came in here at the time the employees of the meat-packing industry were striking, asking this committee to authorize subsidies for that packing industry. If those subsidies had been granted, it would have meant nothing less than that we were subsidizing the wages paid by that industry. I merely cite this illustration to show you where we are going.

Mr. ECCLES. Well, I can say this: In principle, I do not like subsidies. I recognize that you could avoid any increase whatever in prices by giving subsidies. For instance, in the price of steel, the Government could have given a subsidy to the steel companies of \$5 a ton instead of increasing the price. You could go all down the line and refuse any price increase and grant subsidies, and it would be just as you say, it would merely mean that the Government would be subsidizing the increased wages. Now, certainly you would not get anywhere with that kind of a program in peacetime. You would solve nothing. I think in principle we should get away from subsidies just as quickly as we can. But I still say there may well be certain cases where it is cheaper to have subsidies, so far as the public is concerned, than it is to raise prices.

In general, of course, as I said this morning—and I would like to emphasize it—increased wages should come and must come, if we are to avoid inflationary developments, out of increased productivity per hour of labor, or out of profits. Now, there are a great many industries whose profits will permit them to pay increased wages. The higher wages should come out of those profits instead of out of higher prices.

There are other instances where advances in productivity make it possible to pay higher wages without reducing profits or raising prices.

There are other cases where some increase in prices is going to be necessary, but certainly if we are going to hold the line, after we get to this new level, we simply cannot increase wages by a process of continuing to increase prices. Because then you have the vicious circle of increased wages and increased prices. Labor along with everybody else, should understand that any further increases, after the adjustments brought about by this new wage-price policy have been worked out, must come out of increased productivity or out of profits that industry can afford to pay, and not out of the public through increased prices.

Mr. SMITH. What worries me, Mr. Eccles, is that the laboring people now are up against the hardest proposition they have ever had to face, and which they always face when the Government prints money: That is, a depreciating currency. And I deeply sympathize with the

rank and file of labor today because of that situation. That is all, Mr. Chairman.

Mr. BROWN. Mr. Talle.

Mr. TALLE. Chairman Eccles, I thought you presented a very good statement this morning.

Mr. ECCLES. Thank you.

Mr. TALLE. Last June I tried to point out that price control deals merely with effect. I tried to point out that the cause we should consider was our oversupply of money, including bank deposits, in relation to goods and services. I was really delighted to hear your statement. We have talked a good deal about holding the line. Do you have in mind that that should be a firm line? The reason I ask is that the other day certain officials of the Office of Price Administration referred to the recent alterations in the wage situation as a bulge. Is the price line with a bulge in it the kind of line that you think of when holding the line?

Mr. ECCLES. Well, I do not think it is possible to hold the price line, or what we call the cost of living, rigidly. I do not know that it is necessary. Certain items in the cost of living are going to fluctuate. Certainly, there are many items, of course, that are in such short supply they will be pressing right up against the price ceiling. And some of those price ceilings are going to have to be broken to get production. As I understand the order under which the Office of Price Administration now operates, it is permitted to take into account, as a part of the cost, any increased wages that are approved by the Wage Stabilization Board, as a basis for granting increases in prices, if the earnings of the corporation are below its base period earnings. That might well require some granting of increased prices. You may find that the profits of corporations in many instances will be able to absorb those increases and still be equal to the base period earnings. There will be certain items on which increases will be permitted.

On the other hand, there will be other items that will be in adequate supply, or in abundance. Some may actually need a floor to keep them from going down too far. I think that is likely to be true in certain food items.

Mr. TALLE. It would be reasonable to say that if subsidies are paid, they would represent another bulge in the line, would they not?

Mr. ECCLES. Well, if subsidies are paid, it tends to prevent a bulge in the line. Without subsidies, prices in certain categories would go up and that would tend to put the cost of living up.

Mr. TALLE. The price paid in the market and the price paid by the Government, in the form of subsidy, added together, would represent a bulge, would they not?

Mr. ECCLES. Well, the price paid by the Government to the extent that it can come out of taxes, would not.

Mr. TALLE. That would be a happy day if we could pay them from that source.

Mr. ECCLES. But, as I said awhile ago, it may be even better for the Government to pay a small subsidy in order to get an adequate supply than to raise the whole price level for many producers that need no subsidy.

Mr. TALLE. Oh, I think in the case of the metals that you mentioned, there is no question about the truth of that.

Mr. ECCLES. Well, there may be cases in the packing industry. I understand there are a lot of the smaller packing houses who cannot possibly operate, whereas the big ones can.

Mr. TALLE. Well, the big ones can make money out of cosmetics and athletic goods.

Mr. ECCLES. They make money out of a lot of byproducts and can get by, whereas the small packers cannot possibly do it. Now, the question is Should we increase the price of meat straight across the board for the consumer and give certain packers a greater profit than they need to equal their base-period earnings? Now, the excess-profits tax is out, and the Government can not recapture such earnings. If the excess-profits tax were still in effect, it would not make so much difference.

Mr. TALLE. We run into the differences between integrated and nonintegrated industries in that situation. Would it be fair to say that that black-market operations represent another bulge?

Mr. ECCLES. Well, I suppose that is a bulge that is pretty hard to figure. It is a bulge, all right. If we could determine the amount of goods that are purchased in the black market, but neither the seller nor the buyer advertises that fact. Statistics on that are pretty difficult to get.

Mr. TALLE. Some people have said the black market represents the price you would pay if you had no price control. With that I disagree, because an operation outside of the law is entirely a different matter, it seems to me, from a free market. It might be either higher or lower.

Mr. ECCLES. I rather agree with you on that. I do not think you could prove that the black market is the price you would pay if you had no price control. It may be higher or it may be lower. It would more likely be lower, I would think.

Mr. TALLE. Yes; I think so. I wonder, too, about Mr. Wyatt's recommendation that we introduce accelerated depreciation. I think he calls it accelerated tax amortization. But I think that would be the same as accelerated depreciation.

Mr. ECCLES. That is right. That is what it would do. It would permit new plants and machinery to be charged off more rapidly than is now permitted by the Bureau of Internal Revenue. That is, plants and machinery that were provided for the purpose of meeting this housing problem. That same thing was done during the war. Industry was permitted to get a certificate of necessity in the cases where they desired to build a war plant, and so long as they had contracts for producing war material, they could not get a certificate of nonnecessity. When their business was over, they got a certificate of nonnecessity, and they were then permitted to charge off, during the period in which the plant operated on war business, the entire cost of the plant.

Mr. TALLE. Might have charged it off in 5 years instead of 4?

Mr. ECCLES. Some of them would. They started out at 20 percent, but they were permitted to make an amended return if they did not operate for 5 years. If they only operated 2 years, and they had taken 20 percent the first year, then, they would be permitted, as I understand it, to go back and take 50 percent the first and 50 percent the second. That, of course, was largely paid for by the Government

because those plants were largely in the excess-profits bracket and, therefore, they got back what they otherwise would have paid to the Government for excess profits. The Government really paid for the plants, and the industry owned them.

Mr. TALLE. Actually, that is a hidden subsidy, is it not?

Mr. ECCLES. It is a form of subsidy, but I think it is a form that is preferable to the direct subsidy.

Mr. TALLE. Correct.

Mr. ECCLES. Mr. Wyatt talked to me about some of these matters, and I made that very suggestion. To encourage the production of prefabricated housing and other developments that he seemed to feel were necessary to get mass production, that if it could be done by providing that any investment made for that purpose could be charged off over a short period of time—that is, over the period of time in which the industry was engaged in the production of housing for the emergency—that it would be easier to administer, it seemed to me, than to determine which concern would get a direct cash subsidy, and which one would not. A direct subsidy would be a much more difficult administrative job.

Mr. TALLE. Well, I have listened to your testimony with great interest. These bulges really do concern me a great deal. I realize that what we are doing here is dealing with the effects, and that is why I appreciate your original statement, in which you make those points about production, about balancing the budget and stopping the monetizing of our Federal debt. Doubtless those points are the proper attack. Thank you.

Mr. BROWN. Mr. Buffett.

Mr. BUFFETT. Mr. Eccles, I listened this morning with a good deal of enthusiasm to your statement, and I approved of it quite generally. I only wish that the Office of Price Administration, with their vast facilities for influencing public opinion and public sentiment, were carrying your message to the people of this country, because I think it would do a great deal of good as the honest approach to this problem.

Mr. ECCLES. I do not believe that I would find myself in any difference with Chester Bowles. I am sure that he would fully concur in what I have said with reference to dealing with the causes.

Mr. BUFFETT. Well, all the public information about the Office of Price Administration that I have seen in their brochures, folders, and propaganda that I have seen, we will say less than 10 percent of the information contained therein related to the causes of inflation as compared with the effects of inflation. I think that is a grave error.

Mr. ECCLES. Well, I suppose their role is one of controlling prices and rationing which is dealing with the effects. It is their statutory responsibility to deal with the effects.

Mr. BUFFETT. Of course, they go a great deal further when they explain to people all about inflation, or, at least, make believe they are explaining all about inflation. In that respect I think they have done the country a serious disservice, because they have not carried to the minds of the people the serious impression about the dangers of deficit spending. If they did, it would be reflected in the votes of their Congressmen, I believe. You have pointed out, I believe, that inflationary pressures continue to increase as long as deficit spending continues; is that not right?

Mr. ECCLES. Well, I would not say that. They certainly would insofar as conditions exist now. But I certainly did not feel that

deficit expenditures in the period from 1933 up to 1940 created any inflationary danger. I was a very strong advocate of deficit spending on a much larger scale than was undertaken. I do not feel that deficit spending, as such, necessarily will create inflation. But what I do say is that deficit spending during a period of short supply of goods and services, when there is already a supply of purchasing power such as we have now, that we do not want to add to it, and we cannot add to it without increasing the inflationary pressures.

Mr. BUFFET. That is what our discussion revolves around, the present situation.

Mr. ECCLES. That is right. Now, what it might be in an indefinite future, I cannot predict.

Mr. BUFFETT. No. We are talking about the situation as it exists now.

Mr. ECCLES. That is right. Insofar as we can see it now, we certainly need a balanced budget and it would be helpful to pay something off on the public debt, if that were possible. Now, we cannot reduce taxes and do these things at the same time.

Mr. BUFFETT. Do you observe anything in the legislative behavior of the majority in Congress to indicate that that body is making a determined effort to balance the budget now?

Mr. ECCLES. Well, I think they will all agree that it should be done, but when it comes to voting a tax bill, it is pretty difficult, I suppose, to refuse to reduce taxes. Everybody wants the budget balanced and everybody wants his taxes reduced.

Mr. BUFFETT. Do you think Congress will act to bring that budget into balance until forced to do so, either by a very strongly expressed public opinion or by some unfortunate development in the economic scene?

Mr. ECCLES. I think the budget may well come into balance this next year. If this wage-price policy is effective, and the line is held on the new basis, and we get full production, we will have a very large tax income during the fiscal year 1947. Our expenditures certainly should not increase beyond the budget requirements, and they may even be less.

On the other hand, if prices should go up more, that increases the cost of everything the Government has to buy, the Army, the Navy, and everything else, and we might even get a budget that is more unbalanced than is contemplated. But, as I say, that all depends upon the extent to which we can hold prices. This legislation must be passed to enable the Office of Price Administration to do just that. We must undertake to hold this wage-price policy in line now and get mass production. That is the solution and without it we are in a pretty difficult situation.

Mr. BUFFETT. Is not getting the full production equally important with that?

Mr. ECCLES. Oh, well, of course, if you just do the thing theoretically, it is not with anything. I mean there is no good in holding prices on something that is not produced.

Mr. BUFFETT. Well, I noticed in a late report of the Department of Commerce that their business statistics on production, every item of production was lower than it was the same week a year ago.

Mr. ECCLES. Well, production is not equal today to what it was a year ago. A year ago we were at the very peak of production. We

were in a war on both fronts, and we were producing on the basis of a \$200,000,000,000-a-year national product, which is as high as we have ever reached. We hardly expect in the near future to equal a \$200,000,000,000 national product at the level of prices prevailing a year ago.

Mr. BUFFETT. No, but when all the production indicators are downward, that might be cause for concern, might it not? I can see where durable goods would be down from when we were producing tanks, but the production of cotton mills should not be down.

Mr. ECCLES. No.

Mr. BUFFETT. And the production of food should not be down.

Mr. ECCLES. Well, of course, as you know, we have had some devastating strikes, which have curtailed production, and it still is being curtailed. But it is to be hoped that this is going to be rectified within the next few weeks, so that we ought to be getting a civilian production that exceeds anything we have ever had in peacetime.

Mr. BUFFETT. Well, there are a lot of people who feel that the Office of Price Administration pricing procedures are seriously discouraging full production now. If that should be the case, would it not be true that the Office of Price Administration could be bringing about the very economic crisis they claim they are striving to avert?

Mr. ECCLES. Well, it would be true if that is the case, but I certainly do not believe that that is the case. To take off price controls on the goods—and nearly everything today is in short supply—would cause a rise here that would shock the country. It would upset any possible wage-price relationship, and you would no more than get one wage dispute settled than prices would go up all along the line, and you would run right into another wage dispute. It would be an endless inflationary cycle, I am perfectly sure, under the conditions that exist today, with this huge volume of purchasing power. I do not think there is the slightest question about it. I do not believe that the Office of Price Administration is retarding production. I know that a great many producers claim that they have got to have more profits to encourage production.

I would like you to consider what happened in the 1930's, when business operated, a lot of them, at a loss. They did not quit producing because there was no profit or a low profit. When business operates at a loss, usually it goes broke, trying to get more and more efficient, trying as best it can to meet the pressure of a loss. Sometimes an easy, big profit makes business careless about expenditures.

Mr. BUFFETT. There is no question that there has been a large area in which that has occurred during the war.

Mr. ECCLES. That is right. I think the idea that large profits are essential to stimulate production is quite a myth. I think that if a business has a good profit, with a small production, there is not the same pressure to increase their production so as to reduce the unit cost. If there is little or no profit, on a certain volume, there is great pressure to increase that volume of production, so as to reduce the cost. Everyone knows the greater the volume of production, the lower the cost.

Mr. BUFFETT. Yes, but there is also a stage to be reached where the greater the volume, the more you lose.

Mr. ECCLES. Well, that is correct, if your loss is great. Of course, if there is no way of overcoming the loss, no matter what volume you produce, you may then find that it is cheaper to shut down and absorb

the loss of a closed concern than to try to operate at capacity. That is possible, but to shut down is an expensive operation. A concern not only loses its market, but it has an overhead of depreciation, taxes, insurance, maintenance, and an overhead of taxes—not profit taxes, but business property taxes—as well as the officials of the company to be paid.

Mr. BUFFETT. Yes; but certainly in the brick industry last year, for example, a great many firms closed down in preference to making brick, and for 6 months the brick industry was almost dormant.

Mr. ECCLES. I think that there are some cases where you would lose less by closing. I think there are such cases, and I think a brick-yard would be an example where it would not cost an awful lot to close down. There are many firms, smaller ones, that might find it cheaper to close than to operate, and certainly in those cases there must be adjustment of prices. I am not advocating that we should take the profit out of industry. All I am saying is that we should not be too ready to raise prices on the assumption that that is the only way we are going to get production, if there is a reasonable assurance that there is going to be a fair profit when they get volume production. Industry, as a whole, has made fabulous profits during the war period, as evidenced by the cash and Government securities that they own now as compared with what they owned in 1940.

Mr. BUFFETT. Well, are not those cash and Government securities somewhat misleading in that they represent money that would normally go back for plant replacement in some cases?

Mr. ECCLES. Well, some of it. But a great many plants are in better condition today than they were in 1940, because they were able to maintain their plant at a high level, while they were in the excess-profits-tax bracket, and make the Government pay it. It was to the interest of every industry, to the fullest extent that they could, to maintain the property and to charge it to expense. Now, there was some limitation of labor and material so that it could not be done entirely, but the condition of plant and facilities, I think, is much better than many people would have us think.

On the other hand, a lot of the machinery and facilities has become obsolete due to technological changes, and in order to get cheaper production, large expenditures need to be made to modernize plant facilities. I think there are a good many cases of that sort. You cannot lay down any rule in this matter.

Mr. BUFFETT. No; every business is different. Now, getting back to the balanced budget, how would you answer this question: If deficit spending continues, can we prevent inflation without the use of totalitarian methods of control?

Mr. ECCLES. Well, it depends on the extent of the deficit spending. It depends on how it is financed. And it depends on what the deficit is spent for. If the deficit were spent for production, it certainly would not be as inflationary as if it was not expended for production.

If deficit spending were financed out of public savings and not by the banks, it would not be particularly inflationary.

Then, again, it would depend on the amount of deficit spending.

Mr. BUFFETT. Certainly, if there appears a very real effort to bring the Budget into balance, genuinely into balance, the public confidence is going to increase.

Mr. ECCLES. I am in favor of that. I think that certainly if we cannot balance it under conditions such as we will have during the next few years we never can.

Mr. BUFFETT. There is one aspect of this problem on which I would like to get your views, because it is one that has puzzled me a great deal. We have, say, \$275,000,000,000 of inflationary pressure. We will produce in the next year, say, \$150,000,000,000 of new goods. That automatically creates \$150,000,000,000 of new purchasing power. How do we ever catch up with this backlog of purchasing power?

Mr. ECCLES. Well, the two-hundred-and-some-odd billion dollars is not all going to be spent. Many people are going to hold their Government securities. They do not intend to spend them. They are going to keep them indefinitely, and when one group sells, somebody else buys. So the public, as a whole, is not likely to reduce its holdings of Government securities on balance.

Mr. BUFFETT. If we do not do too much deficit spending.

Mr. ECCLES. If they do not lose confidence in the Government credit, in the purchasing power of the dollar; that is right. We talk about that amount as being inflationary. I would say it is potential.

Mr. BUFFETT. Yes.

Mr. ECCLES. The savings deposits that the people have in the mutual savings banks and in savings departments of commercial banks should not diminish. They may increase. The commercial bank deposits and currency can be spent a good many times within a year. It is a question of velocity. It is a question of turn-over. You could get inflation with an amount of deposits and currency that is very much less than our national income.

Mr. BUFFETT. Yes; there is no question about that.

Mr. ECCLES. And less than it is now, much less than it is now, if you get a sufficiently rapid turn-over. That is the danger today, of course, the rapid turn-over of those deposits, such as are going into the stock market and the real-estate markets. It is the capital assets field where the inflationary danger is greatest today, and that, of course, has an effect upon the whole structure. We have done nothing, we have no mechanism, to control that.

Mr. BUFFETT. But still in that field, if the Budget comes into balance, you are going to discourage a great deal of that.

Mr. ECCLES. Psychologically, that would be helpful, certainly, but it is not a very potent factor to deal with the present situation.

Mr. TALLE. Will you yield?

Mr. BUFFETT. I yield.

Mr. TALLE. In the event we do not balance our budget, Chairman Eccles, and in the event that we adopt controls on properties which people buy for hedging purposes, to protect their savings, in the event that we do adopt such controls, such as, say, price ceilings on homes, or a capital-gains tax, is it not conceivable that we might have a flight of dollars from our country to other countries where those controls do not exist?

Mr. ECCLES. I do not think so, because they do not have the assets that our dollars want to buy. Neither do they have any stability. The inflationary danger is worse in nearly every other part of the world than it is here. We have the thing in control here better than possibly every other country, unless it is Canada and England.

They have done a good job, particularly England, when you consider the very short supply they have of everything. Canada has done an exceptionally good job.

Mr. TALLE. I had Canada in mind and also Mexico.

Mr. ECCLES. Well, you have an inflationary situation in Mexico that is much worse than it is here. I would not be afraid of dollars going from here to Mexico. The reverse is more likely to be true. What we have now is a flight of currency, to the extent they can get out of other countries into this country. Now, of course, they cannot leave most other countries, because those countries exercise exchange control, and a citizen of those countries has no way to transfer his money into dollars, or we would have a flight out of most of the countries of the world into dollars, if there was any way they could get them over here.

Mr. TALLE. What I had in mind there was, in the event of that happening, which I referred to, our next step would probably be—

Mr. ECCLES. Exchange control.

Mr. TALLE. That is right.

Mr. ECCLES. Yes, sir; we would have to put on exchange control if that happened on a large scale. If there were any large flight of capital from here, that is exactly what we would have to do.

Mr. BUFFETT. Mr. Eccles, was not the steel wage increase highly discouraging to public confidence in holding of the line, as it were, by substantially strong-arm methods?

Mr. ECCLES. It was not discouraging to me. It was encouraging, because I felt there was no point in holding the line if we did not get any steel production.

Mr. BUFFETT. You mean after they went on strike?

Mr. ECCLES. That is right. I felt—and I think a good many other people did—that what was known as the Little Steel formula was not going to be able to be held after the war. It was difficult enough to hold it for the last year of the war, and it was quite apparent when the war was over that there had to be some adjustment in that particular field. I was only concerned because the adjustment was not made soon enough to prevent the strikes.

Mr. BUFFETT. Well, now, out in the Middle West today, and in the South, transactions in grain and cottonseed cake and similar protein products have been reduced to a large extent, or altogether, to a barter or black market. Do you not think that the Office of Price Administration is taking a dangerous chance with public confidence when they ignore a situation like that, and do not make realistic adjustments?

Mr. ECCLES. Well, I do not know anything about that situation, so I do not feel that I could comment upon it. I am not familiar with the black-market situation that you refer to. Certainly, anything that is necessary to eliminate the black market should be done. We have got to control black markets, stop black markets. There are various ways of doing it. I suppose it is largely a policing job, or possibly some price adjustment is necessary. As I say, I do not know, in that situation, just how the problem should be dealt with.

Mr. BUFFETT. I suggested to a Member from Texas that perhaps 80 percent of the cotton cake was changing hands in the black market, and he said, "You are wrong; it is 100 percent." Well, when conditions in an industry get to that point, certainly it would seem that some

adjustment would be appropriate. I want to thank you for your testimony. I think you have contributed a great deal to the understanding of this committee of the basic causes of inflation.

Mr. ECCLES. Thank you, Mr. Buffett.

Mr. BROWN. Thank you very much for your testimony, Governor Eccles. The committee will now adjourn to meet tomorrow morning in executive session.

The hearing on the Office of Price Administration will be resumed Wednesday morning at 10:30.

(Whereupon, at 4:30 p. m., the committee adjourned, to reconvene at 10:30 a. m., Wednesday, February 27, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

WEDNESDAY, FEBRUARY 27, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence (chairman) presiding.

The CHAIRMAN. The committee will come to order.

We have with us this morning Mr. John Snyder, Director of War Mobilization and Reconversion.

Have you a prepared statement, Mr. Snyder?

Mr. SNYDER. Yes, sir.

The CHAIRMAN. You may read it without interruption and then you will be interrogated.

Mr. SNYDER. Very well, sir.

STATEMENT OF JOHN W. SNYDER, DIRECTOR OF WAR MOBILIZATION AND RECONVERSION

Mr. SNYDER. Mr. Chairman and members of the committee, in scheduling these early hearings on the extension of the Emergency Price Control Act of 1942, as amended, and the Stabilization Act of 1942, as amended, your committee is performing a very real service to the American people. We must come to grips at once with the problem of keeping inflation in bounds. It is not a threat that may materialize in the future. It is a very dangerous present condition.

There is every likelihood that keeping inflation in check is going to be the most crucial domestic question before us for many months to come. That is why I consider it so important to take steps now for continuing price-stabilization measures for a full year beyond June 30, 1946. I am glad that your committee has offered me this opportunity to discuss the problem with you.

American businessmen and consumers rightly fear the effect of inflation upon our economy. And they should know now that their Government is prepared to safeguard their earnings and savings by stabilizing prices. And they should know now that the Government is prepared to remain on the price-stabilization job until economic equilibrium is within reach.

As you know, I am on record as having said many times that I believe production, in the last practical analysis, is the only real solution to the problem of inflation. I want to take this opportunity to reaffirm that statement. At the same time, I want to say, with equal firmness, that I believe we cannot drop our defenses against inflation before supply begins to approach demand.

Price stabilization is a measure we are using to safeguard our economy against the disaster of rising prices and costs.

We need that safeguard until production is sufficient, and the volume steady enough, to begin balancing with demand. Demands at present are very heavy. They have been built up during the war, and there are new demands at present for many things.

It will take time to manufacture consumer durables, components, materials needed by business, and construction materials—and this alone is a big, time-consuming job which requires changing over and adjusting the Nation's complex business machinery from war to peace production. It will also take time to get these things to the markets. The channels of distribution, wholesale and retail, for business and consumers have to be filled up again. Anywhere from a few weeks to many months are necessary for this. And that supply, once volume production has been reached, will have to be maintained for more weeks and months in order to approach demand.

We should ask ourselves what would happen to production prospects if price stabilization were to end before we had allowed enough time for the practical tasks of reconversion. Suppose we entered a period of spiraling prices and costs, as happened after the last war. If it happened again, industry would certainly be obliged to stock up with materials for manufacture before prices went higher. It would be natural for consumers to rush to buy what they needed before the cost of living climbed further.

It would be natural, too, for business to withhold finished goods from market, because it would be facing a loss to sell when prices were sure to go higher. This situation would, for a time, inevitably increase, not lessen, the shortages of both producer and consumer goods.

A disordered price structure, with prices and costs bolting out of control, would give business in general a poor chance to expand its output of goods and services. Many of the industries producing to fill the most troublesome shortages would run into further difficulties.

It is not reasonable to expect that all production would increase if all price ceilings were removed. In specific cases, where lack of production is retarding reconversion, we can divert labor and materials from other uses, by granting measured price increases, in order to step up output. This can be done effectively only under the stabilization framework. With all prices rising, that advantage would be lost.

At this stage in reconversion there are still a number of obstacles to be overcome before a larger volume of finished goods can flow to market. Shortages of labor, of components, and raw materials, still have to be met. Properly trained workers must be where they are needed and at the right times. Industrial plants and distributors have to reorganize for peacetime trade. Technical changes are still being completed. And labor and management must settle down again into normal bargaining.

These factors must be taken into account when we talk about achieving the kind of substantial production that will eventually smother inflation. But even so, even with practical problems still to be solved, our total civilian production is increasing. There has been noticeable progress in the production and shipment of finished consumer durable goods to market from the reconversion industries.

December shipments of vacuum cleaners, electric irons, refrigerators, electric ranges, washing machines, sewing machines, and radios

ran 10 to 30 percent above November shipments. And industry expects shipments of those and other consumer durables to reach at least prewar rates of shipment by June of this year.

Goods from reconverting industries are coming to market in larger and larger quantities. This new production is coming in addition to over-all production for civilian use that already stands at the highest level in our history.

During the war years production for civilian use, in addition to our unsurpassed war manufacture, outreached any previous peacetime period. And on December 31 production for civilian uses was higher than it had ever been before in peacetime.

During 1945, for example, food production in this country was 35 percent above the average for 1935-38, a peak up to then. An indication of today's volume of production is the amount of goods moving through department stores to consumers. It stands at an all-time peak.

Balance of supply and demand is an eventuality on which we can rely. But it has not yet materialized. It will require time. One reason that it will require time is that present demand for goods is so swollen that even better than ordinary production is not going to be enough to meet it immediately. This factor is one of the inflationary pressures that we have to watch.

Like many other inflationary pressures that have been developing since VJ-day, heavy demand is not itself a bad thing. On the contrary, it provides a bridge which we can use to reach a period of good jobs, stable markets, and better times for all of us. We can reach this period if we take action now to prevent unaway inflation. But if heavy demand, and great purchasing power are allowed to dissipate themselves in a boom that can end only in a depression, we will not be able to build a sound economy in the future.

There are other inflationary pressures that have been building up since last August.

Prices continue to press hard against their ceilings. Wholesale prices have been inching higher and higher. Since last September, wholesale prices have risen faster than during any similar period since 1943.

Consumer spending continues to be heavy. Department-store, chain-store, and mail-order sales were higher during the whole of 1945, and higher during the last month of the year than during comparable periods in 1944. Consumer buying in the last quarter of 1945 was at the highest rate in our history. Retail sales were at their all-time peak as the new year began.

All of these evidences of the trend toward inflation must be considered along with another one. And this is the psychology of inflation that is becoming more and more apparent. Trade and business journals frankly cite the probability that prices will go up. We know that both public and private purchasing agents have frequently been unable to contract for future deliveries of goods except by agreeing to "escape clauses" providing for the possibility of a higher price.

The assumption that prices are going up gives business an irresistible motive to withhold finished goods from market in expectation of higher prices and higher profits. We have not yet been able to judge how much this fact accounts for a number of shortages. But we must reckon with it. It is a practice that adds an artificial scarcity to the very real shortage of goods that already exists.

This fear or anticipation that inflation is on the way, the assumption that prices are going up, could very well be translated into disastrous action. And the action would be a rush to buy that would accentuate the already strong demand for goods and services. There is sufficient buying power available among both business and consumers to give considerable impetus to a buying rush.

It is obvious that we will continue to need safeguards against such growing inflationary tendencies. It would appear that, to safeguard consumers against increased living costs, it would be necessary to control only the prices of food, clothing, rents, and housing. This view has been advanced by those who sincerely want to avoid the development of serious inflation.

I very much wish that this were all that was necessary. It would greatly simplify the task of the Congress and the Administration. Unfortunately, while inflationary pressures remain as great and as general as they are today, this proposal simply would not work.

It would not accomplish our objective of stabilizing the cost of living, because price increases are contagious. If prices in the uncontrolled sectors boomed—as under present conditions they certainly would—no price administrator could hold back prices in the controlled sector.

Just suppose, for instance, that the prices of all durables—autos, refrigerators, radios, furniture, farm machinery—and all services also, increased materially. And this is not in the least unlikely if all price controls were removed.

Could anyone seriously suppose, to cite one example, that the prices of agricultural products could be held down while the price of durables the farmer has to buy soared?

Another type of argument, also advanced by those who do not want to see a runaway inflation, is the contention that continued general price control is really restricting production, and thus contributing to inflation. One main reason for this contention, I think, is that each businessman knows that if his own prices went up, without any change in other prices, he himself could produce more.

This is certainly true. If any single price were raised, while all other prices remained under ceilings, the producer in that line could raise both the wages he pays his workers and the price he offers for materials. He could then attract more labor, get more materials, and produce more. We have taken advantage of this under price control in increased output of materials and products which are bottlenecks in reconversion.

But it does not follow that removal of all controls would have the same effect. Instead, it would destroy the advantage and create disordered markets. Today's high demands can be filled only by many months and, in some cases, years of sizable, steady production.

Certainly, lifting price controls would not help us complete certain necessary reconversion tasks that industry still is working on. The same practical and technical operations would still have to be finished. It would still be necessary to allow time for distributors to reorganize their sales outlets. Workers would still be relocating themselves. Collective bargaining would still have to operate.

If continued price stabilization were actually restricting all production, we would have been undergoing a different sort of transition period since VJ-day. Instead of our present rapid progress, we would

have had a limping reconversion. Unemployment would have increased much more sharply and quickly than it has.¹

However, relying on continued effective price stabilization to keep our economic house in order until production begins to approach balance with demand does not mean that we are determined on rigid and inflexible control of prices.

Existing stabilization powers provide sufficient room for necessary flexibility in price control. The development of a revised wage-price policy by the Government during the last fortnight illustrates this point. Since VJ-day there has been a fairly narrow category of wage increases that could be used by industry as the basis of request for price relief. We have been depending mainly on free collective bargaining by industry and labor to settle the wage issues, without resulting price increases. Industry, of course, could come in after 6 months and ask for price relief on the basis of wage increases that had been granted and that had increased production costs.

Now we have revised those ground rules. By dropping the 6-months rule, we have expanded considerably the category of wage increases that may be approved and used immediately as the basis for price relief for industry. Collective bargaining still remains the open avenue for wage settlement where no price increases are involved.

At the same time we have put a deterrent on excessive wage increases that would serve to promote a spiral of inflation.

Both the new wage policy and the new price policy put an even heavier requirement for speedy action on the Government. This will mean that the operating stabilization agencies—the Office of Price Administration and the Wage Stabilization Board—must accelerate their actions. And I know they are doing everything humanly possible to speed them up. They will need adequate personnel to assure prompt action.

The revised wage-price policy means that industry in general during the coming year will be assured of at least its minimum peacetime earnings. It means that labor in general will be able to soften the shock of reduced take-home pay that has followed the end of wartime pay rates. And it means that agriculture has a better income outlook for the very reason that labor is able to maintain wage levels and so continue to buy farm products.

This stabilization program can be adjusted to meet the changes of the transition period. It is not a formula for rigid control of the economy. We have already dropped the bulk of the wartime economic controls. The few still effective, in particular price control, must remain for a time. We will lift these few remaining controls just as soon as conditions permit. As I have said many times before, conditions will themselves determine the timing.

The time will come when price controls over many more products can be dropped. They should be dropped on each product as soon as supply is in reasonable balance with demand. This may very well result in price control becoming highly selective before the need for it comes finally to an end. But in the meantime we must maintain the machinery for general price stabilization.

During this war we kept prices and the cost of living from getting out of hand. The real battle is at hand. The pressures toward inflation are heavier now, as they always have been following a war. And at present, when we are fighting heavier pressures, our weapons

of defense are fewer. The main one aside from public opinion has now come to be price control.

Subsidies have also played an essential role in stabilizing the cost of living during the last 3 years. They provided certain producers with sufficient returns to enable them to produce adequately without raising prices to the consumer. This was an important factor during the war in limiting demands for increased wages to meet increased living costs.

Farmers, along with consumers in general, have a stake in keeping the cost of living in line. Stabilization has kept the prices of things farmers had to buy from soaring at the same time that farm income has remained good. The drop expected during the last 6 months has failed to materialize. The December cash income of farmers was higher than the August level, with seasonable adjustments.

Nevertheless, even though the subsidy helps keep the cost of living in line, farmers do not like subsidies, and I sympathize with that view. Nobody likes subsidies. The Government recognizes that it is desirable to get rid of all subsidies as quickly as possible and intends to do so.

The Stabilization Administrator has announced that the remaining food subsidies will be terminated as soon as prices of the nonsubsidized elements in costs of living decline enough so that it will be safe to allow the cost of the subsidized elements to go up. At the same time, farm incomes will be protected. Here again, as in price stabilization, it is a matter of keeping a balance. But because subsidies continue necessary for cost-of-living stabilization, it will be necessary to retain the authority to use subsidies, along with price control, during the 1947 fiscal year.

Important considerations of national welfare, as I have shown, make it imperative to extend the Emergency Price Control Act of 1942 as amended and the Stabilization Act of 1942 as amended. I have discussed a number of these considerations in some detail because each of them is important. It is vital to prevent inflationary trends from developing into a real inflation that will hamper business in its effort to produce. It is vital to keep the cost of living in line so that labor need not press for higher wages. It is vital to keep the cost of major raw materials in line so that production can go forward.

I urge your committee to act promptly so that the two acts on which the stabilization program rests may be extended for 12 months beyond June 30.

The CHAIRMAN. Mr. Snyder, it is my recollection that Chairman Eceles said that the wage-price policy of the administration would increase the cost of living by 10 percent. What is your opinion on that point?

Mr. SNYDER. Well, I do not know what figures he used to arrive at the 10 percent increase. If we have the full cooperation of management, labor, and Government in administering the wage-price program as set out last week, I see no real reason for a material increase in the cost of living. There has been no definite figure set for either a wage raise nor for a price raise. There has been no percentage set forth. It has been very definitely stated that the pattern of wage increases would be followed. By that pattern, it means that whatever wage increases were necessary in the various industries or companies to meet their particular demand.

The President has repeated time after time that these settlements must be company by company, and in some cases industry by industry, and that one pattern does not cover the whole field.

There have been some industries in which wage increases have moved right along during the war. There have been others where they have lagged behind, and it takes real collective bargaining to face the facts in each case to determine the necessary wage increase required to meet the pattern of increased cost of living and adjustments between wartime and peacetime wage balance. I can see no real reason for a runaway increase in cost of living at all, if, as I say, we get that cooperation and understanding between management, labor, and the Government agencies who are administering the stabilization controls.

The CHAIRMAN. Well, the wage-price policy does not establish any definite figures. It merely is a relationship, as I understand it.

Mr. SNYDER. That is right, sir.

The CHAIRMAN. How effective do you think subsidies are in increasing production?

Mr. SNYDER. Well, in a number of cases they have been very effective. In the nonfood area, it saved us from many cost increases that would have set probably a trend in other industries. We have had incentives in lead, copper, and things of that sort, in order to get people into those mining industries and those activities, which required some adjustment there, where, if the prices had gone up and the wages had gone up, it would have caused a general trend in that direction in that and all other industries. By making certain subsidy incentive there, we were permitted to hold a better control on general prices.

In the food situation, of course, during the war and during this transition period, it will have to hold down the general cost of living so as not to bring pressure for further wage increases until we get our production picture better in balance.

The CHAIRMAN. Well, by that method a good many of the high cost producers were kept in production; is that true?

Mr. SNYDER. That is correct, sir.

The CHAIRMAN. Do you know of any other effective measures which might be applied which would answer that purpose?

Mr. SNYDER. Right during this period, I do not, sir. You might get into premium prices, which is all the same thing, as subsidies. Until we can actually get production moving along, we are going to have to fill certain weak spots, high cost spots, with price incentives through subsidies for a period of time.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. Mr. Snyder, your testimony indicates that you made a thorough study of the inflation picture. Do you agree with me that the best cure for inflation is full production?

Mr. SNYDER. I am sorry, Congressman, I could not hear you.

Mr. BROWN. Do you agree with me that the best weapon against inflation is full production?

Mr. SNYDER. Yes, sir.

Mr. BROWN. Now, if Mr. Eccles is correct, that the new wage-price policy will raise the consumer's price 10 percent, it is going to take a lot of subsidies to hold the line. Should we raise it again a few months from now?

Mr. PATMAN. Are you sure Mr. Eccles said that? I did not understand that.

Mr. BROWN. I said if he said that. I am just making the statement that if Mr. Eccles is correct, that the new wage-price policy will raise the cost of living 10 percent, it is going to take a lot of subsidies to hold the line. And then, if we have to raise it again 6 months from now, it will take more subsidies.

The CHAIRMAN. I do not recollect Mr. Eccles making that statement, but it has been generally reported that he made it.

Mr. PATMAN. I just do not recollect it that way. I know he said something like that, but I do not quite recall him saying it that way. Is the transcript available?

Mr. CRAWFORD. Yes. We do not have to have any doubt about what he said. We have his testimony right here.

The CHAIRMAN. That is my recollection, at any rate.

Mr. BROWN. I want to compliment you on your statement, Mr. Snyder. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I have no questions at present.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Snyder, I think you have presented a fine argument here in favor of the extension of both acts. I commend you for it. It is a very comprehensive and enlightening statement. I would like to ask you one question about the subsidies on farm products. You state here that the "Stabilization Administrator has announced that the remaining food subsidies will be terminated as soon as the prices of the nonsubsidized elements in the cost of living decline enough so that it will be safe to allow the cost of the subsidized elements to go up; at the same time farm income will be protected."

Now, I assume from that that you contemplate permitting the prices of farm products to go up as the subsidy is taken off. In order to protect the farm income.

Mr. SNYDER. There is no doubt but what that will take place.

Mr. PATMAN. There is no doubt about that at all?

Mr. SNYDER. That is right, sir. That has been a part of the discussion whenever that was brought up.

Mr. PATMAN. That applies to livestock, beef, and all other farm commodities?

Mr. SNYDER. That was always given consideration, that if the price level went down in certain areas, it would be allowed to go up in others.

Mr. PATMAN. In order to make up for that?

Mr. SNYDER. That is right.

Mr. PATMAN. In order to at all times protect the farm income?

Mr. SNYDER. Yes.

Mr. PATMAN. That is all I have, Mr. Chairman.

Mr. BROWN. Mr. Crawford.

Mr. CRAWFORD. Mr. Snyder, our colleague here, Mr. Brown, put a question to Mr. Eccles almost identical to the one he asked you awhile ago. Mr. Brown said this to Mr. Eccles:

Do you agree with me that full production is the best weapon against inflation?

Mr. Eccles replied:

Yes, it seems to me it is the only effective weapon. I do not mean by that we must not stop the expansion of the means of payment.

Mr. Eccles had been discussing the fiscal policies of the Government, monetizing of the debt, so he is there referring to the expansion of the means of payment.

Then, Mr. Eccles continued:

We must retain, in my opinion, the controls until we greatly increase the supply of goods and services that the people want to buy, and until there has been some opportunity to catch up with the backlog, but while we are doing that, we must not undo the benefits of it by further expanding our money supply.

Now, you have had experience in banking, and you know something about the Government's fiscal policy, and I want to ask you the straightforward question: In your opinion, do you believe this extension of the Office of Price Administration for another 12 months, will be efficacious and highly beneficial if the Government, the Congress, and the Administration, continue to monetize the debt, continue deficit financing, and continue to expand these means of payment to which Mr. Eccles has referred?

MR. SNYDER. Well, the payments that he is talking about expanding, I do not quite understand, unless that is debt reduction. Is that what he was referring to there?

MR. CRAWFORD. No. Mr. Eccles gave us quite a good deal of information on what the Government and the Congress have been doing with respect to monetizing the debt, expanding the inflationary base, causing people to move into this zone of fear psychology which I think is mentioned in your statement, the runaway from the ownership of money to the ownership of things, and specifically points out that, in his opinion, merely extending price controls through the Office of Price Administration is not going to do the job. And he says, and I quote him again: "But while we are doing that—" that is, extending price controls—"we must not undo the benefits of it by further expanding our money supply."

Now, going back to my question, I think the country is entitled to have your views as to how efficacious and beneficial you think the Office of Price Administration will be during the next 12 months if we continue to do these disastrous things which Mr. Eccles has cautioned us against, and which he is pleading with us to discontinue.

MR. SNYDER. Well, I suppose I can answer that by stating that my personal opinion is that we must aim toward a balance of our budget. Does that answer your question?

MR. CRAWFORD. No; that does not answer my question, because I am going to ask another one later on. The people in my district, a great many of them, think that the Office of Price Administration is economics' sole salvation for this country. I had a letter this morning from a very poor man. He said the statements coming out of Washington are so confusing that he does not know what to believe. He says one day one Administrator says one thing, and another day another one double-crosses him and says something else, all in the name of continuing the Office of Price Administration as a means of holding down the cost of living, and preventing inflation.

Mr. Eccles comes up here and testifies that these other operations of Government will undo the work we expect the Office of Price Administration to do if we do not discontinue those operations. I am trying to find out if you agree with Mr. Eccles on that observation, or do you contend that the Office of Price Administration can do this job in the face of the Congress and the Administration doing these other things, against which Mr. Eccles complained?

Mr. SNYDER. Well, I would really like to see what Mr. Eccles said and study it. You are asking me a question now—

Mr. CRAWFORD. Well, let us forget Mr. Eccles for a moment.

Mr. SNYDER. All right, let us do that.

Mr. CRAWFORD. Let me ask you point-blank.

Mr. SNYDER. All right.

Mr. CRAWFORD. Do you believe that the Office of Price Administration can do this job if the Government—meaning by that, the administration and Congress—continues to inflate and monetize the debt and deficit financing the way we are doing now?

Mr. SNYDER. Well, that is why I made the statement that I personally believe that we must balance the budget. The deficit financing, the deficit position today, according to the Budget, is about \$14,000,000,000. Of course, over 50 percent of the present output is still for wartime things. That, of course, will be materially curtailed. I have never advocated deficit financing except in extreme emergencies, and I certainly think that it is the administration's general feeling toward the same goal.

I certainly do not think that we can go along in a headlong program of spending and be saved by the Office of Price Administration, if that is what you mean

Mr. CRAWFORD. Do you think the Office of Price Administration will be efficacious if we continue to do what we are doing now?

Mr. SNYDER. Again, I do not know exactly what—if we continue to have to spend this war money, and that sort of thing, why, it would be a tough job, of course, but that is going to be steadily diminishing during the coming year.

Mr. CRAWFORD. Let us try to get at it in this way: The radios this morning were crowded with the message that the Office of Price Administration estimates the increase in meat will be 1½ percent per capita per annum, which would be about 81 cents per capita, to the people. What do you estimate the present population to be?

Mr. SNYDER. Around 135,000,000, I think, somewhere between 135,000,000 and 140,000,000.

Mr. CRAWFORD. Well, if we take the figure of 140,000,000, that increase would be \$113,400,000 increase in the cost of living, as a result of increase in the cost of meat alone. Now, I assume that is a part of this 10-percent increase which Mr. Eccles referred to the other day. Today it is \$113,000,000 on the meat bill, and next week it is clothing, 25, 50, or 100 million dollars, and some other week it is some other item of that kind, steel products, household equipment, automobiles, farm machinery, and everything else. It seems to me we can pile up a billion dollars increase in the cost of living pretty fast. In other words, I do not want to think in terms of 81 cents increase of the cost of living. Let us multiply it by the total population and find out what the cost of the bill is, and then we are getting down to something. If the administration creates an increase, they talk in terms of 5 or 10 percent per capita. If a farmer wants an increase in his wages, they talk in terms of great disastrous inflation. That is the point I want to bring out. I think you know what I mean.

Now, in your fifth report to the President, at page 36, under the heading "Rationing and Price Controls," you make this statement:

Price ceilings have been removed from several thousand items, and the elimination of controls is going ahead on items relatively insignificant in the cost of living. Those already dropped represent only a small percentage of the total. The con-

tinuation of heavy, general inflationary pressures had made the retention of most price ceilings necessary to the maintenance of a stable economy. They will be lifted as quickly as supply approaches balance with demand.

Now, I want to ask you two or three questions on that point.

First, you referred to general inflationary pressures. Briefly, what do you have in mind?

Mr. SNYDER. Well, it is the amount of money and savings in bonds and cash that we have on hand right now, ready to buy goods, with a lack of goods to buy. That creates the pressure.

Mr. CRAWFORD. Well, now, I think you have answered the question which I submitted to you first, with respect to deficit financing and monetizing of the debt. From your combined statement, I would draw the conclusion—and I hope it is fair—that these general inflationary pressures—deficit financing, excess amount of money, and otherwise—make the retention of most price ceilings necessary. Would that be a fair conclusion?

Mr. SNYDER. Well, there is no plan this year to increase the debt; rather there is a plan to reduce it. And so there is a general trend there toward reducing that deficit situation, which will reduce the pressure of increasing the monetary position.

Mr. CRAWFORD. All right. Along that same line of thought, on page 9 at the top, you say:

The time will come when price controls over many war products can be dropped. Then you say:

They should be dropped on each product as soon as supply is in reasonable balance with demand.

I want to make a comparison there between your fifth annual report and your statement this morning. Again in your fifth annual report, you say: "They will be lifted." In your statement, you say: "They should be dropped."

Mr. SNYDER. Well, change it to "should." Change the "should" to "which will," as far as I have anything to do with it.

Mr. CRAWFORD. All right. Would you have any objection to the committee writing language in this bill, as setting up a formula, in that language, which would make it mandatory on the part of the Office of Price Administration to drop those controls, when according to that formula, the supply came into reasonable balance with demand?

Mr. SNYDER. It would be the only problem brought out by such a mandatory position. We have a number of times suspended controls. Then, when it did not work just the way we expected, or conditions changed, they have had to be reinstated for a time.

Mr. CRAWFORD. I do not think there would be any difficulty about that at all. I think if you talk with some of the good drafting people we have—as a matter of fact, some amendments have already been drawn along this line, which certainly fit in with the general procedure of the Office of Price Administration, and whereby I think you could have a satisfactory formula of mandatory removing of these controls, and letting the Office of Price Administration put them back, according to that formula, if it became necessary to put them back.

Mr. SNYDER. Does that not pretty well fit in with the present policy?

Mr. CRAWFORD. Except you take these general inflationary pressures, if they are to determine, there is nothing in the law which

mandates the Office of Price Administration to remove the controls when supply comes into reasonable balance with demand. I think our people all over this country—certainly a great many of them in my district, on both sides of this question, which is a hot issue, and I have left nothing undone that I know of to prevent it from being a hot issue, I have encouraged them to make it as hot as possible—they want to know when these controls are coming off and they want to know the answer to this other question that I will submit to you.

Mr. SNYDER. Before you leave that, let me make a statement at this point. I think that so far as my Office is concerned, we have definitely demonstrated the desire to remove every control that it was possible to remove. I committed myself to such a program when I came down here, and I will continue.

Mr. CRAWFORD. I think you have done that.

Mr. SNYDER. To get to the question that you raised a while ago, I would like to sit down with the administrators of those agencies and talk about the administrative problems that might be brought about by such language in the bill.

Mr. CRAWFORD. With respect to the amendment?

Mr. SNYDER. Yes.

Mr. CRAWFORD. I would certainly appreciate it, because it is going to come up here, I know, by reason of what I have been told, and I wanted to get your views on it. I did not raise it with Mr. Bowles, because I did not get an opportunity. The other question is this, and it is a part of the general procedure. I submitted this question to Mr. Bowles and also to Mr. Eccles.

Do you feel like saying to the people of this country at the present time that insofar as your part of the game is concerned that you feel these controls should be removed, generally speaking, when supply comes into balance with demand, generally speaking, reasonably, so, regardless of the pent-up buying power, with a backlog measured in \$200,000,000,000 or \$300,000,000,000, or \$275,000,000,000, as Mr. Eccles gave it to us? Shall the controls go off when supply comes into balance with demand, or shall those controls be continued as long as that backlog of buying power is present?

Mr. SNYDER. When supply comes into balance with demand, or approaches balance with demand, I think competition will take care of the pricing, and certainly I would think we should remove the controls at that period.

Mr. CRAWFORD. Regardless of the backlog of buying power?

Mr. SNYDER. I think that we may find other areas that we will have to look to at that time, but certainly so far as products are concerned, whenever the supply approaches demand, I see no reason for continuing control on those products.

Mr. CRAWFORD. Now, at the bottom of page 9 of your statement, you referred to nonsubsidized elements in the cost of living. Would you mind, very briefly, enlarging on that?

Mr. SNYDER. Well, that is any item that is not under subsidy. There are only a very few items that are being subsidized. So it is easier to mention the subsidized ones than it is to mention those that are not being subsidized.

Mr. CRAWFORD. In other words, any item covered in the cost-of-living index, on which we are not paying subsidies, that is what you mean by nonsubsidized elements?

Mr. SNYDER. That is correct.

Mr. CRAWFORD. On page 1 of your statement, where you are referring to "the American people should know now that their Government is prepared to safeguard their earnings and savings by stabilizing prices," I had in mind asking you to enlarge on how you propose to do that. Mr. Eccles pointed out these forces now at work which tend to cause people to shift from the ownership of money to the ownership of things. You have something in your statement about it. Do you know of any way in which Congress can further implement the administration so as to help you safeguard the earnings of the people, their savings, and make them believe they will be safeguarded, so as to dampen down, or diminish this psychology? Is there anything we can do other than extending this law?

Mr. SNYDER. Well, I think a very careful study of your tax program, and a careful study of the general expenditures of the Government show that those elements can be used to break down the general backlog of buying power.

Mr. CRAWFORD. In that respect, you can certainly go along with Mr. Eccles, then, can you not?

Mr. SNYDER. Yes, sir.

Mr. CRAWFORD. Then, on page 4 of your statement, in the fourth paragraph, you referred to "like many other inflationary pressures that have been developed since VJ-day, heavy demand is not, in itself, a bad thing." I think there again your statement throws out a red signal to us that we must think in terms of something beyond mere price control.

Mr. SNYDER. Well, by that statement I meant that that demand is fine if we spread it out over a period of years, so that we can build up and maintain a level of production and not have everybody rush out and try to buy up things today, and spend a great deal of money for them.

Mr. CRAWFORD. I have two or three other questions relating to banking, which were touched upon by Mr. Eccles. The day before yesterday he told us that any further decline in interest rates would be inflationary. Based upon your banking experience, and your experience here in the Government, would you give us your thoughts on that?

Mr. SNYDER. Well, I am, of course, immediately presuming, on the statement that has just been made there—frankly, I believe that. Let us take real-estate mortgages, for instance, on apartment houses, and things of that sort. If you reduce the interest rate any lower, you are going to make financing there—you will be getting to an interest rate where you talk about earning three times or four times the interest rate. Why, you are going to make the earnings so small on the apartment—and the price will go up accordingly in your financing—so you are going to add to your cost price of the property or your selling price, you might say, and it just steadily mounts—that the carrying charges are so low that they can go higher in the principal payment.

Mr. CRAWFORD. And would this not also follow: That if we put out new issues at a lower rate of interest, those issues previously outstanding advance in market value, by reason of the fact they carried a higher interest rate?

Mr. SNYDER. That would necessarily follow.

Mr. CRAWFORD. So that tends to encourage people to bid up and they see bonds going up, and they start bidding up on stocks, and you would have a general inflationary movement?

Mr. SNYDER. It would drive more people into the stock market, I am sure.

Mr. CRAWFORD. This is somewhat out of your field, but by reason of your position with the Government, I would like to have your views on it, and it is something we may have to deal with here in this committee before very long. That is, do you think we should give the Federal Reserve Board the authority to increase the reserve requirements?

Mr. SNYDER. In banks?

Mr. CRAWFORD. Yes.

Mr. SNYDER. Well—

Mr. CRAWFORD. The reason I raise this question is: I contend this has to do with inflation and price control, even if it is in some other phase of banking. Because, taking your testimony and Mr. Eccles' testimony, there is no way you can separate the facts.

Mr. SNYDER. I will be glad to submit an answer to that, if you give me a chance to study it.

Mr. CRAWFORD. I was not directing my remarks to you.

Mr. SNYDER. I would like to have an opportunity to study it. That is a financial problem, and one that takes some real study.

Mr. CRAWFORD. Yes. Of course, if the Board does raise those reserve requirements, it will tend to arrest the monetization of the debt, will it not?

Mr. SNYDER. If the requirements are raised, of course, it makes their investment probably in bonds—I do not know, I would have to study it—it would make their buying power of Government bonds less, they may have to cut down their portfolios, they may have to cut down a number of very important loans to industry, which will bring about production, they may have to stop financing a number of small businessmen, and things of that sort, that were really the crux of our whole future. I look to the little businessman always to come through in the long run, because big business has always grown out of the little business. So it is a pretty difficult question that you asked, and I would have to study all phases of the effects of raising the reserve requirements any higher.

Mr. MONRONEY. Could I ask you a question? Mr. Crawford, is it not the fact that the banks have more than doubled their present Reserve requirements?

Mr. CRAWFORD. Yes; but those excess reserves could be dissipated in about 15 minutes after the Board issues the order, if the Board has the authority to do it, and, as Mr. Snyder says, it is an extremely powerful element that goes to work when the Board makes that call.

But we face the cold-blooded proposition—and I think we now have sufficient expert testimony to sustain the observation I am about to make—and that is that the Office of Price Administration cannot and will not—and we have no reason to assume that it can do this job alone. We have got to do some other things along with it. And if giving the Board the authority to increase Reserve requirements, and then if they call for additional Reserve requirements, and that sets in motion a liquidating procedure and arrests the monetization of the debt then, you are giving the Office of Price Administration

some assistance here which it does not get otherwise, because the monetization of the debt continues.

Mr. BROWN. Mr. Crawford, did Mr. Eccles testify to that?

Mr. CRAWFORD. Oh, yes.

Mr. BROWN. Is he in favor of raising the reserves?

Mr. CRAWFORD. Well, you had better read his testimony and see what Mr. Eccles said. I do not know how he could not be in favor of it after what he said. That is all I have, Mr. Chairman.

The CHAIRMAN. I am going to recognize Mrs. Woodhouse.

Mrs. WOODHOUSE. Mr. Snyder, you prefaced some of your testimony by saying that you believe the removal of price controls now would rather hinder production rather than further it as certain groups have argued.

Mr. SNYDER. Yes, I really believe that. We are talking about the broad picture.

Mrs. WOODHOUSE. Yes.

Mr. SNYDER. That is correct.

Mrs. WOODHOUSE. In special cases you believe we should have price relief or subsidies to help overcome the immediate situation?

Mr. SNYDER. That is correct.

Mrs. WOODHOUSE. I think that was all that I had, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. Under the President's new wage-price policies, if increases in wages are permitted, such as to steel, and General Motors, and so on, and if that increase in wages justifies an increase in prices, that occurs, too, does it not?

Mr. SNYDER. If the increase in wage puts the company in a non-profit position?

Mr. BARRY. Yes.

Mr. SNYDER. That gives them an opportunity to apply for price adjustment; yes.

Mr. BARRY. Well, now, would that not naturally increase the price to the consumer who is not directly affected by the increase in wages, and by that I mean the great white-collar class of people, or those who have fixed incomes such as pension or civil-service incomes? Would not their cost of living be increased by such an operation?

Mr. SNYDER. It could, if there was a general scramble for wide wage and price increases. That is why we must keep some price-control balance here, to keep that from just running away.

Mr. BARRY. Well, what do you mean by a general scramble? Where organized labor in steel, in motors, and what not, gets an increase in wages, and as a result of that, there must be price increases in some of those industries?

Mr. SNYDER. In some of them it is necessary and in others it is not.

Mr. BARRY. Well, if the price increase would be substantial, why, then, it would affect the cost of living, would it not?

Mr. SNYDER. If it turns out in the long run to be a substantial amount all the way across, why, it naturally would affect the cost of living.

Mr. BARRY. Is it your opinion that it will not turn out to be a substantial increase?

Mr. SNYDER. I do not see why it should. The steel situation was an unusual one, and does not necessarily reflect others. There will be

many cases where hardship will be the outcome of a wage increase, and they, of course, ought to be given consideration. We have got to always put an incentive, both in industry and manufacturing, as well as in labor. The take-home pay of the industry is something we must give consideration to as well as the take-home pay of labor.

Mr. BARRY. Will not the steel industry affect any other industry that has anything to do with steel or steel products?

Mr. SNYDER. To a degree, yes; but not in any exceptional degree. For instance, the amount of steel that goes into an automobile is certainly less than a ton. So it would not be much over \$4 per automobile. That is not going to materially increase the cost of an automobile. In the case of a refrigerator, it is less than around 35 to 40 cents. And you must remember this that the basic steel prices have not been raised during the war. They were at a lower rate, before this increase was allowed them than they were in 1937. All during the war, except for one raise that was allowed them to meet these fringe costs and shift differential and vacation with pay—they were allowed an increase to meet those base costs—except for that, basic steel has had no price raises during the war, and they have made their profits in the specialties—ships, guns, shells, and things that were for war purposes, upon which there were no price ceilings, and where the Government negotiated directly for those items without any price control. That is where the profits of the steel industry came about. Operating on a full production scale—around 80 percent of capacity—which is considered pretty normal full production for the steel industry—they have been operating in red figures for the last quarter of 1945, which is evident that their basic prices had been too low during the war period, considering all other mounting costs. That is not necessarily true in many, many other products.

Mr. BARRY. How about the automobile industry?

Mr. SNYDER. Well, I do not know about this wage increase, although I am being given to understand that that was not necessarily a price problem. It may develop now, with other prices—I have not seen the latest figure on them—but when they get into production, I do not know whether they are going to ask for further price increases or not.

Mr. BARRY. Is there any fixed ceiling, percentagewise or otherwise, on the amount of wage increase that will be permitted under the new formula?

Mr. SNYDER. There are no percentages, or cents, or any prices mentioned in the wage-price policy, and that was intentionally not mentioned for the reason that we do not want to establish any particular across-the-board price or wage increases because they are not justified. Each industry should be studied to see what the situation is. In some industries wages have gone up 40 to 60 percent during the war, and they are still operating at just about as full capacity, with as much overtime, and with as many hours put in, as during the war. Certainly, there is no immediate reason for increasing wages in that area.

There are a number of industries who have no price problems right now. It is the key ones, the important ones, that we have got to be ready to meet, and that is the reason we have to have a little broader base, and about all the price change we have made here is that we have moved back from 6 months the privilege of using wages for considera-

tion of a price increase, to allow it to be done immediately. That is about the only change in the price situation that has been made from the policy that we have been following since last August.

Mr. BARRY. Did I understand you to say that if subsidies are removed, ceilings will be upped on agricultural products?

Mr. SNYDER. I did not necessarily say that. I said there will be certain areas when subsidies are taken off where prices might go up. Yes. It will depend on supply and demand.

Mr. BARRY. I understood you to say that farmers are against subsidies.

Mr. SNYDER. Well, they normally are.

Mr. BARRY. I cannot help but remember that in the years before the war, we had many fights in the House when farm prices were low, and they fought to support prices and subsidy payments.

Mr. SNYDER. Well, they make a broad differential between support prices and subsidy payments.

Mr. BARRY. Is not a support payment a subsidy? There is no recourse and it comes out of the taxpayers?

Mr. SNYDER. For some reason the farm group put a different interpretation on the two terms.

Mr. BARRY. I know, but it is actually tweedledee and tweedledum?

Mr. BROWN. Mr. Barry, you know very little about agriculture.

Mr. BARRY. Even today, Mr. Brown, you have a guarantee that if prices fall through increased production, the farmers will be guaranteed 90 percent of parity. Two years after the end of the war.

Mr. BROWN. The Government would not pay it.

Mr. BARRY. Where does it come from?

Mr. BROWN. Parity is just a formula where you guarantee so much. The Government does not pay anything.

Mr. BARRY. If the price goes below parity. We have been voting for years for hand-outs of parity payments running into millions of dollars, and I do not think the farmers are any different from anyone else. I do not want to belittle the farmer, because I think he is the backbone of the country.

Mr. BROWN. You folks in New York are a little hard on the farmer.

Mr. BARRY. The farmer sees an opportunity now when his prices have gone from 15 percent below parity, which is a low price level, before the war, to now 17 above parity or more, a 52 percent increase, according to the Office of Price Administration, and naturally the farmers want to see the price ceilings go up as much as they can. That is human nature. But both you and Mr. Bowles approach the farmer as though he is a different segment of this country, as though he is different from the manufacturer and anyone else.

Mr. SNYDER. I certainly do not, Mr. Barry.

Mr. BARRY. It is a tender touch when the farmer is discussed before the committee. And I think he is in the same category as anyone else, and I cannot see any justification for lifting ceilings off farm prices even though subsidies may be taken away, because if the Office of Price Administration is correct, there has been a 52-percent increase. When this law was first passed, if you will recall, this committee established, and the House supported, a floor under farm prices at 10 percent above parity. Then the President called us back and we

came back in a hurry, because the country clamored about that, and we reduced the floor to 100 percent of parity, so that no ceiling could be established below 100 percent of parity. Well, through the Office of Price Administration, the prices last year—I do not have the figures this year—but the average agricultural price was 17 percent above parity, which is to a degree inflationary, because parity has been, for years, the desirable price that the farmer was to get, in order to make an excellent living during a period we picked out. The whole point of this is: I do not want to bear down on the farmer, but I do not want to see him put in an unselfish light.

Mr. SNYDER. Let me make one point clear. There was no idea of lifting the ceiling on farm products completely. But there might be some price adjustments to them if we remove the subsidy, there might be some price adjustments necessary. Not the lifting of the ceiling, but just as in any other industry.

Mr. BARRY. Well, some on agricultural products, I think, have never reached the general average ceiling.

Mr. SNYDER. That is right.

Mr. BARRY. I think Mr. Brown has something in mind about that.

Mr. BROWN. What I have in mind as far as parity is concerned, is that the Government does not pay anything. The Government does not pay anything. The price goes up, but that is the price to the consumer. Now, we could not get food to feed these New York people unless we could get quite a good price. We could not produce it. On account of that, I think the gentleman ought to go along with us, because we certainly ought to give them a little profit so they can feed these people from New York.

Mr. BARRY. All I say is that we could get along without lawyers, Congressmen, and many others, but we could not get along without farmers.

Mr. BROWN. Well, I am glad for that concession.

Mr. BARRY. That is all.

The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. Mr. Snyder, I am delighted that you think production is one of the great things to get us out of this difficulty. You say in your statement here "where lack of production is retarding reconversion, we can divert labor and material from other uses by granting measured price increases in order to step up output." I agree with that in that, too, sir, but will the Office of Price Administration do that? They have not, to date, in any large measure.

Mr. SNYDER. Well, we have in a number of instances done that. On brick, for instance, and things of that sort, in the housing area. And there is no reason why that could not be done in other areas, where it is a high cost producer that needs that stimulus to get into production, where it is creating a bottleneck. It has been done, and, therefore, I feel that there is no question but what it can be done again.

Mr. GAMBLE. For instance, on this bill we have before us today on housing, the one important thing on housing is production. But prices have not been stepped up to any extent along housing lines, and housing people and the contractors claim that it what is retarding their production. I know you have stepped up the price on brick, because we had that up last summer, but the increase did not come along until 6 or 8 months after that.

Mr. SNYDER. Well, there have been some recent adjustments in lumber prices, and there are quite a number of those.

Mr. GAMBLE. That is on the groove and tongue flooring.

Mr. SNYDER. No; I think it goes much further than that.

Mr. GAMBLE. I knew that had been stepped up since the housing bill left this committee.

Mr. SNYDER. There have been quite a number of areas in which there have been some price reconsiderations.

Mr. GAMBLE. Would you give us a list of those building commodities on which pricing has been raised?

Mr. SNYDER. We will supply that to you, sir.

Mr. Bowles put that in the record the first day, I am told.

Mr. GAMBLE. I do not recall that.

The CHAIRMAN. Yes; he did.

Mr. SNYDER. We will see to it that that is definitely in the record, but we understand that it is already in.

That is on page 46 of Mr. Bowles' testimony, Mr. Gamble.

Mr. GAMBLE. On page 9 you speak of maintaining machinery for general price stabilization in the way of a formula, by production increases to drop controls. Now, I do not think there is any question in the world but what we are going to be faced, when we get on the floor with this bill, with certain amendments along certain lines, to drop these things that people think are retarding production. I wish we could have something from your office, or from the Office of Price Administration, to look over along those lines, that we might use if necessary to combat some bad amendments we are liable to get.

Mr. SNYDER. My office will consult with the Office of Price Administration and furnish you with the administrative problems that might develop in case any direct restrictions or formulas were worked out.

Mr. GAMBLE. It is a difficult problem to handle legislatively.

Mr. SNYDER. I am sure it would be, and requires a tremendous amount of study.

Mr. GAMBLE. I just have one other thing. The motto of this committee has been "hold the line" for about 4 years. It has been the motto of the House and Senate. And people write us and say, "Hold the line and extend price control." So far as the "battle of the bulge" is concerned, I do not think any price increase should be pinned on Congress. They ought to stay down with the executive departments, if the prices do go up. That is just an observation. You need not answer it.

Mr. SNYDER. Well, of course, if you take off price control, that may switch the deck, you know.

Mr. GAMBLE. That is all, Mr. Chairman.

Mr. MONRONEY. Mr. Chairman.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. Mr. Snyder, certain big business interests in this country are spending hundreds of thousands of dollars to sell to this country the idea that all of the shortages and lack of production we are undergoing are due solely to restrictive price controls. I can readily understand their desire for quick postwar profit. But the point that you made awhile ago in your statement that they could profit only if they were the sole, little lamb that was let out through the gate, and kept all the rest of them bunched back in the price-control field; is that not true?

Mr. SNYDER. That is definitely true, and I have discussed that at great length with business, and have asked them the pointed question: "Could you, as a business group, or as an individual, guarantee to

us that if we took price controls off and turned you loose, that you would not have pyramiding of prices?" And the answer has been silence every time. I just know, because we went through the last after-war period in a bank, and I know the problems we had with our customers, our loans, I saw many companies go into bankruptcy, I saw many farms foreclosed and many homes lost, simply because of that tremendous rise in cost immediately following the war, and it was a long time coming out of the recession. So that is a condition that I have lived through and not some theorizing. I know what actually happened, and I do believe that we can level this price situation off on a plateau much below the peak, if we are able to continue some controls on prices.

Mr. MONRONEY. In fact, your statement which says that we have increased the food production of the country by 35 percent above prewar supply, under price control, is indicative of the fact that you can get increased production, although you have to have price controls in the process. Do you have any estimate of how much production this country has, aside from food, at the present time, compared with prewar production?

Mr. SNYDER. Civilian production, you are talking about?

Mr. MONRONEY. Yes.

Mr. SNYDER. I could get you that figure.

Mr. MONRONEY. I think it would be interesting, because, realizing that the cost of food represents about 40 percent of the cost of living index—

Mr. SNYDER. We could give you a figure as of December, possibly. We have had an unusual situation develop with the strikes, and so forth, which have set us back in that civilian production.

Mr. MONRONEY. I think it would be very interesting in the light of the hundreds of thousands of dollars that have been spent in this—every paper in the country almost—to sell this phoney to the people, to have a definite schedule of how our production is coming on.

Mr. SNYDER. Well, our reconversion had progressed at a tremendous rate up until the strike situation started. We were well ahead of any anticipated condition that we had looked at prior to VJ-day.

Mr. MONRONEY. But you never hear anything about the shut-downs and the lack of production that occurred while they were waiting for the excess-profits tax to disappear. You never heard anything about the loss of production from the manufacturers particularly, as they adamantly refused to try to settle strikes until after the excess profits period was over, and now they turn, with all the money that they can spend, to sell this country on the idea that the Office of Price Administration and price controls alone are stifling the production in this country.

Mr. BARRY. Will you yield?

Mr. MONRONEY. Yes.

Mr. BARRY. Was not the general shortage of labor itself during the war proof that there could not have been much of an over-all production? Where would the labor come from?

Mr. SNYDER. Well, of course, labor and materials both retarded civilian production during the war.

Mr. BARRY. That is true, but I mean the labor shortage itself. We just could not produce much more, even if we had the materials.

Mr. SNYDER. Civilian production during the war was at the peak allowable; there is no question about that.

Mr. BARRY. Despite the Office of Price Administration.

Mr. MONRONEY. And it was far greater than anybody ever anticipated it would be.

Mr. SNYDER. That is correct.

Mr. MONRONEY. They were estimated it would drop down to forty or fifty billion and during the war it stayed up to around seventy or eighty billion dollars in civilian goods; is that not a fact?

Mr. SNYDER. It stayed up materially higher.

Mr. MONRONEY. Even with rigid price controls?

Mr. SNYDER. Yes.

Mr. MONRONEY. And you would say that there is no lessening of civilian production today compared with the civilian production we had while the war was on, is there?

Mr. SNYDER. Up to December 31; yes. We have the figures as of that time.

Mr. MONRONEY. Now, you are saying \$5 per ton increase in the price to steel might mean only \$4 increase on the price of a car. Is it your idea that we can freeze this steel raise all the way through the varying processes, a sort of dollar pass through, so that you will not have to increase percentagewise, the normal fabrication profits that an automobile fender maker might be able to add onto this \$5 per ton raise and finally bring it out to the consumer at \$100 per ton?

Mr. SNYDER. We have got to look at both sides of the thing. We have to look at the wage increases which would have to go all the way through, which would have a greater bearing than the price increase. But with the balanced wage-price program we have now, if we get the cooperation of management, labor, and Government, in a program of holding this thing in line in the proper way, I think it can greatly lessen the effects it would have on the cost-of-living index.

Mr. MONRONEY. One other point on this wage question. If an automobile manufacturer or a steel mill or anybody else has been paying \$1 an hour for their labor and working that labor 48 hours a week, the going rate per hour, that they would be paying for that labor would be \$1.08 and a fraction per hour. In other words, they would drop back to a 40-hour week, and they could still absorb an 8-plus cents per hour raise, without having the per hour rate of their labor increased in any way from their prewar performance.

Mr. SNYDER. If their rate of profit was at the same rate it was during the war; yes.

Mr. MONRONEY. In other words, about an 8½ cents per hour raise on a \$1 per hour rate would not run their labor cost a single bit above what it was during the war? Would it?

Mr. SNYDER. But I say, provided that their profits were at the same level as they were during the war. If they dropped into a red position—you see, the renegotiation was to prevent excess profits during the war, but at least it assured them a profit of a pretty good size. But if all those profits were taken out, with the wartime products, which had no ceilings, and you drop back to a ceiling situation which puts you in the red, you cannot say that their labor—maybe in dollars and cents it costs them no more, but their ability to pay it is completely changed. That is why you cannot just put a broad

tape down and say this is the measure and this is the formula. It has got to be studied, as everybody agrees, with collective bargaining in each instance, to see just how much can be paid and how much they are entitled to get in pay, and what price rise might be necessary in order to enable a company to pay a proper wage rate.

Mr. MONRONEY. But the point I am making is that a 15 or 18 cents per hour increase does not necessarily reflect a full 15 or 18 cents added cost to the manufacturer, because the chances are—

Mr. SNYDER. We agree on that. But as to whether it can be absorbed or not is another question; do you see?

Mr. MONRONEY. He might be able to absorb the whole thing or he might not be able to absorb any of it.

Mr. SNYDER. That is correct. If the profit level should go on at the rate it was, they would be able to absorb it, but if their profit position dropped off, and they got into red figures, no business can be expected to continue too long at less-than-cost operation.

Mr. MONRONEY. But it is also important, then, where he is making 50,000 units or a million units?

Mr. SNYDER. No doubt, a full production line certainly brings down the overhead cost.

Mr. MONRONEY. That is all.

Mr. SUNDSTROM. Mr. Chairman.

The CHAIRMAN. Mr. Sundstrom.

Mr. SUNDSTROM. I am glad to hear your statement, Mr. Snyder, but I am very interested in the statement you make on page 4 in which you say one of the big dangers of inflation is psychology. I agree that is one of the greatest dangers we must face, the psychological effect. That is why I am so disturbed when certain men in high office make statements that we are now on the verge of the highest explosions we have ever had on inflation, and we are going to set them off, and in this past week, up in Jersey, every radio station I know has gotten a transcription, which runs about once an hour, telling the people all about the Office of Price Administration and ending up with a catch phrase that "unless you save the Office of Price Administration, you do not save yourself, and you do not save the country." To me that is the greatest fear psychology you could possibly give the American people. If we want to give them freedom from fear, we had better free them from some of those radio broadcasts. What do you think of those as one of your psychological effects?

Mr. SNYDER. I would rather not discuss that.

The CHAIRMAN. The House is in session.

Thank you for your statement, Mr. Snyder, and your very fine testimony. We are always glad to have you come before the committee.

The committee will adjourn to reconvene tomorrow morning at 10:30.

(Whereupon, at 12 noon, the committee adjourned, to reconvene at 10:30 a. m., Thursday, February 28, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

THURSDAY, FEBRUARY 28, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence (chairman) presiding.

The CHAIRMAN. The committee will be in order.

I regret very much, Mr. Flanders, that the House will be in session at 11 o'clock and the committee has a bill coming up as soon as the House convenes, hence we will have to adjourn at 11 o'clock.

I wish to say that we had you and Mr. Sherman as witnesses on the Bretton Woods bill that we were so pleased with your testimony we have invited you back to give us what information you could on the continuation of price control and the Stabilization Act.

Mr. FLANDERS. Thank you, Mr. Chairman.

The CHAIRMAN. You may proceed.

STATEMENT OF RALPH E. FLANDERS, PRESIDENT, FEDERAL RESERVE BANK OF BOSTON, CHAIRMAN OF JONES & LAMSON MACHINE CO., OF SPRINGFIELD, VT., AND CHAIRMAN OF THE RESEARCH COMMITTEE OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT.

Mr. FLANDERS. For the record, I am Ralph E. Flanders, president of the Federal Reserve Bank of Boston; chairman of Jones & Lamson Machine Co., of Springfield, Vt.; and Chairman of the Research Committee of the Committee for Economic Development. In the last-named capacity my associates and I have been working for more than a year studying the problem of how to restore an economy free of direct price and production controls, which will at the same time be safeguarded against both inflation and depression.

Last April the Committee for Economic Development Research Committee published a statement of national policy on the subject of the removal of wartime controls. We were fortunate enough at that time to foresee some of the problems which we are now facing. I should like to read a few short paragraphs from that statement.

The CHAIRMAN. Do you come as a representative of the Committee for Economic Development, Mr. Flanders?

Mr. FLANDERS. Yes, sir.

The CHAIRMAN. Thank you. You may proceed.

Mr. FLANDERS. I shall not discuss the specific recommendations.

That statement reads in parts as follows:

As the Committee for Economic Development has stated, the objectives are high consumption, high production and high employment.

It is assumed, also, that our objective is to attain these within the framework of a vigorous and expanding economy in which the great volume of jobs will be provided by free private enterprise

The committee believes that these objectives will best be served by the ending of all wartime controls as soon as the emergency needs for them have ended.

At the same time, it must be very clear that no control should be removed at a time when its removal would jeopardize * * * the successful transition to a healthy peacetime economy.

* * * On some controls—production controls for example—action must not wait beyond [the period of need for war production] if high civilian production and employment are to be reached at the earliest possible moment. Other controls, notably those affecting prices, may have even an increased importance for a period after production controls are ended. They will be our chief protection against inflationary pressures in the transition period while production is being expanded, inventory pipelines filled, and excess demand induced by wartime savings is being worked off. Since it will be wise to remove some controls promptly after war production needs are satisfied, there is sure to be a demand for the unwise early removal of others which can perhaps serve their greatest usefulness actual fighting has stopped.

I shall not discuss the specific recommendations made last spring, as they have already been presented to your committee by another member of the Committee for Economic Development Research Committee. That was Ray Rubicam, who appeared before your committee, when the same question was up for consideration, that is, the renewal of the office of extension of price control. I shall be happy to supply you with copies of the recommendations in full, however, if you wish them.

More recently the research staff of the Committee for Economic Development has been preparing a report entitled "Jobs and Markets," addressed to the problem which your committee is now considering—how to restore free markets in the transition while preventing inflation and depression. The recommendations of this report are the independent findings of the economists who make up our staff. They do not necessarily represent the views of the businessmen on the Committee for Economic Development Research Committee or its board of trustees. I do recommend the report, however, as a thoughtful and balanced analysis, worthy of your careful attention. The report will be publicly released tomorrow and copies have been distributed to the members of your committee.

The report urges the need for a comprehensive program to achieve three objectives:

- (a) To expand rapidly to a high level of production and employment;
- (b) To prevent a major rise in the general level of prices;
- (c) To eliminate price control as soon as it ceases to be essential for the achievement of high employment and stable prices.

It is the conclusion of the research staff:

1. That price control authority should be extended to June 30, 1947, and terminated on that date, except in the field of rents;
2. That, for the period of its extension, administrative operations of the price control authority should be speeded up, price control standards should be raised moderately, and a vigorous policy should be followed in suspending controls;

3. That a policy which consists merely of the extension of price control authority is not enough. The staff urges the prompt adoption of fiscal and monetary policies which will bring demand into balance with supply at high levels of employment and which will permit the termination of price control at an early date without inflation.

Specific proposals for carrying out this program are presented in the research report which has been distributed to you. I shall not go into them further but shall turn instead to my personal observations.

In my view, two issues about price control are easily disposed of: First, price-control authority will be needed beyond June 30, 1946.

Second, price control must not be permanently or indefinitely continued. Its definite and early termination must be assured.

We now see on every hand the evidence of extreme inflationary pressure. Incomes are high, the public has an enormous amount of money and the demands pent up during the war are great. Although supplies for civilians are increasing, the public still wants to buy more of almost everything than is now being produced. Without price ceilings, the prices of many commodities would now be skyrocketing under the pressure of excess demand. We look forward to a further expansion of production, and we must do everything we can to hasten this expansion. But it is not at all clear that foreseeable production increases will eliminate, or even appreciably narrow, the excess of demand. Expanding production will bring higher incomes, increased bank credit, and general optimism. It might conceivably increase, rather than decrease, inflationary pressure, particularly for goods in scant supply and under price control.

I need not elaborate before this committee the evils of inflation. Certainly every group in this Nation—including the business community—would reap irreparable loss from such a price increase as followed the last war, to say nothing of more extreme possibilities. For some months price control will be an indispensable protection against runaway price. We must not abandon it prematurely.

But the evils of indefinitely continuing price control would be even greater than the evils of eliminating it too soon. Our economy runs on prices. Prices determine who produces what and how much he earns for producing it. The authority to control prices cannot be centrally administered for any sustained period without inefficiency, inequity, break-down of respect for law and, most important, serious danger to our personal and political freedoms. I think there is no likelihood that the American people will embrace regimentation willingly. But there is a risk that in default of proper policy we will reluctantly accept more and more controls as the only alternative to real economic ills. We do not want to be confronted a year from now with the choice which faces us today—inflation or price control. It will take positive action to escape that dilemma.

I shall return later in this statement to the question of getting rid of price control rapidly without inflation. First, I wish to make certain recommendations about the kind of price control that should and can be continued for a limited period. Price control at present is unworkable and often unfair. We must look for legislative standards and administrative procedures which will operate quickly, without impeding production or creating major inequities and at the same time will prevent a serious increase in the general level of prices. Perfection cannot be expected in any of these regards. But I believe

that some changes can be made that will greatly improve the transition functioning of price control.

My recommendations are not intended as a reflection on the OPA staff. The members of that staff with whom I have come in contact have been conscientious and hard-working. For 4 years they administered a wartime law under wartime conditions with great success. Since VJ-day numerous steps have been taken to reconvert price control to transition needs. Congress should hasten that reconversion process by restating in new terms the objectives, standards, and general procedures of price control.

The major goal of my recommendations is to speed up and simplify price control. The most common and most serious criticism of OPA is that it acts too slowly to meet the needs of a rapidly changing peacetime economy. The pace of reconversion has been rapid; it would have been even faster if price determinations could have been obtained from OPA more quickly. It seems probable that the stabilization order recently announced by the President will result in a greatly increased number of applications for price adjustment, thus materially increasing delay.

The following are the proposals:

First, automatic pricing.

The establishment of ceiling prices would be speeded and simplified if the responsibility for price determination were shifted as far as practicable to the individual businesses concerned. A business would compute its own ceilings, pursuant to legislative standards and OPA regulations, and subject to review and enforcement by the OPA. The prices so computed would automatically become effective unless disapproved by OPA within a specified short-time period and OPA would retain the right of revising these prices subsequently. I realize that there are many cases where this procedure will not work—for instance where uniform prices must be set for the product of numerous sellers. But a similar procedure is being used now in certain fields—notably for small and new firms in the reconversion industries. What I propose is the extension of a device already found practicable. Such self-pricing procedures could safely be applied now to firms seeking price relief under the “general rescue” provisions, which authorize price increases to a break-even level. They could also be made available to most, if not all, reconverting firms. I suggest that the use of self-pricing procedures be extended by legislation over as broad an area as now seems practicable and that OPA be directed to apply the system elsewhere as rapidly as it becomes feasible to do so.

There is an instructive precedent for this course in our experience with contract settlement. In order to avoid interminable delays in settling \$50,000,000,000 of contracts by the usual method of checks and counter checks the Congress authorized a streamlined procedure. A large part of the work is done by the contractors themselves under a uniform formula and subject to prompt review and final settlement. The speedy settlement of contracts has been a major aid to reconversion. I am certain that the cases of fraud or evasion are infinitesimal and the great gain has been well worth the slight risk on this score.

Second, use of actual costs.

In one respect the President's recent stabilization order appears to me to represent a backward step. Section 2 (b) of Executive Order

9697, setting forth the new policy, provides, in essence, that price adjustments shall be such as in the judgment of the Price Administrator will be sufficient to enable the industry, unless operating at temporary low volume, to earn an average rate of profit during the ensuing 12 months equal to the rate of return on net worth during its base period. In other words the Price Administration is to estimate for a full year ahead, how such rapidly varying factors as changing labor and materials costs, changes in productivity and changes in volume of operations will combine to yield a return on net worth equal to that of the prewar period 1936-39.

I submit that this is an impossible task. As chairman of an established company with good operating records, I have had some personal experience with the problems of estimating future costs. I know from my own experience of the many pitfalls and errors inherent in any such estimating process, particularly when applied to a period as uncertain as the year immediately ahead. The danger is only partly that the OPA estimates may be wrong. Any procedure will involve some errors. But the forecasting procedure is certain to involve a maximum of delay and interminable, unresolvable disputes.

I urge that the legislation now being considered provide that price determination be placed on the basis of actual operating experience at the earliest practicable date. To escape the influence of low operating volume upon costs—in other words, to eliminate the so-called “bulge” costs—costs of the highly abnormal early change-over period should be disregarded. Our research staff has suggested that for all industries other than reconversion industries the first quarter of 1946 and all subsequent quarters should be considered to be quarters of “normal” operating experience, and that for reconversion industries the second quarter of 1946 and all subsequent quarters should be so considered. This seems to me a reasonable recommendation and I suggest it for consideration by your committee. Exceptions to the use of first quarter experience might be permitted where costs were distorted by strikes or other impediments to production. It should be remembered that price so established are subject to review in case they should subsequently be found inappropriate.

Third, a vigorous policy of suspension of price ceilings and decontrol. Price control should be trimmed down progressively to those critical areas that would otherwise threaten price increases of over-all significance. This is important as a way of freeing the economy from unnecessary controls as quickly as possible. But I should like particularly to emphasize the importance of sloughing off controls as a means of permitting OPA to concentrate on doing a quicker and better job in the essential areas. To control the prices of every one of the millions of commodities at every stage of production in the American economy was a herculean task even in wartime. To do this at all successfully during the next year will be an impossible task. And in my view such all-inclusive control is unnecessary, if our objective is to prevent a major increase in the general level of prices and particularly those cost-of-living prices most likely to set off or rather to perpetuate an already existing price-wage spiral. The administrative capacities of the OPA, however great, are not infinite. They should be focused on the crucial problems.

Progress in suspending ceilings has been less than I had hoped. Production delays resulting from labor-management disputes, and the

development of a pervasive excess of demand has, of course, limited the opportunities for suspension of ceilings thus far. As we proceed into 1946, however, and if we limit the general excess of demand, there will be a growing number of areas in which supply is in near balance with demand. Price ceilings should be suspended promptly when such a near balance is achieved. Ceilings should also be suspended on commodities which do not materially affect living costs and which do not threaten seriously to divert manpower or materials required for essential production—particularly if these areas present complex administrative problems, as many of them do.

A considerable number of "dime store" items and luxury goods have already been decontrolled. I think that with a realistic notion of what is a necessity, the area of luxury goods eligible for decontrol could be significantly widened. Also we need to go further in suspending ceilings on components used in the manufacture of end products still under control. This would do much to remove bottlenecks which are insignificant pricewise but serious from the standpoint of production.

I know that a dozen plausible arguments can be made against any specific proposal for suspending ceilings. The concept of universal, precise and efficient control of prices has much theoretical appeal. But in fact universal control and efficient control can not be achieved together. There is never a perfectly safe time to remove a ceiling. Every decontrol action involves risks of a crisis of one kind or another. However, those who look at each case as an isolated problem may not appreciate the risks of not decontrolling—the danger that the whole price-control system will collapse of its own weight or that production will be strangled by inflexible controls. We need a policy of "calculated risks"—of balancing the risks of decontrolling too soon in particular cases against the general risks of holding all controls too long.

It is extremely difficult to establish a legislative formula for decontrol, in view of the numerous, varied, and rapidly changing situations which we shall face during the coming months. I believe that it is possible and desirable, however, to write into the pending legislation general standards, such as those set forth above, for the guidance and direction of the Price Administrator. I believe it would be helpful also to establish a responsible official within the price control agency, acting under the general direction of the Administrator, whose primary responsibility it would be to conduct a continuous review to select ceilings for suspension and to plan the simplification and liquidation of price control generally. A similar device apparently worked effectively in the case of the War Production Board.

Basically, the speed and scope of decontrol will depend upon our success in creating conditions which permit the suspension of ceilings. If we allow inflationary demand to continue and if production continues to be retarded, the scope of decontrol will be narrow. But with vigorous measures to control excess demand and price and other policies to stimulate production we can create a wide area in which ceilings can safely be suspended.

Fourth, liberalized standards for price relief.

The general standards used by OPA in considering applications for price increases, while not inappropriate for wartime, are not appropriate for peace. The present base period, ordinarily the rate of

earnings before taxes to net worth during 1936-39, includes at least two definitely depressed years, and even the best years were not good. Moreover, corporation taxes are now much higher than in the base period, so that the present standard implies profits after taxes considerably below the 1936-39 ratio to net worth. Today, with profitable war business gone, with business risks increased, and with wage rates rising, many industries may be forced to profit levels which are unfairly low and which will not provide adequate incentives to enterprise—especially new enterprise.

I suggest that the earnings standard—now, generally speaking, the rate earned on net worth before taxes during 1936-39—be raised by about one-third. Any one of several devices could be used to achieve this purpose. I suggest also that the product standard now employed by OPA—which now permits particular product prices of industries producing more than one product to be raised whenever average ceiling prices fail to cover average manufacturing costs—be changed to cover average total costs (including overhead).

These liberalizations would not guarantee to each firm the profits which it might expect in normal prosperity. They are minimum standards. They will protect firms against being squeezed far below the level of profits which the great bulk of firms might reasonably expect to exceed in normally prosperous times.

Modifications along lines I have suggested should make it possible to live with price control during the period of its continuation. Even with the changes suggested, however, we must still rid ourselves of price control as soon as it is practicable to do so. The question is not whether price control should be abolished, but when.

After careful consideration I believe that we should extend price control authority, simplified and streamlined, as earlier suggested, until the spring of 1947. It should then be terminated finally and completely, except for rent controls. Rent control, because of the time required to provide an adequate supply of housing, may need to be continued for a somewhat longer period.

In all candor I would not object to any termination date between March 31, 1947, and June 1, 1947. The important thing is that we fix now and with certainty the date of final termination.

I believe that extension of price control authority until March 31, 1947, is necessary to allow a reasonable time for high employment to be reached and a near balance between supply and demand to be achieved. If we should reach this point earlier price control can and should be terminated by Executive order. I believe, further, that the terminal date should be set some time before June 30, 1947, in order to make clear to all that what has been done is not merely to extend controls for another year but to set once and for all the date for its elimination. The point I make here is mainly psychological, but it is important.

The final termination of price-control authority must not be made contingent on prior achievement of balance between supply and demand at high employment. Such a policy would be an invitation to drift into a position where we are always confronted with a choice between price control and runaway inflation. We must accept responsibility for preventing inflation without price control.

The time to begin to act on this responsibility is now. Price control must first be supplemented and then supplanted by anti-inflation measures which do not restrict the full and free operation of the American productive system. In the traditional governmental functions of taxation, public expenditure, and monetary control we can find the necessary tools. But we must focus policies in these fields on preventing inflation and depression if we are to emerge from the transition with an expanding and unregimented economy.

More specifically, the Congress and the Administration should plan to balance the Federal budget in the fiscal year 1946-47 and if possible run a budget surplus. This is the time to eliminate every Federal expenditure that is not absolutely necessary and to postpone every project that is postponable. Any unnecessary expenditure today is a reckless addition of fuel to the inflationary fire. The Government should be prepared to generate a substantial budget surplus if inflationary pressure continues strong at high employment levels.

We should give up all thought of further tax reductions as long as the present excess of demand continues. Now is no time to lower taxes, much as we should all like to do so. Moreover, we should remember that tax revision is not a one-way street. If present inflationary forces strengthen, taxes may have to be raised.

Finally, we must act promptly to restrain excessive credit expansion. We should be careful, of course, that adequate credit is available to meet the needs of new and expanding business. But we are sitting on a powder keg. Existing machinery and policy cannot prevent a great expansion of our already huge cash supply. As matters stand, the limits to monetary expansion are hopelessly remote.

Both the existing large money supply and the possibility of great expansion flow from the sale of Government bonds to the banks during war. Bank deposits, the public's money, increased step by step with the increase in bank holdings of governments. And under present policy the banks can obtain the reserve basis for further credit expansion by selling their Government securities to the Federal Reserve. The process of money expansion via bank purchase of governments can still go on, although the total Government debt is decreasing. It is imperative that measures be taken to bring this expansion under control. Monetary policy must be enlisted in the battle against inflation.

In brief summary, then, I urge both the temporary extension and the definite termination of price control. These are equally important—the temporary extension to avoid inflation, the prompt and definite termination to restore free markets. Neither is simply a matter of renewing or not renewing the act which is now on the statute books.

I do not think that business can live with price control in its present form for another year. We must modify it so that it can live and be lived with. It should be liberalized and streamlined to reduce delays, inequities, and obstacles to production. Four changes are needed:

- (1) Extend the area of automatic, self-assigned OPA review.
- (2) Base prices on actual costs, not forecasts.
- (3) Vigorously and positively seek out the areas in which ceilings may be suspended.
- (4) Raise the standards for price relief to prevent squeezes which deter production and discriminate against enterprise.

To terminate price control we should start now to remove the conditions which make price control indispensable today. I have recommended that price control should be continued until the spring of 1947 and that there should be no renewal, except for rents. With that as the cut-off period, we should use monetary and fiscal measures to achieve a balance of demand and supply. We cannot simultaneously and consistently be against inflation, against price control and in favor of low taxes, Government deficits, and easy money. When stable prices and free markets are the objective, strict Government economy, steep taxes, and monetary restriction are not too high a price.

The CHAIRMAN. Mr. Flanders, I gather from your statement that your opinion and the opinion of the Committee on Economic Development that it would be advisable to extend the Price Control and Stabilization Acts a year from June 30.

Mr. FLANDERS. No. I would stop it short of June 30, just to serve notice that you are stopping. If you extend it to June 30, you give an invitation to have it renewed again. It should be stopped before June 30, 1947.

The CHAIRMAN. Well, how long would you recommend that it be extended?

Mr. FLANDERS. In my own mind I have set the date for March 31. There are some good reasons for that.

The CHAIRMAN. March 31, 1947.

Mr. FLANDERS. Yes. You are bound to have the thing disintegrate in the last 2 or 3 months before whatever date you set. It would be advisable to have that disintegration take place perhaps after the Christmas buying rather than in the middle of it. That is just one reason for setting a date somewhere about that time.

Another one, which I rather hesitate to suggest, is that it would be undesirable to have it disintegrating during the fall political campaign. I say that in a lower voice.

But March 31 would leave the situation normal and under control during the heavy Christmas buying and you probably would not run into much difficulty after that was over.

The CHAIRMAN. Well, it is your opinion that it will commence to disintegrate sometime before the date of expiration?

Mr. FLANDERS. That is inevitable.

The CHAIRMAN. How long before the date of expiration do you think that process would begin?

Mr. FLANDERS. Oh, it would start probably 2 or 3 months before that.

The CHAIRMEN. There is danger of losing personnel—

Mr. FLANDERS. Personnel moving out, and people beginning to disregard the provisions, policing becoming an impossible job—there is going to be a period of confusion just prior to the expiration date.

The CHAIRMAN. Do you not consider the economic pressures that make for inflation as strong now as they have been?

Mr. FLANDERS. They are very strong, indeed, but likewise, they are becoming more difficult to control. A prime point that I have been trying to make is that owing to the increasing difficulty of control, the Office of Price Administration, to do a satisfactory job, must diminish the area which it endeavors to control. Its job is fast becoming impossible, and, to my mind, will only be administratively

possible if they reduce the area of their control the greatest possible degree.

Mr. CHAIRMAN. Mr. Brown.

Mr. CRAWFORD. How are we going to run this interrogation, Mr. Chairman?

The CHAIRMAN. How are we going to run it?

Mr. CRAWFORD. Yes. Who does the witness go to next?

The CHAIRMAN. I thought he went to Mr. Brown next.

Mr. CRAWFORD. That is all right. I just wanted to make sure that the committee is not going to adjourn in 2 or 3 minutes.

Mr. BROWN. I yield to Mr. Crawford.

Mr. CRAWFORD. Oh, no, that is perfectly all right.

Mr. BROWN. I will be very brief. I remember the fine statement you made to this committee on Bretton Woods, Mr. Flanders. You were exceedingly helpful and we appreciate your appearing on this bill today. But from your viewpoint, it would be necessary to amend the bill. I wonder if you would be good enough to prepare these amendments and submit them to the committee so that we can study them? I say that because we have confidence in you.

Mr. FLANDERS. Mr. Brown, on various occasions in appearing before legislative committees in which we were suggesting changes in the bill, it has been suggested that I should prepare the amendments themselves. I have always had to admit that it was easier to suggest content than it is to embody it in form.

Mr. BROWN. I know, but you have been so extremely helpful heretofore that I thought you might go a little further and give us a little more of your time. Now, you referred to the fact that it might be necessary in some areas to have control, and in others not. Just what do you mean by areas?

Mr. FLANDERS. Classes of goods.

Mr. BROWN. Oh, you mean classes of goods, and not areas of the country?

Mr. FLANDERS. No. Although geographical areas are pertinent to the discussion on rents, but aside from rents and housing problems, I mean classes of goods rather than geographical areas.

Mr. BROWN. That is all.

The CHAIRMAN. How long do you think that the ceilings on rents should be continued under control?

Mr. FLANDERS. Well, I think that is a geographical question that might be raised in some areas now. I do not happen to be familiar with many areas in which that can be done, but rents are certainly going to be with us as a problem for 2 or 3 years, at least. I had a suggestion there, which I throw in, though I did not put it in my statement—that is, that there might be a progressive raising of rents, possibly 5 percent a year, or maybe even as much as 5 percent in 6 months, until they gradually come into balance with the increasing supply of housing, because there are some factors on which the landlord deserves a little consideration. His houses are getting out of repair, repairs cost more than they did in preceding months, and I think we might well give him at least a 5 percent a year continuous increase.

The CHAIRMAN. Does not that vary largely in geographical areas?

Mr. FLANDERS. Yes; I suppose it does. I throw that suggestion in without very much study or consideration.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Flanders, I want to compliment you for what I think is the most constructive statement that has been made by anyone who has appeared before this committee on this proposal to renew the Office of Price Administration. I think your statement greatly supports a portion of the statement made by Mr. Eccles of the Federal Reserve Board.

Now, you have associated with you, in the Research Committee, James F. Brownlee of Fairfield, Conn.

Mr. FLANDERS. Yes.

Mr. CRAWFORD. Is that the James F. Brownlee who was former assistant to Mr. Bowles?

Mr. FLANDERS. It is.

Mr. CRAWFORD. Did our friend Jim have access to this report before you submitted it?

Mr. FLANDERS. He had access to the research report but has not seen my statement. He is currently engaged in writing a policy statement on the subject.

Mr. CRAWFORD. I am very much interested in seeing Jim's name on this Research Committee, because I understand a tremendous effort will be made to bring him back to the Office of Price Administration.

Mr. FLANDERS. He went to Florida instead.

Mr. CRAWFORD. Probably better for him physically.

Now, you have a statement here, on page 12, which I think is pretty much the crux of this situation. "I do not think that business can live with price control in its present form for another year." In other words, you are not recommending that the Office of Price Administration be continued until March 31, 1947, in its present form, are you?

Mr. FLANDERS. No, I am not. Business looks at that problem from an entirely different viewpoint from the Administrator, simply because it has to live with complications that are almost unbelievable. I am not going to talk about my own industry, because I might be accused of putting in a word for myself. There is a publication I think called the Federal Register which gives all the orders and amendments, and so on, of all the governmental bodies. I think it might interest any of you to buy that some day instead of the Sunday paper, and spend a Sunday with it. I am not saying this in criticism of the Office of Price Administration, because the point I am making is that their task is impossible. But one of the amusing things I picked out of one of those issues a short time ago—I say amusing, but it is tragic from the standpoint of the Office of Price Administration administration—was the price of ready-mixed cement for the area surrounding Columbus, Ohio. Now, they had a basing point just as they used to for steel, and instead of the basing point being Pittsburgh, as it used to be for steel, it was the corner of Broad and State Streets in Columbus. It did not specify with sufficient detail whether it is the northeast or the northwest, or the southeast or the southwest corner, so I assume it was the intersection of the centers of those streets.

Then, there was a table giving the price of ready-mixed cement, in circular zones out from that basing point area, for some 15 or 16 different kinds of cements and 12 or 15 different zones, with supplementary increases for anti-freeze cement and quick-setting cement—altogether 250 or 300 different prices—maybe it is only 180, I am a little vague on that—for ready-mixed cement in that are around Columbus, Ohio.

I have no doubt whatever but what that device was made up to meet a difficult administrative problem, but it is to my mind an excellent illustration of the difficulties you get into in attempting to administer the details of a complex economy like our own.

So the thing I am trying to emphasize most strongly is that in view of this tremendous difficulty, the Office of Price Administration should start to work reducing the areas of its operations to a manageable basis just as fast as it can.

Mr. CRAWFORD. On that point, may I ask you this: Do you believe it is physically and administratively possible, and from the standpoint of congressional appropriations, possible for the Office of Price Administration to continue a whole area administration as we move into a full economy in the United States?

Mr. FLANDERS. No, it would put brakes on our moving into it.

Mr. CRAWFORD. That is right. Now, going to page 5, your first recommendation there, automatic pricing. I agree with that proposition. Would you have the reviewing of these prices by the Office of Price Administration the subsequent reviewing, and the decision of the Office of Price Administration, made retroactive? That would not work, would it?

Mr. FLANDERS. Well, you cannot bill a customer an additional amount on goods shipped. I would say that it should be made effective from the time the Office of Price Administration renders its decision.

Mr. CRAWFORD. I think that would be very practicable.

Mr. FLANDERS. That would also put a little pressure on speeding up the decision.

Mr. CRAWFORD. Yes, sir. Because you know and I know that we have big basic companies in this country who have waited as long as 5 months for the Office of Price Administration to put a price on their product, and there is no price yet and no production yet, and I have the cases to present here, if the committee wants them.

Mr. KUNKEL. I had an interesting experience on that just this morning. A company at home was promised wage increase on the 1st of March, back in the latter part of December or January. I said I would take the question up then, thinking that this would be all ironed out, so I have been talking to all three of these agencies all morning. It finally develops that what he has to do is put that wage increase into effect and file it with the Wage Stabilization and Regional Board in Philadelphia. He does not know whether he is going to have it granted or not, presumptively, he will, and then simultaneously he has to file an application for price rise with the Office of Price Administration and he cannot tell in advance whether he will have that granted or even when they will take action on it. So he is completely at a loss. He does not know what to do. And I think this automatic pricing idea has a great deal of merit, because it would obviate situations such as the one I mentioned.

Mr. CRAWFORD. On your No. 2, "Use of Actual Cost," I think that statement is very clear.

Now, your third suggestion. This brings up a proposition which I submitted to Mr. Snyder yesterday morning. That is, making the law mandatory, that when certain situations developed, based upon a practical formula which could be written into the law, that the suspension of price ceilings and control must occur without any

quibbling about it. And I simply want to ask you whether or not you consider your third suggestion as one of the most important that you make here—if not the most important.

Mr. FLANDERS. The mandatory ending, at the date set in the act, is an essential part of a proper bill for extension of the Office of Price Administration, to my mind. The mandatory ending at the given date, if that is the question you are raising.

Mr. CRAWFORD. No, I did not make myself clear. Mr. Flanders. Your No. 3 there is decontrol with respect to certain areas so that the energy of the Administrator and his staff can concentrate on remaining essential areas. My point is: Should we not put into the law a mandatory provision based on some particular formula that might be worked out, that these price ceilings, and the control, shall be removed, moving towards March 31, 1947.

Mr. FLANDERS. You are suggesting putting into the bill and specifying the areas and types of commodities and services on which it should be mandatory to remove control?

Mr. CRAWFORD. In general, making it flexible. For instance, suppose they took the price of nonferrous castings. There is such a thing, is there not?

Mr. FLANDERS. There is such a thing; yes, sir.

Mr. CRAWFORD. And by the mandatory provision in the law, and then 6 months later—well, we could not have 6 months from March 31, but 2 months later they finally decided to put it back on, the formula would determine the necessity to put it back on as the formula determined the necessity to take it off. In other words, suppose your industrial committee found that, for all practical purposes, supply was in balance with demand. Well, certainly it should come off at that point, should it not?

Mr. FLANDERS. Yes.

Mr. CRAWFORD. If there is no mandatory provision and the Office of Price Administration refuses to take it off, what are we going to do about it? That is the question I raise. Should we not put a mandatory provision in the law?

Mr. FLANDERS. It is possible, I suppose, to write a provision into the law to the effect that when supply gets within 90 percent of the demand, or something of that sort, you will remove the controls.

There are difficulties in actually measuring effective supply and effective demand.

Mr. CRAWFORD. That is right.

Mr. FLANDERS. It would seem to me, Mr. Crawford, that if you state policies as simply and vigorously as possible, if you demand the concentration of effort of the Office of Price Administration on the significant parts of the problem, and if you set a termination date, which must be met, if you indicate that the relinquishment of controls must be gradual and continuous, as you approach that date, instead of having one grand crisis at the end of that period, then, it is safe to leave the details in the hands of intelligent men as an administrative problem.

If you state those conditions under which you are extending the Office of Price Administration, that is.

Mr. CRAWFORD. I have just one other question. To me you have made it very clear in your statement—I did not know you were going to appear here until a telephone call from the chairman told

me that you were going to appear—can we accomplish very much through the extension of the Office of Price Administration to March 31, 1947, or to June 30, 1947, or to June 30, 1950, unless some of these other steps to which you refer are taken; namely, suppose the budget is balanced, and as the maturing issues of the Treasury outstanding come up for reissue, and those refunding issues are sold to the banks, spreading the inflationary base, where do we get with respect to price control?

Mr. FLANDERS. This extension of the Office of Price Administration control gives us breathing space to put these other necessary moves into effect.

Mr. CRAWFORD. And unless we do put these other necessary moves into effect—

Mr. FLANDERS. We are still going to be in trouble.

Mr. CRAWFORD. Beg pardon?

Mr. FLANDERS. We are still going to be in trouble.

Mr. CRAWFORD. That is all I have.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. Mr. Flanders, as other members of the committee, I am deeply appreciative of the contributions you and the Committee of Economic Development have made to the various great and important questions this committee has had before it. I am a little bit worried about your statement, however, and I am wondering if you were Price Administrator—

Mr. FLANDERS. Which God forbid.

Mr. MONRONEY. I think we can all concur in that none of us wants that unhappy job, but if you were Price Administrator, how much increase would you expect to see in the cost of living, under the plan which you have outlined?

Mr. FLANDERS. Well, that is attempting to solve an algebraic equation involving six unknown quantities with only one equation.

Mr. MONRONEY. Well, to simplify it, would you say it would be insignificant, minor, or substantial?

Mr. FLANDERS. I am afraid it is not going to be insignificant, and the major unknown quantity is the wage-price spiral in which we are now involved. And, in part, therefore, the rate of rise which we will be faced with depends on something completely outside this area. It is not completely outside, but, in large measure, it is outside this area we are describing this morning. If, however, during these next few months, we can perfect our fiscal and monetary controls, we can slow up, and if we have good Office of Price Administration administration—particularly in the areas which affect the cost of living, and if we can slow up thereby the price rises, then, the pressure for wage rises will perhaps be somewhat diminished and they can be more easily brought under control.

Mr. MONRONEY. I am very fearful that I cannot agree with you, because I happen to be one who feels that even the present wage-price bulge is extremely dangerous, to cause a secondary round of labor difficulties, which I think, in the long run, to my way of thinking, slow up production, and the volume of consumer goods, far more than restricting price increases has done.

Mr. FLANDERS. There is certainly danger there, Mr. Monroney. I wonder if I might just put in a word with regard to the effect of the wage-price policy, and the demand and supply matter on prices.

As to the wage-price policy, the cost sets the floor of prices. No one is going to sell goods for less than it costs to make them. That sets your floor price. Now, the demand and supply sets your ceiling price. No one is going to be able to sell anything if the demand at the price given is less than the supply.

So the supply and demand sets the ceiling of prices, and the cost of production sets the floor. In between those two is the area in which you can establish a price. The endeavor to establish a price below the floor will stop production. The endeavor to set a price too close to the floor will tend toward black markets, and will tend also to slow up production. It is a matter of good judgment—and if you set it too near the ceiling, you are liable to raise the cost of living, if it is in the area of elements that go into the cost of living.

Now, one of the administrative problems of the Office of Price Administration is to set that price at the proper point between that floor and that ceiling, and that is their job, as well as in administering that price after they have set it.

Mr. MONRONEY. But, Mr. Flanders, is it not true that if your wages step up 15 percent, it is like two decks on a ship, they both float up together, so you reach a higher level both in your floor, or cost of production, and in your ceiling on prices, so that you are faced with what I say are the last two minutes of the football game, with the ball on the half-yard line, with a loss of a 4-year struggle that this Nation, and its industry and its business have patriotically put up to avert inflation, and then come here with our eagerness to get away from controls which is natural and understandable and desirable, we lose the whole football game right in the closing minutes of the game.

Mr. FLANDERS. I am afraid that I am not convinced that the pressures behind inflation, in the event of a continuous strengthening of the wage-price-cost of living spiral, that those pressures can be met in control purely by price control. I think those pressures are strong, and the Office of Price Administration is not strong enough, by itself, to control it.

Mr. MONRONEY. I think you are probably right. But I think you do have a few brakes on the machine to keep it from rolling out of control and down hill. But at this point, to go deliberately into increasing price areas, which you admit would not be insignificant, do you not feel you would have your second round of wage demands to where within 2 or 3 months your present 15- or 18-percent formula would be obsolete and we would face another 10 or 15-percent round of disrupted production, labor trouble, shut-downs, and loss of production?

Mr. FLANDERS. Essentially, Mr. Monroney, I am suggesting that the Office of Price Administration drop everything else and just focus its attention on this troubled area. There are a lot of other things that they are worried about now that I think they might well forget, and pay their most serious attention to the elements that go into the cost-of-living area of that spiral.

Mr. MONRONEY. But you say, for example, in your statement, that we should base the new pricing of automobiles, say, on actual cost.

Mr. FLANDERS. Yes.

Mr. MONRONEY. You take a very low base of maybe 150,000 or 100,000 cars; you take unskilled labor, that is just trying to re-convert to the manufacture of cars; you take difficulties of inventory, adequate inventory not being available; you take all of those high-cost figures which reason will tell you will be overcome when you get volume production, and then you suggest that we add to that one-third above the 1936-39 level, and so we take two sets of high-cost factors to reach a point in our new pricing formula that you advocate, right at a time when everyone familiar with inflation controls is praying not to have a second round of wage demands and pushing up of the cost of production of these things.

Mr. FLANDERS. Well, in my suggestions here there is no suggestion that an industry in the so-called bulge can demand that its prices be set on that cost bulge. There are a number of things to be said about that automobile pricing situation, anyway. For one thing, no automobile company is going to risk putting an absurd cost on its cars. Black-market salesmen may. But no automobile company will, because they will not run the risk of discrediting themselves with possible future customers. They will not put an outrageous price on an automobile. I would say that with a whole lot of confidence. They are too good businessmen to do that; they are too smart. But I would guess, for instance, that every automobile manufacturer except General Motors, which is now still under strike, would be able, as a result of the second quarter's operations, to present to the Office of Price Administration a valid request, or a valid estimate of its costs, and a valid request for a price which the Office of Price Administration should be able to consider, feeling that it has most of the elements of the situation known and in hand. That second period will be a period of practically normal operation for most of the automobile companies.

Mr. MONRONEY. I sincerely hope that you are right. I am a little bit skeptical that we will anywhere near reach the volume of production that industry will under normal operations finally reach in that period.

Mr. FLANDERS. And there is nothing in here that says that if that is the wrong quarter, that it should not be reviewed for the third quarter, or the fourth quarter.

Mr. MONRONEY. Well, of course, I have not had a chance to read your full report, but as I listened to the reading of your statement, and in the summary, the base price on actual costs and not forecast, I would guess that that would mean that you are going to base it on whatever production they happen to have for that month or that quarter.

Mr. FLANDERS. The forecast is even more troublesome than the actual costs at an early period, because the forecasts almost inevitably will tend to stop production, or limit production, and under this proposal, the production goes right ahead with possibilities of review.

Mr. CRAWFORD. Will you yield, Mr. Monroney?

Mr. MONRONEY. Yes.

Mr. CRAWFORD. Let us take the Ford Co. as an illustration. Next Monday morning, Ford Motor Co. starts practically on full production. Now, there is a reconverted industry. January, February, March, the first quarter. April, May, June, second quarter. As I understand your statement, you feel that it is reasonable to assume that by the end of the second quarter, or, for purposes here stated, the second quarter, that it would be reasonable to go in there and determine what the costs are.

Mr. FLANDERS. That is the point you are making.

Mr. CRAWFORD. That is the point you are making?

Mr. FLANDERS. Yes; the point I am making is that the Ford Co., as a result of its second-quarter operations, can give a far more valid judgment as to what the price ought to be and submit the basis of its judgment to the Office of Price Administration, than the Office of Price Administration can do, in determining what the price of Ford's product ought to be 12 months from now.

Mr. CRAWFORD. And the first quarter should be eliminated?

Mr. FLANDERS. In any of those cases where strikes or other things have held up production, the first quarter should be out.

Mr. MONRONEY. It is no use to argue the case here, but I am fearful that you have no inventory backlog with Ford or Studebaker or anybody else, because the General Motors strike has shut off all their parts practically to where they are just operating from hand to mouth and I am very doubtful that you would get any kind of a true picture of a normal year's operation even by the second quarter.

Mr. FLANDERS. Ordinarily an automobile company runs practically without inventory. But they have had to build up inventories. For instance, they have built up quite an inventory of ball bearings in anticipation of the General Motors strike. Ordinarily they have no inventory at all. It is on incoming freight cars, and it is on the transmission lines, and the size of the inventory in automobile factories under normal conditions is pretty near zero. It is astonishing.

Mr. MONRONEY. But there must be inventory back in the parts supplier. You must have your pipe line field and it has been shut off at the source.

Mr. FLANDERS. Yes; the inventory back there is necessary.

Mr. MONRONEY. And do you not feel that under your formula, with the one-third up on the base period of 36-39, and basing on actual costs, instead of a reasonable forecast, that you will permit abnormal profits in 1946 and even greater profits in 1947 to industry at the same time you are moving the price line up and causing an increase in the cost of living right at the most critical period that we face in inflation control?

Mr. FLANDERS. I do not think you are going to find abnormal profits resulting from that process, Mr. Monroney. Most of the companies making the products whose production has been most disrupted are the type of company with long experience and long viewpoint. I mentioned the automobile company. The same thing applies to most of the household-equipment companies—electric refrigerators, and so on. No one of them is going to risk his future market by putting an excessively high price on present production.

Mr. MONRONEY. What would you say, Mr. Flanders, was the percentage of our civilian production today as compared with our prewar production of civilian goods?

Mr. FLANDERS. I have no figures on that.

Mr. MONRONEY. Did your economists study that figure at all to see how near we are coming, even under price control, to meeting the normal production that this country is capable of? I know that food production is pretty generally agreed to be above normal production. That represents 40 percent of your cost of living index. I do not know what clothing runs. I have a guess that although it is in short supply, that if the figures were available, you would probably find that it is not far off from normal production. Durable goods, because

of strikes and reconversion problems, I imagine are in an extremely bad position. But I think that is the answer that we ought to seek, to find out if price control, if all of these disruptive things that business says price control is guilty of creating, if maybe the answer does not disprove that.

Mr. FLANDERS. Well, I have no study available along the lines you suggest. I only know of certain individual instances as they are told me by manufacturers in those lines. I might mention briefly the situation with regard to radios, for instance. I judge that it will be possible to operate with reasonable satisfaction under the present ceiling prices for radios, but unfortunately the control of prices goes clear down through the line. The suppliers of semifinished parts, the suppliers of finished components, and so on up, and the production of radios, I am told, has been very much hindered by the price set on, well, let us say, condensers or something of that sort. That is an illustration of the type of Office of Price Administration control that I think ought to be discontinued. It is too much complication without result and possibly the ceiling price on the finished product ought to be retained. I am not passing judgment on that. But it is an impossible task to set ceilings on all the components and materials all the way down the line.

Mr. MONRONEY. I quite agree with you on that portion of your statement in which you said it was absolutely essential that the Office of Price Administration search out these bottlenecks and remove them as rapidly as they are discovered. I tried to talk that up to have a sort of all-American team added to the Office of Price Administration to search out those specific points which would make only 10 or 20 cents differential on the price of a radio, for example, a condenser, and remove that bottleneck, but I do think they can be selectively removed instead of moving up into a broad base and getting yourself into a secondary cycle which starts new wage demands with wages and prices going up.

Mr. FLANDERS. I believe, Mr. Monroney, that the Office of Price Administration could exercise its necessary controls for its part of the wage-price spiral responsibility.

Even under the somewhat liberalized standards, which, after all, do not add greatly to the cost of the goods produced, by concentrating on the essential areas, by being assisted, by having the companies in this so-called automatic pricing doing all the clerical work, and relieving the Office of Price Administration of that mass of calculation and guesswork on a necessarily inexperienced basis, so that they could pass on the end result, the same as the Treasury does with our income-tax statements, just as a rough example. I believe that with all this relief to the back-breaking problem that the Office of Price Administration has, that it can concentrate on the essential areas and do a swell job, and that relaxation of profit limitation, in percentage of increased cost permitted, will be small.

I believe, however, that its effect on increased production may be very great, and that the increased production will be far more important than the comparatively small increase in price allowed. Now, that is the basis of the judgment which led me to make these recommendations.

Mr. MONRONEY. That the profit represents only about a 2 or 3 percent factor in the total annual production?

Mr. FLANDERS. That is right.

Mr. MONRONEY. And that a third of that would be only a fraction of 1 percent?

Mr. FLANDERS. Yes.

Mr. MONRONEY. Now, one more point. Do you think, as a producer, and as a man familiar with the economy, that our volume of production will be great enough by January, we will say, to remove the excessive threat and pressure of scarcity from the inflation picture?

Mr. FLANDERS. We should see the end, barring further complications, by this wage-price spiral we are talking about, resulting strikes and so on, we should see the end of disturbing scarcity in sight. We will see that production is moving at such a rate that it is approaching demand, and we will see where they are coming together.

Mr. MONRONEY. The reason I mentioned January is because I think, for the 3 months between the time that you start cutting off price control and the time you formally end it, if there is still a scarcity demand in the market or panic demand, I would call it, in the market, that you not only run the risk of higher prices because of scarcity, but you will also run a risk of losing your production shipments and your normal flow of goods to the market for 3 months waiting for the speculative rise.

Mr. BUFFETT. Will the gentleman yield?

Mr. MONRONEY. Yes.

Mr. BUFFETT. Is it not possible that the very reverse of that will happen? Knowing that price control was going to end, every manufacturer making that product will hustle to supply that market before the other man, who is holding off his supply?

Mr. FLANDERS. Both of you are describing possibilities in that disintegration of price control which I said was inevitable and that gives point to the suggestion that insofar as possible these price controls should not be left on and ended in a lump at a given time, but that they should be courageously spaced along all the intervening periods. So that you would have met just as large a part of those things as possible over an extended time. You are going to have difficulties of the kind both of you gentlemen described in any given product under any different conditions.

Mr. MONRONEY. That is all.

The CHAIRMAN. How long before the discontinuance of price control is definitely set do you think the process of disintegration will be materially felt?

Mr. FLANDERS. As somebody in the Bible said, I am neither a prophet nor the son of a prophet. I am a guesser. My guess would be somewhere around 3 months, where it would begin to be apparent. And perhaps not serious for the 2 months at the end, or thereabouts. But it is better to have a small number of things with price raises continuously recurring than to have the whole in one grand smash.

The CHAIRMAN. How long do you think it would be before the supply will equal demand generally?

Mr. FLANDERS. Of course, that depends on what price level—I imagine it will be difficult in all sorts of commodities. We are all going under the assumption, for instance, that the meeting of the housing demand by supply will not take place except over a period of years. That is the extreme example.

The CHAIRMAN. Yes.

Mr. FLANDERS. Automobiles, 2 years, perhaps; electric refrigerators, I do not know. Perhaps a year and a half or something of that sort. Nylon stockings, I think we will have to ask our wives. Tires, probably 6 or 8 months. I am just picking these things out of the air from general information, and it may be wrong. But there is no one time you can set that will apply to the whole range of commodities. Cotton textiles—a year. I am more interested in knowing when I can get some new B. V. D.'s than anything else, and if anyone can make me any valid prophesies on that, I will discontinue my present project of having my wife cut up some of our sheets.

Mr. BUFFETT. Mr. Spence, may I ask one question?

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. You spoke of electric refrigerators. A friend of mine up in the Metropolitan New York area tells me about an acquaintance of his who had a big backlog of orders for electric refrigerators. He got in a few electric refrigerators and started through his order book calling the first 50 people who had put in reservations for refrigerators and without exception they had changed their mind, so he threw his book away and now is trying to sell the refrigerators. They wanted them as long as they could not get them.

Mr. FLANDERS. I have an automobile on order. My friend, the automobile dealer, has the ingenuous scheme of requiring a \$25 deposit by each customer on these orders. And he figures he can make a living on those \$25 apiece on an order while he is waiting or his automobiles. And if your friend has required a deposit, he might have made a good interim living, too.

Mr. BUFFETT. Probably he would not have had as many orders.

Mr. FLANDERS. That is right.

The CHAIRMAN. Mr. Flanders has said that he has an engagement at 12 o'clock. Does any other member desire to interrogate the witness?

Mr. GAMBLE. I desire to ask one question, Mr. Chairman.

The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. The Ford Motor Co. is going back into production. They have got enough business experience to not start up production unless they knew where these supplies were coming from, do you not think?

Mr. FLANDERS. I would think so.

Mr. GAMBLE. They have had pretty good business experience over the period of years.

Mr. FLANDERS. Yes, they would have to stop awhile back when their supplies did start, and in starting up, I assume they knew where their supplies were coming from.

Mr. GAMBLE. I assume, too, the end of the steel strike puts them back into business. There is one other thing. The excuse we get all the time from the Office of Price Administration on these scarce materials, such as B. V. D.'s and so forth, is that suppliers are holding them off the market, hoping that the Office of Price Administration will not be extended. Under your theory of dropping these different items from time to time so that the rise does not come all at once, will not the fact that they are in production prohibit that? In other words, if they are in large production, they will not have capacity to do it, they will not have warehousing space for it? Will that not answer itself, say, at the end of the 31st of March?

Mr. FLANDERS. I hope so.

Mr. KUNKEL. Mr. Chairman.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNKEL. Mr. Flanders, as I get the general drift of what you are driving at, the chief thing is to try to get the Office of Price Administration to the point where it discards and dispenses with all unnecessary administrative detail so that it can get its decisions quickly and in a limited field?

Mr. FLANDERS. Yes.

Mr. KUNKEL. I think I agree with that. I think that would help.

Mr. FLANDERS. Yes, we are here to help the Office of Price Administration. That is the way I feel about it.

Mr. KUNKEL. That is all.

The CHAIRMAN. Mr. Flanders, again I thank you on behalf of the committee. We are very glad to have had your statement, and we are always glad to hear you.

The committee will adjourn until 10:30 tomorrow morning.

(Whereupon, at 12 m. the committee adjourned, to reconvene at 10:30 a. m., Friday, March 1, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

FRIDAY, MARCH 1, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence (chairman) presiding.

The CHAIRMAN. Before we proceed, I want the clerk to read two telegrams that I have received, one from Mr. Brownlee and one from Mr. Flanders. There seems to be a little disagreement between these gentlemen. I think they are both very capable and sincere men, and they both asked that their telegrams be put into the record. The clerk will read them.

The Clerk (reading).

To the Honorable BRENT SPENCE,
Chairman, Banking and Currency Committee, House of Representatives:

While I have not had an opportunity to study the testimony of Ralph Flanders for the Committee on Economic Development, I am concerned over recommended broad automatic pricing and increase in industry earning standard by one-third. Stop. I am more concerned lest there be any misunderstanding that I am not in favor of extension of a strong price control, nor impressed with the necessity for such action, on the contrary because inflationary situation appears to me so critical I have accepted invitation of Chester Bowles to return to Washington next Monday as Deputy_Director of Economic Stabilization.

(Signed) James F. BROWNLEE.

To the Honorable BRENT SPENCE,
Chairman, Banking and Currency Committee, House of Representatives.

I regret that in presenting my personal observations on price control before the House Banking and Currency Committee I gave the impression that Mr. James F. Brownlee had been consulted and concurred in all the specific views expressed. I am sure that Mr. Brownlee and I agree fully as to the necessity for the temporary continuation of effective price control, and the extent of the present inflationary danger. I am delighted to hear that Mr. Brownlee has agreed to serve as Mr. Bowles' deputy.

(Signed) RALPH E. FLANDERS.

Mr. PATMAN. I am very glad to know he is coming back, Mr. Chairman.

The CHAIRMAN. I think everybody is familiar with the services Mr. Brownlee gave to the Government when he was connected with the Office of Price Administration.

Mr. CRAWFORD. Mr. Chairman, may I make a statement?

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. It was my great privilege to be indirectly and almost directly associated with Mr. Brownlee for a number of years before either of us became members of the Government. He happened to be sales manager of one company, I was sales manager for

another company, and those two companies were under the same financial control and ownership. Therefore, I had a chance to appraise him, and I consider him one of the outstanding junior executives of the United States. He has wide experience in industry, and in marketing and transportation, and perhaps in finance. And the other day I told Mr. Bowles that I hoped he would be able to obtain Mr. Brownlee's services to continue whatever program Congress designates on the Office of Price Administration.

The CHAIRMAN. I have no doubt he is coming back at a great sacrifice to himself.

We have as our witness today Mr. Henry Kaiser, who has earned a very deserved reputation as a great industrialist and as a great producer during the war when we needed production. We still need production to fight the battle of inflation and I have no doubt he can give us some views that will be helpful to us on the subject.

We are very glad that you were able to come, Mr. Kaiser, and we want to thank you for coming.

You may proceed as you desire. Have you a prepared statement?

Mr. KAISER. I have a prepared statement, Mr. Chairman.

The CHAIRMAN. You may read it without interruption and then you may be interrogated.

Mr. KAISER. Regardless of what they may be, I hope the committee will feel free to ask me any questions, personal or otherwise.

The CHAIRMAN. We usually reserve that privilege.

STATEMENT OF HENRY J. KAISER

Mr. KAISER. My response to your invitation to testify today stems from a deep sense of duty as an employer to my employees, as a seller to my customers, and as an industrialist to my colleagues in the business world.

The subject before us is of such momentous importance to America and to the civilized world that it calls for a clear and uncompromising statement of position. In requesting my presence here, it may be assumed that your committee believed we could speak from the experience of operating 25 industries, including steel, aluminum, chemicals, ships, home construction, household appliances, cement, concrete, and many other construction materials. It is not generally known that certain of these industries were in successful operation for many years before the outbreak of the war, and that for 30 years we have been marketing products to the public, direct and through dealers.

These 25 enterprises operate today at least 50 plants, grouped at five major regional centers: Southern California, northern California, the Northwest, the Midwest, and the East. They produce more than 130 different items, marketed as individual products, some of which are listed here.

Now, the 25 industries are: Agriculture, aircraft, aluminum, automobiles, cement, chemical, concrete, contracting of major proportions, having done, before the war, some \$400,000,000 worth of work. Engineering. We have a tremendous engineering service. Ferro-alloys, gypsum, household appliances—many products. Housing—we are on a program now of 10,000 houses for this year alone. Insurance, iron and steel, lime, machinery, magnesium, medical—we

have three hospitals. Mining, refractories, sand and gravel, ship-building, ship repairs, steamship.

In southern California we have materials which we sell as pig iron, coke, chemicals, creosote, slag, pipe stock, steel plate, tar, ammonium sulphate, xylol, flake pitch, steel merchant bars and shapes, steel piling and specialties, phenol, light and fuel oils, benzol, solvents, sodium carbonate, reinforcing steel, and fertilizers.

At the Long Beach plant, automobiles.

In northern California we are operating the four Richmond shipyards. Including the Portland-Vancouver area, we are operating a total of seven shipyards, and we are filling contracts for private industries. We are constructing vessels for Alcoa and we have been building Victory ships, coastal vessels, cargo vessels, and all forms of repair work at the present time, having in one yard as many as 45 ships in one yard for repairs right now.

Our Permanente industrial center at Palo Alto, we manufacture Portland cement, rock products, lime, magnesium, light metal alloys, sand castings, magnesia, magnesium hydroxide, oxygen, brick, periclase, volitalized silica, raw dolomite, calcined dolomite, hydrated and processed lime, doubled burned dolomite, ramix, ferro-alloys, fluxes, and miscellaneous chemical specialties.

At the building materials plants we probably furnish perhaps 50 percent of all the products that go into northern California, with approximately 25 plants in building materials alone, and we supply washed gravel, crushed gravel, crushed rock screenings, railroad ballast, crusher-run base, slurry base, concrete sands, plaster sands, asphalt sands, stock-car sand, asphaltic concrete, plant mix, oil mixes, stabilized base, and ready-mixed concrete, slag, hundreds of trucks delivering direct to-the-door mixed concrete.

In the Northwest, our yards are filled with repair work on Victory ships, coastal vessels, and cargo vessels, in addition to new ship construction.

At Spokane we are now taking on the operation of two aluminum plants.

In the Midwest we run the Willow Run plant.

And in the East we have two aircraft plants where we manufacture military aircraft, hydraulic valves, aircraft subassemblies, stainless steel specialties, personal aircraft, and housing appliances.

In general, that is a very rough idea of the products we are dealing with.

The inflation which we are called upon to fight today is due in major part to the tremendous demand for goods of all kinds throughout the world. The unsatisfied needs of mankind, not only in America, but in every land, exert the greatest pressure on the price structure.

Our huge wartime national income has swelled the demand for ample food, new clothing, and adequate shelter. The price of these necessities is our first concern. They must not be priced beyond the people's reach. The people of America are hungry, besides, for all of the other manufactured products that industry can produce. Let me give you a dramatic example from our own experience in the automobile market in New York City. Men and women stood for hours in a blinding snowstorm, in a line four deep and four blocks long, hoping to see and to place orders for the transportation they so sorely needed. It was finally necessary for us on the last day to bring in machines to take the orders.

Similar demonstrations appear daily on every Main Street in America where lines form to purchase the limited supplies of certain staple foods and certain luxuries, such as nylon stockings and other products, which are considered essential to a high standard of living.

There is grave danger in the common argument that this tremendous demand could be met by so simple a device as removing price controls. Such an expedient would spell ruin for the great mass of mankind which has only limited purchasing power. The long years of war all but exhausted the basic supplies in the markets of the world. This tragic circumstance has created a scarcity without parallel. The situation calls for the utmost cooperation between all branches of industry, labor and Government to maintain sound price levels, and thus protect the dollars that will convert wants and needs into purchases until production can satisfy demand.

The enterprises for which I am responsible are business organizations. For more than 30 years we have been engaged in these fields of free enterprise which are the most highly competitive. In the hard school of experience, we have faced the problems of production. We know the problems of selling. We know the importance of costs and the survival value of efficiency. We know the importance of looking ahead and in that foresight we have confirmed our belief in the future of this country. We know that sound business is not out to make a quick killing.

From all this experience, we are today ready to testify that the surest cure for inflation is production—the highest possible level of production at the earliest possible moment. Production, not price control, is the problem that we must solve. The Office of Stabilization can and will help us to increase production, and I am certain that the Office of Price Administration will handle its pricing power to the end that maximum production will be achieved.

I cannot agree with those who profess to be able to estimate the extent to which the new wage price policy will increase the cost of production. Thus far, generalities about future costs are too vague to be convincing, and no one will deny that we are still a long way from potential peacetime production levels. As a matter of fact we can cite instances from our own experience only recently where increased wages have actually lowered costs through increases in production.

I hear no dissent from the principle that increased production is the true solution to the problem of inflation. If this principle is sound, then the best way to increase production will be to stop bickering and go to work, with all sides ready to give and take in the all-important effort to raise production to the level of demand.

As a people trained in the democratic tradition, we cherish the right to criticize our Government in all its branches, but the best criticism stems from experience. In managing 25 industries, which we are doing today, we have come to learn how the Office of Price Administration works. In all of our enterprises, throughout the war and since, we do not know of a single instance in our dealings with the Office of Price Administration where, after the facts were presented, we were not accorded a fair and equitable treatment by this agency. This statement covers our total experience with the Office of Price Administration as a seller and producer in the market.

As a buyer under the Office of Price Administration for our various industries, we can again report satisfactory treatment. We, too,

are faced with a shortage of essentials. Our experience indicates that the supply of basic materials is equal to about half of the demand. As buyers, we would be greatly concerned if suddenly all restrictions on the seller were removed and we were compelled to bid at auction for vital supplies.

To illustrate the point, this committee may be interested to know that as buyers we recently faced new situations wherein we found ourselves unable to purchase steel. In the first instance, the Kaiser Co. tried for 4 months to place orders for sheet steel for the production of a low-priced dishwasher; that is, deep-drawn steel. Our inability to satisfy this requirement from any supplier forced us to adopt an aluminum tub for this household appliance, and we have lost 4 months in the production of that item.

The Kaiser-Frazer Corp. encountered exactly the same experience in regard to steel for automobile bodies. Until this week we were unable to secure a commitment on any specified tonnage of steel for the manufacture of automobiles. Some suppliers said that no tonnage was available. Others promised to advise us later on how much tonnage we can have and when.

The Kaiser interests are taking four steps to remedy this alarming situation:

1. We have expressed our belief that a failure on the part of industry to cooperate in this critical emergency will necessitate action on the part of the Stabilization Director.

2. We have approached Mr. Bowles with the request that he study such allocation of steel as would be fair and equitable for all producers. This would preserve that competitive force which is so indispensable to the life of American industry.

3. We have been obliged to lease from the Government and to operate an aluminum ingot plant and an aluminum rolling mill in order to produce our own raw materials. In the aluminum industry we will welcome regulation from the Office of Price Administration in our pricing of this light metal which is also in critical shortage. Only recently we were advised that the earliest delivery of aluminum which we could expect from other operators was 48 weeks, which comes dangerously close to being a year.

4. Finally, the shortage of steel sheet is so critical that in addition to leasing the aluminum plants, we are also studying available defense Plant Corporation steel plants. At South Chicago, for example, there is a Government-owned, war-built \$93,000,000 steel plant for which competitive bids are to be received April 1 by the War Assets Corporation. We are investigating this plant with the thought in mind and the purpose that there may be ample floor space to increase its facilities and to install a strip mill for the rolling of steel sheets. If our studies show it is economically sound, we will be among the bidders making a proposal to the War Assets Corporation.

In our opinion, the consumer demand for products requiring sheet steel is so great that it will require the operation, for at least 3 years, of all of the steel capacity of the United States, including the additional capacity installed during the war. Again I want to say, the only way to reduce Government controls is to use all of our existing facilities for production, and to build, where necessary, new facilities to give us increased production and meet the demand. Congress has already done its part in proving the Surplus Property Administrator with

ample authority to make these plants quickly available to industry, after a check by the Attorney General to ensure they are so allocated that competition is encouraged.

I have thus spoken from experience because I do not wish to generalize. In facing the actualities of inadequate supply, we have learned that price control is vital to the health of our country through this emergency, and that inflation will finally be brought into balance by production. It is now altogether clear that the Office of Stabilization is necessary at this critical juncture in order to protect buyers, sellers, and the public both as to pricing and as to allocation; for these two are kindred necessities in a market where demand so far exceeds supply. In this transition period from war to peace, when the barrel holds so much less than the customers want, the customers will either fight for it or overbid for it. When industry produces enough barrels full of the things that people want, then we will not need allocation and price control.

The National Association of Manufacturers has recently taken full-page advertisements in the Nation's press to urge the abandonment of Office of Price Administration. In this campaign, National Association of Manufacturers has given no indication of how this procedure would remedy the present emergency. I cannot believe that this is the unanimous verdict of its members. Outside of National Association of Manufacturers there are thousands of manufacturers whose opinions are certainly not represented in National Association of Manufacturers' advertisements. I know that the National Association of Manufacturers has not approached us for our viewpoint. The vast majority of American businessmen in trade and production, who are not members of National Association of Manufacturers, are a force to be reckoned with, and should be heard.

With this knowledge, it appears to me that the National Association of Manufacturers—before taking a position in which it presumes to represent American industry—should take a poll, and furnish this committee with its results. In preparing a questionnaire for such a poll of American industry, the facts for and against inflation should be presented. If the National Association of Manufacturers prefers to poll only its own members, we may hope that it will make some attempt to find out what the employees of its members are thinking, because, after all, it is the people who will have to pay the price for inflation.

I notice a tendency today to use the phrase "the little man." I presume this means the plain citizen whose voice is too seldom heard. If this is a proper definition, "the little man" is industry's biggest customer. He is the one who needs protection. The savings of the worker, the widow, and the dependent would suffer most if we permit the United States to stage a general auction in which the price of everything will be bid up until only the few can satisfy their needs. America's huge financial reserves, born of war and represented by the earnings and savings of our people, must now have that fair and equitable protection which is afforded by agencies such as the Office of Price Administration and the Office of Stabilization.

One look back into history should be enough to convince us that we must not open the road to uncontrolled inflation. We had the experience—after the abandonment of price control—of the soaring boom of 1919. And we had the experience of a total bust in 1920. Does experience teach us nothing?

There is no more brilliant chapter in the history of American economics than the story of price controls throughout the Second World War. The necessity for those controls will not be past until full production has been achieved. There is, as yet, no convincing argument that full production must await removal of price controls. The answer would be an inflation of disastrous proportions, in the financial markets, the commodity markets, and throughout the whole field of production and distribution, and, as always, laying its heaviest toll on those who are the least able to bear it.

In concluding this statement, the committee should understand that I do not believe that the Office of Price Administration is perfect—there is no such thing as perfection anywhere. It is easy to criticize, easy to say what should have been done, or what should be done, as one watches from the sideline. It is a real responsibility, however, to initiate a program such as the Office of Price Administration, to coordinate it, to guide it, and to keep it free from those who may unwittingly hurt it with criticism. This is not a time when we need criticism. We need to work together for the common good, which is increased production. The Office of Price Administration needs help from everyone—from Congress, from the people—and we must all join in the use of this agency, and make it stronger by giving it our confidence.

Now, there is one thing I particularly want to say: Someone asked me this morning: "What would you do with these 25 industries, Mr. Kaiser, if suddenly the Office of Price Administration were removed?" and it is worthy of a great deal of thought. What would we do? And I could see only one thing that we could do, and that would be immediately what everyone else does, and every individual does: that is, immediately to raise the price as high as we could raise it on every one of our commodities, for a short period of time, in order to make it while the going was good, and then, in a few months, retrench completely in order to protect our industries—and by retrenching, I mean removing probably two-thirds of our employees, because we would no longer be willing to take the hazards of inflationary prices in the knowledge of when they would bust. And that, in substance, gives you my earnest and sincere feeling.

The CHAIRMAN. Mr. Kaiser, you were a great wartime producer. What percentage of your wartime production has been converted to peacetime production? How long will it take you to get into peacetime production?

Mr. KAISER. Well, in some cases, in some of the plants—well, let me answer that specifically. In the steel plant, we are attempting now, and are having quite a problem getting the materials to reconvert so that we can furnish all of the steel requirements that we understand we need.

The Fontana plant, you understand, was equipped to produce only those materials which were necessary for war. It will probably take us a year and a half to get into peace production at Fontana. But nevertheless, today Fontana is operating at full capacity, and can barely take any more business this year. Practically all of its capacity is taken for this year.

The CHAIRMAN. Many of those industries were not reconverted industries at all; they are entirely new industries?

Mr. KAISER. That is right.

Now, if you talk about the shipbuilding—many people ask about that—we have taken over and leased from the Government one of the plants at Portland. We have made an offer to the Maritime Commission for all four shipbuilding yards at Richmond—I think we made it yesterday—a cash offer for all four yards. We plan to convert those plants to the task of filling important housing requirements. There is tremendous shortage of certain materials in housing, particularly gypsum board. We intend to put up a gypsum-board plant at Richmond, of tremendous size, if we can acquire the yards on a reasonable basis.

In addition to that, we will probably open up one of those plants into an automobile assembly plant. I would say it would take 6 months there. But in the meantime we do have 7,500 employees there and are building and doing all kinds of work regularly.

The CHAIRMAN. Are you engaged in the construction of prefabricated houses?

Mr. KAISER. We do not call them prefabricated houses. We are engaged in the construction of communities. We have a corporation known as the Kaiser—I think I had first better point out to you that all these 25 industries are different corporations. They are not pyramided. They all operate independently. In our operations with the Office of Price Administration, unless there is some fundamental principles, we never see the Office of Price Administration. That independent industry goes to the Office of Price Administration with its costs and figures and demonstrates what its costs are and what its needs are.

Now, in housing we have what we call the Kaiser community homes. It has a program of 10,000 homes and is building now 3 a day. In 4 months it expects to be up to 30 a day. It does both prefabrication of parts of those houses and it does what we call site prefabrication, and then some general construction on the site. But they build the community. They build all the facilities for the community.

For instance, it might be interesting to you to know that we consider that the house is not the whole problem, by any means.

In Los Angeles, it is necessary to lay out and pave 150 miles of streets to build these 10,000 houses, and 150 miles of sewers.

Now, we are operating up in the East with a company called the Kaiser-Walsh Community Homes Corp. We have acquired 400 acres from Ford, and we are starting to build a community around Willow Run, and I expect that that corporation will then develop in the East, and it is our purpose to continue to develop more corporations to build communities on this housing program. It is our hope to be up, in 1947, to at least 50,000 houses a year.

The CHAIRMAN. Tell us something about those houses.

Mr. KAISER. Well, we are aiming at a house that will cost between five and six thousand dollars. At the present time—this will be interesting to this committee—Fritz B. Burns, president of Kaiser Community Homes, sold the same home in 1940 for around \$3,300 that we are now selling for around \$8,000. It is our purpose, with our plans to achieve reduced costs, to build a home with two bedrooms, and to be in production of that home in large quantities, at between five and six thousand dollars.

Mr. GAMBLE. That is prefabricated?

Mr. KAISER. They have prefabricated windows, and sashes and doors, and the units in the bathroom are prefabricated. In other words, the components are manufactured and then put together at the site. We prefabricate certain units, but not the whole house. We are doing everything to reduce the cost so that we can get that home down to between five and six thousand dollars, because we recognize that the earning power of the individual, the mass buyer, cannot pay more than five or six thousand dollars. If we are going to make a contribution, we have got to get a house down to that cost. We are aiming, furthermore, to produce that house fully equipped and fully carpeted, so that it has no problems for its new owner. We are aiming to produce a quality house. We aim to achieve individuality and variety in the houses by curving the streets, by location of the houses on the lots, so that there is nothing checkerboard about them. Thus, though the floor plan is the same and the houses can be mass-produced, yet they look totally different as you drive down the street.

Miss SUMNER. Are they round, those houses?

Mr. KAISER. Round? Oh, no.

Miss SUMNER. I notice Mr. Patman said the houses were round.

Mr. KAISER. Oh, I did not say that.

Mr. SUMNER. You did not say Kaiser houses, but you said some houses were round.

Mr. PATMAN. No; I said a plant out in Wichita, Kans., is making round houses.

Mr. KAISER. There is a round house made of aluminum, designed by Buckminster Fuller, who proposes to make a totally different type of house.

The CHAIRMAN. Are these houses set up by local labor?

Mr. KAISER. Yes, sir.

The CHAIRMAN. How long do you think it will be before we can supply the housing shortages as they now exist?

Mr. KAISER. Well, as we see it, we are very strongly supporting Mr. Wyatt's program, because he is going to make the materials available, which is the important thing, and as we see it, under private enterprise, I believe that you can build. If Mr. Wyatt is given full freedom to go ahead, with his energy, I believe that you can build, under private enterprise, more than the 1,200,000 houses he is talking about this year, and I think you can go to 2,000,000 next year. Now, that is fantastic but it is not beyond my conception at all. If you do that, I think you will be out in the open by the end of next year, so that you will have the competition that you need to get more homes. When it is proved that they can be produced in quantity, there are a hundred thousand contractors in the United States who want to do the same thing.

The CHAIRMAN. Do you think the Wyatt program is a constructive program and will produce results?

Mr. KAISER. I think it is an excellent program. I think that it is not perfect. None of us want subsidies. But sometimes subsidies are necessary to get certain materials.

Mr. BROWN. Mr. Chairman, I understood we were hearing Mr. Kaiser on the extension of price control.

The CHAIRMAN. Yes. That point of order against the chairman does not come with very good grace from this committee because we explore all these fields, and we always welcome information. I

thought we had a witness here who could give us information, so I thought I would ask him about it.

Mr. BROWN. I beg the chairman's pardon. I thought we were holding hearings on this bill.

The CHAIRMAN. Well, that is all right.

Well, I will recognize Mr. Brown.

Mr. BROWN. I have just one question. Mr. Kaiser, are you engaged in the production of building materials and homes? Are you producing building materials?

Mr. KAISER. Oh, yes.

Mr. BROWN. Well, in asking for help, do you expect to ask for subsidies?

Mr. KAISER. Well, let us be specific about that. We have the largest cement plant in the world. We are selling cement below the ceiling price today. We do not expect to ask for subsidies ourselves on anything.

Mr. BROWN. Well, of course, if you make cement at a loss?

Mr. KAISER. We are not making it at a loss. We are making a satisfactory profit and still below the ceiling.

Mr. BROWN. Well, you do not need subsidies?

Mr. KAISER. No; we do not.

Mr. BROWN. You do not expect to ask for them?

Mr. KAISER. We do not expect to ask for subsidies.

Mr. BROWN. That is fine. I am through.

Mr. KAISER. It may be necessary, though, I can say this, it may be necessary to use Wyatt's program, which you used in the war, for Defense Plant Corporation facilities, Government facilities for production of materials, because it may not be necessary to have that many facilities after the emergency requirements are met. But even the Defense Plant Corporation facilities, if demand increases as I think it will, will be sold, as they have been, in many cases, at more than it cost the Government.

Mr. BROWN. That is fine.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I have no questions.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Kaiser, do you know Mr. R. G. LeTourneau?

Mr. KAISER. Oh, yes.

Mr. PATMAN. You were associated with him, were you, at one time?

Mr. KAISER. Well, I financed Mr. LeTourneau for a whole year in his original enterprise.

Mr. PATMAN. Well, that is fine. He is a big builder like yourself, though not quite so big. He has recently constructed a machine to make a concrete house. Have you seen it?

Mr. KAISER. I have only seen pictures of it.

Mr. PATMAN. Have you given consideration to the steel mill down in Texas?

Mr. KAISER. We are making studies of it.

Mr. PATMAN. You are making studies of it now?

Mr. KAISER. Yes, sir.

Mr. PATMAN. You have in mind submitting a bid at the right time, if it fits into your plans?

Mr. KAISER. If it fits into our plans and we can get materials, I earnestly believe there are insufficient materials everywhere, and part of the national program should be to increase the basic materials.

Mr. PATMAN. Did you happen to see that article in December Fortune about the Mesaba Range, to the effect that so much of the high-class ore is playing out up there, and that they should look to other places?

Mr. KAISER. I did not study it.

Mr. PATMAN. It is an excellent article. It adds to what you are saying, to the effect that we should look for other sources of materials.

Mr. KAISER. If your question is whether we have ample ore reserves—

Mr. PATMAN. Yes.

Mr. KAISER. I do not think that our ore reserves have been fully developed yet. There are tremendous reserves throughout the whole country, and I am one of those who believes that our plants should be decentralized, and that we should use the various ores throughout the United States in order to protect our economy.

Mr. PATMAN. I thoroughly agree with you. The community housing project you have, do you buy a plot of land like 400 acres and then set aside a certain part of it for commercial buildings, stores, and theaters?

Mr. KAISER. We do.

Mr. PATMAN. And you have a whole unit, a whole city within itself?

Mr. KAISER. A small community.

Mr. PATMAN. About what size do you contemplate? About 10,000 houses?

Mr. KAISER. Well, in Los Angeles we have one section with about 2,000 houses. We have another 400. We have another 800. In San Jose we will run about 800 houses there; 2,000 at Willow Run, approximately, according to what the present demands appear to be, and it can be done by all the home builders of America. It will be done just as soon as they are sure they will get materials. They will not go into this thing unless they are sure of getting materials.

Mr. PATMAN. If the building codes are not relaxed in the different cities, do you think that consideration will be given to building cities outside of these cities that have restrictive ordinances?

Mr. KAISER. That is true.

Mr. PATMAN. So if they do not relax ordinances, they might run up against that situation?

Mr. KAISER. The cities themselves will lose a lot of taxing capacity.

Mr. PATMAN. Mr. Kaiser, I appreciate your statement very much. It is an excellent statement, just as fine as it can be. But I want to express myself as seeing a real danger of the Office of Price Administration law not being extended if the Office of Price Administration is not extended or if extended with crippling amendments. So many people in the country are just mad about maybe one little thing—out of 8,000,000 prices, they are probably mad about 1—and I can see that reflected here in Congress. And anything that comes up about any kind of regimentation or rule, even if it is for the protection of the different classes and groups, there are large numbers of Congressmen against it just on that account.

Mr. KAISER. Well, Mr. Patman, you ought to see our 25 industries. It is not uncommon, each day, to find one of them mad at the Office of Price Administration, in our own organization.

Mr. PATMAN. Yes, sir.

Mr. KAISER. But when I dig down into finding out what they are mad about, it is usually very easily corrected if they will really work at it. The whole question is that we, as a nation, have a wonderful possibility, and we have got to recognize that we must go to work at this thing and do something about it. We were 6 or 8 months postponing this housing question, because we ran into these shortages, and we knew we could not get certain materials. But finally we said, after meeting after meeting after meeting for months, we said, "Here we will take that hazard. We will start these houses, and we will do it somehow." That is what we did during the war. If we had brought up all these questions and these little bickerings during the war, we would not have won the war. We knew that it was necessary to do it, when we started out, and we knew that we would have bottlenecks. Bottlenecks are prospects, possibilities. They are not problems, if we just go about it and work together to do it and stop bickering. I can find trouble every day with the Office of Price Administration if I want to, but the thing to do is to work out every problem and make it a real possibility.

Mr. BROWN. Will you yield, Mr. Patman?

Mr. PATMAN. Certainly, Mr. Brown.

Mr. BROWN. You spoke about Mr. LeTourneau a while ago. I know him. His largest plant is located in my State. He has done more to help the needy people and given more to charity than anybody I know. He is a fine Christian gentleman, and one of the finest characters I have ever known.

Mr. KAISER. He worked for me for years. I owned the patents, and they were released to him, and we went ahead with his work because I took on at that time a \$20,000,000 project of 500 bridges in Cuba. And he is all that you say he is, and he is resourceful in addition to all that, and deserves credit for what he has done. He has done a great deal to win the war with the implements that he has produced.

Mr. PATMAN. Heavy machinery all over the world?

Mr. KAISER. That is right, and those were all originally produced in the early days. I do not know how long ago it is that Bob and I worked together—I guess it is 15 years ago.

Mr. PATMAN. I had a minor part in getting the steel mill established in my district, and Mr. LeTourneau just recently moved down there and established a plant. I am sorry Georgia is going to lose him.

Mr. BROWN. He is still in Georgia; do not worry about that.

Mr. KAISER. It is always good to fight over a good man.

Mr. PATMAN. Well, you did a good turn in helping him out, and I agree with you that we cannot expect perfection, Mr. Kaiser. Even in law, we do not have exact justice, we only have equal justice.

Mr. OUTLAND. Along with the statement that has been made about personalities, may I say that those in California are pretty glad that Mr. Kaiser is still there and hope he will not move to Florida or any other place.

Mr. GAMBLE. He has an office in New York, however.

Mr. OUTLAND. Oh, but his headquarters are in California.

Mr. WOLCOTT. Mr. Kaiser, you said the bottlenecks were not problems, but were opportunities, as I understood you.

Mr. KAISER. Well, I like to think I am a citizen of America and I love it and I love our democracy, and I recognize we are all muddling, but we can get out of this muddle and get into the clear and really make the grade.

Mr. WOLCOTT. That does not answer my question.

Mr. KAISER. I beg your pardon?

Mr. WOLCOTT. That is not your answer to my question, is it?

Mr. KAISER. What was your question?

Mr. WOLCOTT. I said, as I understood you, you said that these bottlenecks were not problems, they were opportunities.

Mr. KAISER. That is right.

Mr. WOLCOTT. We must dig in and solve them, in the good old-fashioned American style.

Mr. KAISER. That is right.

Mr. WOLCOTT. Now, realizing, of course, that the bottleneck, if we may use the term, or the opportunity, as you put it, lies in the field of getting building materials, and that if we get building materials we are going to be able to build sufficient homes, what would you suggest as the most direct approach to break the bottleneck, and to take full advantage of the opportunity that presents itself to get sufficient lumber, for instance?

Mr. KAISER. Well, of course, I believe the greatest force to accomplish anything is the competitive force. For instance, the thing to do is to provide a substitute for lumber. We have an experimental department in California. We are manufacturing all kinds of substitutes. For instance, let us take siding and roofing, roofing sheeting. We are making a roofing sheeting out of waste lumber, covered either with aluminum or covered with glass plastic, and it comes very close to the present lumber prices.

Mr. WOLCOTT. The immediate problem is lumber. We have not developed these substitutes.

Mr. KAISER. Oh, yes; they are all developed.

Mr. WOLCOTT. You mean we have developed substitutes for lumber sufficiently that we can get 2,700,000 homes without lumber?

Mr. KAISER. Not without lumber.

Mr. WOLCOTT. Well, we still have to have lumber?

Mr. KAISER. With less lumber.

Mr. WOLCOTT. But we still have to have the lumber?

Mr. KAISER. That is right.

Mr. WOLCOTT. They are not felling the trees and getting lumber. What would you suggest to get the lumber?

Mr. KAISER. The people who own the trees and the people who are working in the lumber areas, when they discover that their lumber prospects are fading, the competitive force takes hold and they will say, "Well, wait a minute. We had better do something about this." We are buying lumber now. We are not having any real difficulty at this moment.

Mr. WOLCOTT. You are not having any difficulty getting lumber?

Mr. KAISER. No.

Mr. WOLCOTT. Do you get priority different than any other builder?

Mr. KAISER. No.

Mr. WOLCOTT. Well, the bottleneck in the building trade, as we have had it here for months now, before this committee, seems to be

in the acquisition of lumber. Do you mean to tell us that builders in general throughout the country can buy all the lumber they want?

Mr. KAISER. As of this day. I cannot tell you what the bottleneck will be tomorrow. We are not having difficulty with lumber. We have our own lumber mills in some cases. We are producing some of our own lumber. That is, the Kaiser Community Homes is associated—

Mr. WOLCOTT. All right. Then, you are in a little different position than the man who is going out in the open market and buying his lumber. You do not mean to say that the builder who has to go out and compete in the open market for his lumber does not have any trouble getting lumber, do you?

Mr. KAISER. Well, there are some people who always have trouble getting anything. I really believe that you can get the lumber.

Mr. WOLCOTT. Mr. Kaiser, your statements here, I think, are amazing this committee. At least, you amaze me when you say that they can get all the lumber they want now.

Mr. KAISER. No, I do not say they can get all the lumber they want now.

Mr. WOLCOTT. You say you can get all the lumber you want, but you are developing these substitutes.

Mr. KAISER. No. I say that we can provide substitutes for lumber, not wholly, not all the lumber.

Mr. WOLCOTT. But you can get all the lumber you need?

Mr. KAISER. We are getting, as of today, all the lumber we need.

Mr. WOLCOTT. How are you getting it? Because of your own forests, your own mills?

Mr. KAISER. Both ways.

Mr. WOLCOTT. You are getting it in the open market?

Mr. KAISER. Yes, sir.

Mr. WOLCOTT. All the lumber you need?

Mr. KAISER. Lots of lumber; not all we need.

Mr. WOLCOTT. Then, the bottleneck still exists. There is the opportunity, the bottleneck still exists.

Mr. KAISER. You bet; that is exactly why we are building—

Mr. WOLCOTT. Again, I ask you the question: How can we take full advantage of this opportunity that you present to get a full production of lumber?

Mr. KAISER. How can you take advantage of it?

Mr. WOLCOTT. You call it an opportunity, and we call it a bottleneck.

Mr. KAISER. The opportunity is to provide substitutes.

Mr. WOLCOTT. Well, we want to build these homes immediately.

Mr. KAISER. Well, you can build this immediately. You can use waste wood—

Mr. WOLCOTT. Where do you get the waste wood?

Mr. KAISER. I am sorry I do not have it with me. You would be fascinated with it.

Mr. WOLCOTT. Where is the waste wood, if you do not get the lumber?

Mr. KAISER. You know there are plenty of forests.

Mr. WOLCOTT. There are plenty of forests, but we cannot get the lumber. If we can get the waste wood, we can get the good timber. Now, how do we correct this bottleneck? How do we correct this

condition? That is our problem. And I think you are in a position probably to throw some light on it.

Mr. KAISER. Well, I have answered that. You cannot get all the lumber that is needed if you are going to make all the houses out of wood.

Mr. WOLCOTT. What would you make them of?

Mr. KAISER. I just said that we now have developed a substitute for lumber.

Mr. WOLCOTT. Have you developed a substitute for 2 by 4's?

Mr. KAISER. We can make a 2 by 4 without lumber, absolutely.

Mr. WOLCOTT. Out of what do you make it?

Mr. KAISER. We make it out of waste wood, out of gypsum, covered with a stressed skin of plastic, or a stressed skin of aluminum, definitely.

Mr. WOLCOTT. Then, the answer to our housing problem is substitutes for lumber?

Mr. KAISER. Today it is. The lumber industry is like every other industry. It feels the force of competition. And I believe the force of competition is the answer to it all.

Mr. WOLCOTT. Well, I want to buy some lumber to build some bookcases. What do I do? Go to a dealer and say: "Do you have the lumber, and if you do not have it, what have you that I can use as a substitute?"

Mr. KAISER. Well, if all you need is a little lumber for bookcases, I can show you how to get it.

Mr. WOLCOTT. I wish you would tell me where I could buy some lumber.

Mr. KAISER. You just tell me what it is, and I will have the lumber delivered tomorrow.

Mr. WOLCOTT. Will you do that?

Mr. KAISER. I will do it some way. I do not know how I can do it this minute.

Mr. WOLCOTT. Would you do that for my neighbor?

Mr. KAISER. Well, I cannot take on the supply—

Mr. WOLCOTT. No; that is it.

Mr. KAISER. For all the people of the United States.

Mr. WOLCOTT. I am not asking for any special favors. You would not do it for my neighbor. I think if I could go out here and bulldoze a lumber dealer into the thought that I am coming down here to raise the devil with the lumber industry if I do not get a few feet of lumber to build some bookcases, I could probably get it. But I do not want to put myself in a position any different than my neighbor. How can my neighbor get the lumber to build his bookcases?

Mr. KAISER. When I went into this first 10,000-house program and went to the banker, he asked me the same question that you did. I said, "We will need \$7,000,000 to build these houses in financing alone." Well, he said, "Henry, how are you going to get the materials now?" I said, "Well, I do not know. I am just going to get them." Apparently he had enough confidence we could, and we have not had any trouble yet.

Mr. WOLCOTT. He had confidence in you personally.

Mr. KAISER. That is a question of faith.

Mr. WOLCOTT. That could be qualified as a character loan.

Miss SUMNER. Do you not think he has anything more than his character, with 30 companies?

Mr. WOLCOTT. Yes; he had faith and confidence in your ability.

Mr. KAISER. I can tell you, if we get the lumber, what our competitor will say about it. I would not dare to say what he will call me if we get the lumber. And he will say, "If that fellow can get it, believe me, I can get it," and the old force of competition, and the old force of thinking, and our American enterprise comes back into action.

Mr. WOLCOTT. Well, take a project out in Michigan. They want to build 50 homes. They go to their regular suppliers and they say, "We want so many board feet of lumber to build 50 homes. We want so many cement blocks, and so forth." Now, their suppliers tell them, "We are sorry. We do not have the lumber. We do not have the cement blocks, but Mr. Kaiser is pointing the way toward some substitutes for these materials."

Mr. KAISER. Not Mr. Kaiser. That happens to be Mr. Wyatt's job.

Mr. WOLCOTT. No; Mr. Wyatt has not offered any substitutes yet, except what the industry has offered him. "So we are waiting now for Mr. Kaiser to develop a substitute for lumber, and when he develops that sufficiently, and gets it onto the market, he is going to sell these substitutes to his competitors. Therefore, if Mr. Kaiser puts his substitutes on the market, we will be able to get material in substitution for these cement blocks to build those 50 houses." Now, when is that time going to come?

Mr. KAISER. In the next month or so. Because we are going to furnish materials. That is our business.

Mr. WOLCOTT. And within the next month, then, we may be assured that there will be enough substitutes?

Mr. KAISER. Oh, no; not enough. Wait a moment now. This is a miracle, all of a sudden.

Mr. WOLCOTT. We are down out of the clouds now. We are down here hammering home a realistic approach to our housing problem.

Mr. KAISER. Oh, well, you have got it. The Wyatt program will provide materials for those men you are talking about. That is what his business is, and he has a program for doing it. And he is not going to depend on Mr. Kaiser alone because that would be ridiculous. He is going to depend on the American enterprise to do it.

Mr. WOLCOTT. Mr. Wyatt seems to think that one of the bottlenecks, or one of the opportunities, lies in the field—

Mr. KAISER. I love to have you calling it opportunity.

Mr. WOLCOTT. Of obtaining lumber.

Mr. KAISER. Sure it is.

Mr. WOLCOTT. You say you are developing a substitute for lumber, so that is not an important bottleneck any more.

Mr. KAISER. Well, now, our present program will be expanded continuously. It may become a bottleneck. I wish you would see these things be bottlenecks and then—

Mr. WOLCOTT. I know. We have seen them. We have been looking for them for the last 3 or 4 months, and that is what we are trying to develop here, some opportunities to break these bottlenecks.

Mr. KAISER. Well, I think you are very fortunate that—

Mr. WOLCOTT. Now, I am going to come back to the original question now. What do you suggest we do to take full advantage of this opportunity that presents itself?

Mr. KAISER. I have got an answer for that. Support Mr. Wyatt in his program. And you will get it.

Mr. WOLCOTT. The whole program?

Mr. KAISER. His whole program.

Mr. WOLCOTT. The Wagner-Ellender-Taft bill?

Mr. KAISER. I do not know about that bill.

Mr. PATMAN. It is not before the House.

Mr. WOLCOTT. That is a part of his program.

Mr. KAISER. I do not know what that bill is. But he has a program on getting materials, which is the problem that is worrying you, and I think the President is to be complimented on—

Mr. WOLCOTT. Just a minute, now. The request that Mr. Wyatt makes is perfectly logical—I do not contest it at all—to build \$250,000,000 worth of Government homes. Now, how does that help to get materials?

Mr. KAISER. Government homes?

Mr. WOLCOTT. Yes.

Mr. KAISER. You mean—

Mr. WOLCOTT. Government-owned homes; \$250,000,000 worth of homes. How does that help to get the materials?

Mr. KAISER. That is not all of his program.

Mr. WOLCOTT. How does that particular part of it help the program?

Mr. KAISER. That just helps the veteran temporarily and I think we had better help him, do you not?

Mr. PATMAN. I did not understand your reply.

Mr. KAISER. I think he is referring to temporary homes.

Mr. WOLCOTT. Yes, I am; but it is part of the program. Now, through a process of elimination, Mr. Kaiser, what I seek to do is to get down to what you consider the real need of the Wyatt program is, insofar as it will result in breaking these bottlenecks and getting materials. Now, would you think that the making of funds available to the extent necessary to stimulate technical research of new construction methods and materials by private research groups will absorb certain developmental costs involved in devising new materials and new methods?

Mr. KAISER. Definitely; yes.

Mr. WOLCOTT. All right. Mr. Wyatt is not asking for that. We will eliminate that.

Mr. KAISER. Oh yes; he is.

Mr. WOLCOTT. He is not asking for that in this legislation.

Mr. KAISER. I think it is in his memorandum.

Mr. WOLCOTT. Well, he is not asking for it.

Mr. KAISER. Well, I believe in it, anyhow.

Mr. PATMAN. Mr. Chairman, Mr. Wolcott is mistaken.

Mr. WOLCOTT. I am not mistaken.

Mr. PATMAN. I know what Mr. Wyatt is asking for.

Mr. WOLCOTT. So do I. We were at the same conference. Are you going to offer an amendment to this bill and include it? No; because you know that Mr. Wyatt has not asked for that authority.

Now, going on to the next:

Meet the rapid taxes and new facilities for producing materials in manufactured homes.

Do you think that might help a little bit?

Mr. KAISER. You know it will help.

Mr. WOLCOTT. I do not know——

Mr. KAISER. And that is merely a postponement of the tax.

Mr. WOLCOTT. I am not quite as familiar with that as you are.

Mr. KAISER. Well, listen, if you are not familiar with it, and let me make you familiar with it, then. Because this is a good time to learn about that.

Miss SUMNER. That what?

Mr. KAISER. That is accelerated depreciation to encourage investment.

Miss SUMNER. You mean rapid tax amortization?

Mr. KAISER. Yes; and it is not evading the tax. It is a postponement of the tax.

Miss SUMNER. You can get a free factory?

Mr. KAISER. Oh, no.

Miss SUMNER. All the meat-packing industries in this country have gotten their factories during war.

Mr. KAISER. Well, now, what do you think they are doing now, if they are going to continue them?

Miss SUMNER. What is that?

Mr. KAISER. They have already—let me see if I can make this plain to you—they now have factories, and they have been amortizing by taxes. The 5-year amortization has amortized those plants. That is your point. The depreciation is all taken up. But now they cannot take depreciation any longer. Let us assume that that depreciation is taken over the next 5 years, under the Wyatt program. And a man is able to depreciate a plant in 5 years, where ordinarily, it would be 20 years', or 10 years' depreciation. It is merely a postponement of taxes. If he continues to make money and use that plant, he will have to pay taxes without any credit for depreciation, because it is already depreciated.

Miss SUMNER. When you have the Government guaranteeing your market, as you had in the war, in war production, and as you do under Wyatt's program, you, at the end of the 5 years, get a free factory, and you know it, Mr. Kaiser.

Mr. KAISER. All right, but what happens after the five years?

Miss SUMNER. The factory is yours.

The CHAIRMAN. I am going to call the committee in order. Mr. Wolcott has the floor.

Mr. WOLCOTT. After the 5 years you can abandon the factory and you have not lost any capital investment; is that nor right?

Mr. KAISER. That is right, but would you abandon a factory if you could still continue to run it?

Mr. WOLCOTT. If I could continue to run it profitably, I would not. But I would if I could not continue to run it profitably. I would not have to consider that I would lose the capital I put into that factory if the Government paid for that, and that might be the turning point as to whether I would continue in business or abandon it.

Mr. KAISER. I am glad you bring that up, because you are finding out how you are going to get these materials. By encouraging this man to build that plant, you will get the short materials that you need for these houses for the veterans.

Mr. WILCOTT. All right. Now ——

Mr. KAISER. That is an encouragement. Now, if he does not use the plant, after the end of the 5 years, then, the plant is of no value

after the 5 years, it has only one value, it has helped correct the shortage of materials that we need.

Mr. WOLCOTT. And if you happened to be that individual who has had the Government build his plant for him, you can liquidate that plant, you can sell that plant, and every dollar you get out of it is profit, is it not?

Mr. KAISER. No; not according to my understanding of the revenue tax.

Mr. WOLCOTT. With the exception of the tax?

Mr. KAISER. Well, now, wait a moment. I did not know that you could get profits without being taxed on them. That is where the shoe fits right there.

Mr. WOLCOTT. All right. We get the profit.

Mr. KAISER. If you sell that plant at the end of that time, for its full value, the Government takes 60 percent away from you.

Mr. WOLCOTT. But you can organize a new corporation, of course, to take care of that situation?

Mr. KAISER. No; we cannot. I want to get you as my tax counsel, if you can do that. I never knew you could do that.

Mr. WOLCOTT. I know a fellow who built a plant 20 year ago, and I have been in this business about 20 years, I have taken my depreciation and all those things, but I cannot rapidly amortize my taxes as you who build the new plant, and, therefore, I am stuck with that plant, and I cannot liquidate. You pay less taxes or more taxes in the earlier years, but you pay the same taxes over the balance of the years as I do. It averages itself out. That is the point. I think we understand all about that.

Mr. KAISER. No; you do not understand it.

Mr. WOLCOTT. And we do not blame you for it. I think it is smart business.

Mr. KAISER. No; no. That is an inference that there is something wrong about it.

Mr. WOLCOTT. No; there is nothing wrong at all about it.

Mr. KAISER. Well, it is not good. I can prove to you that it is good.

Mr. WOLCOTT. Of course, it is not good if the Government buys you a plant out of taxes for the first 5 years and then gives it to you; of course, it is not good.

Mr. KAISER. That is a wrong statement.

Mr. WOLCOTT. Well, Mr. Kaiser, I should not have said "you." I am talking generally.

Mr. KAISER. So am I. I am talking generally, too.

Mr. WOLCOTT. There is no reflection on you.

Mr. KAISER. I do not know what administration you belong to, but it has been advocated seriously in the administration that you have a standard of accelerated depreciation, and it will come some day to encourage this economy of ours.

Mr. WOLCOTT. I am not a part of this present administration, I am really one of the loyal opposition, and I dig into these things and try to pick out —

Mr. KAISER. Well, I will tell you, if you look into this, you will be for it. I really think you will.

Mr. WOLCOTT. If, after digging into it, I find there is an advantage to our economy, I will be for it?

Mr. KAISER. I think you will.

Mr. WOLCOTT. But if I find that it is to the advantage of somebody to whom the administration is showing favoritism in preference to the industry as a whole, then, I will be against it.

Mr. KAISER. Then I will be against it with you.

Mr. WOLCOTT. Because I agree with Thomas Jefferson: "Special privileges to none and equal rights to all."

Mr. KAISER. I believe in the same thing. I am having difficulty myself with that problem.

Mr. WOLCOTT. I think I have taken up enough time.

The CHAIRMAN. Mr. Riley.

Mr. RILEY. Mr. Kaiser, how long do you think that this housing business will last? How long do you think the industry will last? How many years?

Mr. KAISER. Well, you are asking an optimist. I think the industry will go on and on and on, myself, because I think that the home building has only been scratched. I think the building of communities is the solution to our whole American problem, and I think it will last for many, many years. I cannot tell you how long. We have built these homes now, and we have seen the result of them, these communities, and it is a tremendous thing. It builds better citizens; it does everything for them; and anything that is an improvement will go on.

Mr. RILEY. I agree with you fully on that, sir. I think that this housing program is a long-term program, and that every citizen that owns a home is a better citizen and encouraged more to fight to maintain liberty.

Mr. KAISER. I think in 2 years the allocations will be off, and we will be back to the competitive system. If we get 3,000,000 homes in 2 years, we are off to the races then. That will take care of your problem.

Mr. RILEY. I had this thought on it, and I wanted to have your comments. Possibly there are enough finances now to take care of all these things, enough initiative among the American people, and the incentive a long-time pull. I am wondering just why we need subsidies to promote these things, if we have a long-time pull and sufficient initiative and sufficient financing among the private interests.

Mr. KAISER. Fear.

Mr. RILEY. What is that?

Mr. KAISER. Fear.

Mr. RILEY. Fear?

Mr. KAISER. Yes.

Mr. RILEY. You think that we have to remove fear?

Mr. KAISER. We have to remove fear. We are all afraid of inflation.

Mr. RILEY. Well, would you care to comment as to whether or not you think that subsidies would contribute to inflation and fear?

Mr. KAISER. No; subsidies could not contribute. They will decrease inflation.

Mr. RILEY. We have had some testimony to that effect, and I know that you have had considerable manufacturing experience, and that is the reason I asked you that question.

Mr. KAISER. The reason we are not going forward faster is because of fear.

Mr. OUTLAND. Will you yield?

Mr. RILEY. Yes.

Mr. OUTLAND. You were talking a few moments ago, Mr. Kaiser, about development of certain substitutes for lumber.

Mr. KAISER. Yes.

Mr. OUTLAND. At the present time you have a plant for a rather large housing project in Los Angeles?

Mr. KAISER. Yes. That is right.

Mr. OUTLAND. In that project are you using substitute materials?

Mr. KAISER. No; we are now getting ample materials.

Mr. OUTLAND. You are getting ample lumber?

Mr. KAISER. But we do see shortages, and we are even anticipating shortages of glass, for instance. We will make a substitute for glass if necessary.

Mr. OUTLAND. When I was in Los Angeles a few months ago I talked to one of the men who was associated with your organization, and he told me at that time that it was his hope—and I believe yours—that it would be possible to put upon the market rather low-priced houses, rather in contrast to what we hear as to how much it is going to cost to build new houses. I wonder if you will tell the committee just what you hope to sell those houses for in the Los Angeles area.

Mr. KAISER. \$5,000.

Mr. OUTLAND. \$5,000?

Mr. KAISER. Between five and six thousand dollars.

Mr. OUTLAND. And you will make a profit on those houses?

Mr. KAISER. Oh, yes.

Mr. OUTLAND. Does that include the lot?

Mr. KAISER. That includes everything; streets, sewers, lot, household appliances.

Mr. OUTLAND. The reason I ask that question is that frequently before this committee we have heard, either directly or indirectly, that one of the things that might possibly act as a bottleneck is the attempt to channel priorities for materials into lower-cost housing, and there has been a great deal of talk about \$10,000 ceilings, and so forth.

Mr. KAISER. I think that would be wrong.

Mr. OUTLAND. It seemed to me that it would be of value to the committee if you could explain how your company obtained the lumber and the materials and the other things, so that, including all costs, you can build \$5,000 houses at a profit. I think it is a very valuable thing and ought to be brought out before this committee.

Mr. KAISER. Well, I would not have any possibilities, if I could solve all the problems right here. Because they are coming up daily. But our estimates show that we in Los Angeles can build 3 months from now a house that you and I would be glad to take, for around five or six thousand dollars.

Mr. BROWN. Mr. Outland, does he use any lumber at all?

Mr. KAISER. Oh, yes, we are using lumber all the time right now. We are building a conventional house now.

Mr. BROWN. I mean you use a particular type of lumber? You use some lumber in all of them?

Mr. KAISER. Oh, yes; we cannot get away from lumber. We are going to build houses, regardless.

Mr. BROWN. You do not want to run the southern pine producers out of business? That is why I asked the question.

Mr. KAISER. I do not think you need to, if the southern pine producers will get on their toes and find some of the business that is going elsewhere.

The CHAIRMAN. Are you through, Mr. Riley?

Mr. RILEY. Just one other question.

What industries do you think, Mr. Kaiser, need to be subsidized and how would that eliminate fear?

Mr. KAISER. Well, of course, I am not an advocate of subsidies, except in an emergency. I think it is all dead wrong. I think we ought to have that authority, and I think it will be—I have a great deal of confidence in Mr. Wyatt.

Mr. RILEY. I think he is a very good man, and a go-getter.

Mr. KAISER. I think the Government is very fortunate to have such a man, and the United States should appreciate it. And I do not think he will use subsidies. From my talking to him, I do not think that he will use subsidy except in an emergency. He wants to do what Mr. Wolcott here is talking about. He wants to get the little fellow encouraged to go ahead.

Mr. RILEY. The trouble with that, Mr. Kaiser, is that I find that the smaller man does not get the benefit of the subsidies as he should. He is, rather——

Mr. KAISER. I do not think he will give them unless——

Mr. RILEY. He is befuddled by the red tape he has to go through, and I have been told at least that a good many of them pass them up subsidy claims or turn them over to some attorney.

Mr. KAISER. If Mr. Wyatt gives a subsidy on materials he is going to control those materials. He has got to control them. That is the purpose of getting them, to get the materials where they are needed and the way to get housing in this country is to get 100,000 home builders going. They can do it. There are ample contractors. Let us just take the fear out of their souls.

Mr. RILEY. How would that remove the fear?

Mr. KAISER. Because he knows he can get the materials and go ahead. I talked to thousands—not thousands, but hundreds—who say, "We cannot get the material." Just like Mr. Wolcott. "You can get it, but we cannot get it." That is not true.

Mr. RILEY. Do you not think that the country can be sold on the fact that we have got a long-term pull, and that there is sufficient money and initiative in private enterprise to go ahead with it, if they find that they can make just a reasonable profit?

Mr. KAISER. Yes; but they cannot be sold on it unless the Government and industry and labor work together on it.

Mr. RILEY. I agree with you on that.

Mr. KAISER. And they are not working together on it now. There is no place you can go to to find that you can be assured of materials. It is just a matter of doing what we did in the war. I think that subsidy thing will be used very cautiously.

Mr. RILEY. Well, do you not think that the offer of a subsidy would create fear instead of allaying it? That is what I am afraid of.

Mr. KAISER. No, the subsidy is not going to be used that way. If he uses it that way, it will be ruined. But he is not going to use it that way. He has not got enough money, anyhow. What money he has for subsidies is not much.

Mr. RILEY. What materials do you think need to be subsidized?

Mr. KAISER. Well, I do not know of any right now, myself. I am not thinking of subsidies.

Mr. RILEY. I am not, either. That is the reason I asked you that question.

Mr. KAISER. I will tell you one of them. For instance——

Mr. KUNKEL. Mr. Chairman, I make the point of order that the Committee is not in order.

The CHAIRMAN. Let us have some order.

Mr. KAISER. For instance, soil pipe.

The CHAIRMAN. I would like to say to the committee that we have to be on the floor shortly after 12 o'clock, because the Housing bill is coming up, and we will have to adjourn the committee.

Mr. RILEY. I will ask one more question.

The CHAIRMAN. Five minutes after 12, at the latest.

Mr. RILEY. Do you not think it is more a matter of adjusting our economy back to a peacetime economy, from the wartime economy that we had, than it is to need subsidies?

Mr. KAISER. I will give you an illustration of subsidies. I said I did not know of any materials requiring subsidy. Soil pipe. We could not get any. So we decided we would produce that soil pipe ourselves at a loss in order to get the houses built? All of a sudden someone knew we were going into the soil pipe business, someone who had been in it a long time, and he decided to furnish us the soil pipe. We would have subsidized soil pipe to get it, ourselves.

Mr. RILEY. There was also, as I understand, an adjustment by the Office of Price Administration which created an incentive for it.

Mr. KAISER. You can do it either through the Office of Price Administration or through subsidy.

Miss SUMNER. Is Mr. Kaiser coming back, Mr. Chairman, so that the real opposition will get a chance to ask questions?

The CHAIRMAN. I suppose he is a busy man.

Mr. KAISER. We are going to work together on it, not oppose each other.

Miss SUMNER. I would like very much to question you, because you talked about fear and the worst fear in the building industry is of people like you. You have the edge down here in Government, and can get the priorities.

Mr. KAISER. If you think I have any "in" in Government, I wish you would find it for me.

Miss SUMNER. I think you have done a good job of finding it, if you get lumber and all these things.

Mr. KAISER. I do not get it from the Government.

Miss SUMNER. You have to have a priority, do you not?

Mr. KAISER. No.

The CHAIRMAN. Mr. Crawford has asked for the floor. You may proceed, Mr. Crawford.

Mr. KAISER. You are wrong about thinking that I have any ins.

Miss SUMNER. Well, everybody else has to have a priority.

Mr. KAISER. No; that is something that is going to occur, not that is occurring. That is under the bill.

Miss SUMNER. What about all this testimony by Mr. Small here about priorities?

Mr. KAISER. But did you find out I had an in? I would like to know that. I would like to use it.

Mr. CRAWFORD. Mr. Kaiser, I would like to ask you one question on the major part of this oral testimony and then I want to get back to the Office of Price Administration. As the head of your 25 corporations, you certainly know what competitive forces are.

Mr. KAISER. Certainly.

Mr. CRAWFORD. If you own a plant which has been completely amortized under your 5-year plan, and I own a plant which has not been amortized, and on which I must take into account depreciation in calculating my costs, in arriving at the prices I quote, under keen competition between you and me, which of us is in position to hold the trade?

Mr. KAISER. I think that is a good question, and the answer is the one whose plant is completely amortized.

Mr. CRAWFORD. That answers that whole argument.

Now, let us go back——

Mr. KAISER. Because I am facing that with the steel companies now. Most of their plants are amortized; ours are not.

Mr. CRAWFORD. Exactly. Now, taking your testimony, you made one or two statements which confused me a little bit, and I think you can straighten it out. You spoke about how you would raise your prices in the absence of price control. Is it not a fact that you would be controlled by two propositions: One, the price the customers would pay?

Mr. KAISER. That is right.

Mr. CRAWFORD. In other words, you cannot raise your price above what the customers will pay?

Mr. KAISER. That is right.

Mr. CRAWFORD. You force yourself and your product out of the market?

Mr. KAISER. That is right.

Mr. CRAWFORD. So that would be a controlling factor?

Mr. KAISER. That is right.

Mr. CRAWFORD. Or, in the absence of price controls, if you tried to run away with your price structure, would it not?

Mr. KAISER. That is right.

Mr. CRAWFORD. Now, the other was illustrated by your statement with respect to your cement. You said you are selling cement below the ceiling, and making a profit at it.

Mr. KAISER. That is correct.

Mr. CRAWFORD. That is good business on the part of any manufacturer?

Mr. KAISER. That is right.

Mr. CRAWFORD. So when you say that, at the present time, you sell cement below ceiling, because you make a profit and because you believe in taking care of your trade——

Mr. KAISER. That is right.

Mr. CRAWFORD. Then, you confuse me when you say that in the absence of price controls you would raise the prices just as high as you could. I think your statements are contradictory.

Mr. KAISER. No, they are not. I will give it to you. I think the question is an excellent one, but there is a beautiful answer for it.

Mr. CRAWFORD. All right.

Mr. KAISER. And the answer is this: that when we go to buy materials which are not controlled, they would immediately raise the

cost of that cement tremendously. In the first place, labor would come in as soon as we raised the price and demand twice as much. Then, all the suppliers for all the materials that go to make up cement would come in, and I would not know where it would end.

Mr. CRAWFORD. I understand that. But if you stick to your cement philosophy—and it is certainly the philosophy of the Ford Motor Car Co.—you will always sell the product at a lower price regardless of what competitive conditions are, and that seems to be your policy with respect to cement. And I would bet on Kaiser and his operations, that he would continue to follow that policy, regardless of what competitive forces were.

Mr. KAISER. That is right, but Kaiser has to pay for the materials he purchases, and he would have to go in at auction and bid for the materials to make the cement.

Mr. CRAWFORD. Just like you always do, unless it is a seller's market.

Mr. KAISER. That is right. Now, at the present time, I am told—

Mr. CRAWFORD. I should say like you always do when it is a seller's market. In the buyer's market, you do not have to bid, do you?

Mr. KAISER. I am glad you brought up Ford. I am told that the price on new Fords in Los Angeles is around \$2,000.

Mr. CRAWFORD. But we are under Government control now, are we not?

Mr. KAISER. What would it be if we were not?

Mr. CRAWFORD. Well, we have the history of the Ford Motor Car Co.

Now, let me ask you another question. You speak here, in your press release—I am very much interested in this press release—about your inability to acquire sheet steel.

Mr. KAISER. That is right.

Mr. CRAWFORD. You want that for automobiles, do you not?

Mr. KAISER. That is right.

Mr. CRAWFORD. It is still difficult for all other companies to get sheet steel, is it not?

Mr. KAISER. I think so.

Mr. CRAWFORD. Have you ever before produced automobiles?

Mr. KAISER. No.

Mr. CRAWFORD. All right. Now, if you were a manufacturer of sheet steel, and I was an old customer of yours, and my friend Wolcott came into the picture as a new customer, would you take care of my needs—not completely, but quite substantially, in preference to putting in a business in competition with me?

Mr. KAISER. I would follow the law that Congress imposed, and I would divide the business equally amongst everyone that needed steel, rather than favoring a few old customers.

Mr. CRAWFORD. What law is that?

Mr. KAISER. The OWMR.

Mr. CRAWFORD. What do you call that?

Mr. PATMAN. The Office of War Mobilization and Reconversion.

Mr. CRAWFORD. Well, again, that is control.

The CHAIRMAN. Mr. Crawford, I have just been informed that they want us to proceed with the bill as soon as the House convenes, and we will have to adjourn. I regret it very, very much.

Mr. CRAWFORD. Mr. Chairman, may I make this very brief statement? These hearings are being conducted in a manner—this is not

criticism now, but it is a statement of fact, as I see it—are being conducted in a manner where time is passing rapidly, and the so-called Government witnesses have full time to develop their side of the case; those of us who want to develop the other side of the case, regardless of our position on this bill, have not, up to date—and I fear will not—

The CHAIRMAN. Oh, yes; you will have an opportunity.

Mr. CRAWFORD. They cause witnesses to appear here and they disappear before I have a chance to question the witness.

The CHAIRMAN. The man is making an outcry before he is hit. We will have the other side.

Mr. CRAWFORD. Will Mr. Kaiser be permitted to come back?

The CHAIRMAN. The door is open.

Mr. CRAWFORD. Will you come back, Mr. Kaiser, to this hearing?

Mr. KAISER. I am very much interested in this subject. I would like to come back and convince you that everything is right that I am thinking about, and I will even come and see you personally.

Mr. CRAWFORD. I simply want to develop the case in the record for the benefit of the people.

Mr. KAISER. I will be delighted to come back.

Mr. CRAWFORD. And it may be necessary to make a call of quorum in this committee every time a quorum is not present to get some of these things straightened out.

Mr. KAISER. I would love to come back.

The CHAIRMAN. Well, now, I want to make a statement. I have endeavored to hold these hearings, to have them held with the utmost fairness and I think everybody connected with them, every witness and every member, knows that. I am going to give all of them an opportunity to be heard, and these apprehensions the gentleman expresses are not based on fact or reason. They are apparitions.

Mr. CRAWFORD. Mr. Chairman, I am not talking about an opportunity for the witness to be heard; I am talking about a chance for the cross examination, and I shall insist on that.

Mr. PATMAN. The record will show the minority members have used twice as much time as the majority members.

The CHAIRMAN. The gentleman makes the point that he does not have time to interrogate the witness.

Mr. CRAWFORD. It is a fact.

The CHAIRMAN. You know very well that we have to go into the House to take care of the bill. It is a matter over which I have no control, and I do not think the gentleman ought to make any such statement.

Mr. CRAWFORD. I am agreeable with that, but will the witness be brought back? That is the question?

The CHAIRMAN. I will just pursue the course that I think is fair.

Mr. CRAWFORD. I will use my authority under the No. 4 rule.

The CHAIRMAN. Mr. Kaiser, I want to thank you for the splendid statement you made, and I am sure we will be glad to have you come back and answer any further questions that may be asked you.

(Whereupon, at 12 o'clock M, the committee adjourned.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

TUESDAY, MARCH 5, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

Mr. Small, Civilian Production Administrator is our witness this morning.

We are always glad to hear from you, Mr. Small. Have you a prepared statement?

Mr. SMALL. Yes, Mr. Chairman, I have a prepared statement.

The CHAIRMAN. I suggest that we allow the witness to read his prepared statement and interrogate him later.

You may proceed, Mr. Small.

STATEMENT OF JOHN D. SMALL, ADMINISTRATOR, CIVILIAN PRODUCTION ADMINISTRATION

Mr. SMALL. Today, as we cope with the after effects of the war and try to solve the many difficult problems that confront us, I am glad to have the opportunity to tell you my views on the continuance of price control.

I believe that the fight against inflation is one of the most important we are waging today. Right at the outset I want to make it clear that I continue to stand with those who believe it would be disastrous to our economy to let prices run wild during this period of scarcity, as I fear they would if controls were removed at this time.

Last December I testified at considerable length before the Senate Small Business Committee on the need for a continuation of price control. I am of the same opinion today.

The situation is explosive. Enormous demands far exceeding supplies have created great pressures which, if unchecked, would lead to skyrocketing prices. I believe that most thinking people, including both those in industry and out of industry, are convinced that these pressures must be checked.

I believe it is equally clear that we must not only hold prices within bounds, but at the same time, and just as importantly, we must get production up because that is our only chance to stop inflation. Production, all-out, sustained maximum production, is the only real cure for inflation, just as it is for unemployment.

Our country stands today at an extremely critical juncture. The public welfare and the future prosperity of the Nation depend upon

(1) prompt settlement of the strikes, (2) prompt resumption and expansion of production, and (3) avoidance of additional major work stoppages.

Let us look at the record of the past. Inflationary conditions today are comparable to, but far more powerful than, those existing at the end of World War I.

Our experiences after World War I were disastrous. As we look back, the causes and effects of the violent inflation and subsequent deflation that followed the last war seem very clear.

To lift price control now would, in my opinion, inevitably create the same cycle of inflation and deflation that we had in 1919-1920—disaster and ruin for thousands upon thousands of businesses—the majority of them small firms.

I would like to refer you to two charts which are attached to the statement, taken from a report to the Senate Committee on Banking and Currency and dated September 1, 1945.

These charts show quite clearly what happened after the last war, and what can easily happen again unless we have learned our lesson and unless we, as a country, are determined not to let it happen again.

Now, the inflationary factors which make it necessary for us to control prices.

In my opinion, the most important inflationary factors present in our economy which require that we control prices are the following:

(1) The enormous volume of liquid assets currently held by business units and by the consuming public, a part of which is the enormous volume of money in circulation; and the volume is now greater than the total public debt at its peak in 1919.

(2) The increasing wage scales which means increasing buying power in the public's hands.

(3) The large volume of deferred demand for housing, non-Federal public works, consumers' durable goods, clothing, and other items and the related demand for industrial plant and equipment.

(4) The heavy foreign demand for American products for relief and rehabilitation and for commerce. The latter would be increased by proposed foreign loans.

(5) Industry's requirements for replenishment of inventories to get into civilian production; the urgent need to fill up with goods all distributing channels—the pipe lines from factory to consumers.

(6) The continuing budgetary deficit of the Federal Government. All of these six factors create demands but on the supply side we have:

(7) A volume of production now far below demands and even under the best of circumstances unable to catch up with demands for many months.

All of the above factors were present after World War I, and help to explain the speculative boom of 1919-20, but owing to the greater length, and more productive effort required in World War II, they are now potentially much more explosive than in 1919-20.

It seems to me that in the face of these inflationary factors, we must, for the immediate future, continue to control prices in those areas where demand greatly exceeds current supply.

But we must, at the same time, recognize that price control does not eliminate inflationary pressures, it merely holds them in check. Balancing the budget would eliminate one important inflationary

pressure, but all-out sustained production is the only way that most of the pressure can be removed, and inflationary pressures must be removed if we are to get back to a stable economy.

Now, what are our prospects of getting production?

I believe that they are excellent.

Obviously we cannot do it overnight, but in a few short months we can make a tremendous lot of progress.

Probably the best indication of our productive possibilities is given by our actual production during the war. That story is too well known to warrant repetition here. I think I should point out that between 1939 and 1944 we expanded manufacturing capacity by over one-third, even after allowance for the fact that some proportion of the additional plant will turn out to be of little peacetime value. And when it is recalled that we were not operating our industrial plant at capacity in 1939, it is evident that we have the plant and equipment to form the basis for a very sizable increase in production. In addition, the war has necessitated the training in industrial methods of millions of previously unskilled workers. It also forced the adoption of many revolutionary technical advances, many of which can be adapted to peacetime production.

Any doubts that have been expressed as to our ability to achieve as high a level of production in peacetime as we achieved during the war because of the inflationary elements that were inherent to war activity is, to my mind, more than offset by the fact that during the war almost 13,000,000 of our youngest and most productive workers—almost one-quarter of our labor force—and tens of billions of dollars of plant and equipment were withdrawn from productive activity and devoted to destructive purposes.

The return to productive activity of the men in the services and the conversion to peacetime use of the plant devoted to war production can more than offset the inflationary factors that existed during the war. If we then find that our plant is still inadequate, we can build more. If the labor supply is short, we can increase the efficiency of the labor we have through improved technology and mass production. In short, we have the plant, the raw materials, the labor, and the industrial know-how necessary to regain and eventually exceed the record levels of war production.

Production, immediate all-out production, is the principal need at the present time. The more goods we get on the shelves, the sooner the dangers of inflation will be overcome. All-out sustained production means that a maximum number of workers will be employed and that the dangers of widespread unemployment and of consequent needless human suffering will be dissipated. But production of this scale can be attained only if we have a substantial measure of industrial peace; if both management and labor have the will to work to produce in volume; and if all of us are guided by common sense, rather than by emotions, in dealing with the industrial problems that confront us individually and from day to day.

I recommend that action be taken by the Congress at an early date extending the price-control legislation for a year beyond June 30, 1946. I believe that the psychological effect of knowing that the act is going to be extended is of utmost importance to our economy.

Undoubtedly the possibilities of the removal of price controls, or of priority and allocation controls, as of some fixed pre-announced future

date, all contribute to the pressures that encourage producers and manufacturers to accumulate materials and supplies and hold them until that date arrives, rather than to release them at this time for the civilian market, where they are greatly needed to facilitate speedy and orderly reconversion. I believe, therefore, that one of the greatest contributions that Congress can now make toward the speeding of reconversion and the improvement of supplies available to civilians is to announce well in advance of the expiration date of current laws, the policy that these laws will be continued for the critical months of the transition period.

I might add, Mr. Chairman, that I believe that the effect of the terminal date on these powers goes back at least 3 months and probably 4 months, that you begin to get the effect 3 to 4 months ahead of the terminal date, and that we will begin to get the effects of the possibility of the removal of the price-control law certainly in March, and definitely in April. Therefore, the sooner we can possibly get this over the dam, so that people know what is to come, the better it will be for our country and the less chance there will be of this withholding.

Only a day or two ago I was talking to one of the mills about textiles. And they said, "Well, Mr. Bowles was up before the House Banking and Currency Committee about 2 weeks ago or more, and he said he anticipated giving a price raise because of wage changes, cotton changes and so on. For that reason," they said, "we are not shipping anything. We are waiting until the price raise occurs."

That is a typical thing, and they will be waiting if they think price control is to be lifted, they will be withholding all along the line.

Thank you.

The CHAIRMAN. I understand you to say that the period of disintegration and weakening of price control will start probably 3 or 4 months before it is finally concluded?

Mr. SMALL. That is correct. That is exactly right; yes, sir.

The CHAIRMAN. And during that period you do not think that the administration of it would be very effective?

Mr. SMALL. It will grow increasingly less effective week by week as you go through that period, and will probably be destroyed long before the terminal date.

The CHAIRMAN. Have you compared the economic pressures that exist now with the economic pressures which produced inflation after the last war? Are not the economic pressures now, which tend to produce inflation, as great and greater than they were at any time during the war?

Mr. SMALL. In my opinion, Mr. Chairman, they are far greater.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. I have no questions at this time.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Small, I think you have made a pretty strong contribution here with respect to the inflationary forces which are outside the control of the Office of Price Administration. In other words, you refer to deficit financing, unbalanced budget, and the expansion of the base for inflation. Do you sincerely believe that the Office of Price Administration can prevent the spread of black markets and change the rules and regulations so that it will not be giving special favors to special people and industries—and I have

some specific cases I am going to ask you about—as related to Civilian Production Administration doing the same thing? Do you believe that the Office of Price Administration can prevent a considerable advance in the cost of living, and, in general, price level rises, unless we take these other steps to which you have referred?

Mr. SMALL. I think you are quite right, Mr. Congressman. I believe that we must move ahead on all these fronts if we are to check inflation. But of all these steps, the one that has the most immediate effect is prompt resumption and expansion of production. Everybody going ahead as fast as they can possibly go. But we must go into those other things and do those things as well.

Mr. CRAWFORD. Well, I think your prepared statement here is the strongest one that has been made by any administration official, in that respect.

Mr. SMALL. Thank you, sir.

Mr. CRAWFORD. And I congratulate you for your boldness and aggressiveness in taking that position. Now, it seems to me that if we are to do any kind of a job that these other things will have to be lined up parallel with the Office of Price Administration's efforts. Now, in connection with your closing sentence, I am not too clear, even after the chairman asked his question, and I would like to have that very clear for the record.

The current law to which you refer, I assume, is the June 30, 1946, expiration.

Mr. SMALL. That is right, sir.

Mr. CRAWFORD. Now, would you mind enlarging just a little bit on just what you think we should do with respect to that closing sentence?

Mr. SMALL. I said last December, in talking to one of the committees of the Congress, that I believed that the sooner they made this decision the better it would be for our country. I felt that if they could have made it then that would have been grand. They could not, and the Congress is going into the subject now, and I think that every day's delay from here on out will make the job more difficult. If we wait to extend the Price Control Act for another couple of months, you will find conditions far worse than they are today and the chances of avoiding inflation much decreased.

Mr. CRAWFORD. In other words, what you are telling us is that in your opinion, and, based on your many contacts, that before the final date, a disintegration takes place?

Mr. SMALL. Yes, sir.

Mr. CRAWFORD. And if we are going to extend this law from time to time, and do not state considerably in advance that we propose to extend it again, that your disintegration spreads throughout all industry?

Mr. SMALL. That is right.

Mr. CRAWFORD. In other words, if we are going to extend it beyond June 30 for another 12 months, let that extension come as quickly as possible?

Mr. SMALL. Right.

Mr. CRAWFORD. And then let such disintegration as may come, develop, say, in the second quarter of 1947?

Mr. SMALL. That is right.

Mr. CRAWFORD. That is the point you make?

Mr. SMALL. Yes, sir.

Mr. CRAWFORD. I think I understand that.

Now, going back to your testimony, on page 3, down at the bottom, under "Recommendations":

I recommend that action be taken by the Congress at an early date extending price control for a year beyond June 30, 1946.

Based on your knowledge of our chances of getting back into production on a large scale, and having in mind the interferences which are now operating, do you think that is a point beyond which it should not be extended?

Mr. SMALL. I certainly would not advocate extending it beyond that date, beyond June 30, 1947, at this time.

Mr. CRAWFORD. In other words, if we are going to pay any attention, and clean house on those seven points you have put forth on page 2 of your statement, between now and June 30, 1947, gives us sufficient time to get into operation?

Mr. SMALL. Yes, sir.

Mr. CRAWFORD. Do you feel that, based on our economy as you can now see it and appraise it, that June 30, 1947, is a point beyond which we should not go with price control?

Mr. SMALL. No. I say, Mr. Congressman, that I see no proof that we need to go beyond that date as of this time. We may well find, by September, that we should go beyond it. Because remember the terminal date of June 30, 1947, is not, in fact, a terminal date. The terminal date is about the 1st of March 1947, when your compliance ceases, in great degree.

Mr. CRAWFORD. In other words, if we come back here after the general election, and in November or December this thing is not straightening itself out pretty well, you feel that at that time the Office of Price Administration should again be extended beyond June 30, 1947, to prevent that disintegration which will begin, as you estimate, around March 1?

Mr. SMALL. Yes, sir.

Mr. CRAWFORD. I think that makes it very clear. Taking what you have just said, and adding to what I asked you previously with respect to the power of the Office of Price Administration to deal with this situation, would it be reasonable for me to assume, from your testimony, that unless the other departments of Government, including the Congress, take a number of these steps which you recommend, that you assume that by December of this year the situation will be so bad that we will probably have to extend price control beyond June 30, 1947? I am not asking you these questions to pin you down. I am asking you these questions to develop this whole proposition before the members of this committee and the President and the people of this country so they will get a better idea of what we are up against on this proposition.

Mr. SMALL. Well, as someone said before me, Mr. Congressman, I have no radar to penetrate the fog of the future, but I think we have got proceed on all these anti-inflationary lines if we are going to prevent inflation, and if we have inflation, it means disaster—far worse than we had in 1919–20.

Mr. CRAWFORD. I agree with you there, too. I think from what you said orally, plus your statement, we certainly know your stand on this proposition.

Now, Mr. Small, going down to some of the operations of the Civilian Production Administration, I would like to ask you some questions about the clothing proposition that seems to be bothering the country, the allocation of materials, yardage goods for making suits, and the allocations of materials for making what I would call extra pants, that is, pants without vests and coats. Are you familiar with M-328(b) of the Civilian Production Administration?

Mr. SMALL. Yes, sir, I am familiar with it.

Mr. CRAWFORD. Why was 85 percent of the so-called pantings, up to \$1.85 per yard, allocated for separate trousers?

Mr. SMALL. The pantings—we are getting into a question where a specialist can probably give you a far more accurate answer than I on that.

Mr. CRAWFORD. That is the reason I asked if you were familiar with it.

Mr. SMALL. I am familiar with the order. We set aside 85 percent of the pantings and suitings under \$3 for use in making men's suits and men's pants and boys' pants, under a price cut-off point, which, on suits, happened to be \$22.50 wholesale, because we believed that there were not any low-priced suits on the market, and that is what GI Joe needed. And we figured that we had to have that amount of that material in that price range flow into that low-end suiting and panting program, if we were to give the returning veteran what he is entitled to. We found out after the returns came in that the figure of 85 percent was wrong, it was too high, and 70 percent would reach our goals. So we adjusted it to 70 percent in time for the mills to make the sales to the other people outside of the program.

Now, we have a problem which is very serious. We have a need, in calendar year 1946, for somewhere around 40,000,000 suits of clothes for men. I doubt very much if we are going to get more than 28 to 30 million suits. The production currently is running around 20,000,000. But we have got to get more suits and we certainly have got to get more suits in the lower price ranges.

Mr. CRAWFORD. I was going to ask you about the suitings after we had cleared up some of this apparent trouble on pantings. Originally, your order called for suitings up to \$2.75 per yard to go into suits selling for \$21.50.

Mr. SMALL. That is right.

Mr. CRAWFORD. That would be 85 percent of that material?

Mr. SMALL. Yes.

Mr. CRAWFORD. And 85 percent of your panting material of \$1.85 per yard, wholesaling at a maximum of \$5.50 per pair. Then later that was revised up to \$3 per yard on the suitings, was it not?

Mr. SMALL. Yes, sir. The reason for that is that the break—

Mr. CRAWFORD. And the prices of suits moved to \$22.50?

Mr. SMALL. That is right. The reason for that was that we found or we were advised by the people who know most about it in industry that we would get more suits for the veteran in the lower-price range if we went up to \$22.50 than we would at \$21.50—\$21.50 was not a natural break point, but \$22.50 was. Now, going up to the \$3 range, we figured we would not have enough cloth below the \$2.75, so that even though some of the cloth between \$2.75 and \$3 was used in higher-priced suitings, there still was a substantial proportion that

could be used in the lower-priced suitings. Therefore, we raised it up to \$3, giving us a broader base and making the thing more flexible and helping industry throughout by so doing.

Mr. CRAWFORD. Now, do you know to what extent the Civilian Production Administration has channeled the suitings away from manufacturers of the price range, and quality and sizes and lot numbers of suits for men, into the hands of retailers—this is retailers, now—of suits, who, in turn, take that yardage and job it out and have it made up by that part of the trade which specializes in cutting and manufacturing the suits for specific sales of the retailer?

Mr. SMALL. I do not have the figure in mind of the yardage that is devoted to piece goods, which you are talking about, going to the merchant tailor.

Mr. CRAWFORD. I am talking about the retailer, away from the manufacturer of suits. In other words, let me make it as clear as I can, because I think this is very important. If I am running a retail store—that is, a big store, in a city like Chicago, or in New York or Philadelphia—or if I am running a group of retail stores in several big cities, I will do one thing with a hundred thousand yards of cloth that may be assigned to me for making of suits by the Civilian Production Administration, but if I am manufacturing suits as a suit manufacturer, and selling to a number of wholesalers, I will operate on a dissimilar basis to that on which I would operate if I were manufacturing and selling in my own stores only. Now, my question is: Why did the Civilian Production Administration allocate this yardage to retail merchants, and away from the manufacturers of suits, who sell to the wholesale trade, and thus bring about, as a net result, a reduction in the production of suits for the trade over the entire country?

In other words, to the extent that was done, I contend that the Civilian Production Administration is playing special favorite to a given retailer. Now, I want you to answer that for me.

Mr. SMALL. All right, Congressman.

Mr. CRAWFORD. If I am wrong, why, show it.

Mr. SMALL. We have allocated piece goods to the retail stores, but I am fairly confident—I am not completely positive, but I am fairly confident—that we have not allocated piece goods suitings to retail stores. The piece goods we are allocating to retail stores is for sale as piece goods to be made up by the housewife, to be sewed at home by the housewife, which is particularly important in the case of cottons, where they make their children's clothes and their own dresses at a lower cost than they can possibly buy them at on the market. Now, I do not believe—I would like to be able to correct the record on this if I am wrong—but I do not believe we have allocated suitings to retailers for sale as piece goods. We have allocated suitings to merchant tailors to be made up as suits by the merchant tailors, as well as to the suit manufacturers.

In the case of cotton, it is entirely different.

Mr. CRAWFORD. Well, you check that, and see what happened in the case of William Filene's Sons, and let us get their records.

Mr. SMALL. Yes, sir.

Mr. CRAWFORD. And then inform us whether or not you consider him a merchant tailor in the same class with a manufacturer of suits.

Now, if you have some technical ruling down there, wherein you contend that a retail store is a merchant tailor and, therefore, he is

entitled to yardage the same as a manufacturer of a line of suits, then, you have a rule which can place your organization in a position to play favorites to Filene's and the big chain-store combinations and take the goods away from the manufacturers. But I am not saying you are doing that. I am asking you to check this, because I think you will find the record shows that Filene's is getting yardage away from the legitimate manufacturer and that, in turn, Filene's is jobbing that stuff out to that portion of the trade which is known as the men who run the cut, make, and trim business.

Now, to the extent that these allegations that I am making are true, I think we will have to admit that to that extent we are preventing the production of suits by reason of rules and regulations of the Civilian Production Administration. That is something you can check, because I did not assume that you would be familiar with all these matters.

Now, I would also say that to the extent that Filene's, and men similarly situated, are receiving those favors, if they are in position to get suits on their retail counters to sell under your \$22.50 maximum price, on a basis which gives them a wider margin of profit than the man who is not able to get those special favors on this proposition of pantings, I am old enough so that I can remember back when the odd pants were quite an item in retail stores. Was that a new term to the trade?

Mr. SMALL. That is not my understanding.

Mr. CRAWFORD. In other words, was the word "panting" generally understood among the trade when this order went out?

Mr. SMALL. I asked the same question of our technical people when I first saw the word, and they said it was a word that had been used for many, many years, and was not an invention of the bureaucrats.

Mr. CRAWFORD. Had it been used in the trade during the past 25 years, did they say?

Mr. SMALL. I was not in the trade, sir, so I do not know.

Mr. CRAWFORD. But they had a way of finding that out now, did they not?

Mr. SMALL. Yes, they had a way of finding it out.

Mr. CRAWFORD. Sure they did. The trade tells me that when the order came out that it was a foreign word to them, that back in the 1850's and 1870's it was a word common in the trade. Did one of the young ladies in the organization draw this order?

Mr. SMALL. These orders are drawn not by a young lady, but by a group of people. They are discussed over and over with industry, with a specialist we get down here, and we try to make them as simple and clear as we can possibly make them. They go through a pretty rigorous course of revision at a good many places before they are issued. Probably a hundred people would have a shot at it.

Mr. CRAWFORD. Well, I wish you would inquire of one of the ladies who is responsible for this order to see if she got this out of the United States census report, going back for half a century.

Mr. SMALL. All right, sir.

Mr. CRAWFORD. To the extent that this yardage goods is being channeled to the retailer, would that not interfere with the manufacturer, who produces suits in a wide price range?

Mr. SMALL. It would interfere with a manufacturer who is producing suits in higher price ranges because it reduces the free supply

available to him to make high-priced suits. Obviously, by directing it into this low-price range, you are reducing the free supply available to the people who want to work in the higher brackets. That is the purpose of the order, that is what we are trying to do, to get low-priced suits.

Mr. CRAWFORD. If you channel 85 percent of the suiting at \$2.75 to \$3, and 85 percent of the panting at \$1.75, can the manufacturer take that \$3 yardage and \$2.75 yardage and make a suit that sells for \$22?

Mr. SMALL. You mean the extra 15 percent?

Mr. CRAWFORD. Now, I am talking about the 85 percent. Suppose you give me a hundred thousand yards out of the 85 percent, as a manufacturer of suits, in the \$2.75 to \$3 price range. Is the situation so that I can take this yardage—and you make allocation to me on the grounds that I will sell the suit at the maximum price of \$22.50—is your argument to the effect that I can take that yardage and weight it up and sell \$30 suits?

Mr. SMALL. Not unless you break the law. You make a contract with this man.

Mr. CRAWFORD. Sure.

Mr. SMALL. And you say, "If you will produce suits costing \$22.50 or less, we allocate to you the yardage." That is the contract between the man and his Government.

Mr. CRAWFORD. That is what I understood.

Mr. SMALL. If he breaks the contract, he is breaking the law.

Mr. CRAWFORD. That is the reason that your argument to the effect that, if the yardage went to the manufacturer of suits, he could produce higher-priced suits, confuses me. In other words, suppose you send a manufacturer a million yards of the \$2.75 to \$3 suiting, to go into suits at \$22.50 maximum price, and you send a million yards to Filene's, for instance, which he jobs out and has manufactured for his retail store into suits, where the suits retail at his counter at \$22.50 or whatever the price might be that you allow the retailer. Now, my question awhile ago was: Does not that million yards allocated to Filene & Co. force the manufacturers of suits who produce suits in a wide price range for the American people, into a corner, economically speaking?

Mr. SMALL. I do not think so, Congressman.

Mr. CRAWFORD. Well, let me ask you this, then: Is it the intent of the Civilian Production Administration order to channel this material to the retailers or to the manufacturers of suits? I think that will shortcut the whole proposition.

Mr. SMALL. The purpose of the order is to get suits, low-priced suits, in this price range, on the retail shelves, available for sale to the veterans.

Mr. CRAWFORD. Well, to the extent it goes to the retail jobber, then, it eliminates the manufacturer, does it not?

Mr. SMALL. Unless, as you pointed out, unless that retailer happens to be a merchant tailor. Unless he is integrated; there is nothing in our rule to prevent a man from integrating.

Mr. CRAWFORD. That was not my question. I say, to the extent that you channel the yardage to the retailer, or jobber, if you wish to call him that, you reduce the production in the manufacturing plant which turns out suits and clothes for men in a wide price range.

Mr. SMALL. Well, Congressman, I am a little confused about what you mean by a wide price range. If you mean prices above \$22.50?

Mr. CRAWFORD. No. I am assuming that the manufacturer is doing a legitimate business with you, and that he will use the \$2.75 to \$3 yardage in suits selling at not to exceed \$22.50.

Mr. SMALL. Right.

Mr. CRAWFORD. But if he is accustomed to making suits running from \$22.50 up to \$75 or \$125 per suit, if you channel the goods away from him, and build up the retailer as a manufacturer, do you not, to that extent, reduce the operations of the manufacturer of suits for men across the country?

Mr. SMALL. Congress has passed a law, called the George Act, which says that newcomers shall be allowed to go into the manufacturing business, and if a man who happens to be a retailer also wants to be a manufacturer, he certainly, under the law, is entitled to that right, even though the total amount available to all manufacturers is thereby reduced a fraction.

Mr. CRAWFORD. That is not an answer to my question. However, I will let it go. If, under Government control, goods are channeled away from a manufacturer to a retailer, to that extent, that reduces the operations of the manufacturer, does it not? I am not arguing the goodness or badness of the law, now. If you have a million yards to allocate to manufacturers and retailers, and you give 800,000 to the retailers, it leaves the manufacturer without the goods, does it not?

Mr. SMALL. If we allocated any suitings to a retailer, it was because he was a merchant tailor to make suits. He is a manufacturer the same as any other manufacturer. Therefore, he is entitled to a manufacturer's share, even though, with his other hand, he is a retailer. It does not reduce the total amount going into the hands of manufacturers. I think that is the question you are asking. And the answer is no, it does not reduce it.

Mr. CRAWFORD. Well, I think you are wrong in that statement, if you understood my question.

Mr. SMALL. Well, if, on reading over the testimony, I am wrong, I shall certainly correct it, sir.

Mr. CRAWFORD. All right. Because if, under an allocating system, you withdraw goods from one person and channel to it another, you certainly reduce the first person's operations; there is no question about that at all.

Mr. SMALL. That is correct.

Mr. CRAWFORD. That is what I said.

Mr. SMALL. But under the George Act we have to do that for newcomers.

Mr. MONRONEY. What you are protesting against is any new manufacturer or merchant tailor who is classified as a manufacturer getting any goods at all, is it not?

Mr. CRAWFORD. I am not protesting against anybody getting any goods. I am trying to find out how we run this operation. The Office of Price Administration comes along here and says to a new manufacturer: "You may sell a certain type and grade and quality at \$22.50 per suit. But by reason of the fact that you used to sell it at \$15 apiece, you shall not sell it 1 cent above \$15. You are in the business established as a going concern." If you ask a \$1 step-up or

\$16, you are denied that. The new man can sell it at \$22.50 and the consumer has to pay that rap. That is what I am protesting against.

I am protesting against Government extending its arm and destroying one branch of an established industry to build up a younger branch who may have an in or special favors from the Government, and there are a lot of people who will join me in that protest.

I use that as an illustration. We have case after case, and if the committee gives me time, I am going to develop the cases by reference to specific items, to show where old manufacturers are denied the right to step up the price by maybe \$1 or \$2 per unit and get the production, while the new manufacturer can come in without a historical background, and who is not circumscribed by the MAP if you know what I mean by that, and he can sell it for a four or five dollar higher price per unit and the American public have to pay it. And apparently this George Act, to which Mr. Small refers, is at the bottom of the whole thing.

Mr. SMALL. May I make a comment, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. SMALL. So far as I know, from an experience of about 4 years, with the War Production Board, our predecessor agency and the Civilian Production Administration, there are no favors, there are no discriminations, and nobody has a favored position with us. We endeavor to do equity to all.

Mr. CRAWFORD. Now, under the operations of, say, a man like Filene, can he turn out two-pants suits?

Mr. SMALL. No, sir.

Mr. CRAWFORD. Under your rulings can anybody turn out two-pants suits?

Mr. SMALL. No, sir.

Mr. CRAWFORD. Do you know of any greater economic benefit that can go to a person whose income is low, and who purchases suits, by reason of his income, in the \$22.50 class, where you can give him a greater benefit than to let him have two pairs of pants with the same coat and vest?

Mr. SMALL. Congressman, in this difficult transition period, there were two orders to which I personally objected violently. One was the short-tailed shirt and the other one was the two-pants suit. I managed to get the short-tailed shirt order abandoned, but I lost on the battle of the two-pants suit.

Mr. CRAWFORD. Well, I want to thank you for trying to get it through, anyway.

Now, where the retailer or the manufacturer purchases the suit material for \$1.75 a yard, is he limited in his production of single pants under that allocation?

Mr. SMALL. He is obligated to use the allocation for pants selling under that price.

Mr. CRAWFORD. In other words, while you lost in your contest, this panting operation comes into the picture, and does let yardage go to those who manufacture pants, limited only by the amount of yardage allocated?

Mr. SMALL. That is right.

Mr. CRAWFORD. While the man who produces the suits, whether it be the old manufacturer or the new manufacturer, or the retail store, cannot produce that extra pair of pants?

Mr. SMALL. That is right.

Mr. CRAWFORD. Who made that order, did you say, over your head?

Mr. SMALL. Well, the order was in effect as a fabric-saving device during the war years, probably well justified, and I felt that we would gain more by lifting the order and permitting the sale of the low-priced suit with two pants, but I was overruled on it because it was felt that many people would buy two-pants suits who otherwise did not really need them, and that a lot of people who only needed a pair of pants would not be able to get the pair of pants.

Mr. CRAWFORD. Well, would you mind telling the committee which particular branch of Government has control over that ruling?

Mr. SMALL. Yes. That happened to be appealed. There was a controversy, or a difference of opinion, let me say, between the Office of Price Administration and ourselves on that particular one, and that was appealed to the Economic Stabilizer.

Mr. TALLE. Will you yield?

Mr. CRAWFORD. Yes, sir.

Mr. TALLE. Mr. Small, has an estimate been made of the quantity of cloth saved during the war by denying people cuffs on their trousers?

Mr. SMALL. None that I would consider meant anything. I think they have made estimates of it, but it was negligible.

Mr. TALLE. Do you think the target was worth the powder?

Mr. SMALL. No, sir.

Mr. TALLE. That is all.

Mr. CRAWFORD. Have you any record where any trade, involved in the chain of operations, and who had orders on the books with yardage manufacturers, had the specifications changed so that those orders would read panting, so that as that yardage was shipped, it could be worked up by those who had the orders on the books, and thus get into black-market operations? Do I make myself clear to you?

Mr. SMALL. If I understand you correctly, you are saying that a man had an order on the books for cloth, for fabric, suitable for pantings, which comes within this class.

Mr. CRAWFORD. Yes, sir.

Mr. SMALL. And that he changed the order to read "pantings"?

Mr. CRAWFORD. Yes, sir.

Mr. SMALL. If he did that, and said he had an allocation, to which he was not entitled—in other words, if he did not have an allocation, he probably would not get the pantings except out of the 15 percent of free supply. If he said he had an allocation, he broke the law. If he had an allocation and got the cloth on the allocation and sold it into the black market, he broke the law.

Mr. CRAWFORD. Sure, if he participated in black market operations, he broke the law, but—

Mr. SMALL. No.

Mr. CRAWFORD. Beg your pardon?

Mr. SMALL. If he used the priority power, or the priority authority to get fabric, and did not use that fabric, in fact, in making the pants at \$1.85, he broke the law.

Mr. CRAWFORD. Oh, no; I am talking about yardage above \$1.85. Suppose Mr. A had an order on the books with Manufacturer B for 50,000 yards of material above \$1.85 per yard. And after this order

comes out, Mr. A writes Manufacturer B and says, "Change that order to read 'pantings,' and send it out to me."

Mr. SMALL. Above \$1.85?

Mr. CRAWFORD. Yes.

Mr. SMALL. We are not channeling that at all.

Mr. CRAWFORD. That is the point I am making. In other words, that cloth is all free, is it not?

Mr. SMALL. That is right.

Mr. CRAWFORD. I cannot imagine any sweeter thing than that for a fellow who wants to participate in the black-market operations and cut you all the way across the board.

Mr. SMALL. He will not even need to change the name to pantings to do what you say. He could get the cloth and use it for what he wanted to as long as he stayed in the Office of Price Administration regulations. It is not in violation of our regulations, if he buys cloth above the set aside, free goods.

Mr. CRAWFORD. He is not caught by your ruling at all, is he?

Mr. SMALL. That does not come under our jurisdiction. That comes under the Office of Price Administration.

Mr. CRAWFORD. Have you a Mr. Mariner in your organization?

Mr. SMALL. Mr. Mariner was with us for some years. He is now back in industry.

Mr. CRAWFORD. He opposed this order to which I refer, did he not? M-328?

Mr. SMALL. Yes, sir, Mr. Mariner believes, as a great many of us believe, that we want to get back to a free economy, free of Government control, just as quickly as we safely can. He felt that it was safe to do it. There was a difference in judgment. I do not believe that it was safe, or that it is yet safe, to abandon the control whereby we are getting the low-priced clothes on the market. I think anyone who went into a store six months ago, and who goes in today, will find a lot of low-cost clothing, shirts and shorts and dresses and everything that you can think of, on the shelves that were not there six months ago, due almost wholly to this flowing of fabric through M-328 (b).

Mr. CRAWFORD. Can you give the committee the rate of production of yardage of the American wool and textile industry today?

Mr. SMALL. I can supply you with those figures, yes, sir.

Mr. CRAWFORD. I will tell you what I would like to have you put in the record.

Mr. SMALL. It is something over 320,000,000 yards, I think.

Mr. CRAWFORD. I am quite reliably informed that it is around 450,000,000 yards per annum, and more than ever before in recent years, counting our high production to get 15,000,000 men in the services clothed, and if you find that it is true that that yardage is being turned out, and you can put it in the record, I would like you to show us what is happening to the yardage.

Mr. SMALL. I can give you the exact figure month by month of what production is. Production has been going up since VJ-day, since the cancellation of military contracts, and the production is in excess of 300,000,000. I think it is going at the rate of about 320,000,000 yards. But that is memory. I will put the exact figures in the record.

Mr. CRAWFORD. In other words, I will give you the figures I have as I have them. In 1946, the industry expects to produce 450,000,000

yards, which is 70,000,000 yards more than was produced in the highest civilian production year in more than 20 years, and running close to our highest production to get our Army properly clothed. If that is true, somebody is responsible for this shortage of goods—I mean manufactured suits, for the GI and all the rest of the people.

Mr. SMALL. Even if your production did go up to 400,000,000 yards—and I hope and pray that it will—your demand has gone far higher than it was prewar. We have a demand this year for 40,000,000 suits, against a prewar average, I would say, of around 18,000,000.

Mr. CRAWFORD. The wool trade also informs me that 11,000,000 yards more would have been produced—enough for 3,500,000 suits of clothes—had it not been for the MAP within which they have to operate.

That is all I have, Mr. Chairman.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN, Mr. Crawford asked you about the termination date next year. I understood you to warn us about the delay in getting the bill through this year.

Mr. SMALL. Yes, sir.

Mr. PATMAN. That every day's delay means a weakening of the law?

Mr. SMALL. That is right.

Mr. PATMAN. That now a lot of people are beginning to feel, "Oh, well, it will not be extended, and I will just withhold my goods and get a high price for them when the Office of Price Administration law expires."

Mr. SMALL. That is right.

Mr. PATMAN. I thoroughly agree with you that something should be done to let the people know as early as possible and definitely that this law will be extended, a year ago, it will be recalled, that we delayed it and delayed it until the law was extended just 10 hours before it expired—just ten hours. What would be the effect if we were to delay it so long this year?

Mr. SMALL. You would have a very, very adverse effect on production. People would drag their heels, people who hoard, we would have widespread hoarding and speculative buying across the country. It would be impossible, in my opinion, to enforce compliance if we delayed until 10 hours before June 30. I do not know whether we would ever regain the ground. I do not think we could. We would have lost this fight.

Mr. PATMAN. You do not think we could regain the lost ground?

Mr. SMALL. No, sir. We would have lost the fight.

Mr. PATMAN. We would have lost the fight if we delayed it that long?

Mr. SMALL. Yes, sir.

Mr. PATMAN. Well, personally, I hope that we can get these hearings over with rather soon and get this bill reported out and passed. You mentioned that textiles were being held off the market. Are you acquainted with the efforts of the farmers in the tomato-growing sections of the country to get cotton sheeting for their tomato beds?

Mr. SMALL. Yes, sir.

Mr. PATMAN. Now, it occurs to me that there is something wrong somewhere there, Mr. Small. I believe that you have done your best on it. You asked 14 mills, I believe, to make that cotton sheet-

ing. However, two of those mills do not make sheeting at all, it was discovered, and that left 12. And those 12 mills have not been making an adequate amount of sheeting. To what is that due, do you know?

Mr. SMALL. A good deal of it is due to the—it is an unfortunate thing, Congressman, that when you say you are going to do something, everybody just stops until you do it. Now, Mr. Bowles testified that he was going to give a price increase to cotton textiles—the basic cotton textiles. We have not done it yet, so the mills have stopped shipping.

Mr. PATMAN. Do you think that is really the bottleneck, then?

Mr. SMALL. I am convinced of it.

The CHAIRMAN. That same condition existed with respect to tobacco canvas, I understand. What has been done with regard to that? Have they received an essential supply? It is absolutely essential to receive that in order to make the cloth. The tobacco is paying a billion dollars into the National Treasury. Yet, if you cannot raise the tobacco, you will not get the income. And it is absolutely essential to have the tobacco canvas to cover the beds that protect the young plants and there was a great shortage of tobacco canvas this year. We have endeavored to get an adequate supply. I do not know whether we have gotten it yet or not. Do you know the condition with regard to that?

Mr. SMALL. I have been sweating over it, trying to cure it.

The CHAIRMAN. So have I.

Mr. SMALL. You have the same situation there that I just spoke to Congressman Patman about. I had the vice president of the biggest mill in my office yesterday and laid down the law to him, that we have got to get that canvas down there. I think that, over-all, considering all of the Southern States—the Carolinas and Georgia and Kentucky—that we are probably short three or four hundred thousand yards of the regular tobacco canvas. We are using emergency measures on it, and using the full powers of the Second War Powers Act to force it to come out, and to come out quickly, but there are other factors at work that we may as well recognize, too; that is, the pyramiding of orders. Down in Carolina, I think they are all right, in the main, but a great many cancellations have come in during the last 2 or 3 weeks by people who had placed orders with more than one wholesaler for the same yardage. One wholesaler I happen to know of has orders for about three and a half million yards of tobacco canvas, whereas in his sales, to the same farmers, he is only short about a million yards at the most.

The CHAIRMAN. Is there not a tendency by the manufacturers to go into more profitable fields? Would you not have to use a little pressure on them to get them to make this necessary fabric?

Mr. SMALL. We have done that. We have directed them to do it. But we do not direct them to make a fabric at a loss.

The CHAIRMAN. Well, I understand one of the reasons it was not distributed was because of the wholesalers. They stated they could make no profit under the present ceiling of prices and, therefore, they would not dispose of what they had on hand. Is that true?

Mr. SMALL. Not that I know of. I had not heard that. The wholesalers are the ones who are on my neck trying to get it so that they can distribute, so I do not believe that is widely true.

The CHAIRMAN. Well, you know there are sections of the country that are absolutely dependent on that. Tobacco is their sole means of subsistence, and when the tobacco is good, there is prosperity and happiness, and when tobacco fails, they are in serious difficulties. I hope you will use every effort you can to get them to manufacture enough of it to cover the needs of the tobacco growers.

Mr. SMALL. I can assure you, Mr. Chairman, that I will, and I will continue to do it. But I will not guarantee that we will have enough for all. But I believe we are going to be fairly close to it.

Mr. CRAWFORD. Mr. Patman, will you yield for a question?

Mr. PATMAN. I yield.

Mr. CRAWFORD. Mr. Small, would you care to state to the committee whether or not Mr. Bowles offered an increase in price to the manufacturers of clothing, or stated he would give an increase, and which increase has not yet come through, and whether or not, to your knowledge, manufacturers are storing stuff which is waiting up for that increase in price that Mr. Bowles promised?

Mr. SMALL. I am not positive on that one, Congressman. It should appear from your record. I know that he did, in testifying before this committee, say he was going to give one to the fabric people. Whether he said he was going to give one to the garment people or not, I do not know. It would seem that an increase to the garment people might qualify under the new wage-price policy, because they had a wage increase up there which he could not previously take into account. He can take it into account now so it may be in the wind. But I do not know that he said he was going to give one.

Mr. PATMAN. Mr. Small, the most logical answer that I can see in this whole thing is what you said a while ago that Mr. Bowles said, namely, that they would get a price increase, and the price increase has not been granted, so these people are reluctant to sell these goods until they get the increase. I am going after Mr. Bowles. I think he is the man holding this thing up.

Mr. SMALL. I think Mr. Bowles is working hard on that particular one. I have talked to both him and Paul Porter about it practically every day, and I think they are doing their utmost to get it settled.

Mr. PATMAN. You mean to get the price increase out?

Mr. SMALL. Yes.

Mr. PATMAN. I wish it would be done. Tomatoes are like tobacco. You have to have it at the right time or you lose the entire crop. It is very urgent.

Mr. SMALL. We are very clear on that one, and if we do not get that tobacco cloth down there to them—

Mr. PATMAN. And to make bad matters worse, they are printing statements all over the South to the effect—and I think it is coming from these manufacturers—that they have been instructed to furnish Canada so much of this sheeting that they are having to hold back down there on tomato and tobacco, to take care of Canada.

Mr. SMALL. That is not true.

Mr. PATMAN. Well, it is being published. Have you seen any stories about it?

Mr. SMALL. No, I have not, and it is not true.

Mr. PATMAN. I am not claiming that it is true, but it shows that these manufacturers are dodgers and they want to have some excuse other than just the actual excuse that they are holding back on account of the price.

Mr. FOLGER. Mr. Patman, I do not believe in my State of North Carolina that they are dodgers. Some of them are manufacturing this cloth at 2 or 3 cents loss because they like the farmers and they want them to have tomato sheeting and tobacco canvas.

Mr. SMALL. I think it is recognized that with the increases in wages that have been made and the increases in the cost of raw cotton, and other cost increases that they have had, that on these basic fabrics they are entitled to a price increase. Mr. Bowles has said so, and he intends to give it to them. But how much it is, is a matter of judgment.

Mr. PATMAN. Those are all the questions I have, Mr. Chairman. The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I have no questions.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. Mr. Crawford said, Mr. Small, that the production of wool textiles will be up 70,000,000 yards above prewar production. When you put these figures in the record, which you are going to put in for him, will you include those figures for cotton textiles, also, and if you can, I would like to have all the figures for civilian production on some of our principal lines measured, in order to find out if there is really any legitimate truth to the widely and extensively advertised claim of the National Association of Manufacturers that the Office of Price Administration has completely stifled civilian production.

Mr. SMALL. We get out a series of reports, Congressman, once a month, on the progress of civilian production, and I will be glad to give the members of this committee copies of those reports. They give you a pretty clear story of what has happened in the individual lines of industry. Now, a great deal of production has gone ahead very rapidly, particularly on capital goods, where we are away above prewar level in production now, except for the strikes, such as steel strike, and steel shortage, and so on. But consumer goods is where production is halted.

Mr. MONRONEY. That is what I am interested in, but I am also interested in the prewar figure and the figure now, because I know that food is up 35 percent above prewar production. Does that not agree pretty largely with your figures? It is a widely published statement.

Mr. SMALL. Food?

Mr. MONRONEY. Yes, sir.

Mr. SMALL. You have the figures in the charts that I gave you with this statement, on the last page, giving you your wholesale prices on foods and farm products.

Mr. MONRONEY. That is prices. I am interested in production.

Mr. SMALL. Well, production of food is well up, certainly. Above any prewar peaks.

Mr. MONRONEY. That is about 40 percent of the cost of living index, is it not?

Mr. SMALL. Just about.

Mr. MONRONEY. It would represent about 40 percent of the average civilian demands?

Mr. SMALL. That is right.

Mr. MONRONEY. Your textiles apparently are very well up, if Mr. Crawford's statement on wool textiles is borne out by other textiles.

Mr. SMALL. It is not borne out in cotton. We are short about a hundred thousand people in the cotton mills. We are down below around 400,000 workers in the cotton mills.

Mr. BROWN. They are not running a third shift now.

Mr. SMALL. We can get production if we get the workers, and if management and the workers have the will to work and produce at full speed, we can get back up to the peaks that we previously achieved. We have the cotton. There is some improvement in production and labor supply since January 1, 1946.

Mr. MONRONEY. I would say that in that field the labor and supply problem and industrial relations problem is as important as the pricing problem.

Mr. SMALL. Yes, I think they are about coequal. Price and labor are about coequal in that particular problem.

Mr. MONRONEY. In your lumber and building materials, I believe the labor difficulty would be far in excess of the price problem, would it not?

Mr. SMALL. Well, on the over-all, I think you are probably right. Just to give you an example, we had, prewar, 52 foundries producing cast iron soil pipe, producing about 50,000 tons a month—a fraction less than that. In June and July of this year we were down to 28 foundries producing about 12,000—12,500 tons. That is about one-quarter capacity of the industry. Why were those foundries down? Why were they not producing? They were down for a variety of reasons. Price being probably the most important one. But even after you gave them a price increase, they still were unable to get the workers in the volume that they needed. Others were down for other reasons that have nothing to do with price or wage. Joe Doakes had gone to war and had not come back yet. Or his widow did not know what to do. Or he had financial difficulties. All of which are curable locally and which we are trying to get cured locally. Government cannot do all these things. We must have as many of these problems as possible solved at home, on the ground.

Nevertheless, we are up now to about 27,000 tons a month. I think 37 or 38 of the foundries are operating—not all of them at full speed—but there are some that are still down. We have got to get 50,000 tons a month. We have got to get more production. We have got to cure the problem in the individual plant. Mostly cure it by local action, back home, in the community. But if it is a price problem or a wage problem, then Washington will have to take a hand on the individual case. You have the same thing in brick. You have 185 brickyards down, and not running. Many others not running at capacity. Again wage and price come into it. The hard, dirty, low-paid industries are the ones where we need the most at the moment.

Mr. MONRONEY. But to oversimplify the question, by making a national whipping boy out of the Office of Price Administration, because we are not getting a flow of production, is a misstatement of fact, is it not?

Mr. SMALL. It is certainly an exaggeration, very definitely.

Mr. MONRONEY. I would appreciate it if you would place in the record the total civilian consumer goods production now as compared with prewar.

Mr. SMALL. We will give you that item by item.

Mr. MONRONEY. Thank you, sir.
(The documents above referred to are as follows:)

SERIES OF TOTAL CIVILIAN GOODS PRODUCTION NOW
AS COMPARED WITH PREWAR

Changes in total production, Government and private, during 1945

(A) IN BILLIONS OF CURRENT DOLLARS

	Year 1939	Quarterly annual rates, 1945				First quarter 1946, preliminary
		First quarter	Second quarter	Third quarter	Fourth quarter	
Gross national product.....	88.6	204.5	206.3	195.7	182.8	172.0
1. Government expenditures.....	16.0	95.6	99.2	79.5	57.7	42.0
a. War.....	1.4	82.2	85.3	65.2	43.3	27.0
b. Other.....	14.6	13.4	13.8	14.3	14.5	15.0
2. Private expenditures.....	72.6	108.9	107.1	116.2	125.1	130.0
a. Capital formation.....	10.9	3.9	7.1	12.5	14.2	15.0
b. Consumers' goods and services.....	61.7	105.0	100.0	103.7	110.9	115.0

(B) IN BILLIONS OF PREWAR DOLLARS OF CONSTANT PURCHASING POWER

2. Private expenditures.....	72.6	76.3	75.5	83.0	89.3	92.5
a. Capital formation.....	10.9	2.8	5.5	10.5	11.8	12.5
b. Consumers' goods and services.....	61.7	73.5	70.0	72.5	77.5	80.0

NOTE.—Data in current dollars through 1945 from Department of Commerce. Preliminary estimate for first quarter 1946 and conversion to prewar dollars for both 1946 and 1947 by Review and Analysis Staff, CPA.

Production of cotton broad-woven fabrics, 1939-46

[Thousands of linear yards]

Period	Annual total	Quarterly total	Period	Annual total	Quarterly total
1939.....	8,303,124	.....	1945:		
1940.....	9,050,000	.....	Second quarter.....		2,301,760
1941.....	10,321,992	.....	Third quarter.....		2,013,157
1942.....	11,179,220	.....	Fourth quarter.....		2,100,060
1943.....	10,607,408	.....	1946:		
1944.....	9,595,397	.....	First quarter ¹		2,244,000
1945 ¹	8,791,757	.....	Second quarter ²		2,400,000
First quarter.....		2,376,840			

¹ Preliminary.

² Estimated.

Source: Review and Analysis Staff, Civilian Production Administration, Mar. 12, 1946.

Production of wool-woven fabrics—1939-46

[Thousands of linear yards]

Period	Annual total— wool woven fabrics	Apparel fabrics		Nonapparel	
		Woolens	Worsteds	Blankets	Other nonap- parel
1939.....	372,000	167,000	154,000	20,000	31,000
1940.....	365,000	152,000	141,000	25,000	47,000
1941.....	522,000	217,000	218,000	40,000	47,000
1942.....	528,000	236,000	221,000	64,000	7,000
1943.....	536,000	238,000	202,000	89,000	7,000
1944.....	530,000	250,000	183,000	79,000	18,000
1945.....	494,217	240,273	161,486	80,807	11,651
First quarter.....	134,948	62,704	46,634	23,617	1,993
Second quarter.....	127,786	53,406	45,094	27,696	1,590
Third quarter.....	107,718	53,556	33,970	18,024	2,168
Fourth quarter.....	123,765	70,607	35,788	11,470	5,900
1946: ¹					
First quarter.....	125,000				
Second quarter.....	125,000				

¹ Estimated.

Source: Review and Analysis Staff, Civilian Production Administration Mar. 12, 1946.

Shipments of consumer durable goods

End product	Unit of measure	Prewar date	Base period: average monthly	1945			1946, January
				October	Novem- ber	Decem- ber	
Automobiles ¹	Units.....	1941	358,071	16,839	34,612	30,022	58,575
Trucks ¹ (except military).....	do.....	1941	86,839	40,900	53,103	28,792	54,791
Tires: ¹							
Passenger car.....	Millions..	1941	4.2	3.7	3.7	3.9	4.8
Truck and bus.....	do.....	1941	1.0	1.1	1.0	1.0	1.3
Vacuum cleaners (domestic).....	Thousands	1940-41	156	26	82	89	
Laundry equipment (domestic).....	do.....	1940-41	158	40	60	99	
Mechanical refrigerators.....	do.....	1940-41	309	85	115	125	² 100
Alarm clocks.....	do.....	1938-41	1,147	600	660	713	
Radio receivers.....	do.....	1940-41	1,078	Negative	50	200	² 500
Electric ranges.....	do.....	1940-41	47	15	27	29	
Electric irons.....	do.....	1940	380	210	308	348	
Sewing machines.....	do.....	1940-41	48	4	4	9	² 12
Enamelware.....	Millions.....	1940-41	\$1.6	\$2.5	\$2.3	\$1.5	
Flatware.....	do.....	1940-41	\$3.3	\$2.7	\$2.9	\$3.4	
	Millions of pieces.	1940-41	26.5	21.9	23.0	27.6	
Bicycles.....	Thousands	1941	155	68	97	86	

¹ Production.

² Estimated.

Source: Review and Analysis Staff, Civilian Production Administration, Mar. 12, 1946.

The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. I will pass.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. No questions.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Mr. Small, the thing that puzzles me a great deal is the policy adopted by the Government which arbitrarily holds prices of commodities down. I am just wondering how you can reconcile those two acts. After all, prices of commodities, in the end, represent

the sum of wages paid in the production of those commodities. I am just wondering how you can reconcile those two ideas.

Mr. SMALL. If I understand your question correctly, Mr. Congressman, you say that you cannot let wages run free and hold ceilings on prices. I agree with you. There are three wheels to this production problem. One is materials, which happens to fall in my jurisdiction. One is wages, and one is prices. They must all work in unison. Now, it is not always necessary, if you raise a wage, to raise commodity price, but it frequently is necessary for you to adjust your price to the going wage. Under the new wage-price policy, wages are held to the present pattern, and prices need to be adjusted, must be adjusted, to that pattern.

I said in the beginning of this testimony that there were three things that had to be done: one is the prompt resolution of the strikes, which means negotiating a wage agreement and having it approved.

Another is the prompt resumption of production, and expansion of production, which means that the manufacturer wants to work and wants to produce.

Third is the avoidance of additional strikes.

Now, the administration of prices and of wages must accomplish those three things. If it does not, then, we do not get production, and we are going to get inflation. I have been assured by Mr. Bowles and by Mr. Porter, and by Mr. Wirts, that they are going to see to it that those three things are done, but that is a matter of administration and not of law. They can do it within the framework of the law. It can be done, and it must be done.

Mr. SMITH. Well, what you are saying, then, is that those two acts are contradictory, or that they are incompatible?

Mr. SMALL. No; I am saying that they must be geared in together.

Mr. SMITH. Well, you raise a rather important question there, Mr. Small, about strikes. Do you mean to say, then, that the Government has definitely decided upon a policy of wage fixing? Fixing of wages?

Mr. SMALL. No; I do not think so.

Mr. SMITH. Well, how, then, can you prevent strikes? All the working people are up against perhaps the most precarious condition they have ever experienced. With a depreciating currency, they are fighting to maintain their purchasing power and that pressure is being exerted all along the price line. In other words, there is no such thing as a bulge in the price line, the whole price line has deteriorated. So I am just wondering what you are going to do now to bring prices back up to a place where they are somewhat in line with wages.

Mr. SMALL. They have to do that by the administration within the Office of Price Administration, which, as they presently plan it, is the administration of specific cases to bring a man back up, if he has to give a wage increase which falls within the existing pattern, to give him such relief as is necessary to enable him to produce. In other words, we have got to get fair and equitable price adjustments fast.

Mr. SMITH. I am glad to hear you say that, because I do not see any other way. That is the only way that I see this problem has any possible chance of being solved.

Mr. SMALL. That is right.

Mr. SMITH. However, you still have not answered the question. What are these working people going to do about this depreciating currency? They are a powerful group, and I have sympathy with them in their efforts to maintain their purchasing power. It seems to me that to say that the Office of Price Administration is going to do thus and so—

Mr. SMALL. I say they have assured me that they are going to do it, and they realize the seriousness of the problem and the necessity for speed and for fair and equitable treatment.

Mr. SMITH. Now, a philosophy, a very false philosophy, has developed in this country, to the effect that somehow wages can be raised independently of prices. I think that is a pretty prevalent idea among working people especially, and the Government has done much to encourage that sort of thinking. What wage earners do when they go into a store to buy a pair of shoes is simply to buy back their own wages, certainly to a large extent.

Mr. SMALL. If you raise wages, Mr. Congressman, without raising prices to whatever appropriate point is necessary, because the labor cost per unit varies with the individual product, if you raise wages without adjusting prices, one of two things must happen if it is to succeed: The productivity of labor must increase enough to compensate for that wage increase, or you must squeeze it out of profits. One or the other of those things must occur. Or the man goes bankrupt.

Mr. SMITH. Well, of course, profits are limited, and you can squeeze only so much out of them. You speak about what the Office of Price Administration will do, but can these things be done by the Office of Price Administration? Do you think they can be done, except by free competition?

Mr. SMALL. I say this in all sincerity, Congressman: I think it can be done. It is an enormously difficult task, but I think it can be done. But in order to it, we have to give rough justice, rather than precise, accurate justice, accounting justice, if you like. We have got to give rough justice and be 90 percent right, instead of striving for the last 10 percent of accuracy, in the interests of speed. Because this thing must be done very, very quickly.

The CHAIRMAN. I want to thank you, Mr. Small, for the splendid statement you have made. I know I express the view of the committee when I say that I think your statement has been very constructive and very helpful to the committee.

Mr. TALLE. Mr. Chairman, may I make one request? I have not had an opportunity to question the witness. I would like to make one request.

The CHAIRMAN. Oh, we are going to continue. I am going to call Mr. Monroney to the chair. The House is in session and I have to get to the floor, but you may continue.

Mr. TALLE. I am sorry.

Mr. SMITH. Mr. Small, have you ever thought of the possibility of that sort of theory also being self-defeating? Suppose, for example, you were given control over my physiology, and you neglected 10 percent of it. What would happen?

Mr. SMALL. Control over what?

Mr. SMITH. Suppose you were given control over the physiology of my body. What would happen if you neglected 10 percent of that physiology?

Mr. SMALL. Well, obviously, you would be a pretty sick man. But I do not think that we have to go to that extreme in a situation of this kind. You do not have to control everything in the country, or every detail of our economy in order to accomplish the results we want. In other words, we have had control in this country ever since the beginning—and in every country, ever since the beginning—your police powers, your fire departments, your postal controls, and so on. But that does not mean that you have to go ahead and control industry because you control postage.

Mr. SMITH. What do you mean, then, by neglecting 10 percent? The expression has been made here quite a few times that some people have to suffer under the regime under which we are now living. It has been put in this language, that we must strive to attain the greatest good for the greatest number. And I just raised the question as to the merit of that sort of proposition. In other words, by neglecting, I take it that you mean to say that you do not supply the needs of 10 percent of the people in industry. I am wondering about the relationship. When you destroy a segment of the physiology you disturb in general the bodily functions.

Mr. SMALL. You have a broad subject there, which is not susceptible of a "yes" or "no" answer, of course. But we have, and have had, all through our history, segments of our economy that were growing and segments of our economy that were dying.

For example, the whaling industry. You could not keep them going, no matter what you did. But the dying of that particular segment of the industrial economy did not harm the life of the whole economy.

Mr. SMITH. But, Mr. Small, in the one case, it was the result of natural causes.

Mr. SMALL. Natural causes.

Mr. SMITH. In the other, it is the result of artificial causes. Are the two comparable? What would a biologist say about this?

Mr. SMALL. I think the only answer that I can make, Congressman is that in your physical make-up it is essential that every part be constantly under the same control, but in our economy that same thing does not hold true. Broadly speaking, yes, because this is such a complex thing now that we are all interdependent to a degree, but not to the degree that you have in the human body. When I stated that it was better to be only 90 percent accurate in these matters rather than to strive for perfection, I assumed that the remaining 10 percent of price increases might be too high rather than too low. I thought, therefore, it was better to let 10 percent of the areas of price control receive overly generous treatment in the interest of prompt action for all cases. I do not take the negative point of view that we can afford to neglect 10 percent of the economy by refusing needed price rises in those cases.

Mr. SMITH. Well, Mr. Small, students of the social organism will tell you that it is not less necessary that society be allowed to develop in its natural way than is the case with the human body. Artificial interference with any part of the social organism is going to have deleterious effects upon it.

Mr. SMALL. Well, if I understand you correctly, I think the philosophy that you are talking about, I agree with wholeheartedly, that Government ought to get out of these things as soon as it safely can. There are a few areas where it would be chaotic if we did. I can name them for you. I have named them before this committee before and can name them again. But I agree that the less we interfere Government-wise, under normal conditions, the better off the economy is. It is like a rubber bag of water. If you press in one place, it is going to bulge, but you do not know where. No human mind, sitting down here in Washington, can possibly encompass all of the complexities of this economy or realize the impact of any one action.

I talked to one of the committees yesterday, and I might repeat it to you, as an example of what we do not know, we bureaucrats, and I do not concede myself to be a bureaucrat. I am only temporarily here. Back in the early days of the war, I was then in the Navy—I still am in the Navy, but WPB came over to me and wanted me to act on behalf of the Navy—they had an order, a War Production Board order, prohibiting the manufacture of a whole long list of things out of metal, and they said, “We would like you to clear this for the Navy, that you do not object to stopping the production of this long list of things.” I said, “No I cannot do that, because I would have to get the advice and counsel of the Bureaus of the Navy who are the ones who know what the impact would be on them.” Well, they were very anxious to get the thing out quickly, and they said, “Jack, look, here are three items on this list that you certainly cannot take any exception to: BB shot, bird cages, cocktail shakers. Do you object to our prohibiting the manufacture of those three things out of metal?” I said, “Yes, I do until I consult with the bureaus. I want to find out whether they consider it so or not, because I am not all-wise.” I finally got them to agree to 48 hours delay. We sent this out to the bureaus. The first three violent objections that came in were on BB shot, bird cages, and cocktail shakers. I was amazed, and I said, “What is wrong with these fellows? Why could they possibly object to BB shot?” Well, the Marine Corps’ objection to the elimination of BB shot was that their whole subcaliber gunnery training is based on BB shot, and they could not train their people.

The Medical Department objected to the cocktail shakers, because they use them on these mechanical mixers for eggnog on board ships and they do not want to run chances of chipped glass going into the stuff they gave to the sick.

The bird cages, it was the Air Corps that carried pigeons on their planes and they did not want any wood. That is why they objected, and I think probably they were right.

Mr. SMITH. Mr. Small, I do not believe you are going to control inflation. I appreciate your sincere efforts in that direction, but I do not believe that you are going to be able to control the strong pressure that is being exerted by the working people to maintain the purchasing power of their money. It has never been done in the past though it has been tried time and again. It has failed where the inflationary pressure was much smaller than it is in our economy at the present time.

I think that the policy ought to be to, instead of fixing your eye on trying to control inflation, that you should fix your eye on trying to get out production, to raise these prices enough to allow this material to get out, and at least you can say this for that sort of policy: That it has the prospect of getting production, it has the merit of producing homes and the things that we need to live by.

Mr. SMALL. Yes, sir.

Mr. MONRONEY. Is that all, Mr. Smith?

Mr. SMITH. That is all.

Mr. MONRONEY. Mr. Riley.

Mr. RILEY. Mr. Small, I want to thank you, sir, for this very fine and practical statement which you made.

Mr. SMALL. Thank you, sir.

Mr. RILEY. I am wondering if, based on the experience that you have had during the past several years, whether or not you think that the Price Control Act needs any additions or amendments, or do you think it can operate pretty much as it is now?

Mr. SMALL. I think that to try to amend it, to put in checks and balances, would be so difficult that you would never get the act through. I think the act is workable as it is, and the legislative history of the act, if it indicates that we must get fair and equitable and fast action, we will get it, as the act now stands, that is, without amendment.

Mr. RILEY. You think that the matter can be handled administratively?

Mr. SMALL. Yes, sir.

Mr. RILEY. Thank you, sir.

Mr. MONRONEY. Dr. Talle.

Mr. TALLE. Mr. Small, a good many people write to me and ask me why they cannot get any white shirts.

Mr. SMALL. The white shirts are beginning to appear on the market. I walked into a store about 2 weeks ago and saw shelves filled with them, so I know that some of them are coming on the market, at any rate. We have the problem, of course, of shortage of textiles, over-all shortage of textiles, and a diversion of textiles into many things, women's wear, particularly, away from shirts. But an increase in supply of shirts is coming week by week, I feel sure. Certainly when we get this other thing settled, when Mr. Bowles or Mr. Porter come out with this price adjustment on textiles, I believe that we ought to go ahead pretty fast from there and get more shirts. But you are getting more shirts today than you got 6 months ago, due to this low-end program of flowing cloth in to them.

Mr. TALLE. I got a telegram yesterday from an old firm which deals in women's dress goods, which you just mentioned. The proprietor is in genuine distress. He says the customers are becoming

almost abusive because he has to tell them he does not have anything, and he wants me to make a statement that he may use, publicly, to quiet the sentiment. Would you be willing to write such a statement, if I send you the telegram?

Mr. SMALL. I will do my best to write one. I do not know whether it will calm down the public, but I will write one.

Mr. TALLE. Well, these are the two items, white shirts and women's dress goods. Of course, last summer people could not get underwear, men's underwear in particular. Last fall they could not get canvas gloves. Now, your agency is the successor to the War Production Board, is it not?

Mr. SMALL. That is right.

Mr. TALLE. Have your functions been outlined in these hearings anywhere?

Mr. SMALL. Yes, sir; they have been outlined in an Executive order. I made a statement to the House Judiciary yesterday which quoted the Executive order and I would be glad to put it in the record, if you like.

Mr. TALLE. I would like it, for information, so that if somebody asks about your functions, I will be able to tell them what they are.

Mr. SMALL. Yes, sir; I will put it in the record.

(The document above referred to is as follows:)

Executive Order 9638, dated October 4, 1945, created the Civilian Production Administration and transferred to it the functions and powers of the War Production Board. The Executive order directed a swift and orderly transition from wartime production to a maximum peacetime production in industry free from wartime Government controls, with due regard for the stability of prices and costs; and, more specifically, it directed the CPA to:

- (1) expand production of materials which are in short supply;
- (2) limit the manufacture of products for which materials or facilities are insufficient;
- (3) control the accumulation of inventories so as to avoid speculative hoarding and unbalanced distribution which would curtail total production;
- (4) grant priority assistance to break bottlenecks which would impede the reconversion process;
- (5) facilitate the fulfillment of relief and other essential export programs; and
- (6) allocate scarce materials or facilities necessary for the production of low-priced items essential to the continued success of the stabilization program of the Federal Government.

The Civilian Production Administration is presently concentrating on the above functions in addition to the housing program.

Mr. MONRONEY. Mr. Buffett.

Mr. BUFFETT. Mr. Small, generally speaking, I think your testimony has been very helpful and I am very glad you were able to appear before this committee on this problem. I wanted to ascertain a little further information on several points.

The first question is: Is there any shortage of production capacity in this country?

Mr. SMALL. Over all, no.

Mr. BUFFETT. That is what I mean, on a general basis.

Mr. SMALL. Over all, no.

Mr. BUFFETT. What would be a fair estimate of the time required for fair and complete reconversion to peacetime production if the price problems and the labor problems were solved?

Mr. SMALL. We sent out a questionnaire to the manufacturers last August, right after VJ-day, and asked them that question, and we

asked them what did they think their production would be by December, and by June of 1946, and the responses that came in from the manufacturers themselves indicated that by December we would have made pretty rapid progress, back up toward the 1939 level—or close to it—and by June of next year, we would be well above it.

Now, the work stoppages, the price-wage problems that have intervened, the coal strike, and now the steel strike, have set us back. I would say that the goals that we had hoped to achieve by June of 1946, if everything ran smoothly, from this date on, would probably be achieved by October or November of 1946.

Mr. BUFFETT. I see. If we had not had these problems, we would have made it by June?

Mr. SMALL. Yes.

Mr. BUFFETT. Do you think that now we can still make it by October or November?

Mr. SMALL. Yes; we can still make it if everything runs smoothly.

Mr. BUFFETT. Yes; we can. We may not, but we can?

Mr. SMALL. Yes; it is possible.

Mr. BUFFETT. Yes. Now, tell me: If business had profitable prices, and we had full production from this point on, plus a balanced budget, do you not think we would have created the best machinery on earth to dissipate the inflationary measures, and the only psychological machinery, we will call it, to dissipate those pressures?

Mr. SMALL. Yes; if I understand you rightly, I think I agree. If we could get into full production of the kind I am talking about, 90 percent of our problems would just dissolve like the mist in the morning sun. We would not have any necessity for a lot of these controls. You could wipe them all out overnight. If that happened.

Mr. GAMBLE. They would wipe themselves out, would they not?

Mr. SMALL. They would wipe themselves out.

Mr. BUFFETT. But then, if that job were achieved, do you not think it entirely possible if not probable that the extension of price controls for 1 year, if we do our job right in the meantime, would create the psychological and practical conditions necessary for its complete elimination next June 30, granting, of course, that possibly price control might have to be continued on bread and possibly some other items?

Mr. SMALL. Yes, I think that, assuming these things that you said, if price control is extended for 1 year, and if we do reach full production by October or November, that you will have very little under price control—rent control probably, you will have—but you will have very little under price control during the spring of 1947. It will have eliminated itself. The same is true of the Second War Powers. It will have eliminated itself. We may have a tin shortage and may have to conserve tin, but in great measure most of these things will have cleared themselves out.

Mr. BUFFETT. But those goals are reasonable goals if we in Government do our job efficiently and adequately, and not assumptions that are not justified by our productive capacity. The production is here, and the demand is here, and we have the manpower, the know-how, and all the other essentials to get that job done. If it is not done, it is because of human failure and not a physical impossibility.

Mr. SMALL. That is exactly right. We have within our own hands the power to create prosperity for the next 10 years such as this country has never known, if we will only be reasonable and sensible and work fast. We have it within our power. If we drop this football, it is our own fault.

Mr. BUFFETT. Thank you. That is all, Mr. Chairman.

Mr. CRAWFORD. May I make a request, Mr. Chairman?

Mr. MONRONEY. Yes, sir.

Mr. CRAWFORD. If it is agreeable with the chairman of the committee, I would like to have the clerk of the committee file a statement with each member, showing the number of witnesses who have filed written application to appear before this committee in opposition to the Price Control Act and the rules and regulations as they are now formulated.

Mr. MONRONEY. Is there any objection?

Mr. GAMBLE. That would include, Mr. Crawford, the members of Congress?

Mr. CRAWFORD. No, I am not referring to Members of Congress. I am referring to outside interests. Because I know the necessity of pushing these hearings along. I know how slowly we are progressing, and this goes back to my opening statement before the committee before these hearings began, and I would just like for the committee to be kept informed as to how many and who they are. I am only interested in the opposition, because I think we have now been running into the third week on this bill.

Mr. MONRONEY. But we have had legislation on the floor during this time.

Mr. CRAWFORD. I know, but the story will be told to the country that we ran the hearings so many weeks. Now, let us find out who wants to appear, based on written applications filed. If they are not interested enough to file a written application, I am not interested.

Mr. MONRONEY. Would the gentlemen be willing to have not only morning sessions, but afternoon and night sessions in order to expedite the conclusion of these hearings at the earliest possible date?

Mr. CRAWFORD. Yes; we can double up the sessions if you like.

Mr. GAMBLE. Not until we get through with this item we have on the calendar at the present time, the housing bill.

Mr. MONRONEY. I do think the expedition of these hearings, and their completion at an early date, is enough to keep the committee members busy morning, afternoon, and night, in order to get this bill to the floor of the House at the earliest possible date.

Mr. TALLE. May I ask Mr. Small one more question?

Mr. MONRONEY. Mr. Talle.

Mr. TALLE. I have just had an opportunity to glance at the report of your agency, bearing the date February 27, 1946, and I am interested in what you say in it about construction and building materials. Of course, I agree with what you say, that it is going to be a super-human task to find the materials, for the kind of program that has been set up by the new National Housing Administrator.

Now, in the 1920's two industries that were exceedingly important in maintaining employment in the United States were the automobile industry and the building industry. I wonder if you would hazard a guess about what one may expect, say 6 or 7 or 10 years from now,

in that industry, in the event that we succeed in getting this job done, which we hope to do now. Do you fear any bread lines in industry? Do you fear unemployment? Do you fear that other industries may suffer because people are attracted into this one, in the hurry-up program that we are prosecuting? Do you think that our economy may suffer in more ways than one because we put such gigantic emphasis on this one thing?

Mr. SMALL. I think the answer to that is that I believe we are forced into a program for housing—particularly for the veteran—that we have just simply got to do, whether we like it or not, we have just got to do it. But I believe it can be administered in a way that will have a minimum of effect upon the economy.

Take this, for example, we said, back in the fall, that we figured if everything broke right, that if we got the labor back into the plants, and we did not have work stoppages, and everything worked right—I am talking of building materials now, because materials are the bottleneck—that we would have enough materials to support a program amounting to 7½ billion dollars of new construction—that includes public and private, includes housing, industrial, commercial, all new construction—and about 5 billion dollars' worth of repair and maintenance for existing structures.

The new housing program which Mr. Wyatt has brought up here for veterans will tack on about 2½ billion dollars to that program. Well, if we use all of the emergency measures that we did use during the war to get munitions production up—I am talking about the expansion of production, the aluminum plants being a typical example of the magnesium plants or the aircraft plants—if we used all of those emergency measures, we might possibly get up somewhere between the 12½ and the 15 billion dollars, which is envisaged by adding the Wyatt program to the other program. But it would be a tough thing to do, even with all of those emergency measures. Obviously, if it so happens that the Congress does not approve those emergency measures, and if we have to do it within the present framework, something has to go out. Everybody cannot do everything in the way of construction that he would like to do.

What are we going to cut out? That is the problem. The way that we propose, in our agency, since we represent or we are the protagonists, if you like, for all that is other than housing, industrial, commercial, repair, and maintenance, and all of these other things that must go forward—what we propose to do is to set up, in the individual communities, a CPA construction man, surrounded by a group, or a committee of outstanding public citizens—not Government people, but citizens—representing the segments who are interested, that is, State or local Government, the building trades, the building material producers, the builders themselves, and the businessmen of the community—set them up and screen through them these projects that people want to do, because some of them have got to be cut out.

Now, if they work by the rule of reason, which I assume that they will do, because they would be that kind of men, they would say, in a community or in an area where we have an acute labor shortage, as well as an acute housing shortage, that there is very little point in putting building materials into the construction of new plants to create new jobs when we do not have enough people to fill the jobs we

already have. Therefore, we will give the green light to housing, and push ahead with that with our strongest measures.

But in another community, where you had a considerable amount of unemployment and the housing shortage was not particularly acute, obviously, that committee would give the green light to construction that would create work for these people, so you will have a varying condition, community by community, which will be settled by the people within the community who are familiar with their own problems, their own necessities, and their own peculiar conditions.

Another example is in a community where you have not only a shortage of workers but a shortage of housing. And the question will come up: Well, in such a community are you going to permit them to build a grocery store, or a drug store? Well, let us take Washington, for example. If you put up a subdivision out here of about three or four hundred houses, and they have not got a grocery store, and they have not got a drug store within 3 or 4 miles of them, by all means, give them a grocery store and a drug store. But if a man comes in and says, "I want to put up a drug store," on the fourth corner where all three corners have drug stores, by all means, turn him down. And there are a lot of Federal projects and State projects that I believe ought to be turned down at this juncture to make room, out of this pool of resources that we have, for this housing program.

Mr. TALLE. I think that is a very reasonable statement, indeed. Now, I wanted to ask you about a specific situation. We will say a college lost its administration building by a fire.

Mr. SMALL. It should get it back.

Mr. TALLE. That is the answer I hoped for. Thank you.

Mr. BUFFETT. Mr. Chairman.

Mr. MONRONEY. Mr. Buffett.

Mr. BUFFETT. Mr. Small, this problem, the Office of Price Administration extension and the problem of production, is pretty much a problem of economic laws and economic relationships; is that not correct?

Mr. SMALL. That is right.

Mr. BUFFETT. And for excited talk to take place on the basis of the friends and foes of price control is completely out of order, do you not think, in any attempt to get at the facts in this situation?

Mr. SMALL. During the war we got an awful lot of things done because people were reasonable. They would give and take, and they would accept this or that in order to get the job done. They had a clear objective. The objective was: "Does this help to win the war or does it not?" We do not have that objective any more, and the objectives are far from clear. People everywhere, it seems to me, are inclined to shift from common sense to emotion, and be guided by slogans. "I am for this one," and black or white, it does not matter what it is, there is no in-between, there is no happy medium. We have got to go the happy mediums if we are going to accomplish this task. Is that what you mean?

Mr. BUFFETT. That is right. My argument is you cannot be for or against the law of gravity.

Mr. SMALL. That is right.

Mr. BUFFETT. It is a physical fact.

Mr. SMALL. That is right.

Mr. BUFFETT. And we are dealing here with economic facts.

Mr. SMALL. That is right.

Mr. BUFFETT. Thank you.

Mr. MONRONEY. Dr. Smith has one more question.

Mr. SMITH. Last evening Mr. Fulton Lewis, in his broadcast, made the statement that the Office of Price Administration is propagandizing public schools to urge its extension. Congressmen have been receiving quite a few letters from school children asking us to vote for the extension of the Office of Price Administration. Do you know whether or not that is true?

Mr. SMALL. I do not know, no; sir.

Mr. SMITH. If it is true, it should be stopped, should it not?

Mr. SMALL. In my opinion, definitely, yes, sir.

Mr. MONRONEY. Do you mean, Mr. Small, that the Federal Government should muzzle every school teacher that might be interested in being able to make her meager salary pay a decent living?

Mr. SMALL. No, I think the school teachers should be allowed to do what they want to do.

Mr. MONRONEY. If they want to talk price control to their students, this is a country where we have free speech and we fought a war for it.

Mr. SMALL. I do not think money should be spent to whip it up. I thought that is what the Congressman was speaking about.

Mr. SMITH. Yes; that is what I had in mind.

Mr. SMALL. That is right.

Mr. MONRONEY. The committee will adjourn until 10:30 tomorrow morning.

(Whereupon, at 12:30 p. m., the committee adjourned, to reconvene at 10:30 a. m., Wednesday, March 6, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

WEDNESDAY, MARCH 6, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

We are glad to have Mr. Brownlee back again in Government service. He rendered a very conspicuous service to this country through these years and we are glad to have him back again to give us the benefit of his experience which has always been valuable.

Mr. Brownlee, have you a prepared statement?

Mr. BROWNLEE. I have not, Mr. Chairman.

The CHAIRMAN. You may proceed.

STATEMENT OF JAMES F. BROWNLEE, OFFICE OF ECONOMIC STABILIZATION

Mr. BROWNLEE. Thank you very much for your remarks, sir.

As Mr. Bowles has recently testified before the committee on the subject of his feelings regarding subsidies, I am sorry he is not here today, but he is unfortunately in the Middle West and will not be back until tomorrow.

Also, the President, in his message on the state of the Union has stated the Administration's feelings in very cogent language as to the maintenance of the subsidy program.

The Office of Economic Stabilization feels no less certain at this time than it did at the time of that message that the maintenance of the subsidy program for the immediate present is necessary in the control of inflation program.

The pressures, as you have been told, and as you all know, are certainly at a point of tremendous acuteness, and the shock of the sudden withdrawal of the subsidy program, which would cause a rise in the cost of food, of about 8 percent and in the total cost of living of about 3½ percent, we feel would inevitably bring increased pressures, which would result in higher costs and would start the same whirl that we have recently had.

Therefore, Mr. Bowles is recommending that the subsidy program be continued beyond June 1946.

The policy of the Office of Economic Stabilization is exactly as expressed, I think, at the time that Judge Collet stated that it would be the policy of the Office to discontinue these subsidies as promptly as possible, as the pressures on the total economy went down. But

with practically all food prices bumping up tightly against the ceiling at the present time, we do not feel that it would be possible to make an abrupt termination of the subsidy program. It is the very definite objective of the Office of Economic Stabilization to discontinue these subsidies as fast as they can be discontinued without marked increases in the cost of living.

I would like, Mr. Chairman, if it is agreeable to you, to insert at this time the amounts which the Office of Economic Stabilization wishes to recommend for subsidy appropriations during the year starting July 1, 1946.

The CHAIRMAN. That may be inserted in the record.

Mr. BROWNLEE. If agreeable, I would like to read these figures with first the authorization for fiscal 1946, the actual expenditures for 1946, and the recommended authorization for fiscal 1947. I have divided these into as broad groups as possible so as not to go, in the total recommendation, into more detail than is necessary.

As you all know, the subsidy payments on food are divided into two classes, those paid by the Reconstruction Finance Corporation and those paid by the Commodity Credit Corporation, and I have, accordingly, divided them that way in this summary.

The authorization for fiscal 1946 on meat was \$684,000,000. The actual expenditures during that period will be \$684,000,000, plus an item of \$36,000,000 on sheep and lamb, which was transferred from the Reconstruction Finance Corporation appropriation to the Commodity Credit appropriation.

So the total expenditure actually, between the two items, was \$684,000,000 plus this \$36,000,000, making a total of \$720,000,000.

The CHAIRMAN. What was the amount?

Mr. BROWNLEE. \$720,000,000.

The CHAIRMAN. What was the amount used for sheep and lamb?

Mr. BROWNLEE. \$36,000,000, sir, and that is listed under the Commodity Credit Corporation appropriation, but in trying to summarize the total meat expenditures, they amount to \$720,000,000 between the Reconstruction Finance Corporation and the Commodity Credit Corporation.

The CHAIRMAN. That sheep and lamb subsidy was paid direct to the producer?

Mr. BROWNLEE. Yes, sir. I also should say that this figure of \$684,000,000 in the Reconstruction Finance Corporation and \$36,000,000 in the Commodity Credit Corporation payments, assumes that the request for the increased authorization of \$125,000,000 for meat, and the \$25,000,000 for flour, now in Congress, will be passed.

I would like also, at Mr. Bowles request, to state a correction to his testimony when he appeared before you recently. At that time he listed meat expenditures at less than this amount by practically \$175,000,000. That was a mistaken figure, and these are the correct figures which I have just given you. The recommendation for authorization for fiscal 1947 is \$715,000,000, or approximately the same as this year.

The wheat subsidy on flour, the authorization for fiscal 1946 was \$215,000,000. The estimated actual expenditures, \$210,000,000. And the requested authorization for fiscal 1947, \$260,000,000. That has gone up because the price of wheat has been advanced. Consequently it takes more subsidy to the millers to handle the same adjustment.

On butter, there was an authorization for fiscal 1946 of \$100,000,000, and an estimated actual expenditure of \$21,000,000, and there is no recommended figure in our request at the present time. The Pace committee is at the present time debating the butter situation, and we would prefer to withhold any recommendation until the termination of those hearings. It may be possible that we may have to ask for an appropriation on butter.

Meat, flour, and butter are the three food subsidies handled by the Reconstruction Finance Corporation. In addition to the food subsidies there are several other items, nonfood items, which I would like to include in the recommendation at this time.

On rubber, there was an authorization for fiscal 1946 of \$60,000,000, an expenditure of \$60,000,000, and a requested authorization for fiscal 1947 of \$31,000,000, which, as I understand it, is simply the termination of the present program, which has been started and does not include any new commitments or any continuation of the program beyond June 30.

On the copper, lead, and zinc premium plan, there was an authorization for fiscal 1946 of \$88,000,000, an estimated actual expenditure of \$88,000,000, and we are requesting an authorization for fiscal 1947 of \$100,000,000.

On petroleum, there was an authorization for fiscal 1946 of \$290,000,000, an estimated expenditure of \$60,000,000, and we are requesting for 1947, \$50,000,000. That is largely the stripper-well program, which we will probably wish to discuss later.

On other domestic and imported items, there was an authorization of \$180,000,000, estimated actual expenditure of \$125,000,000, and we are asking for a total authorization for 1947 of \$170,000,000. That is the total of the Reconstruction Finance Corporation expenditures, total authorization \$1,617,000,000; estimated actual expenditures for 1946, \$1,248,000,000, and a requested authorization for 1947 of \$1,326,000,000.

Coming now to the Commodity Credit appropriations, for the dairy product production payments, the authorization was \$568,000,000; the estimated actual expenditure, \$497,000,000, and we are asking for 1947 for \$515,000,000.

On the noncrop programs, the authorization was \$156,000,000; estimated actual expenditures, \$105,000,000, and we are asking for \$60,000,000 for 1947.

On the crop programs, the authorization for 1946 was \$225,000,000; the expenditures, \$234,000,000, and we are asking for \$150,000,000 for fiscal 1947.

Summarizing the total of the Reconstruction Finance Corporation and the Commodity Credit Corporation payments, therefore, the authorization for fiscal 1946 amounted to \$2,566,000,000; the estimated actual expenditures, \$2,084,000,000, and a requested authorization for fiscal 1947 of \$2,051,000,000, which figure excludes any request that may have to be made later for butter subsidies.

Breaking this in another way, the total food-group subsidy was authorized for \$1,948,000,000 in 1946, with an expenditure of \$1,751,000,000, and we are asking, on the food-subsidy group, for 1947, for \$1,700,000,000.

The other subsidies, other than food, authorized in 1946, \$618,000,000; expended, \$310,000,000, and we are asking for fiscal 1947 for \$351,000,000. I think that summarizes the subsidy expenditures

and requests, and as I say, I have broken them into large groups and have not broken them down into small subdivisions, not knowing how far the committee will want to go in discussing the various divisions, say, of the meat subsidies and the various other subdivisions.

Again I want to say, that we feel very strongly that the shock of an elimination of the subsidies at the present time would be more than we believe the inflation control program could stand. We think it would inevitably lead to demands which would result in increased costs, and we very specifically and definitely recommend this program for your consideration.

The CHAIRMAN. What effect has the operation of the subsidies had on the prices of the commodities affected?

Mr. BROWNLEE. Well, taking the food subsidy program which is largely the cost-of-living program, the expenditures have been, as previously stated, about \$1,700,000,000. The savings to the consumer, as far as we can figure them, are somewhere around two billion and a quarter to two billion three hundred million dollars, and the difference in the cost-of-living index, if you had not had these subsidies, to the best of our ability, amounts to about 3½ percent in the total cost of living and about 8 percent in the cost of food to the consumer.

The CHAIRMAN. Do you have figures on what the price rise in the cost of living would have cost the public of the United States?

Mr. BROWNLEE. Well, we believe that had you not had these subsidies, the people would have paid roughly 2¼ billion dollars more than they have.

The CHAIRMAN. That is just on the food subsidies?

Mr. BROWNLEE. That is on the food subsidies. That does not include the other nonfood subsidies.

The CHAIRMAN. That is on butter, flour, and meat?

Mr. BROWNLEE. Butter, flour and meat, and dairy products, and your crop programs.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Brownlee, I want to express my personal appreciation for your return to Government service. I feel that the Price Control and Stabilization Acts will be strengthened by reason of your return to Washington.

Mr. BROWNLEE. Thank you.

Mr. PATMAN. I do not have any questions.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. Mr. Brownlee, I am sorry I did not get in here to hear the first part of your testimony. I want to join Mr. Patman in expressing my appreciation to you for your giving up a well earned retirement to help finish this job.

Mr. BROWNLEE. Thank you, sir.

Mr. MONRONEY. Have you studied the program of the Committee on Economic Development which they recommended here?

Mr. BROWNLEE. Yes, sir. As a matter of fact, I am a member of the Research Committee of the Committee on Economic Development.

Mr. MONRONEY. During the testimony, under cross examination by Mr. Crawford, I believe Mr. Ralph Flanders was asked if you were not a member of the Research Committee, and if you did not approve, in its entirety, of the recommendation that the Committee on Economic Development was making. I wonder if you had anything to say for yourself in that regard, so that by implication the Committee on Economic Development program will not link you with an advocate of some of those things unless you happen to stand for them.

Mr. BROWNLEE. Mr. Flanders was entirely correct in that the general aspects of the continuation of the act had been discussed by the Research Committee. And I agreed with their conclusions for the most part. There may have been a difference in my feeling as to the extension of the act until March, for instance, instead of until June. We did not discuss, however, and had not discussed, and I believe Mr. Flanders told me he was going to wire the chairman to that effect, the matter of a 33-percent lifting of the industry earning standard. We had not discussed such things as automatic pricing, which I feel was pretty fundamental in his recommendation, and it was for that reason that I also wired Mr. Spence. We were in agreement as to the general principles, but we had not discussed the details, some of which Mr. Flanders presented to the committee. I am very glad you asked me, and I very specifically want to say that I am not in accord with some of the things which he recommended.

Mr. MONRONEY. One of the other things that he advocated was base prices on actual cost and not forecast, which I believe, in our questioning, it was brought out that if you only have a certain production, that the Office of Price Administration should give you a price on that product and not what the actual volume of production would be on the whole year.

Mr. BROWNLEE. I do not know as we are too far apart on that, Mr. Monroney. He, I believe, picked out a period, and suggested that you use that as your base period. We are apart to the extent that if that period is not anormal period of production, for one reason or another, a strike and so forth, I would be against using it. I do not think there is any virtue in saying that the calendar says a certain time is normal if it is not normal.

Mr. MONRONEY. That is right.

Mr. BROWNLEE. Nor do I believe that Mr. Flanders or the Committee on Economic Development would want the stabilization agencies to do that. I think, however, that, rather than trying to do a tremendous amount of forecasting, if you can get a period that has normalcy in it, even though you have to adjust it somewhat, that that is far better than trying to take some figure which no one is sure about. I do not believe we are in too much disagreement, except for the fact that the second quarter in their presentation may or may not be normal. But the first normal period, I think, should be used.

Mr. MONRONEY. That was the only thing I wanted to straighten out, to see where the differences were. Because I believe everyone in this country knows your experience with price control, and the fact that you were a member of that Committee did add considerably to the experience record of the Research Committee.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNKEL. Mr. Brownlee, what was the figure you gave on the amount of subsidies just as I was coming into the room? I did not hear it.

Mr. BROWNLEE. Taking the broad groups, the expenditures for food last year were \$1,751,000,000. The authorizations for that period had been \$1,948,000,000. We, therefore, spent about \$200,000,000 less than the authorization. That is for your nonfood subsidies the authorization was \$618,000,000, and we spent \$301,000,000, and we are asking for \$351,000,000.

Mr. KUNKEL. Mr. Brownlee, you just said you were not too familiar with this aspect of the Committee on Economic Development program, and I am not a particular advocate of automatic pricing except insofar as it seems to me that the present system set up under the new wage-price formula is not going to work, because it is too slow. I have had some experience during the past week with it. They have to install their wage increase and then send it on to the Wage Stabilization Board, or they can make an application for it, or they can install it up to March 15. But they are not sure that they are going to get it. They probably will, but they are not sure. Simultaneously, we figure, they apply for a price increase. They have no idea what the discussion is going to be on that, so that the average manufacturer has to put his wage increase in, and then hope not only that his price request will ultimately be granted, but he will also have to hope that it will be decided quickly. And I think that is going to cause so much delay and so much slowness that it is going to hold back production unless something along the line of automatic pricing is put into effect. Now, have you anything to suggest that would obviate the difficulties in regard to speed, and in regard to certain difficulties that are inherent in the present wage-price policy? Because I think that is essential if we are going to have price control serve the double purpose of increasing production from this point on and holding prices down.

Mr. BROWNLEE. I think you have definitely touched on one horn of the dilemma, and it is a very real one. It is one thing, I think, that always disturbed me at the Office of Price Administration more than anything else. As I frequently said to the committee, the inability to get these things done immediately was always disturbing.

Against that, you have the other horn of the dilemma. And that is the question of what happens under automatic pricing. As a matter of fact, I think I was pretty much the daddy of the automatic pricing that was put in the reconversion formula, and I was very hopeful about it. Since I have left and have had a chance, on a couple of occasions, to look at those, we find that they are very far from accurate pricing. Now, by that I do not mean at all to say, sir, that business is dishonest about their automatic pricing. But, having been in business many years, and bringing out a new product, or going into the pricing of a product which you had, and which you had previously sold, and wanted to see what would happen, I have many times said to the comptroller of the company, "Well, now, what is going to happen? I want to know the exact costs, and I want to know what will happen at this price." And almost invariably, if we were able to sell as much as we had hoped we would sell, we have done better than we were told. In other words, I think it is perfectly normal and I think it is perfectly sure that business has got to forecast on the safe side.

Apparently what has happened in this automatic pricing which was put into the reconversion formula has been that those prices have been very substantially above the actual results insofar as the figures indicate up to this time. Now, certainly I would be one of the first

to admit that you cannot ask business to wait indefinitely for its prices. I think that the more definite you can be of your wage-price policy, the more you can reduce the delays, and I would think that we should be able, by industry action, to get those delays down to a reasonable basis.

Whether there is any semiautomatic way of pricing, I do not know. That is one thing that I want to dig into on this new work of mine. But I appreciate the difficulties you speak of. I also think that we have got to appreciate the difficulties that come up when you have a price which is considerably higher than it probably should be.

Mr. KUNKEL. Well, in addition to the effect on business, I think it is going to throw an almost impossible administrative task on the Office of Price Administration, and it is going to take up the time of many valuable members of the Office of Price Administration organization along this line when they could better be devoting themselves to some of the more important phases of many problems the Office of Price Administration has to deal with.

Mr. BROWNLEE. That is certainly true unless you could have a great many broad industry prices, and have your individual prices rather the exception than the rule.

Mr. KUNKEL. And if you have it the way it is, as I see it, you are going to start in and have a considerable amount of labor trouble because it is going to be very difficult for manufacturers to agree on the amount of increase when they have no idea what their price increase is going to be, or when it is going to come, and we may have a repetition of what occurred during November, December, and January of last year. That is the thing that I think we must try to avoid.

Mr. BROWNLEE. I think that is right, and I think that is largely contingent on how definitely Mr. Bowles is able to enunciate his wage-price policy which, I understand, he expects to announce shortly.

Mr. KUNKEL. I feel this present policy is not going to work, and that is the reason I would want to see a more definite one put into effect before any serious damage is done by this one. I had a steel fabricator call me up—that is the reason I left the committee hearing—and he is all upset because of the President's statement yesterday that the agreement for basic steel has no application to the steel fabricators. He just does not know where he stands now. So there you have a great big segment of the steel industry which is still in the dark and still can reach no settlement and get into production. I just note that by way of illustration. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. I have no questions.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Pass for the moment.

The CHAIRMAN. Mr. Hays.

Mr. HAYS. Mr. Brownlee, it was not clear to me the period over which these particular authorizations were spent. What period did that cover?

Mr. BROWNLEE. The authorizations were for fiscal 1946, and the estimated expenditures are for the same period, and the recommended authorizations for fiscal 1947.

Mr. HAYS. That is not the actual expenditure?

Mr. BROWNLEE. No, sir, we would feel that even if we could not terminate these programs—which certainly we must make an effort to do in every way possible—even if we could not terminate them, you would have the same kind of savings that you had under the authorization last year.

Mr. HAYS. That is all.

The CHAIRMAN. Mr. Sundstrom.

Mr. SUNDSTROM. I have just one thing, Mr. Brownlee: that is the fact you said there is \$1,700,000,000 spent for food subsidies and that saved 2½ billion dollars. I would like you to illustrate how you get the increased saving.

Mr. BROWNLEE. Of course, your first increased saving comes out of your mark-up on higher prices. In other words, at the distributing level, you have obviously a mark-up on whatever the base price is, and consequently the higher your price, the greater the spread between what a producer receives and what the consumer pays.

Mr. SUNDSTROM. That is what the subsidy is for.

Mr. BROWNLEE. Well, the subsidy would obviously, on that basis, enlarge itself at the consumer level over the producer level. Some of these programs, I think, inherently have in them something where you pay a little bit less than you save, and I would rather have some of the specialists who deal with them testify to that, if you care to have them do so, sir.

Mr. SUNDSTROM. Well, I may be a very poor mathematician, but I do not see how you can spend \$1,700,000,000 and save 2¼ billion dollars on food prices unless somebody loses, whether it is the retailer, distributor, or consumer, or somebody. On butter, they talk about a 10-cent subsidy, and you save 12 cents on butter. But there is not the whole story, because there is feed and a few other things, so, in reality, I do not see how you can save more than you subsidize unless somebody loses.

Mr. BROWNLEE. Well, did I make myself clear as to my feelings on the mark-up on the lower price? In other words, if you have a dollar item, and you have a 20 percent mark-up on that, you would have a 20-cent spread. But if you have that same item at 50 cents and you have a 20 percent mark-up, you would only have a 10-cent spread between the consumer and the producer. In other words, your percentage mark-ups actually reflect a saving to the consumer as the price gets lower. Is that correct?

Mr. SUNDSTROM. You could still have that without having subsidies.

Mr. BROWNLEE. No; because you would have higher prices.

Mr. SUNDSTROM. You would have higher prices, but you would still have a percentage mark-up.

Mr. BROWNLEE. You would still have a percentage mark-up on a higher price than you have now and consequently the reduced price reflects a greater saving to the consumer by less mark-up between him and the producer.

Mr. SUNDSTROM. I would be delighted to have one of your experts submit to me a set of facts showing how you saved, including all the other subsidies, too, which are not under the Office of Price Administration.

Mr. BROWNLEE. We will be glad to put that in the record before the hearing closes, sir.

Mr. SUNDSTROM. And also the administrative costs, and the servicing of the loan which the Government has to issue in order to get the money.

Mr. BROWNLEE. Yes. Mr. Chairman, I assume that the hearings will go on for a day or so?

The CHAIRMAN. Yes, I have no doubt that we cannot develop this question this morning, and I understand you are willing to come back tomorrow?

Mr. BROWNLEE. At any time, sir.

The CHAIRMAN. I understand the Under Secretary of Agriculture, Mr. Hutson, will also be here tomorrow.

Mr. BROWNLEE. The reason I asked that question: I would very much like to have an opportunity, before the hearing closes, to submit the difference between the \$1,700,000,000 and the 2¼ billion dollars.

Mr. SUNDSTROM. I would, too, but I want to be sure that they put in the servicing of the Government loan and the administrative costs.

Mr. BROWNLEE. We will try to put in everything we think of and you can try to put in the rest, sir.

Mr. SUNDSTROM. I want to say I am glad to have you back in the Office of Price Administration, Mr. Brownlee. I have always had good relations with you and I appreciate your coming back.

Mr. BROWNLEE. Thank you, Mr. Sundstrom.

Mr. SUNDSTROM. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Hoch.

Mr. HOCH. No questions.

The CHAIRMAN. Mr. Riley.

Mr. RILEY. Mr. Brownlee, I have just one question. What materials are proposed to be subsidized with this \$351,000,000, other than food subsidies?

Mr. BROWNLEE. There is the termination of the rubber program, the synthetic rubber program, \$31,000,000, the premium plan for copper, lead, and zinc, which accounts for a hundred million dollars, and there are miscellaneous other domestic and imported products, which comprise the balance of the program. There is quite a list of them, and we have one difficulty, I might say to you in discussing it, and that is that they are largely on the imported side, what is decided on them has a considerable effect on the price in the world market. It would be rather difficult to discuss them. I think we should go into closed session to discuss those, if we can do so.

Mr. RILEY. Thank you. I want to express my appreciation to you for your return to the Government.

Mr. BROWNLEE. Thank you, sir.

The CHAIRMAN. Mr. Brownlee, when the definite period is set for the ending of price control, there will be a period of disintegration and weakening of the law which will take place some time before that; is that not right? That seems to be generally conceded, at any rate. What is your opinion about that? When will that process set in and what effect will it have?

Mr. BROWNLEE. Well, I think that is any man's guess, Mr. Chairman, as to the exact time it will set in. I suppose it has a cumulative effect which gets more pronounced as you come closer to it. I would say the last 3 months of price control are apt to be 3 months of very weak price control. Certainly, if prices are going to be higher with

the termination, I think the first effect of it would be that you would have a building up of inventories and a holding back of merchandise from the public. That is perfectly normal and I do not think anybody could criticize it too much. But it is almost inevitable, I think.

The CHAIRMAN. You would have a corresponding weakening of the agency itself by the loss of personnel, also, would you not?

Mr. BROWNLEE. Very definitely, and probably very pronounced, and that would probably commence almost as soon as the termination date became effective, providing there was any immediate date. I do not think it would start a year ahead, or anything like that, but I do think that when it is known that you are working for an agency that is going to die, that many of them would rather find other places to work.

I also suspect that your enforcement program would bog down very considerably as it became known that the program was about to go out of existence. But I think these are the three big factors; in the first place, the withholding of merchandise, and consequently less merchandise on the shelves; secondly, the loss of agency personnel; and thirdly, your enforcement difficulties as you approach the end of the program.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Mr. Brownlee, I am glad to see you back in the Office of Price Administration.

Mr. BROWNLEE. Thank you, sir.

Mr. SMITH. I just wanted to ask you whether you felt that the continuance of subsidies was justified in the face of the greatest prosperity this Nation has ever experienced, and the fact that everybody has plenty of money to spend? We are still trying to stop inflation.

Mr. BROWNLEE. I think that subsidies are just as unpopular with those of us who have to recommend them as they are with everybody else. They seem to me—and I think that Mr. Bowles shares this opinion, and certainly probably other people who are recommending subsidies—that bad as they are, they are better than what would come if we did not have them. In other words, the question is whether, at this time, with pressures as acute as they are—and by the way they seem to me much more acute than they were at the time that I left here 5 months ago—can you stand the shock on living costs and on on business costs of raising the prices to the extent that would happen if subsidies were withdrawn? It is a dramatic sort of thing which I cannot believe that you could blame the workingman of the country for feeling, “Well, if those are going up that way, we have got to have more money.” And certainly the elimination of them is going to raise costs either to the people who buy the materials for business refabrication, or to the ultimate consumer. So, much as I think we all dislike them, we must balance against that the question as to whether the net result of eliminating them would not be worse in what would follow in this whirl of added costs and consequently more demands of people who are affected by those added costs. I think they are bad. But I do not see how you can eliminate them now.

Mr. SMITH. What would be the price of butter per pound if you eliminated the subsidy?

Mr. BROWNLEE. When they eliminated the subsidy, it went up 5 cents a pound.

Mr. BRUMBAUGH. Five cents a pound?

Mr. BROWNLEE. I think I am right on that.

May Mr. Field answer that question?

Mr. BRUMBAUGH. All right.

Mr. FIELD. The subsidy which was eliminated, Mr. Smith, was the roll-back subsidy paid by the Reconstruction Finance Corporation, and simultaneously with the elimination of that roll-back subsidy, there was a price increase, as Mr. Brownlee has said, of 5 cents a pound. There is, however, also, in the current butter price, a reflection of the dairy feed subsidy program, administered by the Commodity Credit Corporation, which represents approximately 13 more cents in the pound of butter, and the elimination of that, and the maintenance of the producer return that now exists would call for an additional price increase of that amount per pound of butter.

Mr. SMITH. It is now about 59 cents a pound; is that right? I think that makes about 59 cents a pound; is that right?

Mr. FIELD. About 68 or 69 cents a pound.

Mr. SMITH. I know the National Dairy Farmers are very much opposed to the subsidy, and I remember down there when they had their meeting one of them testified that the average working man will buy a pound of butter at that price due to the subsidy, and on the way home he will buy a drink which will amount to more than that. I wonder if we are helping him out or doing him more harm than good.

Mr. FIELD. Of course, it is true, though, it is sometimes forgotten that there are a good many people in the country besides wage earners. There are a great many families on fixed incomes who are very badly squeezed by rising prices against their fixed incomes. It is certainly true, as you say, a good many workers with large wages and more money than they are used to, are finding a place for that "hot" money to be spent, and that which he saved on necessities may, as you suggest, often go into something else.

Mr. KUNKEL. Where do you find a pound of butter on which to save 13 cents?

Mr. FIELD. The problem which you raise, Mr. Kunkel, is the very problem which the Pace committee had held and is still holding rather extended hearings on, the question of whether the butter price is out of line with other dairy product prices, so that there is not as much going into butter as would be necessary to make butter readily available in the stores. That is a problem which, as Mr. Brownlee said earlier in his testimony, is presently being considered by the Department of Agriculture, the Office of Price Administration, and the Office of Economic Stabilization in conjunction with the hearings of the Pace committee, and I am sure before the end of these hearings that we will have something considerably more definite to say with respect to the butter program.

Mr. SMITH. Mr. Brownlee, is the idea to keep prices down where there has not been a raise in wages? You said that increased prices would mean increased wages. Have we not just recently granted an increase in wages?

Mr. BROWNLEE. Yes.

Mr. SMITH. Could not part of this subsidy be eliminated now by absorbing that?

Mr. BROWNLEE. Certainly part of the reason for that recent increase was the fact that the cost of living had gone up. Now, if you

put it up again, it is my opinion at least that you would get renewed pressure to compensate for an additional increase in the cost of living.

Mr. SMITH. When are you going to get to the end of that process, though?

Mr. BROWNLEE. Of course, as I said, the Stabilization Office feels very specifically and very definitely that the policy of getting rid of these things as soon as you can get any weakening at all is really the ideal time to eliminate subsidy. There is no change in that since Judge Collet expressed that opinion and wrote that as a policy, and we still have it. We hope very much that we will have a chance gradually to pull out of these things and use far less money than we are asking for if some of these prices begin to weaken at all.

Mr. SMITH. Is your idea of subsidies just to use them during the time of prosperity when men are making good wages? What are you going to do in the case of a depression?

Mr. BROWNLEE. No, sir; you are in this subsidy situation. You have held these prices tight, certainly to a degree, with the help of these subsidies. Now, your problem is not whether you leave them, but the timing, when you leave them. Certainly the desirable time to leave them would be when your other prices begin to weaken and you can wash these subsidies out without a radical change in the cost of living. That is what I think must be looked for very specifically, and, also, you may get a chance during the year to pull them out even without a major weakening of the cost of living. But certainly all of them coming out at once, sir, would, in our estimation, be very bad and bring about a very dramatic increase in the cost of living.

Mr. SMITH. Would it not be a good idea to reduce them gradually and eventually wipe them out?

Mr. BROWNLEE. I think we are hopeful that we can do that.

Mr. SMITH. Do you think now would be a good time to start reducing gradually?

Mr. BROWNLEE. I think there are some, at least some of these subsidies, which we should examine carefully to see if that cannot be done.

Mr. SMITH. I notice in your request, you are asking for almost the same amount of money as last year, and that is what prompted my question.

Mr. BROWNLEE. As I say, sir, you will note how much the expenditures were under the authorization last year. We would certainly be hopeful that at the worst, we would save, under the authorization, at least to the same degree we did last year. I mean while we are asking for this authorization, we certainly do not expect to spend the last penny of it. The difficulty is knowing just when you can save and just where, on which one of these items you can reduce.

Mr. SMITH. That is all.

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. Mr. Brownlee, I guess I missed it, but I did not get the title under which you came back to Government service, and where you are now.

Mr. BROWNLEE. Deputy Director of the Office of Economic Stabilization, sir.

Mr. BUFFETT. You are not in the Office of Price Administration?

Mr. BROWNLEE. That is right, sir, I am in the Stabilization Office.

Mr. BUFFETT. Let me ask you this question: What do you consider to be the basic cause of inflation?

Mr. BROWNLEE. Well, I assume that less goods than there is money available to purchase.

Mr. BUFFETT. What makes for that condition?

Mr. BROWNLEE. During the war, I suppose, it was made by wartime shortages, plus high earnings. As you come out of that, it is just a lack of balance between getting enough goods on the market to take up the slack in purchasing power, the money that the people have and want to spend.

Mr. BUFFETT. Of course, all new production creates its own purchasing power, does it not?

Mr. BROWNLEE. Yes; probably not, however, to the full degree of the production. I mean there is undoubtedly some saving, there is some tax skimmed off and some saving taken out, but it certainly produces new purchasing power.

Mr. BUFFETT. What is taken off in taxes comes right back into the purchasing stream by the expenditures of the Government, does it not?

Mr. BROWNLEE. Depending on the status of the balance of the budget, yes, sir.

Mr. BUFFETT. Well, certainly, you do not think that we are not increasing inflation as long as we print more money, or issue more bonds, than we are taking in taxes; is that not right?

Mr. BROWNLEE. You certainly increase your pressures, sir. There is no doubt about it.

Mr. BUFFETT. Let me ask you this: Have you studied the pamphlet put out a few months ago by the Brookings Institution called *Should Price Control be Retained?*

Mr. BROWNLEE. No.

Mr. BUFFETT. What is your answer to the question they raised there where they said:

Assuming the Office of Price Administration is successful in preventing the accumulated purchasing power from pulling up prices, such purchasing power would continue to overhang the markets then, though the positive shortages might have been eliminated?

Is that right or wrong?

Mr. BROWNLEE. I have always felt that the Office of Price Administration effort is simply an effort to hold this situation until you could get enough production available to the civilian expenditures of the country to more or less balance what they had and wanted to spend. It has never been my conception of the Office of Price Administration that you could possibly continue it indefinitely and be at all successful with it. But whether you can retard your inflationary situation until such time as you come back to a normal competitive condition seems to me the crux of the Office of Price Administration problem. Can you even hold it that long?

Mr. BUFFETT. Well, if the Office of Price Administration is creating regulations that discourage production, or drive production from legitimate channels, it is contributing to the very inflation that it is designed to prevent; is that not right?

Mr. BROWNLEE. If that is so, that is right. I think on the record, sir, there is no doubt as to whether the net result has been to decrease production.

Mr. BUFFETT. Are you familiar with the barter and black-market situation that exists in cotton and grain products, generally?

Mr. BROWNLEE. Not lately, but I certainly heard something about it when I was down here.

Mr. BUFFETT. I think if you check, you will find that that encompasses the larger part of the transactions in the field today. I think it is a very serious factor, which the Office of Price Administration is not taking into consideration. Have you read the study put out by Brookings Institution called *How Nazi Germany Has Controlled Business?*

Mr. BROWNLEE. No.

Mr. BUFFETT. In that study it tells how the Nazis set up a system to give the farmers extra payments, and to keep down the prices to consumers, and also how they enforced a cost absorption system that put the little fellow out of business. It seems to me it might be worth your while to look it over and tell the members of this committee how we are going to avoid the same outcome that came about in Germany, using that pattern of taxation.

Mr. BROWNLEE. I will certainly read both the pamphlets.

Mr. BUFFETT. I commend that to your inspection.

Mr. BROWNLEE. I will certainly read them, sir.

Mr. TALLE. Will you yield?

Mr. BUFFETT. Yes.

Mr. TALLE. Mr. Brownlee, I wonder if, in these calculations having to do with the balance of supply and demand, and getting production up to a certain point, and then releasing your controls, if there is not an item in human behavior that is being overlooked. Is there not an assumption, in that argument, that human beings can be satisfied at a certain point?

Mr. BROWNLEE. I did not get that.

Mr. TALLE. Can be satisfied at a certain point. Is not human behavior rather this: that people want more and more, and that finding this delicate point of balance between demand and supply may be a rather difficult problem, because appetites grow, and if you have this overhanging of purchasing power referred to a moment ago, is that not a fund from which this appetite grows greater and greater and seeks satisfaction?

Mr. BROWNLEE. I think that is our great hope for a high level economy, the fact that you never quite satisfy them, but there is a point at which you can pretty largely bring your productive ability into line with what they are able to buy. Certainly, in a normal economy, that is exactly what happens. The manufacturer steps up his production to the point where he takes care of the demand.

Mr. TALLE. In fact, Mr. Brownlee, Mr. Bowles, would undoubtedly never have been an advertising man, if it did not pay to advertise, and back of that lies the factor of human behavior. Make people dissatisfied with what they have, and they will buy something else. It is a part of our western civilization. Quite different from the Asiatic. I think that aspect of human behavior is something that would turn out to be a pretty effective factor in connection with the supply and demand balance which we hope for.

Mr. BROWNLEE. I agree with that entirely. It is just a question when you can bring it very much closer to its balance than it is today.

Mr. TALLE. Yes; I agree with you.

Mr. BROWNLEE. It seems to me we should be able to do that.

Mr. BUFFETT. Mr. Brownlee, these inflationary pressures represent dollars that have been paid out for which there has been no corresponding production; is that not correct? That is why they act as an inflation pressure?

Mr. BROWNLEE. Well, there may have been production that went for war use, but not available for civilians.

Mr. BUFFETT. Yes. Well, now, those inflationary pressures that have accumulated, will they not have to be repudiated or confiscated or absorbed by higher prices eventually?

Mr. BROWNLEE. I do not think that is your past history. That is not your past history of the way industry handles its pricing, as I understand it. The more you sold, generally, the lower your scale of prices. I mean we have seen an expanding wage scale for many years now, and we have seen expansion of other costs, but we have also seen a price level stay fairly stable in the last 25 years.

Mr. BUFFETT. Yes; but we never had this inflationary pressure operating in the economy during that period, or a continued pattern of deficit financing, creating more dollars all the time than there were goods available.

Mr. BROWNLEE. Of course, I think we all hope that deficit financing pattern will pass out of the picture some day.

Mr. BUFFETT. And certainly it is true that likewise all these goods being sent abroad, for which the purchasing power dollar stays in this country, is adding to that inflationary pressure; is that not correct?

Mr. BROWNLEE. I would think so.

Mr. BUFFETT. Now, you talked a little about the matter of the time element of this law, and the fact that enforcement would disintegrate in the period preceding its termination, and also that manufacturers would tend to hoard inventories at the end of that period. Well, now, if we announced on the 1st of April that it was going to end on the 1st of July, next year, and in the meantime we had a price, say, on refrigerators, that would reflect a profit to the refrigerator manufacturer, do you think very many refrigerator manufacturers would hold their output until July, next year, when their competitor could be out supplying the market?

Mr. BROWNLEE. Not if your demand and supply was in any reasonable relation to each other. I do not think they would, sir.

Mr. BUFFETT. In other words, as long as we price these items at figures where the manufacturer is going to make a profit, certainly, in most cases, the manufacturer is going to try to take the largest part of that market that he can; is that not correct, by selling as fast as he can?

Mr. BROWNLEE. That is certainly true when things become any way normal. Of course, you are on a tremendous seller's market right now. What it will be a year from next June, I do not know. I would think we will reach a point somewhere near balance on some of these things.

Mr. BUFFETT. Then, do you not believe it is important that this committee fix a final date for the termination of price control, leaving out, of course, the matter of rent control, which is a different sort of a problem?

Mr. BROWNLEE. I only have one misgiving about that: That, much as we would all like to get out of price control, you are certainly

not sure as to what the conditions may be, if you make an irrevocable final decision. I certainly think that every effort should be made to come to a termination of it at the earliest possible minute. Whether it is really wise to say at this time that June 30, 1947, is the end and finally the end, regardless of what conditions are, I do not know. I think that is one of your problems.

Mr. BUFFETT. Do you think the economy is ever going to start adjusting itself to the end of price control until we make a positive and concrete statement that there is going to be an end, and set a date for doing so?

Mr. BROWNLEE. I definitely think it is, sir, as you get production in. Because I think if you have any normal competitive situation, the economy is probably not going to pay too much attention to the Office of Price Administration or anything else. Competition will handle it rather than the Office of Price Administration regulations.

Mr. BUFFETT. A year ago Mr. Bowles said before this committee, on June 4, "We must in no event stand in the way of production." Do you think that pledge has been carried out a hundred percent, or maybe I should not ask you that question.

Mr. BROWNLEE. I think the intention has been carried out completely. I think that the thing is big and complex, and we have undoubtedly made our mistakes. But the net of it is still that you have 55,000,000 people at work and 55,000,000 people probably are not playing pinochle. They must be producing something. And the indications are that we are far better off in employment, and so forth, than we thought we would be. I think that is one of the reasons why your inflationary pressures at the present time are much heavier than we thought they would be at this time.

Mr. BUFFETT. If we are getting all this production, why are we in such desperate need of price control?

Mr. BROWNLEE. Simply because that production, at any level we have seen before, is not enough at the present time, with as much money as there is, and a lot of it "hot" money, to give the people all they want. If you had 1941 production in full on every item today, you would still be in trouble, I think, sir.

Mr. BUFFETT. And you will be in more trouble tomorrow by the amount of the deficit financing, and foreign loans, that occur during that period, will you not?

Mr. BROWNLEE. Always providing that production does not move up faster than the "hot" money to be spent.

Mr. BUFFETT. Well, if we have reasonably full employment now, it is certainly not going to leap from this point on.

Mr. BROWNLEE. I do not think any of us felt that you could get on a full production schedule within a few months after the war ended. You had your reconversion difficulties, and so forth, and they seem to have been handled more quickly than we had figured they would, but certainly you have not had the type of complete production that you expect to get once you get this thing running.

Mr. BUFFETT. The Office of Price Administration has been doing a lot of propaganda work throughout the country in various forms. Are you familiar with that at all?

Mr. BROWNLEE. I do not think I know to what you refer. Will you be a little more specific?

Mr. BUFFETT. Well, I had a little envelope, which they printed up in some millions, telling the housewives to go into the stores and get the prices on these items. They showed 50 items on their list, and showed how low the price was, but they did not tell that each one of those items on the list had its true price concealed by a subsidy.

Mr. BROWNLEE. I did not see that piece. It was probably while I was out.

Mr. BUFFETT. Are you familiar with their radio programs?

Mr. BROWNLEE. Just some of them.

Mr. BUFFETT. Do you know of any greater disservice to this country than for that agency, with its propaganda power, to tell the people of this country that price control can stop inflation, truly stop inflation?

Mr. BROWNLEE. If they are telling them wrong facts, of course, that, obviously, is bad. I hope they are not. I would not believe they would do that.

Mr. BUFFETT. Now, you have probably studied some of the other disastrous inflations in history, have you not?

Mr. BROWNLEE. That is right, sir.

Mr. BUFFETT. Was not the basic cause of those deficit financing schemes, creation by the Government of purchasing power dollars not matched by production?

Mr. BROWNLEE. Certainly a great deal of it comes from that.

Mr. BUFFETT. Has the Office of Price Administration, to your knowledge, emphasized that factor in its propaganda drive?

Mr. BROWNLEE. I imagine the Office of Price Administration feels that is beyond its sphere.

Mr. BUFFETT. Well, certainly, no agency in America has more power to go to the people today and sell them a bill of goods than does the Office of Price Administration; is that not correct?

Mr. BROWNLEE. I would like to think that.

Mr. BUFFETT. Well, certainly it is perfectly apparent that through their relationships with other departments of government they have all the radio time they want, and all the various weapons of Government to influence public opinion at their command, do they not?

The CHAIRMAN. Would the gentleman yield to me for a minute?

Mr. BUFFETT. Yes, sir.

The CHAIRMAN. The House is about to convene, and I will have to be over there. I am going to call Mr. Folger to the Chair. I want to thank you very much for coming, Mr. Brownlee, and giving us the benefit of your advice and your experience, and I know I speak the sentiments of the committee when I say that we feel very kindly toward you, and we are always glad to have your counsel.

Mr. BROWNLEE. Thank you, sir.

Mr. BUFFETT. Mr. Brownlee, would you get and put in the record a list—not the names—but the total number of people whose activities are wholly or partly devoted to what we will politely refer to as public relations or influencing public sentiment?

Mr. BROWNLEE. I will be very glad to, sir.

Mr. BUFFETT. And will you also provide the amount of funds that the Office of Price Administration has used in any aspect of that program? Will you put that figure in the record?

Mr. BROWNLEE. The Office of Price Administration, I know, will be very glad to do it. I will see that it is put in, sir.

Mr. BUFFETT. As long as I have made a suggestion for your reading, let me also suggest that you read Fiat Money Inflation in France, by Andrew Dixon White. I will give you a copy of it.

Mr. BROWNLEE. And if you give me some time to read it in, I will appreciate it.

Mr. CRAWFORD. Mr. Chairman, I would like to ask Mr. Brownlee a question.

Mr. FOLGER. Mr. Crawford.

Mr. CRAWFORD. Mr. Brownlee, I submit this question to you by reason of your standing with this committee, and your standing in American industry, and the importance of all this work in which you are engaged. This has to do with an Office of Price Administration case, and I understand that you are not now with the Office of Price Administration directly. I think perhaps some of the court decisions have occurred on this case since you left the Office of Price Administration. It is known as the Shawano Bank case. The courts have held that the Office of Price Administration has the authority to force a bank to divulge confidential information with respect to a bank depositor before any action is begun and before any charges are made against the customer of the bank. Now, we have about 13,200 banks in this country with over a hundred billion dollars of deposits—perhaps somewhere in excess of 25,000,000 depositors. It has been the historical background of this country that banks did not have to so divulge that confidential information, and this case is certainly of interest to every bank board and every bank director and I should think to every depositor. If now the banks are to be forced to divulge deposits and withdrawals from the bank, and before any action is begun, and before any charges are made against the customer by the Office of Price Administration—did you have a chance to look into that at all?

Mr. BROWNLEE. I have not. It is the first time I have heard it. It probably happened, as I say, during the time when I was not here.

Mr. CRAWFORD. Well, you will find that it is handled through the Supreme Court of the United States, United States Circuit Court of Appeals of Chicago, and United States District Court for the Eastern District of Wisconsin and Milwaukee. S-h-a-w-a-n-o—Shawano Bank case. Now, I sincerely believe that when the facts of this case become known to the people of this country, that it will have a tremendous effect on bank deposits and withdrawals from the banks. I wish you would look into it as a deputy administrator, and let the committee have your opinion as to whether there is anything we should do with respect to putting an amendment into the Office of Price Administration Act to take care of this situation, because I know this case is going to be publicized through banking journals, banking service bureaus and banking publications. There is no question about that. I have had sufficient to show that already, and I think it is something that deserves our attention.

Mr. BROWNLEE. I will be very glad to look into it. As a bank depositor and a director, I would not like it.

Mr. KUNKEL. Mr. Brownlee, I believe these hearings will last another 10 days, at least. That is just my opinion. If you people down there can get some formula that is really workable on this

production angle, it is going to cut the opposition to the Office of Price Administration considerably, because the crucial point of this situation right now is the best way to justify it. Everyone realizes the dangers of lifting price control. Personally, I feel they are going to have to be continued. But I do want to see a formula that is going to work now so that when the bill comes out, and 10 days is a relatively short time—it is something that has to be done quickly or production is going to remain stagnant for a longer period than that.

Mr. BROWNLEE. That is largely one of the reasons why Mr. Bowles asked me to come back, sir. He realizes the difficulty.

Mr. KUNKEL. I thought you would have a lot to do with the problem, that is why I made the suggestion.

Mr. FOLGER. The committee will recess until tomorrow at 10:30 at which time Secretary of Agriculture Anderson and Mr. Hutson, Assistant Secretary of Agriculture, will testify, and I would ask that Mr. Brownlee and Mr. Field return at that time.

Mr. BROWNLEE. We will be glad to do so, sir.

Mr. FOLGER. The committee will adjourn.

(Whereupon, at 12:30 p. m., the committee adjourned, to reconvene at 10:30 a. m., Thursday, March 7, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1946, AS AMENDED

THURSDAY, MARCH 7, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. Secretary of Agriculture, Mr. Anderson, was scheduled to appear here this morning, but has not yet arrived.

Mr. Brownlee and Mr. Field say they will be glad to answer any questions that may be propounded to them until the Secretary arrives. We will be compelled to adjourn at 12 o'clock because there will be two roll calls in the House, but I see no reason why we might not reconvene at 2 or shortly after 2, as there is nothing in the House except general debate on the appropriation bill. So we will adjourn at 12 o'clock and reconvene at 2 o'clock or as soon thereafter as possible.

Mr. CRAWFORD. Mr. Chairman, I have a few questions I would like to ask Mr. Brownlee and Mr. Field while we are waiting for the Secretary.

STATEMENT OF JAMES F. BROWNLEE—Resumed

Mr. CRAWFORD. Mr. Brownlee, would you mind bringing the committee up to date, as briefly as you can, on the support prices and the subsidies on sugar—that is, the subsidies you are asking for on sugar and the support prices relative to the production of the basic products, sugar beets and sugarcane, continental and offshore?

Mr. BROWNLEE. Mr. Crawford, if agreeable to you, I would ask that we get a member from Agriculture immediately who knows far more about that program than I do.

Mr. CRAWFORD. That is all right.

The other question I had in mind was this—and I think it will be raised eventually: Perhaps you would like to say something more to the committee about the subsidies on metals?

Mr. BROWNLEE. In the requests as outlined yesterday, we listed a hundred million dollars as requested for copper, lead, and zinc. Those are not directly cost-of-living subsidies. They are production subsidies, purely. As you know, lead and zinc are short, and copper is probably on the short side. I think the problem on those subsidies is the question as to whether, at this time, it is well to do anything to decrease an already short supply. I think they are problematical subsidies, and they are purely supply subsidies on commodities which are going to be badly needed in the construction program.

From the viewpoint of stabilization, except as they refer to production, they are, of course, not as important in the straight stabilization program as the other subsidies. As I say, Mr. Crawford, I think it is a problem for the committee as to whether you are wise to reduce the already short supply at this time. It is purely a production situation, and undoubtedly those premium plans have worked to give you more production.

Mr. CRAWFORD. In the monthly report on civilian production which comes from Administrator Small, in referring to storage batteries, he says that "Production of automotive storage batteries for replacement purposes will be limited by the short lead supply for some time to come." I think that illustrates the point you are making, because so much depends on the automobile production, so much of our economy depends upon the production of automobiles. And, of course, we cannot run automotive equipment on farms, highways, or elsewhere without storage batteries, and if the lead is not forthcoming to make the storage batteries, you simply cannot run the vehicles. Is that the point you are developing?

Mr. BROWNLEE. That is a very good illustration of what I have in mind.

Mr. CRAWFORD. Then, on certain other items mentioned in this report, it seems to me that Congress is going to be forced to make up its mind whether or not it is going to limit subsidies to direct cost-of-living items, or whether it is going to move into the field of subsidies as a means of softening the blow of shortages of basic commodities. And I think your subsidy on hard metals puts that right up to us, and we have to take a position on it.

Mr. BROWNLEE. That is right, sir.

Mr. CRAWFORD. You simply bring it here as a policy upon which we must act.

Mr. BROWNLEE. It is our feeling that those materials are badly needed and that this is one way of getting more of them. To that degree, we believe that it is wise to continue during this period of shortages.

Mr. CRAWFORD. And you would use the same argument or philosophy with reference to those high-cost producers in those respective fields, receiving the subsidy benefits so as to bring the marginal producer into the picture rather than increasing the price on total production of both low-cost and high-cost producers?

Mr. BROWNLEE. That is right. This is one of the subsidies which has a very considerable saving over and above the cost of the subsidy, due to the point that you bring out, that it is paid to the marginal producers.

Mr. CRAWFORD. What did you have in there as a subsidy on petroleum?

Mr. BROWNLEE. We had a recommended subsidy of \$50,000,000, which, as I said yesterday, is largely for the stripper-well program. In fact, it is wholly for the stripper-well program. I might say to you that we have at least a feeling that that is one of the programs which we might move out of before very long.

Mr. CRAWFORD. That is on petroleum?

Mr. BROWNLEE. That is on the stripper well petroleum subsidies. The Office of Price Administration definitely are studying it at this time and are discussing it with the industry. There is a question in their mind as to how long they should go on.

Mr. CRAWFORD. The Secretary is here now.

The CHAIRMAN. Yes, the Secretary of Agriculture has arrived.

Mr. Secretary, we will be very glad to hear you. We thank you for coming up this morning.

Secretary ANDERSON. Thank you, Mr. Chairman.

STATEMENT OF HON. CLINTON P. ANDERSON, SECRETARY OF THE DEPARTMENT OF AGRICULTURE

Secretary ANDERSON. Mr. Chairman and members of the committee. Before there is presented to this committee of the House of Representatives any statement as to the attitude of the Department of Agriculture on the question of the continuation of food subsidies, I think it is important that there should be a review of what attitude the Department has taken previously with reference to the removal of these subsidies at the earliest possible moment.

Early in August of 1945, I presented to the Office of Economic Stabilization a suggestion that it would be helpful if the several agencies who had responsibilities under the subsidy program could have a thorough discussion of the problem of termination of these subsidies in the event of a sudden closing of the Japanese war.

With the actual announcement of VJ-day, a meeting was called at the Office of the Economic Stabilizer on August 18, at which time the Secretary of Agriculture presented a memorandum suggesting that subsidies be divided into four classes and action taken upon them by classes in the very near future.

In class 1 there were grouped small subsidies which might be dropped during the summer or early fall. These included peanut butter, vegetable shortening, and grapefruit juice.

In class 2 were subsidies applied to feeding operations or to 1945 crops which should be carried through the 1945 season, but eliminated for 1946. These included canned and frozen vegetables, raisins and prunes, soy beans, dried edible beans, sugar beets, sugarcane, cottonseed, and feeder cattle.

In a third class were subsidies on meat and dairy products which should be eliminated in the first half of 1946, with the possibility that farmers and consumers might share to some degree in the burden of subsidy removal. These included the Reconstruction Finance Corporation subsidies on meat and butter, the dairy production payments, subsidies on Cheddar cheese and subsidy on regional fluid milk.

Finally, a fourth class of subsidies which were especially involved in agricultural legislation and which might require some special thought. These included the Reconstruction Finance Corporation subsidy on flour, subsidy on peanut oil and the program of feed wheat.

Mr. Chairman, I have brought with me copies of each one of these reports to which I shall refer, and if any member of the committee desires to see them, I shall be glad to submit them, because I do not want any misunderstanding as to what the attitude of the Department of Agriculture has been, nor do I want any misunderstanding as to the fact that other agencies of the Government have steadily participated in a program looking to the timely and gradual elimination of these subsidies.

The proposal of the Department of Agriculture was discussed carefully at the meeting and the decision was reached to appoint a

special subcommittee from the Office of Economic Stabilization, Department of Agriculture, and the Office of Price Administration. This was to be known as the Interagency Staff Committee, and its members were instructed to get together immediately and propose a policy and program for the termination of food subsidies.

On September 8, such a statement was prepared, signed, and submitted. It goes into somewhat greater length as to the proposed program for termination, but it follows in a very general way the proposal made by the Secretary of Agriculture on August 18.

It divides subsidies into five rather than four classes, but, in general, it followed very closely the discussions which had been held by the three or four agencies involved on the 18th of August.

Appended to that report was a table showing the cumulative increases in the cost of living, indicating that by December of 1945, there would have been an increase in the cost of living of .66 of 1 percent. And by July of 1946, of 1.93 percent.

It was also estimated that if a farmer shared somewhat in the price reductions that might follow in livestock by a division of the subsidy, it could result in a reduction of farm income of about \$716,000,000.

However, a great many of the subsidies included incentive payments for large crops for war purposes, and it was natural to assume that with termination of war the need for some types of large crops would disappear and, therefore, the incentives which had been given during wartime could also disappear.

The report of the Interagency Committee was submitted by the Secretary of Agriculture to the Advisory Board of the Office of War Mobilization and Reconversion on October 1, 1945. Here again the proposals for the removal of all subsidies by June 30, 1946, were again renewed, and a timetable was offered along with a chart showing the cumulative effect of the program on the cost of living index.

In this report it was pointed out that while there would be some increases in food costs, because of the removal of subsidies, and the reflection of subsidy payments in increased price, there would probably be coming along at the same time some savings in food prices which might tend to offset the increases brought about by the removal of the subsidies. The attitude of the Advisory Committee of the Office of War Mobilization and Reconversion was favorable to the general proposal for the removal of subsidies and a resolution was passed endorsing the program.

Shortly after, a subsequent meeting was called which was attended by virtually all the agencies having to do with the stabilization program. And again the Department of Agriculture pressed for a decision which would announce definitely once and for all that subsidies were going to be removed on some scheduled pattern and that the increase in costs would be absorbed in some cases; would be divided between producers and consumers in other cases; would be passed on in the form of increased prices in some other cases.

It was recognized that the date on which this meeting was held, which was early in October, was a very critical date. Labor controversies were then under way, and it was urged by many that the wise thing to do would be to postpone action until some settlement had been reached in the labor controversies.

It was the opinion of the Department of Agriculture, as pressed at that meeting, that it would be wise to make the announcements then

in order that contracting parties attempting to compose their labor differences would have knowledge of any possible increase in the cost of living, due to the removal of subsidies, and could take those increased costs into consideration when new contracts were being negotiated.

A decision was reached at that meeting that it would be desirable to remove subsidies within the limitations of existing economic policy, and that since it was anticipated that the next report of the Bureau of Labor Statistics would show a decline in living costs, it would be desirable to accompany that announcement with the announcement of the termination of subsidies.

In other words, it was felt that the ideal time to present a possible increase in food costs would be when a report was available, showing that other living costs were coming down and that, therefore, there was elbow room to absorb some slight increase in living costs.

I do not know exactly the date that this meeting was held, but I do know that on October 13, 1945, I addressed a memorandum to the Deputy Administrator of the Production and Marketing Administration in the Department of Agriculture, attaching for his guidance a file that I had taken to the White House for the meeting a few days earlier, and asking him to complete, during my absence from the city, the decision that had been reached only a few days earlier by implementing it in agreements between various interested agencies.

In that memorandum I suggested the announcement come out on October 24, since there was pretty general agreement that the Bureau of Labor Statistics' report would be out on that day. That seemed like an advantageous date because we wanted the hog announcement to be timed so that the termination of the hog subsidy would be on a week end in order to simplify the payment of subsidies, and I urged that the announcement be timed for October 24, so that ten days would bring it out at the week end of November 3, and the removal of hog subsidies could actually take place from there on out.

I asked the Deputy Administrator to ramrod the matter so that when I returned to Washington on October 19, I would have a chance to check and see if the entire proceedings seemed to be in proper shape and we could begin clearing with every agency concerned.

I mention these things so that there may be no doubt as to the desire of the Department of Agriculture to be rid of these subsidies at the earliest possible moment.

It took a little longer to work everything out than we had anticipated, but on November 9 there was released to the morning newspapers a statement by Judge John C. Collet, Stabilization Administrator, Office of War Mobilization and Reconversion, which pretty clearly outlined the program for the removal of subsidies. It was not quite as specific as to exact dates as was the proposal made by the Department of Agriculture, but it was sufficiently explicit to satisfy most of the people who are hoping for termination of these subsidies.

It proposed the termination of canned grapefruit juice, vegetable shortening, cheese, pork, on specific dates; suggested the subsidies on canned frozen vegetables, dried edible beans, prunes, and raisins could be terminated not later than the end of the 1945 season, and that dairy-production payments, regional fluid milk, cattle, beef, sheep, lambs, and flour could be terminated not later June 30, 1946.

It was understood that subsidies on sugar, oilseeds, and payments to nonprocessor slaughterers might run on quite a while in 1946, probably until the end of the year.

On December 21, 1945, the Secretary of Agriculture addressed a letter to John C. Collet, Stabilization Administrator, pointing out that a definite program for the termination of subsidies paid to slaughterers on hogs and cattle and subsidies paid to producers of cattle and sheep and lambs should be announced.

While this letter to Judge Collet was solely the responsibility of the Department of Agriculture, it was accompanied by a proposal setting forth in detail what would happen to the livestock prices and the meat prices if the suggestion of the Department of Agriculture were followed. And it pointed out that discussions had been held over a period with the Office of Price Administration. I mention that to show that as late as December 21, 1945, the Office of Price Administration and the Department of Agriculture were busily engaged trying to complete the program for the termination of livestock subsidies, as a part of a larger program looking toward the elimination of all food subsidies on June 30, 1946.

And we were rushing against the January 1 deadline on livestock subsidies, because of a provision in the Vinson directive of May 18, 1945, which promised that livestock producers, insofar as their cattle operations were concerned, would be given 6 months notice of any change in cattle prices, or in the stabilization range at which cattle could be bought.

I think it is important that you realize that the Office of Economic Stabilization, the Office of Price Administration, the Reconstruction Finance Corporation, Department of Agriculture—all agencies of the Government having to do with livestock subsidies in particular, food subsidies in general—were working toward one date by which they hoped to be out of the subsidy business, and that date was June 30, 1946.

Once you understand the sincerity with which that effort was being made, then you can understand the steps which followed.

The stabilization legislation, as interpreted by Executive Order 9599, and especially the first sentence of title III, contains this provision:

The Price Administrator and, in the exercise of his price responsibilities under the law, the Secretary of Agriculture, shall subject to such directives provided for by law, as may be issued by the Economic Stabilization Director, take all necessary steps to assure that the cost of living and the general level of prices shall not rise.

By the first few days in January it began to become apparent that agricultural shortages were likely to be the order of the day all during 1946. A great many things happen in a relatively short period.

First of all, there was a check-up on the year-end stocks of wheat which revealed they were 61 million bushels lower than had been anticipated and calculated on the basis of previous operations.

I might say right there that the consumption of wheat had increased 34 percent for feeding operations during the last quarter of 1945 as against the last quarter of 1944 and was substantially over any previous record that we had had.

Second, it was discovered that farmers were using far more wheat than they normally did, and that while we had a large corn crop, it

was statistically large, but not drying out into good corn, and, therefore, that about a tenth of the value of the corn crop was being lost, thereby adding to the pressure on wheat.

As a matter of fact, we have estimated that while there was a 3,000,000,000-bushel corn crop, its actual worth to the Nation was about the equivalent of a corn crop of 2,700,000,000 bushels.

And, of course, when that shortage of corn became apparent, the pressure on wheat increased.

Third, the Argentine wheat harvest was threshing out much later than anticipated and before the end of January it became apparent that the harvest was short some 2,000,000 bushels. There had been droughts in the Argentine, but it was believed that the Argentine wheat crop would come through in reasonably good shape. But when the grain was actually threshed out and weighed and measured, it came short some 2,000,000 bushels.

Again, the harvest in India, which, up to December 15, had been held to be a possibility, even though the monsoon had failed, in some sections of that great land it took a completely bad turn for the worse and in the 30-day period between the 15th of December and the 15th of January marked itself off as almost a total loss in some areas.

All these things had to be added to the very short harvest in southern Europe and northern Africa, as well as bad agricultural conditions in southern Africa and Australia.

This terrific food shortage placed an entirely new aspect on the subject of removal of subsidies. It clearly indicated that there would be no great drop in any section of the food index and that, therefore, it would be impossible to remove subsidies without violating the provisions of the Executive Order 9599, which placed upon the Price Administrator and the Secretary of Agriculture the responsibility of seeing that the general level of prices did not rise.

The President of the United States, on January 14, 1946, submitted his message to Congress, urging that if the price line was to be held, not only must the Price Control Act be extended but food subsidies must be continued after June 30, 1946.

I know that many farmers and a great many people interested in farm problems were disappointed when the program for the termination of subsidies encountered this economic situation. However, I would call your attention to the fact that some progress on the removal of subsidies has been made. The subsidy on peanut butter has been eliminated. The Reconstruction Finance Corporation subsidy on butter of about 5 cents a pound was eliminated, and reflected in increased cost.

The subsidy on Cheddar cheese was eliminated and the ceiling raised to reflect the cost of this subsidy.

Within the past few days, the Office of Price Administration and the Department of Agriculture have announced that on June 30 a special subsidy for feeder cattle will be eliminated.

May I pause there to put into the record a table of discontinued food subsidies? Butter, payment of 5 cents per pound, annual cost \$75,000,000, terminated October 31.

Peanut butter, payment of 4½ cents per pound to the processor, annual cost of \$9,000,000, terminated October 31.

Canned grapefruit juice, payment of canner's costs for grapefruit in excess of cost reflected by ceiling prices, cost of \$6,000,000 annually, terminated November 30, 1945.

Vegetable shortening, payment of 0.2 of a cent or 4 cents per pound to processors on sales in containers weighing over 300 pounds, annual cost a million dollars, terminated December 31, 1946.

Cheddar cheese, purchase and resale of cheese at a loss of some 3.75 to 4 cents per pound, annual cost \$29,000,000, terminated January 3, 1946.

And the one that I have just mentioned: Beef cattle, payment of 50 cents per hundred pounds to producers or feeders, selling cattle for slaughter, which weigh 800 pounds or more and bringing a price of not less than \$14.25 per 100 pounds, Chicago basis, annual cost of 40,000,000, to be terminated June 30, 1946.

Mr. BROWN. Is that the total—\$40,000,000?

Secretary ANDERSON. Yes; of the last subsidy, the one on feeder cattle.

It may be that long before the date of June 30, the way will be clear to eliminate many other subsidies. It was not the absence of money for the peanut-butter subsidy or for the Reconstruction Finance Corporation butter subsidy or for Cheddar-cheese subsidy that made the producers want the Office of Price Administration, the Office of Economic Stabilization, and the Department of Agriculture to eliminate these subsidies. It was a genuine desire to get rid of them as quickly as was economically feasible. We think now that it may take a year to get rid of all subsidies because of the unusual shortage that seems likely to continue in all food supplies throughout the rest of 1946, and through some part of 1947.

But I know that it is the purpose of the Department of Agriculture, at least, to work as rapidly as possible in the direction of the elimination of all food subsidies.

I, therefore, feel it would be very helpful in the whole food situation if a renewal of price-control legislation could be voted as quickly as possible, and if, for the present, at least, money could be provided for carrying subsidies past June 30, 1946.

I have no way of knowing how much past June 30 it will be necessary for subsidies to go. But I am greatly afraid that the period is longer than any of us had expected or desired.

Only a day or two ago I sat with a delegation from India and heard their story that there is a possibility that the wheat crop, which should mature in June of 1946, may be hit by the same drought which has already reduced their rice and wheat crops to a very low level. The people of that country are greatly worried as to their future prospects. We are beginning to learn that on a world-wide basis the year of 1946 will be a very tough one, and it is even possible that the year of 1947 may continue to be a year of shortages. That being true, it is dangerous to estimate what might happen to the cost of living if things were left completely free.

I have tried to show you that the Department of Agriculture since a time less than 30 days after I took my position as Secretary of Agriculture, has steadily been urging the removal of subsidies at the earliest possible moment. I have plenty of documentary evidence to show that I had hoped and hoped steadfastly that June 30, 1946, would be the date when all of them, with the possible exception of sugar and one or two oils, might disappear. I have now to admit that world shortages of food in almost every land have made it extremely doubtful to predict a safe date for the termination of sub-

sidies, and under that circumstance I have no alternative but to come before this committee and ask you to continue price controls and subsidies, with the understanding that just as we have dropped a few of the subsidies already, we will continue to drop additional subsidies as rapidly as conditions will permit, and that we will retain as our goal in the Department the elimination of these subsidies at the earliest possible moment, in order that they may be removed during periods of strong demand, and thereby save the farmer from bearing the full impact of their removal.

The CHAIRMAN. Mr. Secretary, what would be the practical effect of the ceiling price of flour, meat, butter, and dairy products if the subsidies were removed?

Secretary ANDERSON. Well, I will try to answer your question but I do not know that I can answer you specifically. I think we have made some studies, at least on the question of meat, and the rise would be 3 or 4 cents per pound at retail. The subsidy averages about \$1.96 per 100 pounds on meat—that is, on live carcass weight—and by the time we reduce that to retail meat on the store counters, it would certainly run 3 cents a pound and would possibly run 5 cents.

Butter—the removal of the subsidy on butter, if we took into consideration all the dairy products that would be involved in it and some other things, I would say that the best calculation we have had indicates about 12 cents a pound increase in the price of butter.

Bread would be about a cent a loaf; milk would be a minimum of 1 cent a quart, and probably more likely an average of a cent and a half, and, in extreme cases, because of local situations that had been cared for by special subsidies, it would probably rise 2 cents. Does that cover your question generally, Mr. Chairman?

The CHAIRMAN. What would that cost the consumers of the United States?

Secretary ANDERSON. I am sorry, I have never calculated those costs.

The CHAIRMAN. Could you make any comparison between the outlay for subsidies and what it would cost the consumers not to have them? In other words, how much do the subsidies save the people?

Secretary ANDERSON. Well, the cost to the consumer unquestionably is equal to or greater than the cost of the subsidy, because they are direct subsidies for the reduction of cost of living and whatever is taken out of the general tax pocket for these subsidies is surely a saving to the consumers. In fact, there might be various other additions in mark-ups of retail levels that would more than equal the cost to the consumer. But I am sure you recognize that it is not primarily the function of the Department of Agriculture to calculate those things, and they have not been the basis for our recommendations. Those calculations are made by the Office of Price Administration, and we accept their calculations on them.

The CHAIRMAN. Have you any opinion as to how effective the subsidies were in holding the price line? Do you think they were effective?

Secretary ANDERSON. I can give you an answer on that, Mr. Chairman. From April of 1943 to December of 1945, the retail food price index only increased by 0.06 of 1 percent. The nonfood items in the consumer price index increased by 7½ percent. Therefore, I would

assume that these food subsidies have been quite effective in holding the cost of living down.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. I would suggest, Mr. Secretary, that we find out exactly what it would average for a man and wife with three children. How much per day they would consume in meat, bread, and milk, and butter, and then see just how much savings this family will have by reason of the subsidies. If it does not amount to a great deal, it might be better to raise these prices a little bit. If it does amount to a great deal, we might better have the subsidies. I think we should have something concrete.

Secretary ANDERSON. I think I should explain, Mr. Brown, that the Department has not been trying to make out a case for subsidies, but has been trying to get rid of them, so, therefore, we have not gone ahead to make those calculations.

Mr. BROWN. I understand, but I think we should compute that accurately so that we can find out how much saving there is per family per day. I just throw that out as a suggestion. Mr. Secretary, I think everybody would agree with me that the most effective weapon against inflation is full production. Now, that being true, I think we ought to make it mandatory that whenever supply equals demand, that the ceilings should go off of that commodity.

Now, another thing that I think ought to go in this bill is this: I believe when a man violates a law he ought to be punished, but the punishment is too severe. I am not speaking about criminal punishment but treble damages.

Mr. CRAWFORD. Mr. Brown, your thought is that controls should be removed when supply catches up with the demand. What about removing subsidies at that time?

Secretary ANDERSON. Mr. Brown, could I comment on the first part of your statement there?

Mr. BROWN. Yes.

Secretary ANDERSON. I think if you would check, you would find that there has not been an address made by the Secretary of Agriculture to a farm audience, and hardly an address made to any audience, in which I have not urged full production as the best possible device to control prices and prevent inflation, and stressed in every way the possibility that the farmer produce all he can. Agricultural goals are up next year about what they were in 1945, and I am in full sympathy with what you say about the desirability for full production.

Mr. BROWN. I understand that. I am a great admirer of yours.

Secretary ANDERSON. Thank you. I did want that in the record. We have not been carrying on restrictive practices. We have been trying to get supply in the finest balance with demand. But I say to you sincerely that when you have a world shortage of wheat in the first 6 months of 1946, which is in excess of 20½ million bushels on the part of the importing countries, and that you cannot possibly find more than 11½ or 12 million bushels to export from the exporting countries,

you have a situation which affects not only wheat but tears into the entire structure of all types of food products, and puts every one of them under tremendous inflationary pressures.

Mr. BROWN. That is undisputed. But do you not agree with me now that when the supply of any commodity equals the demand, that the ceilings should be taken off that particular commodity?

Secretary ANDERSON. I would normally do that. But I would want to say that there have been a lot of food conditions developing recently which make it hard to calculate what the real supply is.

Mr. BROWN. I know, but I couched my question upon the condition that we can effectively do that. That we can employ certain language to do that without crippling the real intent of the act. If we can do that, it ought to be put in the act. Do you agree with me?

Secretary ANDERSON. If it can be done without crippling the act, yes.

Mr. BROWN. I mean the purpose of the act, which is to control inflation.

Secretary ANDERSON. Yes.

Mr. BROWN. That is all.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Secretary, I have received a lot of complaints recently about the Farm Security Appropriation being exhausted. I know of one county in the district which I represent where they have a great many applications from veterans for farm loans. It occurs to me that any veteran who wants to get a farm loan and get on a farm and live at home should be encouraged. Has your appropriation been entirely exhausted for farm security?

Secretary ANDERSON. I regret, Mr. Patman, that I cannot answer the question in complete detail. I saw a statement by the head of the American Legion saying that a great many applications for loans were pending, and I immediately called the head of the Farm Security Administration and he told me that that was the correct situation, that our money was rather well exhausted, that we needed additional money in order to take care of the veteran loans, and I asked him to immediately prepare a message to whatever branch of Congress he should, to try to get that money promptly.

Mr. PATMAN. In other words, you applied for all the money that is necessary to satisfy these veterans?

Secretary ANDERSON. Very definitely.

Mr. PATMAN. Are you having any strikes today in the dairy industry, Mr. Secretary?

Secretary ANDERSON. Oh, yes; steadily.

Mr. PATMAN. Where are they, principally?

Secretary ANDERSON. Well, I have a memorandum on my desk. We get a daily strike bulletin now.

Mr. PATMAN. At which level are the strikes? Are they the actual producers, or processors?

Secretary ANDERSON. They are producers.

Mr. PATMAN. Producers?

Secretary ANDERSON. We are having trouble today. We are trying to correct it in Portland, in Phoenix, Ariz., in west Texas, we are having trouble in the Northwestern States, and we have a good many other sections where there are minor disputes.

Mr. PATMAN. Well, the people down in my country tell me that where they strike, they always get a raise. Do you always raise them when they strike?

Secretary ANDERSON. No; I would say that that was not a fair statement of the situation. I would say that these matters are, first of all, reported to the Office of Price Administration, and that our information indicates that OPA has made very careful studies of the price factors that have gone into them, and OPA has found many instances where feed costs have gone up, and other places where there have been droughts, and farmers have had to change from normal pasture to high priced protein feeds, which are extremely costly, and, under those circumstances there is very little that the Office of Price Administration can do, staying inside the law, but recommend that there be an adjustment and there is very little we can do but join them in that recommendation.

Mr. PATMAN. That sounds very reasonable.

Now, in New Mexico, you had an increase there for the reason that you have just outlined; is that right?

Secretary ANDERSON. Yes, sir.

Mr. PATMAN. And in west Texas—you embraced west Texas, too, in that, did you not?

Secretary ANDERSON. Yes.

Mr. PATMAN. Why could you not join all Texas in that?

Secretary ANDERSON. Well, Texas is such a huge State that it has to be regarded as four or five ordinary areas, and the drought on which the remedy was given for west Texas did not extend over the whole State of Texas to the same degree. I am not saying that the adjustment was perfect. I am merely suggesting that the adjustment was made on the basis of a drought condition, and the weather report indicated an area that should have been covered by it. The rainfall reports, and the other reports that came in, very clearly marked out an area, and we adjusted that area first.

Whether we should have been a little bit more liberal in the expansion of lines, I am not in a position to say. I think probably we could have gone to other areas at the same time. But I do know that the decision that was reached was reached purely on the basis of probable drought.

Mr. PATMAN. And you are giving consideration to the other sections of Texas now; is that correct?

Secretary ANDERSON. That is correct.

Mr. SMITH. Will the gentleman yield?

Mr. PATMAN. Yes.

Mr. SMITH. Do you mean the farmers are striking?

Secretary ANDERSON. That is right.

Mr. PATMAN. Yes; I understand they are.

Mr. Brown mentioned the fact that when the supply equals the demand, that these controls should be taken off. I thoroughly agree with him that that should be done if language can be written. But we still have to leave it to the Administrator, the way I see it. For

instance, you can have an enormous supply in certain areas of the United States and still have a scarcity in other sections, due to lack of transportation facilities, which, of course, right now, are vital, are they not, Mr. Anderson?

Secretary ANDERSON. Yes; but if I may revert to this supply and demand situation for just a minute, I am frank to confess that I know of no one who can calculate for me what the demand for food is in the United States at this time. There was a time in this country when 135 pounds of meat per capita was available, when it filled every showcase in every butcher shop in the country, and the American Meat Institute went into a great program of electrically lighted billboards asking people to eat more meat, when the supply was 135 pounds. Last quarter they ate 165 pounds and we were short of meat. I have no idea how much meat the American public would have consumed if it had been available.

Mr. BROWN. You know we are not short of cotton.

Secretary ANDERSON. No; I know we are not short of cotton.

Mr. PATMAN. Well, on the meat situation, that is due to the fact that so many people have money to buy meat who did not have it before.

Secretary ANDERSON. Well, they have no outlet for their money; no automobiles, radios, washing machines. And food is relatively cheap.

Mr. PATMAN. And this money is burning a hole in their pockets and they want to spend it as soon as they can.

Secretary ANDERSON. I do not know that, but I say food is relatively cheap compared to a great many other things, and there is an absolutely incurable demand apparently for food.

Mr. PATMAN. Do you think it is absolutely necessary to extend the Office of Price Administration law, Mr. Anderson?

Secretary ANDERSON. I do, without any question.

Mr. PATMAN. From your statement, I gathered also the subsidies.

Secretary ANDERSON. Yes. I do not wish to take the time of this committee, but I think we could go through them item by item.

Mr. PATMAN. I am only concerned with whether or not we can pass a satisfactory Office of Price Administration law. There are so many people kicking about the rules and regulations and regimentation. It seems that without giving due regard to the alternatives, if we were not to have an Office of Price Administration law, groups are organizing, and writing and telegraphing—I got a letter this morning from a manufacturer in Pennsylvania. He thought he would appeal to me because I was from a cotton-producing area, and he said he was glad to know that the cotton farmers were mad at the Office of Price Administration, and that the industrialists are likewise mad at the Office of Price Administration, and if they join in with the cotton farmers, they might be able to do something about stopping the Office of Price Administration, or not continuing. If they organize by groups that way and combine them, I do not know whether we have a good chance of extending the Office of Price Administration or not.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Secretary, before you came in, I submitted to Mr. Brownlee some questions on the sugar subsidy and he preferred

that I take it up with the Department of Agriculture or some of the other agencies. I was just reading over your memorandum here, under class 2, subparagraph (e), in which you say—

Sugar beets and sugarcane. Sugar subsidies affect the processors as well as domestic and foreign growers, but the ceiling increase of 1 cent per pound would about cover all offshore and foreign subsidies now being paid.

Now, there you refer to the subsidies being paid on the Puerto Rican production, Virgin Islands production, and Hawaiian production. Is that not true?

Secretary ANDERSON. Yes.

Mr. CRAWFORD. What else would be included in that, if anything? Virgin Islands, Puerto Rico, Cuba, Hawaii.

Secretary ANDERSON. Some transportation losses on Cuban sugar. But that is all covered in the Cuban situation.

Mr. CRAWFORD. That would be embraced in my question?

Secretary ANDERSON. That is right.

Mr. CRAWFORD. There are no other foreign countries other than Cuba involved in that first sentence?

Secretary ANDERSON. No. The Combined Food Board bought sugar all through the Caribbean area, but I do not think it would be involved in this.

Mr. CRAWFORD. Even though it is so, it would be a small amount?

Secretary ANDERSON. Trivial. We bought some sugar from Peru in a three-cornered deal, and a little bit from the Fiji Islands, but it is trifling compared with the Cuban purchase.

Mr. CRAWFORD. Then, you continue:

Subsidies equal to about \$2.50 per ton on sugar beets, and an equal amount on cane, may have to be continued beyond June 30, 1946; total cost \$57,000,000.

That is per annum, is it not?

Secretary ANDERSON. Yes; but that cost does not refer to the subsidies on sugar beets of \$2.50. It refers to all the subsidy.

Mr. CRAWFORD. That is what I mean.

Secretary ANDERSON. Yes.

Mr. CRAWFORD. The \$57,000,000 is the total subsidy on sugar, for all offshore, including Cuba, and for all continental cane and beet sugar.

Secretary ANDERSON. It was at that time. There has been a change in the Cuban sugar price, there has been a rise in the price, and I am not able to tell you accurately now how it is divided.

Mr. CRAWFORD. I was going to ask you about that. But I know that became a fact 2 days ago.

Secretary ANDERSON. Yes.

Mr. CRAWFORD. So I am not exactly clear on the first part, that is, the subsidies affecting processors of offshore and foreign sugar. Are you recommending there that the price go up 1 cent per pound?

Secretary ANDERSON. Yes, the Department of Agriculture made that recommendation officially in about September, and then followed it along two or three times. We felt that sugar was one commodity that had not reflected much of an increase in price, and that it could, without hurting anybody too much. That it was one of those things where a cent a pound increase would be helpful. And we had two or three small situations where adjustments were needed. We had one in Louisiana, and we had various spots where small adjustments were

required, and we recommended a cent a pound increase in order to take care of the general situation and permit us to increase the price to Cuba and Puerto Rico and the Virgin Islands and Hawaii. That was a recommendation that was never adopted.

Mr. CRAWFORD. That is what I was going to ask you: If that recommendation was carried out.

Secretary ANDERSON. It was never adopted and then later on the recommendation for an increase of half a cent was adopted.

Mr. CRAWFORD. Half a cent?

Secretary ANDERSON. That is right.

Mr. CRAWFORD. So then, at the present time, we are paying, with respect to the first sentence in your report there, subsidies to the extent of about a half cent a pound, would that be right? In other words, you referred to it as 1 cent per pound, that is involved?

Secretary ANDERSON. In those areas where we buy this sugar and import. We are not paying a subsidy on domestic sugar of half a cent a pound, because we have an incentive payment on sugar beets.

Mr. CRAWFORD. You refer to a 1 cent a pound in the offshore areas including Cuba and your recommendation is that the price be advanced about half a cent a pound?

Secretary ANDERSON. That is right.

Mr. CRAWFORD. So that, as of today, roughly, then, that 1-cent figure has been roughly reduced to a half cent a pound? Is that right? I do not know. I am trying to find out.

Secretary ANDERSON. We have raised the price in Cuba, since that time, and I am not sure that the relative amount of the subsidy has been changed. I think the same is true as to Puerto Rico and Hawaii, but is not true as to Cuba.

Mr. CRAWFORD. Now, your supporting prices are as you designated, \$2.50 a ton on sugar beet and sugar cane. You are not requesting that that be eliminated in 1946, are you?

Secretary ANDERSON. No, indeed. As a matter of fact, the subsidy payments for 1945 were \$3 a ton on sugar beets and \$1.60 a ton on sugar cane in Louisiana and these have been increased for 1946.

Mr. CRAWFORD. To encourage your production?

Secretary ANDERSON. It has been increased a dollar a ton on sugar beets and 50 cents a ton on sugar cane.

Mr. CRAWFORD. Can you give us any information with respect to the progress, if any, that is being made between our Government and Cuba on the purchase of the 1946 Cuban crop?

Secretary ANDERSON. I could only say that I think we are close to finally closing negotiations. We are no longer at a disagreement as to price. We are only slightly in disagreement as to amounts of sugar that are to be delivered. The whole question is the amount of sugar that is to be retained by Cuba for domestic uses, and we still have some reservations as to the amount that Cuba desires to retain, because we think some of that sugar is lost to the world pool. We are in disagreement as to the amount of blackstrap molasses that will be sold to us, and as to the amount of alcohol that is to be made in Cuba out of blackstrap molasses. The American feed situation is such that I feel the American Government should insist upon the largest possible amount of blackstrap molasses and upon the minimum manufacture of alcohol in Cuba.

Naturally, the Cuban alcohol industry would like to have that situation reversed, and deliver us the smallest possible amount of blackstrap molasses and have available for sale the largest possible amount of alcohol. It will take some time to compose that difference, but I think we are making very rapid headway at the present time.

Mr. CRAWFORD. I think you have covered all the points I had in mind on that trade between this country and Cuba except two: one is the participation in the American market, which Cuba is requesting, roughly 50 percent, on a quota basis, and the other is the amount of sugar which Cuba desires to withhold from the 1946 crop for sale by Cuba to Latin American countries.

Secretary ANDERSON. May I comment on both those?

Mr. CRAWFORD. Are you near an agreement on either one or both of those?

Secretary ANDERSON. I would be glad to speak to both of them.

In the first place, there will be, in the final contract, no stipulation as to quotas. I have steadily taken the position that quotas are written by the Congress of the United States and not by the Department of Agriculture, and that as long as an agreement on quotas was a prerequisite to dealing with Cuba, we were not in position to deal. And that matter has been postponed. I must say that I feel that out of justice to Cuba, there will be recommendations perhaps by the Department of Agriculture that they get fair treatment. They have been good to us. But nothing will be involved in the contract in that respect.

Now, the domestic use situation is somewhat difficult. During the period that we were at war, and had restrictions on the manufacture of candy by quota reductions to our own people, the candy industry of Cuba boomed. Some people took material from this country and went to Cuba and established factories. Naturally, those people would like to be protected in the continuance of that business. We are not very sympathetic to that point of view, and it, naturally, is the cause of some difficulty in final negotiations.

Furthermore, we feel that some of the sugar that was reserved last year went into countries that were not trying to control their sugar consumption when we were forced to be restricted ourselves very heavily. For example, a good deal of it went to Mexico, where their consumption of sugar now is greatly above their prewar consumption, while our consumption is away below our prewar consumption. We do not think that is completely fair. We think if it went to Mexico on the basis that gave them about the same degree of difficulty we were having, it would be all right, but they should not have had preferential treatment. The same thing applies to a great many other South American countries, and we are seeking to hold a level in Cuba that will represent fairness between this country and its industries, and local consumption in those other countries.

Mr. CRAWFORD. I think your position is sound on that, because, after all is said and done, we have heretofore, and we shall probably continue, to largely support the economy of Cuba.

Secretary ANDERSON. Definitely.

Mr. CRAWFORD. And it is part of our own family, in a way. I agree with you that Cuba should not be permitted to withhold from the 1946 crop a considerable amount of sugar to be exploited or for the purpose of exploiting the markets in the Latin-American countries, Mexico and the other countries to the south.

Now, I want to ask you one question on this subsidy approach. Is it your position that as long as these shortages occur on food items in this country, largely as a result of obligations we have on foreign shipments, by reason of the shortages of foodstuffs throughout the war, that we will be required to continue subsidies in this country? Do I make myself clear?

Secretary ANDERSON. Yes.

Mr. CRAWFORD. If I understood you correctly, that was one of the controlling factors which somewhat forced you to change your position as Secretary of Agriculture.

Secretary ANDERSON. Well, I think it would take a while for me to explain it, but let me see if I can.

I do not say that as long as there are shortages it will be necessary to continue subsidies. I continued to press for the elimination of subsidies even at a time when we knew we were going to have some shortages. But I do think that now that we are in a situation of extreme shortage in critical materials such as wheat, it is very dangerous to start playing with the subsidy question.

Furthermore, there are other factors that have entered into the situation. This extreme shortage in wheat and the almost total absence of corn in some sections of the country, such as the far West and New England States, greatly complicates the problem of the dairyman. Now, if you remove the subsidies, and are not able to reflect the full amount of these subsidies, and leave no leeway whatever to care for local situations where corn may run out or wheat may run out, and you have to ship in protein feed, you are likely to get yourself badly caught on the whole dairy picture and in the furnishing of milk.

Personally, one of the things that I have enjoyed most is to see the tremendous consumption of milk in this country in these last few years. It got up to 122,000,000,000 pounds. It is dropping down now. It is going to be down this year to something in the neighborhood of 114,000,000,000 or 115,000,000,000 pounds.

Mr. CRAWFORD. That is the prospect for 1946?

Secretary ANDERSON. Yes. I am afraid that if we start to play with the subsidy situation we may throw the whole dairy picture out of gear.

Mr. CRAWFORD. I would like to ask you a question on the scarcity of feedstuffs in some of those areas, but I think the gentleman from Nebraska, Mr. Buffett, is going to develop that, so I will forego any further questioning.

That is all.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. Mr. Secretary, during the course of the debate on the housing bill, the argument has been advanced time and time again that price controls have kept farm production down. Now, if my figures are correct, when the war started, or just before the war started, the average farm price was about 85 percent of parity, and in the last 4 years it has gone up to about 17 percent above parity, maybe a little higher, the average farm commodity price. And during that time, farm production, despite the great labor shortage, has increased through the efforts of the farmers and their families, even children, to where it is now 20 to 25 percent above what it was prior to the war. At the same time, in that picture, labor has been short everywhere—even the white collar workers are short, and the farms were

short, so my question is: if ceilings had been removed, where would the farmers get the labor to produce more? Except, I should say, taking them away from the defense plants or the Army or somewhere else.

Secretary ANDERSON. Theoretically, you can reach the point where you can raise the agricultural labor wage rate high enough and the farmer then can compete with industrial labor and he will get more labor.

Mr. BARRY. Yes; if the prices went sky high, they could do that, and then they would be taking labor away from the defense plants where they were badly needed during the war.

Mr. BROWN. Will the gentleman yield?

Mr. BARRY. I would rather have his answer first.

Secretary ANDERSON. I do not know whether I would be qualified to speculate with you on that at all.

Mr. BARRY. Do you think that farm ceilings have really curbed agricultural production to any appreciable extent without, say, having inflationary prices?

Secretary ANDERSON. I would have to say that I think some farm ceilings did, and that some farm incentives increased production. I think we are trying in the Department of Agriculture—and I can say that because I was not there when it was under way—I think they were trying to plan so there would be larger production of soybeans and smaller production of cotton. It increased one and decreased another. We gave incentives to soybeans and we did not try to break our backs in raising the price of cotton. But unquestionably farm production does respond to price trends, upward or downward, and today we have stories of the tremendous liquidation of poultry flocks. Why? Because the poultry market dropped, or broke very sharply a few weeks ago. And immediately that happened, hatcheries turned off the heat under their eggs, and stopped for a while, because production very quickly responds to price.

Mr. BARRY. Well, now, I will concede that, such as cotton, for example, and there are some items which have not reached that. I am talking about the average farm price, and it is my understanding in the last 10 years that I have been in this body, that parity price was a desirable goal for a farmer to reach. It was a price that he got over periods of years ago, and if he got a hundred percent of parity he made a pretty good living, relatively. And when we drew up the Office of Price Administration bill, the farm prices were 85 percent of parity. And we set a floor at 110 percent, so that no price ceiling could be pegged below 110 percent. The President called us back, you will remember—I think you were in the House then—and we cut the floor down to a hundred percent. But the Office of Price Administration never enforced that hundred percent situation, and let the prices drift up to—I know Mr. Marvin Jones testified last year that the average price was 17 percent above parity.

Secretary ANDERSON. Yes. Well, what I would say is that the fact that the price was raised from 85 percent to well above parity was reflected in the terrific production that farmers turned out during the war years.

Mr. BARRY. I know the farmers turned out terrific production, and they got a good price for it, too, but I just want to get back to this argument about the Office of Price Administration ceilings curbing

farm production. How could they curb it if it is 25 to 30 percent above what it has ever been in the history of the country?

Secretary ANDERSON. Well, I do not think they have at the present time curbed agriculture production a great deal other than in accordance with programs that the farmers themselves have agreed to. We wanted larger production of certain types of goods, and we got it. We are paying in some instances 140 percent of parity for milk, because that milk production is essential in the great cities.

Mr. BARRY. That is the only point I wanted to bring out because the argument is repeated again and again, and when this bill comes out, if you will just check the housing debates, you will find it in every other speech. I do not know how we could get along without the farmers in this country. At the same time, I think the arguments of some of my colleagues are not reasonable, as to the lack of production. That is all, Mr. Chairman.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. I am glad to see you here, Mr. Secretary.

Secretary ANDERSON. Thank you, Mr. Smith.

Mr. SMITH. And I want to say that I have watched somewhat your work as Secretary of Agriculture and have the feeling that you are doing as good a job as can be done under the circumstances.

Secretary ANDERSON. Thank you.

Mr. SMITH. I mean that.

Secretary ANDERSON. Thank you for it. It is a rather difficult task at the present time.

Mr. SMITH. That is right. And from that standpoint I think you are doing a good job. But I want to ask you a few questions with respect to subsidies. Is it not a fact that the longer subsidies are continued, the more difficult it becomes to discontinue them?

Secretary ANDERSON. Yes; they have a great tendency to stick, and that is why I was trying my best to get rid of them.

Mr. SMITH. You speak of subsidies being provided by taxation. Is that really true?

Secretary ANDERSON. Well, as I used the term—in answer to a question, you mean? I had nothing in my statement about it. But they are either provided by taxation or provided by borrowing. I do not know where you would say a dollar came from, in the budget. We had a total gross budget of a hundred billion dollars, and let us say that 40 billion dollars of it came, in the war period, by taxes, 60 billion dollars comes by financing. I do not know which dollar takes care of which responsibility. It comes from one source or the other. I did not mean to differentiate.

Mr. SMITH. Is it not a fact that most of these subsidies come from Government printing-press money?

Secretary ANDERSON. Well, I say I would not know where the exact dollar came from. It comes from one source or the other, financing or taxation.

Mr. SMITH. The point I tried to bring out there is this: Since these subsidies come from Government printing-press money, they add to the inflation potential. In other words, it is this Government printing-press money that really is the inflation. The Office of Price Administration merely deals with the effects of inflation.

Mr. Eccles, Chairman of the Board of Governors of the Federal Reserve System, testified before this committee, and made that statement. I am just wondering how you are going to be able to discontinue the use of subsidies on the basis that we are proceeding at the present time.

Now, you say that so long as this shortage of food remains, due to world conditions, unless I misunderstood you, that we would probably have to continue subsidies.

Secretary ANDERSON. No. I am quite sure I did not say exactly that. But I did try to point out to you that even though I knew there were going to be shortages in 1946, as late as December 21, I was still pressing for a program that would have announced the definite removal of subsidies. After December 21, 1945, we began hearing the stories of India, we began hearing all about the Argentine wheat crop, and we had a tidal wave in Ceylon, we had everything happen to us that you could have happen agriculturally. The only thing that did not happen was crop failure in the United States, although it happened nearly everywhere else. That so intensified the wheat situation that it seemed to me to be unwise to be in too much of a hurry. Our best evidence, I believe, of our desire to get rid of the subsidies was that we got rid of the butter subsidy on October 31, at a time when there was a scarcity of butter and there still is a scarcity of butter. So it is not just scarcity that is the determining factor. We are trying to get rid of them as rapidly as we can without too much disturbance to the cost of living in the country.

Mr. SMITH. Do not misunderstand me. I appreciate your efforts in trying to get rid of these subsidies.

Secretary ANDERSON. Well, I just did not want to be understood that I would continue to sponsor subsidies as long as there was a shortage because I look for shortages during all of 1946 and possibly during 1947, yet I hope to be out of subsidies within a year.

Mr. SMITH. The impression seems to prevail that the shortage of food in Europe, and elsewhere, is probably a temporary one. I am wondering. Russia, since 1917, has been short of food. Russia used to be a big wheat-exporting nation. I understand she exports some wheat now but nothing like she used to. Is that not correct?

Secretary ANDERSON. Well, I have no knowledge of her export in wheat now. In fact, we have been asked for some wheat for part of the Soviet group of countries. I surely would not want to assume that Europe would be out of its food situation in 1946. The soil of Europe has been pretty well mined out during these war years. They have been producing crop after crop without regard for soil practice, without supplying adequate fertilizer and part of the reason why they are so susceptible to droughts is there is nothing back in that soil to carry it through, and I think they will be quite a while getting back to their normal food producing capacity.

Mr. SMITH. Referring to Russia again, as nearly as we can tell, Russia, as I stated a moment ago, has been short of food ever since 1917?

Secretary ANDERSON. Yes; I think I would subscribe to that.

Mr. SMITH. The Russian people had more food before the revolution than they have now. They ate better than they have eaten since the Russian revolution. Now, whether that be true or not, the fact is

that they have been short of food since 1917, and I think it is due to the economy that they have adopted. The whole European Continent, including England, has already gone either completely communistic or far to the left. Their industry in general is disorganized. They are short not only of food but of everything else. What position is it placing the United States in, to take upon herself the responsibility of feeding the rest of the world, and possibly producing a food shortage in our own country, when there is little or no prospect of the rest of the world getting back on its feet so long as it retains its totalitarian ways?

Secretary ANDERSON. Well, first of all, I would want to refer to your statement about a food shortage in this country. If we fulfill every tentative commitment that we now have for the exportation of food, there will still be 10 percent more food in the United States in 1946 than there was in 1945. Now, it will not always be the same types and varieties, but there will be more food. It is impossible to transport food into those countries to the degree that would produce starvation in this country.

The CHAIRMAN. Will you yield, Mr. Smith?

Mr. SMITH. Yes.

The CHAIRMAN. There will be a roll call in the House immediately, I understand. Will it be convenient for you to come back this afternoon, Mr. Secretary? I think not, from what you said: that you have an engagement this afternoon.

Secretary ANDERSON. I have 70 people here from around the country. I will be back if the committee desires it. At what time would you like me back?

The CHAIRMAN. We are going to meet at 2 o'clock. We do not want to impose any burden on you. If you think it would be more convenient for you to come back at another time, that will be all right with the committee, I am sure. Or if you would like to come back and finish your statement this afternoon, we will be glad to have you.

Secretary ANDERSON. I feel that since some reference has been made to some questions that are going to be asked me, that I should come back. I only hope I may come back and be excused promptly.

The CHAIRMAN. Very well. We will adjourn and meet at 2 o'clock or as soon thereafter as we can, when we will complete the testimony of Mr. Anderson.

Following Mr. Anderson, we will hear from Governor Allred of Texas.

(Whereupon, at 12 noon, the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

I had understood that you did not think you could return this afternoon, Mr. Secretary.

Secretary ANDERSON. Well, Mr. Chairman, earlier, during Mr. Crawford's questioning, he said that Mr. Buffett had certain questions that he was anxious to have raised on feed, as I remember, and did not ask them, himself, so I thought I should come back.

The CHAIRMAN. Well, thank you very much.

STATEMENT OF HON. CLINTON P. ANDERSON—Resumed

The CHAIRMAN. Mr. Buffett, did you have any questions?

Mr. BUFFETT. It is mighty nice of you to come back, and I am flattered. I was very much interested in your testimony this morning. I think there is one job in Washington that is worse than being a Congressman these days, and that is to be a member of the Cabinet.

Mr. SUNDSTROM. I want to say to the Secretary that I am delighted to see him here. I think you are doing a grand job in a very difficult commission, Mr. Secretary. I know I have worked with you before on problems while you were in Congress, and I want to say that you have always given me the best cooperation anyone could ask for. I know I speak for all the committee when I say we are glad you are here, and I am also particularly glad to hear you say that you would like to get rid of subsidies as soon as possible.

Secretary ANDERSON. Thank you, Mr. Sundstrom.

Mr. BUFFETT. Mr. Secretary, I am in the line of stock and feed out in my district, and I am informed by my associates that protein corn and other grains are primarily changing hands by either means of black market, barter, or other unorthodox transactions. Are you familiar with that situation?

Secretary ANDERSON. Yes, and I would say that I think your statement is pretty nearly a correct one. The great bulk, certainly, of these feeds is changing hands either in black market or other unorthodox ways.

Mr. BUFFETT. What steps are being taken to rectify that situation, at this moment?

Secretary ANDERSON. That is not primarily a responsibility of the Department of Agriculture, but I would say that I know it would be extremely difficult to remedy some of the situations. I talked to a firm not too long ago that had had at their disposal—I don't recall how many—thousands of pairs of nylon hose which they had given out to farmers' wives, but it was a substantial sum. We had a figure given us by the firm as to how many pairs of nylon hose they had used in their efforts to get corn. There probably is nothing illegal in the wife of a farmer accepting a few pairs of nylon hose for her daughter as an incentive to persuade the father that he should then sell the corn at legal ceilings. I know of no way of stopping that type of transaction.

Mr. BUFFETT. I understand there are a lot of other methods.

Secretary ANDERSON. Well, the question is as to whether or not you can guess the number of trucks the farmer has in his yard, and so forth, but that is not probably anything that we can do anything about. That only reflects the fact that the farmer finds it more advantageous to feed his corn to his cattle or his hogs, and if he is to be persuaded to turn it in to the ordinary commercial channels, he is going to be given something to compensate him for not feeding his hogs or his cattle.

Mr. BUFFETT. Is not one of the primary obligations of Government to furnish an atmosphere for exchange whereby he will get full value by dealing honestly in the commodities?

Secretary ANDERSON. I think it would be a very desirable atmosphere to create; yes.

Mr. BUFFETT. The point I am getting at is that I am seriously concerned about the ability of the administration to stimulate the

willingness of farmers to produce to the limit, when there is such a complete break-down of legal transactions in such a large field of enterprise. I have been out there talking to those farmers, and I know they are thoroughly disgusted and alarmed by the present situation.

Secretary ANDERSON. Well, I am sure that you recognize that I have been out there, too, in the last few weeks and found exactly the thing which you refer to. But one of our difficulties has been this: With the best intentions in the world, and out of a desire to help the farmer, there was an announcement that hog ceilings would not be changed, or would not be lowered, at least, before September 1, 1946. That was done because the farmer was suffering from what had happened to him in 1943, when he followed the wishes of his Government, accepted the goals that were given to him and produced record hog crops, and then because of that had been caught with the hog glut that brought prices down to a point where he suffered. And he has been proceeding a little cautiously. The Department of Agriculture has been urging greater production, and the Congress—particularly a committee of the House of Representatives, and special committees consisting of members of a political party alone, had been urging that farmers be given some stability.

In response to those requests, the Office of Economic Stabilization, or maybe the Office of War Mobilization—Judge Fred Vinson was in charge—issued a promise, in April, that the hog ceilings would not be dropped ahead of September 1, 1946. At the time that was done I thought it was fine, and I still think it was the best thing that could happen at that particular time, and it produced the very effect which was desired, namely, a reasonably good hog crop. Subsequently, because farmers were holding back corn, and people were saying to them, "Hang onto your corn, do not turn it loose, there is going to be a better price come out shortly," there was an announcement by a Government agency, fully concurred in by other agencies, that the price of corn would not be raised except in response to parity. Now, the result of that is that you have a price relationship situation which is causing these unusual practices, to which you are referring.

If we were to drop the price of hogs, or raise the price of corn, we could make it unprofitable for the feeding of corn to hogs to continue, and the farmer would then have an incentive to move his corn in the normal patterns. But as long as it is profitable, and it is extremely profitable, for him to fatten them on the farm, then, he is not going to turn his corn loose to the corn products company, or for the making of sweetener or any of those things unless somebody comes out and persuades him to do it. I think that is the reason for all this trading that is going on now.

Mr. BUFFETT. Now, how are you going to solve that situation is what I am wondering. That is, we are still a long period ahead of the usual time when corn supplies are short—June or July?

Secretary ANDERSON. Yes.

Mr. BUFFETT. How can that situation be solved? What should I tell these people who write in to me and say, "Why do you not do something?" I do not know.

Secretary ANDERSON. Well, I think the solution of it is going to have to be a change in that price ceiling relationship. An announcement went out only a few days ago that does try to bring about, or

does try to stimulate the immediate marketing of heavy hogs, and not fattening them to heavier weights. There has been an announcement that the special cattle feeding subsidy will terminate on June 30. There has been some slight rise given to corn prices, because of parity requirements. Those things work in the direction in which we should go. But they do not work as fast as I would like to see them work.

Mr. BUFFETT. I see. If you had your way, you would move a little faster along that line?

Secretary ANDERSON. I think it would be possible to move a little faster.

Mr. BUFFETT. It was my own impression that after the farmers had seen the steel workers get a 15 percent raise, and then get less than 3 percent raise on their products, that they felt it was adding insult to injury. Do you not think that would be the general reaction among farmers?

Secretary ANDERSON. Well, I was asked a question by one of the committees a day or two ago as to whether I thought this increase would start a sudden flow of grains into the market, and I said "No." I think that is another way of answering your question. I do not think it was very stimulating to the farmer. I think if we wanted to stimulate him, we should have given him quite a few cents increase in the price of corn. That would have brought on, of course, a whole series of price consequences which would be difficult, to say the least.

Mr. BUFFETT. Have you noticed in the papers any references to that farmers' vigilante committee out there, that is talking about a farm strike?

Secretary ANDERSON. Yes.

Mr. BUFFETT. I think a farm strike would be as disastrous a thing as could happen, but certainly if utility workers and other groups have a right to strike, do you not think the farmers also have that right?

Secretary ANDERSON. Well, I would rather not encourage it. I think we have knowledge that there have been some milk strikes going on, and they are extremely difficult to handle, so I am not anxious to see more of them. But I have not questioned the farmer's right to get a fair price for his product.

Mr. BUFFETT. The aspect of this problem that I think quite disturbing is that here farmers have been pushing their production in the last 3 or 4 years—I know I have—and to that extent they have been mining their soil. Now, if they are asked to do that again this year, without the prospects of getting new tractors, and new cars, and the things they want, it would be my impression—and I think it would be a fair conclusion—that a lot of farmers are going to be very reluctant to follow those forced production practices, with a very poor prospect of being able to buy the things they want at the end of the season.

Secretary ANDERSON. I assure you, Mr. Buffett, that I think the same thing about that. I think I would agree with you.

Mr. BUFFETT. As you know, the feeders are going to be coming into our country pretty soon, lamb feeders, from California and Arizona. Can you tell me what the program for present lamb subsidies will be, or when it will be announced? You have had that question before, I take it?

Secretary ANDERSON. Yes. I have an impression that there was a statement by Judge Collet that dealt with part of the livestock problem. At least, there has been an announcement that the lamb subsidy will continue until June 30, and it has been our thought that it would either continue after June 30 or would be translated into a price increase at that time.

Mr. BUFFETT. I see. You think that when it is taken off that ceilings will be raised proportionately if they can get it?

Secretary ANDERSON. I am not quite sure whether this covers your point or not. Let me see if it does. This is from Judge Collet's statement of January 23:

The policy of making termination of subsidies subject to general stabilization of the cost of living, which underlies these statements, still governs the subsidy removal program. It now appears that this policy will require the continuation of major food subsidies beyond next June. Congress is being requested to authorize payment of subsidies for the fiscal year 1947.

Starting July 1 of 1946, you see:

The granting of such authorization, however, will in no way affect the Government's aim of reducing the scope of the program as rapidly as possible. In accordance with the objective of managing the termination program so that it will not result in drastic reductions of producers' incomes, subsidies will be withdrawn as soon as it is indicated there will be no offsetting declines in the nonsubsidized elements of the cost of living.

I do not find here the statement that I had in mind. I am sorry. We had prepared a statement in which we hoped to give assurance to farmers that, if the subsidy terminated on June 30, that there might be some reflection in price after that date. But we ran up against the fact that there was no authorization on the part of anybody to do that. There was no assurance that there would be controls after June 30. There was no assurance that there would be subsidy money after June 30. There was no indication that it would be possible within the framework to do it, and we found we could not give a pledge that was binding and, rather than give a pledge that was not binding, we felt it better not to give a pledge at all. So, as the matter now stands, the only statement you could make is that there has been no statement made on the lamb subsidy that is binding after June 30. But there is a statement binding until that date.

Mr. BUFFETT. Well, if your recommendations are followed that would not be necessary, would it?

Secretary ANDERSON. I will answer for myself, but I cannot attempt to bind anybody else. If my recommendations are followed, there would either be a continuance of the lamb subsidy after June 30, or there would be a reflection of the subsidy in increased retail ceilings, because we are in a period of shortage on lamb.

Mr. BUFFETT. Thank you. That answers my question.

Secretary ANDERSON. That is as far as I can go and it is not binding on anyone else.

Mr. BUFFETT. Certainly. I understand.

Secretary ANDERSON. Mr. Boyd just calls my attention to the fact that the estimate of funds submitted by Mr. Brownlee on behalf of the Office of Price Administration includes funds to continue the program after June 30. That is another indication, but it is not a definite commitment, as you will recognize.

Mr. BUFFETT. Are you familiar with the coffee subsidy?

Secretary ANDERSON. No.

Mr. BUFFETT. That comes under some other department, does it not? They have been paying a subsidy, I think, in the purchase of coffee, either the Office of Price Administration or the Reconstruction Finance Corporation, or some agency.

Secretary ANDERSON. Reconstruction Finance Corporation.

Mr. BUFFETT. Generally, on subsidies, are you not in this dilemma: If you remove the subsidy when the demand is high, the price is going up and the consumer is going to suffer. If you remove it when the demand is dropping off, it is going to create a hardship.

Secretary ANDERSON. Yes, and that is precisely why, if I may use the cattle subsidy as a sample, in the recommendation that I made with reference to the removal of cattle subsidies last August and September, I proposed that it be somewhat divided between the producer and consumer. The average subsidy, as I remember, was about \$1.96. And I recommended that since \$1.10 of that was pure roll-back, that the price be rolled up to \$1.10. That much the consumer would have paid. The other 86 cents was pure incentive, and that would be thrust back onto the producer and that much the producer would have paid. It seems to me the producer would rather pay that much and know where he was coming out than to face a period of uncertainty and have the subsidy removed at a time when it might do him great damage through the presence of too much meat on the market. That was not accomplished, but it gives you an indication of the fact that we are conscious of the problem you mentioned, that you can take it off at a very bad time, for both parties. You can take it off when it is very damaging to the producer and you can take it off when it is very damaging to the consumer. We hope to take it off in such a way that they might both share partially, at least, in the change.

Mr. BUFFETT. As a practical matter, the best time to take it off should be when there is excess purchasing power, so that people will have the money to buy, and at the same time, there will be a large supply available. And we are not too far from that now, are we?

Secretary ANDERSON. That is right.

Mr. BUFFETT. But it is hard to remove the subsidies. I will not detain you longer, Mr. Secretary. I appreciate your testimony. I think you are trying to do a very difficult job, and I wish you well.

Secretary ANDERSON. Thank you, Mr. Buffett.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. Mr. Chairman, I do not wish to detain Mr. Anderson any further.

Mr. SMITH. Mr. Chairman.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. I just have a couple of questions, Mr. Anderson. I would like to know whether it is your idea that subsidies reduce living costs.

Secretary ANDERSON. Well, I have never advocated the subsidies as a means of reducing the cost of living. I have voted for them in the House as a means of stabilizing the cost of living, but not on the theory that they brought about a reduction in the cost of living.

Mr. SMITH. What do you mean by stabilizing? Do you mean preventing prices from rising?

Secretary ANDERSON. Yes. When you have other things somewhat stabilized, when you have prices of manufactured goods stabilized, and to some degree wages in the country stabilized, certainly the wages of a great many people stabilized, that if you take these subsidies away from dairy products, for instance, the action would throw a substantial increase into the cost of living. If you took them off meat entirely, it would substantially increase the cost of living because meat represents a large section of the food index. By putting a subsidy on them, you tend to stabilize that cost of living as long as the salary of the average Government employee or someone in your own capacity stays stabilized. I do not say that it reduces at all.

Mr. SMITH. Then, you say that they prevent the rise of living costs?

Secretary ANDERSON. Yes, they are used to prevent rises in the current living cost.

Mr. SMITH. Will they do it in the long run?

Secretary ANDERSON. No, I do not say that. I say that certain types of subsidies—maybe not food subsidies—I think the subsidies we had on metals probably more than earned their way in the reduction of costs of our armament program, but I did not precisely vote for them on that theory. I was more interested in the stabilization of living costs during a period of war emergency.

Mr. SMITH. In any event, Mr. Secretary, that subsidy has to be paid, does it not?

Secretary ANDERSON. It does.

Mr. SMITH. So in reality, there is no saving in the cost of living, in the long run?

Secretary ANDERSON. Well, I think, Dr. Smith, that my attitude in trying to bring about eventually a removal of subsidies in the many recommendations that I made indicates that I do not have a great deal of belief that they eventually reduce the cost of living. I do say that they stabilized it, and on that basis, have stabilized living costs in the past.

Mr. SMITH. You mean temporarily?

Secretary ANDERSON. Yes, sir.

Mr. SMITH. Just temporarily?

Secretary ANDERSON. That is right, sir.

Mr. SMITH. In the long run they cannot do it. Now, we are confronted with this proposition: What is it that causes the instability of prices at the present time? We say that it is shortage of goods. Shortage of goods no doubt can cause some trouble. But is it really shortage of goods? That is a very important question.

Secretary ANDERSON. Well, I would not be able to answer it. I am certainly not an economist, and there are days—

Mr. SMITH. I am glad, Mr. Secretary, that you are not.

Secretary ANDERSON. Well, it has its handicaps.

Mr. SMITH. I wish we had fewer of them.

Secretary ANDERSON. I did not mean it the way you took it. There are handicaps in not being an economist in my position, but I will go either way.

Mr. SMITH. No. I will repeat that I have confidence in your work.

Secretary ANDERSON. Thank you.

Mr. SMITH. But the thing that I cannot quite get through my mind is this idea that we are actually reducing the cost of living with subsidies. It just is not true.

Secretary ANDERSON. I am sorry that my statement was not available before, but it is now, and if you will examine it, you will find nothing in that—

Mr. SMITH. I have noticed, Mr. Secretary, that you shrewdly avoided committing yourself along that line, and I admire you for it. Now, you have a total here of \$1,798,000,000, that was spent last year. Is this the amount you expect to pay out this year?

Secretary ANDERSON. I think they will be somewhat more than that. Some additional money has been requested recently. But at the time that statement was prepared, that was an estimate of what the total cost would be for the year.

Mr. SMITH. Do you think that you can effect some reductions here?

Secretary ANDERSON. No. What I said was that this sum of money was increased in some requests that were made to the Congress a few days ago that ran it up to about \$2,000,000,000. But we have at the same time effected some reductions by virtue of the fact that some subsidies have been terminated. At the same time there may be additional pressures in the field of dairy products, for example, that may increase subsidy costs these next few months. I do not know.

Mr. SMITH. We have had a lot of letters asking us to vote for subsidies. I am quite sure most of the people do not understand the real significance of subsidies. I do not believe your Department has done quite as much to encourage the people to believe in subsidies as some of the people we have in the Government, but this is one of the most serious problems that confronts the country.

Secretary ANDERSON. Thank you.

Mr. TALLE. Mr. Anderson, I do not particularly enjoy pursuing the subsidies, but I do not think everyone understands how they work. If a subsidy of five per cent were paid on a certain article on the theory that a good deal would be saved by so doing, would not a subsidy of 10 percent do twice as much in the way of savings?

Secretary ANDERSON. I find it difficult to answer, because I do not advocate that. Therefore, I have no basis upon which to form a guess. I do not subscribe to that theory. Therefore, I would not be able to calculate what it might lead to.

Mr. TALLE. The logical conclusion would be, would it not, that in the end, the logical and final conclusion, 100 percent of price would be subsidies. In that case, of course, the Government would have taken over and you would not have a republic any more. People would get things free insofar as price is concerned, but they would pay in some other way. Probably the state would withhold from their salaries enough to cover the cost.

Secretary ANDERSON. I can only say, the record I have tried to recite this morning of steady, persistent, consistent, and determined effort to try to get rid of food subsidies by June 30, 1946, is the best evidence whether I do or do not believe in total subsidy of 100 percent of the price and the Government taking over everything.

Mr. TALLE. I realize that. That is why I said when they were first instituted that that would be your problem, because consumer

subsidy carries within itself a spark of life which seeks not only survival, but expansion as well. And to get rid of them is a very, very difficult thing.

I wanted to ask if most of your research economy is work on the supply side or on the demand side of economic problems. I know you work on the supply side.

Secretary ANDERSON. I would not be able to answer that question at all. I am not able to say. I appeal to the staff of the Bureau of Agricultural Economics once in a while for information. They supply it to me quickly and correctly. They do issue, once a month, a statement outlining demand as well as they can. I have a publication they put out on the livestock situation. They put out similar pamphlets on nearly every other type of food commodity and fiber commodity with which we deal. They try to take into consideration both supply and demand situations.

I am willing to concede I do not know yet about all the bureaus in the Department of Agriculture. I have little hope to find out about them in the next few months. I do know how the individual research people work. I know a directive recently issued made this bureau more useful to the farmers whom we try to serve.

Mr. TALLE. One of the most interesting aspects of economic theory is the study of demand. Those who work with those things set up a good many individual demand schedules and demand curves and collective demand curves and so on.

I might point out what I had in mind. If I went into a cafeteria with 50 cents in my pocket, I probably would not spend it all on roast beef, if I found such a thing on the menu. My wants would be distributed, my money would be distributed over a number of items, because there is more than one thing that I want. I am wondering if it would not be necessary for you to fix an arbitrary day and simply decide, as economists say, that market price equilibrates supply and demand and that on that date subsidies will disappear regardless, because I doubt very much that you will ever find the time when supply and demand will be in balance, for the reason that human wants are insatiable. They grow. I think as your supply is lifted, your demand will be lifted, too. I think you will have to choose an arbitrary date.

Secretary ANDERSON. I find that I am up against another dead line, Mr. Spence. We will be glad to furnish you with what Commodity Credit has done.

Mr. GAMBLE. You would not have any figures on the Reconstruction Finance Corporation subsidies, and if Dr. Smith would want the whole picture, you would have to get in touch with the Reconstruction Finance Corporation.

Secretary ANDERSON. We will be glad to supply the committee with what we have paid through Commodity Credit.

(The following tabulation was later received for the record:)

360 EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942

Production and Marketing Administration, Commodity Credit Corporation—Losses from subsidy programs

[Expenditure basis]

Program	Oct. 17, 1933, to June 30, 1941	July 1, 1941, to June 30, 1942	July 1, 1942, to June 30, 1943	July 1, 1943, to June 30, 1944	July 1, 1944, to June 30, 1945	July 1, 1945, to Dec. 31, 1945	Oct. 17, 1933, to Dec. 31, 1945
Apple freight equalization				\$3,047,116	\$182,603	0	\$3,229,719
Beans, dry edible				4,235,607	3,676,692	\$2,589,893	10,502,191
Cheese, cheddar			\$11,437,554	26,101,634	18,472,810	10,285,886	66,297,884
Cocoa			646,558	2,084,010	194,122	225,005	1,306,568
Coffee			2,606,725	4,207,188	476,353	185,586	7,204,679
Corn ceiling price adjustment			359,755	1,166,751	9,252	0	1,535,758
Corn for alcohol ²		\$1,600,000	2,800,000		0	0	4,400,000
Corn purchase and shel-ling					3,617,406	211	3,617,618
Dairy production				153,136,335	253,253,665	112,495,866	797,885,866
Fruits for processing				18,811,060	23,579,833	16,748,940	59,139,833
Hay for dairymen				2,697,103	1,198,161	0	2,498,942
Milk, fluid			2,719,719	8,897,343	12,902,735	5,683,753	30,203,550
Millfeed price support			163,063	124,945	0	0	138,118
Oilseeds and products:							
Cotton linters				1,283,411	1,158,343	1,146,145	1,587,899
Peanut butter				5,563,880	9,051,802	4,895,752	19,511,433
Peanuts				110,356,565	9,119,557	1,711,163	1,308,171
Shortening				391,808	1,007,560	433,958	1,833,326
Soybeans			5,153,893	15,978,998	43,670,531	18,738,495	83,541,917
Vegetable oils and meals			8,919,376	2,054,403	1,251,424	261,480	6,875,029
Total, oilseeds and products			14,073,269	8,240,307	62,439,683	24,112,377	108,865,635
Pear freight equalization					142,237	0	142,237
Pork purchase				330	0	0	330
Sugar:							
Cuban			6,866,895	25,276,023	133,499,843	1,740,298	1,209,723
All other			1,327,811	13,731,791	43,141,456	41,510,708	99,711,766
Vegetables for processing				20,938,233	14,476,130	8,506,975	43,921,339
Wheat for alcohol ²		800,000	21,900,000		0	0	22,700,000
Wheat for feed ²		5,900,000	31,100,000	96,600,000	53,800,000	952,095	238,352,095
Beef production					5,000,156	12,848,864	17,849,020
Sheep and lamb production					0	9,735,599	9,735,599
Vegetables frozen					498,283	509,097	1,007,380
Wheat flour exporters						9,636	9,636
Total net losses from subsidy programs		8,300,000	146,001,349	384,977,866	740,877,168	245,389,021	1,525,545,404

¹ Indicates profit.

² Estimated.

³ Includes an accrual of \$125,000,000 at June 30, 1945, representing the estimated accounts payable as of that date. As a similar accrual was not made as of Dec. 31, 1945, the expenditure for the period July 1 through Dec. 31, 1945, was in effect decreased by the amount previously accrued.

⁴ Includes an accrual of \$5,000,000 at June 30, 1945, representing the estimated accounts payable as of that date. As a similar accrual was not made as of Dec. 31, 1945, the expenditure for the period July 1 through Dec. 31, 1945, was in effect decreased by the amount previously accrued.

The CHAIRMAN. Mr. Secretary, we are glad you came up at the inconvenience to yourself. Thank you for your very clear and convincing statement.

Does the committee want Mr. Brownlee and Mr. Field to return to the stand? I understand they both have an engagement this afternoon.

Mr. SMITH. Does Mr. Brownlee have to do with Reconstruction Finance Corporation?

The CHAIRMAN. Economic Stabilization.

Mr. GAMBLE. I think the figures Dr. Smith wants from the Reconstruction Finance Corporation you wrote a letter and asked them to submit it.

The CHAIRMAN. I do not think it will be any trouble to get this. If no member of the committee wants them this afternoon, they may be excused.

(The following is a letter and statement for the record:)

RECONSTRUCTION FINANCE CORPORATION,
Washington 25, D. C., March 25, 1946.

HON. BRENT SPENCE,
Chairman, House Banking and Currency Committee,
House Office Building, Washington, D. C.

DEAR MR. CHAIRMAN: During the hearing the afternoon of March 7 on H. R. 5270 Congressman Smith of Ohio, as you will recall, requested that the Reconstruction Finance Corporation prepare and supply the committee, for the record, a statement regarding subsidies, such statement to show subsidy payments of various classes of commodities covering the period from the beginning of the subsidy program.

We have also been requested by the Legislative Reference Service, Library of Congress, for similar information with the specific request that it be shown separately for each commodity item for each fiscal year from the beginning of the program through June 30, 1945. These requests present no difficulty insofar as "subsidies" are confined to direct subsidy payments as distinguished from actual or estimated losses resulting from purchase and sale programs, and we enclose herewith statement with respect to such direct subsidy payments by the RFC showing the actual disbursements on a fiscal year basis through June 30, 1945, the actual disbursements through February 28, 1946, as well as the estimated disbursements for the balance of the fiscal year ending June 30, 1946.

Insofar as "subsidies" are related to either actual or estimated losses on purchase and sale programs, such as was contemplated by the last sentence of section 2 (c) of the Emergency Price Control Act of 1942, the so-called Taft amendment which was added by Public 383, Seventy-eighth Congress, approved June 30, 1944, the situation has been and still is difficult and somewhat confusing. The difficulty is indicated by the following paragraph quoted from the Senate Banking and Currency Committee Report of March 8, 1945, relative to S. 502 (which became Public Law 88, 79th Cong.) and which related to the first application on a fiscal year basis of the so-called Taft amendment:

"With respect to operations involving purchases on which losses are anticipated, as distinguished from direct subsidy payments, attention is called to the fact that the limitations imposed relate to the losses anticipated at the time such purchases are authorized rather than the actual losses that may result upon the ultimate resale of the materials or commodities purchased. The committee was convinced that this was the only practical approach to the problem of providing a dollar limitation as to losses with respect to such purchase and sale programs on a fiscal-year basis. The provisions which have been included in the bill mean that as to payments and purchases made with respect to operations for the fiscal year ending June 30, 1946, each of the corporations must estimate at the time of authorizing such payments and purchases the amount of loss likely to result therefrom. The aggregate of all such estimated losses must not exceed the dollar limitation imposed."

For the reasons stated, we are supplementing the statement regarding direct subsidy payments by the RFC on a fiscal-year basis by another statement (enclosed) which lists on a fiscal-year basis the purchase and sale programs that resulted in cumulative net losses through June 30, 1945, and the estimated losses for the fiscal year ending June 30, 1946, determined in accordance with Public Law 88, Seventy-ninth Congress.

The preparation of this material has been somewhat complicated, as you may well understand, in view of the difficulties involved in determining what transactions, other than direct subsidy payments, come within the purview of the Taft amendment. The situations vary in that it is frequently possible to determine in advance of a purchase that a loss will result upon resale. In other situations, however, an ordinary business risk may be involved, although there is no intention at the time of purchase to resell at a loss. We trust, nevertheless, that the information that we are submitting will serve the purpose of your Committee, and it has been prepared in this manner in order to obviate the necessity of attempting to define the term "subsidy".

Very truly yours,

JOHN D. GOODLOE, *General Counsel.*

Reconstruction Finance Corporation Direct Subsidies—Actual disbursements, fiscal years 1942 through 1945 and actual and estimated disbursements for fiscal year 1946

Programs	Fiscal year 1946			Disbursements, fiscal year 1945			Disbursements during fiscal years		
	Disbursements, July 1, 1945 through February 28, 1946	Estimated disbursements after February 28, 1946 applicable to fiscal year 1946	Total estimated disbursements applicable to fiscal year 1946	Disbursements during fiscal year 1945	Disbursements during fiscal year 1946 applicable to fiscal year 1945	Total disbursed, fiscal year 1945	1944	1943	1942
Aluminum rod and bar	0	0	0	\$470,469	0	\$470,469	¹ \$807	\$68,122	0
Antimony	\$85,174	\$259,826	² \$345,000	14,481	\$10,195	24,676	0	0	0
Butter	23,273,858	1,726,142	³ 25,000,000	73,176,201	9,480,272	82,656,473	77,379,701	0	0
Coal:									
Distribution costs, New England Area and Middle Atlantic States	0	0	0	165	12,085	12,250	0	0	0
Excess transportation costs, New England area	3,185,134	5,000,000	⁴ 8,185,134	12,111,456	2,404,197	14,515,653	16,093,264	17,341,703	0
Great Lakes emergency transportation costs	0	25,000	⁵ 25,000	0	0	0	0	0	0
Volatile bituminous excess transportation costs	0	100,000	⁶ 100,000	0	0	0	0	0	0
Coffee	7,821,770	46,178,230	⁴ 54,000,000	0	0	0	0	0	0
Copper	11,123,130	21,876,870	⁵ 33,000,000	24,817,303	3,016,537	27,833,840	27,167,955	18,225,832	\$338,594
Ethyl chloride	44,843	0	² 44,843	0	0	0	0	0	0
Ferchromium	5,950	0	² 5,950	133,182	29,022	162,204	0	0	0
Firewood	6,148	2,465	² 8,613	46,160	0	46,160	0	0	0
Flour	99,979,094	108,020,906	⁶ 208,000,000	125,194,993	18,290,971	143,485,964	30,353,362	0	0
Lead	8,923,516	6,076,484	⁵ 15,000,000	16,312,633	2,193,729	18,506,362	10,553,874	7,188,884	709,281
Meat	345,401,629	338,598,371	⁷ 684,000,000	427,786,507	47,747,675	475,534,182	462,226,717	0	0
Nitrate of soda	269,146	220,142	⁴ 489,288	723,389	232,104	955,493	2,269,985	2,880,891	0
Petroleum compensatory adjustments (net)	16,658,081	14,192,706	⁸ 30,850,787	78,324,832	15,583,239	93,908,071	167,732,041	76,429,242	0
Refractory bricks	0	0	0	13,000	704	13,000	6,113	0	0
Scrap detinning	1,034	3,966	¹ 5,000	34,818	0	35,522	0	0	0
Sodium steel	0	0	0	0	29,700	29,700	0	0	0
Sodium bichromate	0	0	0	300,575	0	300,575	0	0	0
Stripper wells compensatory adjustments	27,515,093	25,014,625	⁸ 52,529,718	41,962,319	9,011,927	50,974,246	0	0	0
Sugar distribution	0	0	0	111,227	12,419	123,646	459,031	23,425,302	982,206
Texas timber salvage	0	0	0	111,192	152,402	263,594	0	0	0
Wood pulp	1,695,163	804,837	² 2,500,000	3,001,121	1,162,207	4,163,328	762,084	59,822	0
Zinc	17,661,561	22,338,439	⁵ 40,000,000	36,070,042	4,356,991	40,427,033	39,296,521	18,935,782	2,260,944
Zinc, smelter	246,765	158,235	² 405,000	714,161	144,969	859,130	0	0	0
Total	563,897,089	590,597,244	1,154,494,333	841,414,134	113,686,541	955,100,675	834,299,841	164,555,580	4,291,025

¹ Decreases resulting from adjustments of prior period disbursements.

² Direct subsidy on materials and commodities produced within the United States, allocable to par. (b) (3) (F) of Public Law 88.

³ Direct subsidy on butter, allocable to par. (b) (3) (B) of Public Law 88.

⁴ Direct subsidy on materials and commodities produced outside the United States, allocable to par. (b) (1) of Public Law 88.

⁵ Direct subsidy on copper, lead, and zinc in the form of premium payments, allocable to par. (b) (3) (E) of Public Law 88.

⁶ Direct subsidy on flour, allocable to par. (b) (3) (C) of Public Law 88, as being supplemented.

⁷ Direct subsidy on meat, allocable to par. (b) (3) (A) of Public Law 88, as being supplemented.

⁸ Direct subsidy on petroleum and petroleum products, allocable to par. (b) (3) (D) of Public Law 88.

EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942 363

Reconstruction Finance Corporation purchase and sale programs that resulted in cumulative net losses through June 30, 1945, and estimated losses for the fiscal year 1946 determined in accordance with Public Law 83, 79th Cong.

Programs	Fiscal years					
	1946 estimated loss	1945	1944	1943	1942	1941
Agave, hennequin, sisal, and binder twine and rope.....	¹ \$7,682,500	\$5,397,947	\$5,921,925	² \$861,852	-----	-----
Alumina.....		33,677	112,080	318,851	-----	-----
Alumina hydrates.....		21,438	53,679	-----	-----	-----
Aluminum.....		14,783,144	7,409,621	10,948,749	\$1,753,005	-----
Aluminum rivets.....		222,410	734,433	600,511	-----	-----
Amblygonite.....		1,854	5,498	-----	-----	-----
Antimony ore.....	¹ 462,641	254,450	106,669	² 44,491	-----	-----
Arsenic (refined and crude).....	¹ 21,000	1,012,127	19,620	60	-----	-----
Babassu kernels.....		² 2,658	4,158	-----	-----	-----
Babassu oils.....	¹ 25,000	2,637	447	-----	-----	-----
Balsa logs and lumber.....		68,077	6,099	-----	-----	-----
Barbed wire.....		² 546	162,247	-----	-----	-----
Barytes.....	¹ 16,950	132,199	8,370	-----	-----	-----
Bauxite.....		640,114	² 378,052	152,439	² 19,483	-----
Beef.....		93,006	² 22,533	-----	-----	-----
Beryllium.....		100,982	1,597	² 15,894	-----	-----
Bismuth (refined and ores).....		10,007	² 34	-----	-----	-----
Bones, dried.....	¹ 736	-----	-----	-----	-----	-----
Castor seeds.....		² 64,035	64,227	-----	-----	-----
Chrome ore.....	¹ 2,000,000 ² 55,420	² 535,207	1,957,833	77,422	² 46,854	0
Coal.....		2,320	6,091	17,579	0	0
Cobalt, nickel.....	³ 153,000	388,204	3,970	3,006	0	0
Cobalt, ore.....		36,640	² 753	2,355	0	0
Coffee.....	¹ 59,207	519,215	² 303,865	0	0	0
Coir.....	¹ 181,000	0	0	0	0	0
Copper (refined, blister, and ores).....	¹ 5,040,698 ³ 1,164,000	² 5,508,597	19,638,613	² 1,239,281	² 9,807,742	0
Cork.....	0	1,453,422	1,255,933	310,161	18	0
Corundum.....	¹ 15,600	0	0	0	0	0
Cotton linters.....	¹ 16,000	287,685	100,693	4,083	0	0
Divi divi.....	0	9,294	37,514	0	0	0
Ergot.....	0	14,263	10,984	² 2	221	0
Ethyl cellulose.....	0	6,196	0	0	0	0
Ferrocobromium.....	0	² 19	0	1,866	0	0
Fruit, dried.....	¹ 13,257	² 9,479	12,220	0	0	0
Glycerine.....	0	574	1,826	0	0	0
Goose down.....	0	0	1,244	0	0	0
Iodine.....	0	79,188	0	0	0	0
Iridium.....	0	² 130	0	1,085	0	0
Iron (pig iron and iron ore).....	³ 155,880	16,495	469,420	0	0	0
Istle fiber.....	¹ 3,500	51,581	180,267	² 11,500	0	0
Jewel bearings.....	² 42,733	² 146,359	1,298,950	31,305	0	0
Jute fiber.....	0	1,579,656	² 1,152,728	² 28,996	0	0
Kapok.....	¹ 55,000	0	0	0	0	0
Kyanite.....	0	34,605	42,108	0	0	0
Lead (ore and concentrates).....	¹ 2,008,625	125	0	0	0	0
Lead residues.....	² 2,000,000	0	0	0	0	0
Lentils.....	0	² 1,310	4,000	0	0	0
Magnesium.....	0	² 62,293	1,488,439	1,291,352	0	0
Mahogany logs and lumber.....	¹ 250,000	150,426	² 84,663	7,230	0	0
Manganese ore.....	³ 507,106	0	0	0	0	0
Manganese iron ore.....	0	439	5,163	27,182	0	0
Mercury.....	0	832,859	² 42,612	² 105,800	² 18,170	0
Mica.....	³ 576,000	5,504,400	0	0	0	0
Molasses.....	¹ 2,035,641	12,058,251	11,902,175	1,195,455	² 556,748	0
Molybdenum.....	0	137,240	0	0	0	0
Muru muru kernels.....	0	0	700	0	0	0
Miscellaneous fiber and seed samples.....	0	15,751	11,637	0	0	0
Nickel (refined and ore).....	¹ 1,500,000	5,519,954	1,949,452	687,311	² 473,308	0
Nitrate of soda.....	¹ 437,354	2,227,920	5,373,649	4,000,050	² 13,960	² \$4,532
Oiticica oil.....	0	120,692	² 15,721	0	0	0
Onions.....	0	² 14	34	0	0	0
Peanuts.....	¹ 61,644	110,338	2,115	0	0	0
Peas.....	0	² 1,314	2,684	0	0	0
Petroleum coke.....	0	402,752	485,075	0	0	0
Platinum.....	¹ 315,000	456,668	163,147	35,959	0	0
Quinidine and mixed alkaloids.....	¹ 42,931	-----	-----	-----	-----	-----
Rafia fiber.....		4,338	-----	-----	-----	-----
Rapeseed oil.....	¹ 250,000	274,162	² 7,361	-----	-----	-----
Requisitioned materials.....		492	² 952	2,587	-----	-----
Rice.....		56,708	² 7,697	-----	-----	-----
Roofing rags.....		33,169	-----	-----	-----	-----

See footnotes at end of table, p. 364.

Reconstruction Finance Corporation purchase and sale programs that resulted in cumulative net losses through June 30, 1945, and estimated losses for the fiscal year 1946 determined in accordance with Public Law 88, 79th Cong.—Continued

Programs	Fiscal years					
	1946 estimated loss	1945	1944	1943	1942	1941
Roselle and malva fiber		\$215	\$171			
Rubber:						
Natural	⁴ \$55,623,960					
Scrap	² 2,075,318	6,718,071	6,819,221	\$8,060,809		
Sapphire				18		
Scrap metals	³ 51,864	3,466,496	18,828,906	6,678,241	\$17,005	
Shearings and lambskins			² 3,458	20,108		
Silk		18,492	16,750	110,339	122,394	
Silk and nylon hosiery (used)		49,896	421	² 4,004		
Silk waste		2	10			
Sodium dichromate	¹ 125,000					
Sodium chlorate	¹ 20,000					
Sodium metallic		49,283				
Spodumene ore		84,067	1,178			
Stirrup pumps		606,703	128,446			
Sugar:						
Cuban		2,394	1,981,043			
Domestic		1,562	55,798	269,231	74,957	
Talc		14,721	3,513	² 2,166		
Tin (refined and ore)	¹ 15,534,988	17,160,466	4,852,974	1,070,467	^e 312,187	
Tires and tubes		3,197,182	16,208,656			
Tung oil	¹ 635					
Undershirts and underdrawers	0	2,181	² 1,818	0	0	0
Vanadium (refined and ore)	0	670,777	1,254,052	38,224	0	0
Wheat	0	581,438	36,259	0	0	0
Wool, South American	0	1,518,693	² 1,443,766	0	0	0
Zinc	¹ 25,000	983,099	0	0	0	0
Zinc, lead ore	³ 1,000,000	0	0	0	0	0
Zircon	0	5,910	0	0	0	0
Total	101,511,188	98,047,386	107,737,991	33,710,089	² 9,282,852	² \$4,532

¹ Purchases of materials and commodities produced outside the United States, allocable to par. (b) (1) of Public Law 88.

² Profits.

³ Purchases of materials and commodities produced within the United States, allocable to par. (b) (3) (F) of Public Law 88.

⁴ Purchases of rubber and rubber products produced outside the United States, allocable to par. (b) (2) of Public Law 88.

NOTE.—Consideration has not been given to any profit or loss that might result from the liquidation of inventories on hand at June 30, 1945.

Mr. TALLE. May I ask one question?

Mr. BROWNLEE. I wonder if I could put one statement in the record.

The CHAIRMAN. You may put anything you want in the record, Mr. Brownlee.

Mr. BROWNLEE. First, I want to say that the policy that Secretary Anderson has expressed today as to the termination of subsidies is completely the policy which we believe is right. We are in thorough and hearty accord with all he said about it. There was one figure, a very minor change that I gave yesterday that I would like to change, in the noncrop program we had asked for \$60,000,000. I find from Commodity Credit Corporation that should be \$50,000,000. On the crop program we put in a request for \$150,000,000. This should have been \$10,000,000 larger, just a reversal of the figure. The amount is the same.

Also, Mr. Brown spoke this morning about the question of the discontinuance of control, price control when supply and demand are in balance. I would like to say that Office of Economic Stabilization

Order No. 68 on decontrol is already in the record. That formula states that price controls shall be lifted when supply and demand are in balance at the ceiling price, that that is a matter of record with the Office of Economic Stabilization. We think it is right, Mr. Chairman.

That is all I have.

Mr. FOLGER. I believe Mr. Bowles said—and I may be mistaken—that the policy would be that we would remove price controls and price ceilings as supply came substantially in balance with demand. That is what you say?

Mr. BROWNLEE. That is right, sir.

The CHAIRMAN. Let me ask you as a practical matter, Mr. Brownlee, how is that to be determined? Is that easily to be arrived at?

Mr. BROWNLEE. Not too easy, as the Secretary said this morning, because you are never quite sure what the demand is. That is why we feel there is some possibility of telling when they are relatively in balance at the ceiling price level. When your pressure is not great against the ceiling, it would indicate you are relatively in balance.

Mr. FOLGER. That is all.

The CHAIRMAN. Mr. Gamble?

Mr. GAMBLE. That decontrol you speak of would be on the judgment of somebody in the Bureau, would it not, under that directive?

Mr. BROWNLEE. That is right. It would be in the judgment of Office of Price Administration, plus whatever ideas the Office of Stabilization might have on it. We would undoubtedly ask them to take a look at it if we had some idea. I understand an assistant deputy is to be named, with no other duties.

Mr. GAMBLE. Decontrol would not happen unless it is automatic. We have just had a few headaches for 8 days, the housing bill; we anticipate a few more for price control. If some kind of a provision could be written into the bill, I think it would be very helpful. I know there are certain amendments by Members that are going to be submitted to the committee. That is the headache I am having, the writing of it.

Mr. BUFFETT. Mr. Brownlee, are you familiar with the current situation in poultry?

Mr. BROWNLEE. Not in detail.

Mr. BUFFETT. Is that not subject to decontrol if it is a matter of supply equaling demand?

Mr. BROWNLEE. Right at the second, it may be.

Mr. FIELD. It has been a seasonal matter. They have been below before and come up again.

Mr. BUFFETT. How long must it have been below the ceiling for decontrol to be instituted? There is always a time when strawberries are short, for example, and if we are going to have a year-round price fixed on strawberries, I think poultry is affected in the same way.

Mr. BROWNLEE. The question of decontrol of poultry prices is under consideration. I do not know how long prices should be below the ceiling before decontrol should automatically follow. It involves the question of looking to see the causes of it, if it seems to be something that is going to continue rather than a mere temporary flurry. I know the problem of poultry decontrol is being considered now.

Mr. BUFFETT. Does that not involve a degree of economic "master minding" that has never yet been achieved in this mundane world?

Mr. FIELD. It involves a question of judgment, call it what you will. There is no mathematical test to be applied. It involves a weighing as well as they can be weighed on various imponderables. It is not easy.

Mr. BUFFETT. I am a great believer in what an economics professor said. He told them if in class they were sleeping and a question were asked as they woke up if they would answer "Supply and demand," 99 percent of the time they will be right. That law will operate despite any agency we set up.

Can I ask you, is there any provision made for coffee subsidies in your subsidy program?

Mr. BROWNLEE. We would rather discuss it during the executive session.

Mr. BUFFETT. We will skip that. What about the situation in gasoline and oil? Is the supply there reasonably equal to demand?

Mr. BROWNLEE. As I started to say this morning, there is a very definite question as to whether this program should be continued or not. That is one of your matters that we will try to decide in a short time. It is relatively in balance now, certainly.

Mr. BUFFETT. One other question I wanted to ask, do you not believe that 98 or 99 percent of the problems involved and its disposal and extension of all other problems are economic problems?

Mr. BROWNLEE. I think the price control as a whole is a temporary economic problem.

Mr. BUFFETT. Does it not follow that it is unfortunate when great emotional appeals are used to muddy the waters, to complicate that situation? We are dealing with specific economic natural laws or a series of natural economic laws. Finding the truth should be the only object of both business and government and to us as legislators.

Mr. BROWNLEE. You are right.

Mr. BUFFETT. Every time that prejudice and passion are tossed into it, it creates problems that complicate and make the conclusion to the situation more difficult.

Mr. BROWNLEE. I think that is right, if you toss prejudice and passion into it. On the other hand, this program works better if the public understands what you are honestly trying to do.

Mr. BUFFETT. You agree with me if deficit financing continues there can be no complete control of inflation but totalitarian methods in the long run?

Mr. BROWNLEE. We have always felt you can hold on it so long; if you did not have the right economic background you could not continue.

The CHAIRMAN. Mr. Gamble?

Mr. GAMBLE. Talking about putting one man on de-controls, and "master mind-ing" have you ever considered having Dunninger join the Office of Price Administration?

Mr. PATMAN. Who?

Mr. GAMBLE. Dunninger. Have you not heard him on the radio?

Mr. TALLE. Mr. Brownlee, the clock was about to strike when we were having our colloquy the other day. I wanted to make sure what you had in mind was that demand is not a static thing and that a grave mistake would be made if the demand side were considered something

fixed and all you would have to do would be to bring your level of supply up to that point.

Mr. BROWNLEE. I agree with that emphatically, Mr. Talle.

Mr. TALLE. It is true, as Mr. Buffett said, that demand and supply are so easy to say that if you could teach a parrot to say that, he would be a good economist, but the test of the good economist is does he know what lies back of supply and demand. We must take into account human wants when we think of demand. We have to think of resources and technology when we think of supply.

It is a very complicated thing. I share your hope that you may find a good time for decontrol and soon.

The CHAIRMAN. No further questions. You may stand aside. We are obliged to you. Thank you.

The CHAIRMAN. We are going to call on Governor Allred from Texas.

Mr. PATMAN. I would like to tell you who he is. He was one of the youngest attorneys general in the State of Texas. He was the Governor of Texas. He was United States district judge. He made a good United States district judge. He now represents different clients in Houston, Tex., where his law offices are located. On whatever Judge Allred tells us we can safely rely.

STATEMENT OF HON. JAMES V. ALLRED, FORMER GOVERNOR OF TEXAS

Mr. ALLRED. Mr. Chairman and gentlemen of the committee, my name is James V. Allred. I live in Houston, Tex. I am deeply grateful to the committee for this opportunity to be heard at this time.

I think that what I shall say will be appropriate, especially in view of the suggestion of the gentleman from Georgia, Mr. Brown, this morning with reference to a directive to the Office of Price Administration to take off price ceilings where supply equals demand.

I want to discuss one commodity in which that condition exists and upon which controls have not been removed.

I am particularly grateful to Congressman Patman for the generous introduction he gave me in which he very kindly omitted some of my failures to achieve public office. I might state to the committee that I am now practicing law and have been since 1942, which was an election year, in Houston, Tex. I am engaged in the general private practice of the law. I have never represented and do not represent any major integrated oil or gas company. What few clients I have had, who had any connection with the oil business, have been independent oil men and independent producers.

I have prepared a statement which I will read to the committee as briefly as possible. It consists of 11 pages.

In my opinion, Congress, in any extension of the Price Control Act, should, in the public interest, deny to Office of Price Administration the power to fix prices on crude oil, for the following reasons:

First, because there is no shortage of crude oil, present or prospective. On the contrary, there is an oversupply of both crude petroleum and gasoline.

Second, because crude oil price ceilings enrich the large integrated oil companies at the expense of land and royalty owners, including, in Texas, the public-school system.

Third, because Office of Price Administration ceilings on crude oil tend to promote monopoly; and, unless they are lifted soon, monopoly will be complete.

CRUDE OIL PRODUCTION—SUPPLY VERSUS DEMAND

According to the press, Mr. Bowles, the present Economic Stabilizer, said last week before this same committee:

* * * it is, of course, expanding production which will bring us to the point where price * * * controls can be dropped.

Crude oil production has reached that expanded point. There is no shortage of crude oil.

The gentleman who just testified said there was "relative" balance between supply and demand. There is more than a "relative" balance. It will not be denied or disputed that there is at the present time, and there has been for some time, an oversupply of crude oil as against consumptive demand.

On the contrary, there is an overproduction and supply of crude oil and gasoline, when balanced against consumer demand. Crude-oil stocks have increased approximately 20,000,000 barrels since VJ-day, according to the Bureau of Mines. At the present time, we have approximately 230,000,000 barrels of crude-oil stocks above ground. In addition, stocks of gasoline (motor fuel) have approached an all-time high—in excess of 100,000,000 barrels.

Because of this oversupply, State regulatory commissions are reducing allowable production. In Texas, substantial reductions have been made from month to month since VJ-day; and on March 1 Texas production was ordered decreased approximately 350,000 barrels daily under what it was in February. At that time, the Texas Railroad Commission recommended proportionate cuts to the regulatory agencies of all other oil-producing States.

Mr. BROWN. Would you pardon me just a minute? How many gallons are there in one of these barrels?

Mr. ALLRED. Forty-two. I knew that was the old table I learned in school, but I wasn't sure about the gasoline.

Mr. BROWN. Thank you.

So, there being no shortage of crude oil or gasoline, the test of "expanding production," laid down by Mr. Bowles, has been met. Therefore, crude-oil price ceilings should be removed.

EFFECT OF CRUDE OIL PRICE CEILINGS ON LAND AND ROYALTY OWNERS AND THE PUBLIC GENERALLY

An erroneous impression has been created, Mr. Chairman, that the great oil companies would be the beneficiaries of a crude oil price increase. The exact opposite is true. Price ceilings on crude oil have brought incalculable profits to the integrated companies and have penalized not only independent producers but hundreds of thousands of land and royalty owners including, in my State, the public schools and State university.

Royalties are paid upon the selling price of crude oil at the well. The royalty owner gets a certain percentage of the well head sale price of each barrel of oil. The integrated companies produce or buy the oil which they transport through their own outlets, and it is to

their advantage to keep the ceiling price on crude oil at the well as low as possible because—

(a) The royalty they pay the landowners, including the State and Federal Governments, is less;

(b) Severance taxes which, in some of the States, including my own, is based upon a percentage of the well head sale price, are reduced; and

(c) A low crude ceiling price reduces competition in production by independent producers and in purchases by independent refineries.

Thus, the lower the price ceiling at the well, the greater is the profit to an integrated company both in refining and marketing, since they must give the royalty owners a percentage of the well head price for crude, but all the profit is theirs on the final value of the products, without having to divide the profit with the land or royalty owner.

Mr. Chairman, I do not believe it will be disputed that the profits of the integrated companies have been disproportionately greater than those of the independent oil producers during the war years. The independent producer had been told that he could not have a price increase because he has been allowed to produce more oil, therefore, his profits have increased. But the integrated refinery has been allowed to refine more oil—its through-put has been practically 100 percent—so it has had an increased income from greater volume also. Yet the refinery has been granted increases on its products by Office of Price Administration which at the same time consistently denied an increase to the independent producer.

That these profits of the integrated refineries are out of proportion to the ceiling price for crude is evidenced by the fact that independent refiners have been willing, in many instances, to pay higher prices for crude, without an increase in the end price of their products, except for Office of Price Administration ceilings on crude. To illustrate, one of my clients, an independent producer—

Mr. BROWN. Would you mind my interrupting again? If we have a sufficient quantity of oil, is a subsidy necessary?

Mr. ALLRED. Personally, I do not think so. I am not qualified to speak on the subsidy question. I do not think so. As I understand the purpose of subsidy, it is to encourage production where there is a shortage. We have no shortage.

The CHAIRMAN. What proportion do the stripper wells produce?

Mr. ALLRED. Ten or 15 percent, I am told.

The CHAIRMAN. They are high-cost producers, aren't they?

Mr. ALLRED. I think so. Generally that is true.

To illustrate, one of my clients—an independent producer—filed with Office of Price Administration in June of last year, an application with letters from independent refiners in the Middle West, who stated that they were willing to pay an increased price and absorb it without an increase in the ceiling price of their products. This application has been pending for 8 months and no action has been taken. I submit that granting it would not have been inflation, would not have cost the consumer a cent. True, it would have resulted in additional income to an independent producer, but it would also have benefited the royalty owners by dividing with them part of the profits of a refiner who was willing to do so in order to get the oil and compete with the integrated companies.

There are approximately 300,000 royalty owners in Texas, in addition to the public schools and the State university. I have no

means of knowing how many royalty and landowners there are in the other oil-producing States, but there must be hundreds of thousands of them. In addition, the Federal Government is a royalty owner. If, without a ceiling price on crude, a greater sum would have been paid at the well, there is no estimating, Mr. Chairman, the sums of money which these land and royalty owners have been penalized under present crude oil ceilings and price policies of the Office of Price Administration. There is no estimating the amount of State taxes which have been affected by these ceilings. There is no estimating the profits which the integrated companies have made by reason of low ceiling price for crude oil while at the same time such companies were making usual profits on their pipe-line monopoly and their unusual profits in the refining and marketing end of the game.

Not only this, but the price of oil at the well in Texas and many other States affects ad valorem values for the purposes of taxation. In my State, the ad valorem values of producing properties are based upon ultimate pay-out which, in turn, is controlled by the price at the well. In addition, the well price affects the potential mineral values of all lands within the States. So that, if in fact, the ceiling price of crude oil at the well is less than what it should fairly be, the State's economy is affected by reduced taxes, reduced values, reduced operations, reduced bonuses and rentals paid to landowners and by the further fact that the income of land and royalty owners for circulation and investment within the State is reduced while the profits go into the coffers of the integrated oil companies.

So that, Mr. Chairman, the integrated companies would not be the beneficiaries of an increased ceiling price for oil. True, it would benefit the independent producer as well as the land and royalty owners and States and local subdivisions of Government generally. But, in fairness to the independent producer, he has been placed in an unfair competitive position with the integrated companies which I shall touch upon more fully under the next subdivision of discussion. Suffice to say that the large integrated companies do not want an increased ceiling on crude. They want a ceiling as low as they can get it. And the only ones who would benefit from lifting crude ceilings are the land and royalty owners, the State and Federal Governments, the school children of Texas (and perhaps other States), and the independent producer who has no pipe line, no refinery, and no filling stations.

Since the foregoing was prepared, on Tuesday, March 5, of this week, Office of Price Administration has announced that crude oil ceilings will be raised 10 cents a barrel late this month, and that this increase will be absorbed for the time being by the refiners. To my mind, this is a belated confession that crude ceilings have been too low and have not borne a true relationship to the over-all picture.

In its announcement, Office of Price Administration says a further study will be made and if the 10-cents increase is inadequate, further relief is promised. What further study is needed to meet the test of "expanding production" enunciated by Mr. Bowles, when even the Wall Street Journal says, in its issue of March 6, that "* * * it has also been said (in the industry) that since the end of the war, supply of crude has exceeded demand and that there is no prospective shortage"?

To my mind it is significant that this 10-cent announcement comes at a time when tank wagon prices of gasoline are being reduced (which could not be done if crude ceilings were not too low); and also when independent operators and representatives of royalty owners, as well as Members of Congress, were demanding action by Office of Price Administration before the act under consideration is extended. This inadequate increase cannot justify continued ceilings on crude oil when there is no shortage. It does not deal with the fundamental question involved—"expanding production" which calls for dropping ceilings on products of which there is an abundant supply.

Now, Mr. Chairman, I might interpose here to demonstrate that even Office of Price Administration apparently has no real understanding of this problem, from their press release yesterday in announcing this 10-cent increase. They have stated that this increase will mean an additional \$150,000,000 to crude oil producers annually. We have been met, in coming up here from time to time representing independent producers or royalty owners or the schools of Texas, with the statement that an increase in the price of crude would put billions of dollars into the Standard Oil Co. This \$150,000,000 which the Office of Price Administration alluded to in this announcement has already been going to the integrated companies without any sharing whatever with the royalty owners or the local subdivisions of government.

So it is not an increase to the industry at all, it is simply providing for some relief, a slight relief to the royalty owners and to the State in the form of taxes, and so forth, out of this 10-cent increase announced yesterday in which Office of Price Administration for the first time acknowledges what I have always believed, and that is, while they say to the independent producers, "You are making more money than you ever made before; therefore, you are not entitled to an increase," they confess in this statement they have not heretofore taken into consideration replacement costs.

They have stated on a number of occasions that they were taking replacements costs into consideration. I have never been able to pin one of them down as to just how they took it into consideration. But now they admit in the past they have not taken into consideration replacement cost of the oil producer. He has been selling his goods off his shelf without putting it back into the business for additional exploration and production.

MONOPOLY

It seems clear to me that the Office of Price Administration ceiling price on crude has not had a reasonable relationship to the profits which have been made by the large integrated companies out of transportation, refining, and marketing. But if further proof be needed, I cite you to the sale of 75 wells in the east Texas field last year by a firm of independent producers to the Standard Oil Co. of Indiana at approximately \$80,000 per well. That price cannot be justified on the basis of pay-out which is the basis generally used. The present allowable, if no further cuts are made on those 80 wells, is approximately 400 barrels per well each month. The well head price is \$1.25 per barrel, which, when reduced by taxes and royalty payments and by a minimum lifting cost, will leave a net operating income of less than

\$400 a month on an \$80,000 investment. An 18-year pay-out. No producer could pay such a price—only a refiner or integrated operator who expects a “take” or excessive profit from other segments of the industry.

Again, there is evidence of this disproportionate relationship of crude ceilings to profits from other branches of the industry in the fact that recently one integrated company reduced tank wagon prices on gasoline in the Gulf coast $\frac{1}{2}$ of a cent per gallon without a corresponding reduction to the consuming public. An eighth of a cent difference in tank wagon prices is supposed to reflect 5 cents a barrel difference in the price of crude. So that this integrated company could not have made that reduction in tank wagon prices if the ceiling price on crude had not been as low as it is and has been under Office of Price Administration.

Gentlemen, the sale of independent properties in Texas has been repeated many times during the past 4 years. There has been an alarming trend toward monopoly in repeated acquisitions of independent oil properties by integrated companies, reflected by their increasing percentages of the Nation's production.

While I have shown beyond dispute the transcendent interest of land and royalty owners and the schools of Texas in an increased crude ceiling, I also espouse the cause of the independent producer who has been compelled, under war conditions, to wage an unequal contest with the powerful integrated companies whose profits come, not from production, but from pipe lines, refineries and marketing. What a producer makes in net earnings depends on how much he can invest back in the business to maintain or increase his position in the industry. Such information as I have indicates that the independent producer, under Office of Price Administration crude ceilings, has not only not maintained his position in the industry—he has lost it. His percentage of production has steadily decreased. His proportionate percentage of reserves has correspondingly decreased and all the time his costs have gone up.

Gentlemen, this definitely is leading to monopoly. In my opinion, unless the trend is checked, it will result in complete control by the integrated companies. It is something that challenges the attention of Congress. Once the integrated companies have made their control secure and consumer ceilings are gone—as they must ultimately go—then the people will be at the mercy of the oil monopoly. The answer to monopoly is competition. Once ceilings are taken off the independent producer's crude, land and royalty owners will receive their fair share of profits and the consuming public will be protected by the independent's competition, since there is no shortage of oil or gasoline.

This is not a problem that the Office of Price Administration, or any group of statisticians and economists should take under advisement for a long study. We have had 3 or 4 years of economic study by these same people and so-called industry committees without results, until the 10-cent increase just announced.

During the war it was on their recommendation that the refiners were granted price increases; but they said the producers did not need an increase because they were being allowed to produce more oil each day, consequently their income was up sufficiently to offset increased costs. Very well. Now the allowables have been reduced

and the independent's income has been reduced, but their costs go on, thus further reducing the amounts they can put back into the business of exploration and finding oil, and drilling wells, furnishing employment, leasing land, paying rentals and royalties. The independent is losing his place in the picture, his position in an industry that must be kept competitive.

Removal of crude oil ceilings, thus placing it on a competitive basis, will do more, in my opinion, to insure the continued operation of independent refineries than any other single act. In open competition, independent refineries can make their contracts so as to be assured of a continued source of supply. It is my observation that an independent refinery will pay more for oil than an integrated refinery. It is unimportant whether this is due to less through-put costs or because of willingness to accept a smaller margin of profit. The important thing is that it is true.

So, if crude ceilings are removed, it will benefit the land and royalty owner, the independent producer, the general economy, and the public generally. Through competition, it will promote the general welfare and the free enterprise to which the integrated companies profess to be so devoted.

Failure to remove crude ceilings will benefit only the integrated companies. It will not benefit the consumer, the royalty owner, the economy of the State and Nation. Crude can be produced in the United States in sufficient quantities, without waste, more than sufficient to supply consumptive demand. Therefore, crude oil price ceilings are no longer needed even though refinery product ceilings are retained. This will insure that the integrated companies cannot continue to fill up their storage at the expense of the landowner, the school children of Texas, and the independent producer under an umbrella of Government protection.

I do not advocate the removal of all price controls. I do not oppose extension of the Price Control Act. But I do earnestly urge Congress, in extending that act, to deny to Office of Price Administration the power to fix crude oil price ceilings, as the first and necessary step in the direction all of us say we want to go, to free from price control a commodity of which there is no shortage, free it from the injustices which somehow Office of Price Administration has been unable to see.

The CHAIRMAN. In my State of Kentucky there are a good many stripper wells. I think they are high-cost producers. They say they need Government help to keep them in production. What do you say about it?

Mr. ALLRED. I am not qualified on the stripper well subsidy question. There will probably be others before you who, I know, can discuss it more intelligently than I. I do not think it enters into the picture as to the removal of the ceiling.

The CHAIRMAN. The subsidy did keep in production many of these wells.

Mr. ALLRED. Yes; certainly it was justified during the war to assure our getting that oil which otherwise might not have been produced.

The CHAIRMAN. What assurance have we that the production of crude oil will be adequate to the demand?

Mr. ALLRED. We have the assurance that we have more reserves than we knew about when the war began—even after the great withdrawals during the war. We have the assurance of practically every segment of the industry familiar with the subject matter that there is no danger of an oil shortage in this country for many years to come.

There was an article in one of Washington's papers, I believe the *Star*, yesterday pointing out the alarms that had been sounded for many years and upon many occasions of the prospective shortage of oil and some of the statements of the departed Secretary of the Interior to that effect, and pointing to the fact that the estimate of the American Petroleum Institute, and all other sources, is that we have many, many years of known reserves at this time, to say nothing of discoveries that will be brought about if a price sufficient to justify continued exploration and finding of oil is permitted when Office of Price Administration crude oil price ceilings are lifted.

The CHAIRMAN. Has crude oil ever sold below the ceiling price at any time?

Mr. ALLRED. Yes.

The CHAIRMAN. Is it below the ceiling price now?

Mr. ALLRED. There is not anything to compel anybody to pay the ceiling price for it now.

The CHAIRMAN. Is it the general condition?

Mr. ALLRED. It is generally bringing ceiling price. There are exceptional cases, I am sure. For instance, I believe the ceiling on some crude in Texas is 92 cents. This will bring it up to \$1.02.

Mr. PATMAN. I think you have delivered a very fine statement. It appears to be very much in the public interest. When this question came up about taking off price controls, I have always made inquiry about transportation facilities, because we can have production in one section and we can have a scarcity in other sections. As to oil, what transportation facilities are available that would keep that from being a factor?

Mr. ALLRED. My understanding is that there is no transportation problem whatever. They are not having any problem now. We still have the Big Inch pipe line which can be used if necessary. We have railroad tank cars, a fleet of tankers, and other pipe-line systems. I have not heard any person assert there was any transportation problem now in connection with oil throughout the Nation anywhere.

Mr. PATMAN. The boxcar shortage would not affect it, because the transportation would be in tank cars. These cars are not used for the transportation of grain.

Mr. ALLRED. That is correct.

Mr. PATMAN. I think you have made a very fine statement. I am very much in accord with it. I have already told Mr. Bowles I expect to insist he take off control on oil, because supply does meet the demand. I am going to continue to insist on it.

Mr. ALLRED. Frankly, Mr. Congressman, I am rather inclined to think your statement to Mr. Bowles may be responsible for this 10-cent increase which has just gone into effect.

Mr. PATMAN. I do not know about that. We found, a long time ago, that the oil producers were entitled to 35 cents a barrel increase. I thought possibly he might have used that as a basis and given only about one-third of it.

Mr. ALLRED. I cannot see why, under the facts that have been submitted—in fact, I have heard no person dispute it, that there is no shortage of oil—why ceilings should not have been removed entirely, rather than to increase the price 10 cents, unless it is some sort of a holding device.

Mr. PATMAN. Are there any other questions, gentlemen?

Mr. FOLGER. I would like to ask a question. Governor, you were speaking of the transportation of the Big Inch pipe line that could be used if necessary. Is it being used now?

Mr. ALLRED. I understand not.

Mr. FOLGER. Do you know what the reason for that is?

Mr. ALLRED. No, sir, I do not. I suppose it is because we do not need it. Certainly we needed it during the war. I suppose the tanker fleet must be back in operation.

Mr. FOLGER. Is not transportation by pipe line much cheaper?

Mr. ALLRED. I am not qualified to answer that question, Congressman Folger, I am not in the oil business. I have no oil interests. I am simply an attorney. I went through the east Texas oil field as the attorney general of Texas. We finally got the situation straightened out—

Mr. FOLGER. You were talking about the price of crude oil.

Mr. ALLRED. And removal of the ceilings so that if we can find purchasers, Congressman Folger, for our crude, at a price in excess of the present crude ceiling, in view of the fact that there is no shortage, we think we should be free to do so, especially if it would not result in an increase in the end price which it has not so far, even in the 10-cent increase just announced by Office of Price Administration. I do not see why we should not have been permitted to do that 8 months ago.

Mr. FOLGER. That is all.

Mr. TALLE. Governor, I would like to ask you if this would be a reasonable definition of monopoly? Suppose I define "monopoly" as follows: Such control of supply as enables one to fix price. Would that be a reasonable definition?

Mr. ALLRED. I think so, to some extent; yes.

Mr. TALLE. After all, it is control of supply that makes it possible to establish monopolies.

Mr. ALLRED. Certainly helps it. I have generally observed the supply affects the end use or price of the product.

Mr. TALLE. It is not necessary for the owner of the supply to control all of it in order to have a monopoly.

Mr. ALLRED. Oh, no.

Mr. TALLE. In the oil business, what percentage would an owner have to control in order to be so effective that he could determine price?

Mr. ALLRED. I would not want to fix any arbitrary percentage, Congressman, but, of course, as you probably know, sometimes it is a small percentage. It depends on the influence wielded. In a number of the reported cases convictions have been had and damages were recovered upon that theory.

Mr. TALLE. Certainly, a person does not have to control 100 percent.

Mr. ALLRED. No more than in connection with the affairs of the corporation.

Mr. TALLE. In some instances 30 percent will do the job.

Mr. ALLRED. I should think so.

Mr. TALLE. Thank you, Governor.

Mr. PATMAN. Any other questions?

Thank you, very much.

Mr. ALLRED. Thank you, very much, again.

Mr. PATMAN. Without objection the committee will stand adjourned until 10:30 tomorrow morning.

(Whereupon at 3:45 p. m., the committee adjourned until 10:30 a. m., March 8, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

FRIDAY, MARCH 8, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

We will hear Mr. James B. Carey, the secretary-treasurer of the Congress of Industrial Organizations, this morning.

This afternoon Mayor O'Dwyer of New York City and Mr. Goss, master of the Grange, said he could only be here tomorrow morning, and he is going to leave the city and will be gone for several weeks, so we will hear Mr. Goss tomorrow morning at 10:30.

Mr. Carey, you may proceed.

STATEMENT OF JAMES B. CAREY, SECRETARY-TREASURER, CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. CAREY. Mr. Chairman, on February 25, Mr. Philip Murray, president of the Congress of Industrial Organizations, sent to Mr. Chester Bowles, Director of Economic Stabilization, a letter in which appeared the following statements (reading):

In its struggle for a decent living wage for its members, the Congress of Industrial Organizations has not at any time abandoned its firm support of effective and vigorous price control. It reaffirms its support at this time. Its record in the fight against inflation is untarnished by retreat or compromise.

The Congress of Industrial Organizations reaffirms its support of price control and pledges to you its wholehearted cooperation in the fight for the renewal of the Price Control Act.

With your permission, Mr. Chairman, I would like to insert in the record a copy of the full statement of Mr. Murray.

The CHAIRMAN. That may be inserted.

(The document above referred to is as follows:)

DEAR MR. BOWLES: A movement of historic proportions for the restoration of the take-home pay of American workers is now being concluded. Wage settlements on behalf of millions of members of CIO unions are now being made throughout industry. It is imperative for industrial peace, rapid reconversion, full employment, and the fight against inflation, that these settlements be made effective with all possible speed and in as broad as possible an area.

It would be severely injurious to the common welfare if, after the principles governing those wage settlements had been established, their application were deferred for an indefinite period of time or if they were applied in such a way as to deprive the workers who struggled to achieve those settlements of the full fruits of them.

Moreover, any policy which requires approval of governmental agencies of a wage increase granted as the result of collective bargaining seriously undermines the freedom of American workers and destroys the value of collective bargaining. Having eliminated Government intervention from the disputes phase of labor relations, it would be catastrophic to reintroduce it on the level of wage settlements. To do so would mean not only to abandon a fundamental premise of Federal labor policy of encouraging collective bargaining to the widest extent possible but also to invite destructive delays and inevitable confusion and strikes.

This will be the inevitable result from the application of Executive Order 9697 purporting to establish a new national wage-price policy.

The CIO is unwilling to commit itself to an Executive order based upon the view that wage increases obtained through collective bargaining are inflationary. The CIO is unwilling to commit itself to a recurrence of wartime delays in the processing of wage increases and in the policing of meaningless distinctions. Neither the labor movement nor the public as a whole can countenance a repetition of our wartime experience along these lines.

We urge you, therefore, promptly to remove all handicaps to the functioning of collective bargaining by removing the necessity for subjecting wage settlements between employers and labor organizations to approval of the Wage Stabilization Board.

In its struggle for a decent living wage for its members, the Congress of Industrial Organizations has not at any time abandoned its firm support of effective and vigorous price control. It reaffirms its support at this time. Its record in the fight against inflation is untarnished by retreat or compromise.

In its campaign for wage increases, the Congress of Industrial Organizations has not at any time abandoned its conviction that price control is indispensable to the welfare of all the people.

This wage movement has been based upon the argument of the President of the United States that "wage increases are therefore imperative—to cushion the shock to our workers, to sustain adequate purchasing power and to raise the national income." At the same time, the Congress of Industrial Organizations has insisted, as has the President of the United States, that the high profits and reduced costs of American industry can amply absorb such increases without increasing the cost of living.

During the National Labor-Management Conference in the month of November of last year, the Congress of Industrial Organizations labored ceaselessly for the adoption of a resolution addressed to the wage issue which would permit substantial wage increases. A combination of other groups sponsored a resolution which proposed nothing less than the gutting of the entire price-control program under the guise of supporting so-called unfettered free enterprise. Any present attempt on the part of these interests to pose as guardians against inflation will deceive no one.

The Congress of Industrial Organizations reaffirms its support of price control and pledges to you its whole-hearted cooperation in the fight for the renewal of the Price Control Act.

Sincerely yours,

(Signed) PHILIP MURRAY,
President, CIO.

Mr. CAREY. In the absence of Mr. Murray, it is to amplify these statements which he made that the Congress of Industrial Organizations has asked permission to testify before this committee.

Each year since the war began, the Congress of Industrial Organizations has appeared here on the Hill to support price-control legislation. Each time we have taken great pains to make it clear that we were for more than just the passage of a price control law. We have tried to make it clear that strong price control means setting up an agency committed to administering the law in the strictest possible sense. The price control agency must be protected against pressure from selfish private interest groups so that it may administer the law in the interest of the Nation as a whole.

Strong price control requires also that the Administration provide such additional control programs as may be necessary to permit prices to be kept down. I am, of course, referring to subsidies, to rent control, and to production controls.

In appearing here this year to urge that the Administration protect this Nation against further inflation, we are conscious of the fact that price control must now be considered in the special circumstances brought about by the end of the war.

The Congress of Industrial Organizations has never regarded price control as a wartime measure in the sense that its necessity began on Pearl Harbor day and ended on VJ-day. We believe that price control was made necessary by the special economic conditions which the war brought on. Since those economic conditions still exist, it is clear in our minds that the need for price control still exists. As a matter of fact, the evidence already on hand makes it absolutely clear that inflationary pressures today are greater than they were at any time during the war, and that therefore the need for price control is greater than ever. In order to make clearer what the situation is, I would like to refer to a few of the specific inflationary problems which face us.

Let me refer first of all to the housing situation. Here we have the existence of a tremendous housing need and the existence of a tremendous amount of money available for speculation. What the result of this combination has meant in increases in the prices of homes and real estate is so well known that there is no need of my going into it further.

Then there is the hoarding which is being done in consumer goods industries. You have undoubtedly seen the reports in the daily press. I understand that over 4,000,000 shirts are being withheld from the market in anticipation of the end of price control, or, at least, of the issuance of a new price control regulation by the Office of Price Administration. This is only one example of the area in which sharp increases in price can be expected immediately unless price control is maintained with a firm hand. How high these prices would go if ceilings were entirely removed is anybody's guess. Once such inflation gets under way, there is no one who can say where it will end.

I mention these facts not because I anticipate that this Congress may decide to end price control at this time. There are few, if any, groups in this country so illiterate economically as to want to see price control terminated now.

However, there are a great many organizations in the country, which are willing to gamble with our economic welfare to gain additional profits at the expense of the whole Nation. This committee is certain to be asked at one time or another to consider a number of proposals, each of which would have the effect of adding more dollars to the profits of some particular industry or business group.

I understand that the National Retail Dry Goods Association wants Congress to insure the retailer a profit on each item he sells regardless of how large his over-all profits may be. The association also wants to be allowed to maintain the same percentage margin of profit no matter how high prices go and regardless of the volume of business.

The National Automobile Dealers Association is also wedded to the idea that margins must be maintained regardless of prices and volume of business.

The National Association of Retail Grocers believes that no violation of a price ceiling should be prosecuted unless it is more than 2½ percent above the ceiling. Obviously the adoption of their proposal would mean an immediate increase of 2½ cents on grocery-store prices.

The American Wool Council and other organizations want the Office of Price Administration's "maximum average price plan" to be eliminated. If they are successful, the lower ends of even the present price ranges will disappear immediately.

The National Cotton Council is determined that there shall be no ceiling price placed on cotton regardless of the price increases which are taking place.

The National Association of Real Estate Boards wants an across-the-board increase in rent ceilings.

The producers of building materials, and most of the organizations which sell them, want more generous treatment in spite of their already phenomenal profits.

Most of these groups which I have just named are on the list specifically mentioned by Chester Bowles in his speech on Tuesday, March 5, as being "out to eliminate or wreck the only controls which stand between our people and inflation."

These proposals would obviously increase profits, which is all their advocates seem to be interested in. Obviously, the total inflation which would result from the enactment of these proposals would be at the expense of the entire Nation.

Perhaps it is wrong to say that the cost of inflation would be borne by the entire Nation. I am conscious of the fact that there are speculative groups in this country which would benefit from an inflation even though inflation now would add to the burden of the deflation which will come later. If these groups join hands with the monopolists who would benefit from depression, we may come out of the present discussion with the kind of price control which will be absolutely unbearable as far as the Nation is concerned.

It is this total, over-all picture that I urge this committee to keep in mind as the various proposals to weaken the price control program are laid before you. It seems to me that the answer to all of them must be a flat "No." There must be no further weakening amendments attached to the present price control law.

Let me emphasize what I said before about the necessity for a strong priced control agency as well as for a strong price control law. It has been the observation of the Congress of Industrial Organizations cost-of-living committee, which has been following price control carefully since it first began, that the agency can be weakened as effectively by administrative inhibitions within the Office of Price Administrations as by amendments to the law. The Congress of Industrial Organizations feels, therefore, that it is the responsibility of this committee and of Congress to protect the Office of Price Administration against the kind of congressional pressure which results in off-the-record deals, bargains, and promises to "be reasonable."

This responsibility to protect the Office of Price Administration against the necessity for making behind-the-scene deals is even greater than the responsibility for protecting the price-control law. The public will know if the law is amended. It does not and can not know when price control is emasculated by these vicious and undemocratic concessions achieved by holding a legislative pistol at the Office of Price Administration's head.

Our views about the dangers which confront price control are based on our knowledge of what has already been happening to price control and to prices in the past few months. You may perhaps know that

the Office of Price Administration has been taking the ceilings off a good many items and commodities which have been under control during the war. Recently the Office of Price Administration issued a report called Facts about the charge that price control is interfering with production. In this report the Office of Price Administration admitted that between VE-day and February of this year, price ceilings were taken off 1,300 types of items.

The facts, to show what happened in each case after decontrol, are not available. For at least a few of them, however, the facts are available. You may recall what happened to the prices of citrus fruits in the holiday season between Thanksgiving and Christmas of last year as a result of the removal by the Office of Price Administration of ceilings on these items. Within a few days, prices nearly doubled. Within 2 or 3 days after the removal of the ceilings, the prices of some grades of oranges in some areas jumped 96 percent. Three or four weeks went by before ceilings could be reinstated. By the time the prices were again brought under control, on January 3, 1946, the consumer had been charged a very significant sum of money to help prove to the Government that price control was still needed.

When ceiling prices were removed on that very important household commodity, clothespins, in some areas prices jumped from 5 cents to 20 cents per dozen. You may be familiar with the price increase on coconuts, an increase of 400 percent which took place when the Office of Price Administration removed the ceiling price on that item.

These are only examples of the situation as a whole. The situation was characterized by Richard V. Gilbert, economic adviser to the Office of Price Administration, on December 1, 1945, in the following language:

Commodity prices clear across the board, many of which, on the basis of non-speculative demand and supply factors, should now be decreasing, are jumping up hard against the ceiling. In some cases where, because of the adequacy of supply, we have suspended or exempted commodities from price control, prices have been bid upward speculatively. Some of them doubled overnight.

Yet the pressures for further decontrol continue. The Office of Price Administration continues to exempt commodities from price control, and it is my understanding that there is a proposal before Congress to require the Office of Price Administration to eliminate price ceilings even faster than it is being done under its already too-hasty program.

When your committee comes to consider the proposal which I understand is before you—that the Office of Price Administration be required to remove ceilings as soon as a commodity reaches some normal level of production—I hope that you will remember this statement by Dr. Gilbert. Let me repeat part of it [reading]:

Commodity prices clear across the board, many of which, on the basis of non-speculative demand and supply factors, should now be decreasing, are jumping up hard against the ceiling.

Even where price ceilings are being kept on, the tendency is clearly toward relaxation of price control. The Office of Price Administration report referred to above, which showed the elimination of ceilings from 1,300 types of items, also reported that between VE-day and

the 1st of February, the Office of Price Administration made 459 industry-wide price increases.

If there is anything in the profit figures of American corporations to show that these price increases are dictated by necessity, we have not been able to find it. The Congress of Industrial Organizations cost-of-living committee, which has followed many of these increases on a case-by-case basis, has discovered again and again that the increases are being made to maintain uneconomic wartime profits and even to increase such profits. Meanwhile, the cost of living continues to go up.

Right within the Government there have been official agencies and spokesmen pressuring for higher prices. I have observed that the Department of Agriculture speaks for the Government with the voice of those who want inflation. Much of the pressure to eliminate subsidies has come from the Department of Agriculture, even though the taxpayers of this country, whom the Department is supposed to serve, will suffer as a result of the elimination of subsidies. I think I need only remind you of the increase in the price of butter which took place recently as a result of the elimination of the butter subsidy to illustrate what I mean. If the Department had been successful in carrying out its original proposal, the price of butter would have moved up an additional 12 cents per pound.

When I have asked the reason for some of this desire by the Department to get prices up, it has been explained to me that the Department is trying to save the taxpayer money. I understand that the Department of Agriculture is committed to support the prices of some agricultural commodities which may go down before the end of the current crop year. If the drop is great enough to bring the average price for that commodity to below the support level, the Department of Agriculture may be required to spend some money in supporting that price. On the other hand, if the price can be permitted to rise now, the average price for the commodity during the crop year may be maintained at a point so high that no expenditure by the Department will be required.

Of course, the general public will foot the bill for these higher prices. The ordinary consumer, already bedeviled by higher prices, will find himself further bedeviled by more price increases. The average worker who finds his take-home pay falling while the cost of living continues to rise, will be put under a greater squeeze than ever before.

Gentlemen, if decontrol, industrywide price increases and manufactured inflation by the Department of Agriculture are to be the economic program of this country in the months ahead, then, we will have no one to blame but ourselves for the chaos which is bound to follow.

The Congress of Industrial Organizations has continuously pointed out that the economic prosperity of this country depends on our maintaining an increasingly higher level of purchasing power. We have pointed out as an organization, and our cost-of-living committee has pointed out to the Office of Price Administration, that at the beginning of the war purchasing power in this country was too low to support full employment and full production. During the war the cost of living went up. New and more modern plants were built. New and more efficient methods of production were developed. The wage increases which took place have not been enough to keep

up with these increases in the price and the volume of goods which will be available when full peacetime production is resumed. In other words, purchasing power was behind in the race when the war began—during the war it fell even further behind.

The measure of our inability to provide the buying power which will be needed if the product of full production is to be sold is to be found in the hoarded reserves of industry. These are greater today than ever before in the history of this Nation, and no unbiased, competent, economist can be found to say what will be done with all of the money. Neither can anyone say what will be done with the full amount of the profits which are currently being earned at present prices and present wages.

This situation as applies to profits, prices, and wages, spells economic disaster for this Nation in the near future. Yet in spite of this fact, every possible excuse is being taken for raising prices. Now, when labor is about to obtain a part of the wage increases which are due us as a result of the disparity between prices and wages, these wage increases themselves are used as the excuse for another round of price increases.

One example of how our price policy is operating in this respect is the increase being made in the price of meat. The meat packers are sharing in the general profit prosperity which industry experienced during the war. Packinghouse employees in both the Congress of Industrial Organizations and the American Federation of Labor requested wage increases at the end of the war. As you know, the President appointed a fact-finding panel to hear the case. The panel recommended that the wage increase be limited to 16 cents per hour. This recommendation is being put into effect.

However, the panel was so impressed with the profit situation of the industry that it felt impelled to recommend that 5 of the 16 cents be absorbed out of the profits of the industry. It is my opinion, and the opinion of our packinghouse union, that this recommendation was most generous from the point of view of industry. Profits in this industry have been so great that far more than 5 cents of the wage increase could have been absorbed out of profits. Nevertheless, somewhere between the recommendation of the fact-finding board and the price order issued by the Office of Price Administration, this recommendation of the panel has been lost. The price increase in meat has required no absorption out of the profits of the industry.

Again, these are only examples of what is happening. This pattern is being repeated, and will be repeated, in industry after industry as our workers are given the wage increases they waited so long to get. Not only is our weak price-control policy permitting our efforts to increase purchasing power to be wasted, the wage increases are being used as the excuse to throw additional windfalls of millions of dollars into corporate treasuries that are already far too bloated for the health of the country.

In addition, every inflationist in the country is now trying to hide behind the wage increases which are being made, and to blame labor for the price increases that he has been able to wheedle or bludgeon out of the Office of Price Administration.

We refuse to be the whipping boy for this crime. We refuse to be blamed for the efforts of the Department of Agriculture to get the

prices up. We refuse to be blamed for the fact that the Civilian Production Administration refuses to use its powers to help get low-priced production out of the plants, to prevent hoarding, and to stop black markets. All of these things spell inflation. They have been going on for a long time. It is up to Congress to see that a change is made.

We want an adequate subsidy program. We refuse to be blamed for the higher prices which result from the elimination of subsidies. We want Congress to assume the responsibility for that, too.

The Office of Price Administration's program of removing price ceilings is bringing about higher prices. The Office of Price Administration is permitting large numbers of manufacturers to figure their own ceilings. The Office of Price Administration is making hundreds of industry-wide price increases and thousands of individual price increases. These have been completely apart from the wage-price drive.

To the extent that this results from congressional pressure, Congress is responsible. To the extent that this results from insufficient appropriations, Congress is responsible. To the extent that it results from industry pressure backed up by the influence of individual members of Congress, Congress is responsible.

These are all matters for Congress to consider seriously and with the maximum of responsibility in the next few days.

To the extent that labor's drive to increase purchasing power by getting wage raises out of profits is frustrated by government action, to the extent that our accomplishments are being turned inside out and changed into price increases, somebody other than labor is responsible. I think Congress must go into this matter thoroughly, and arrive at a decision as to what shall be done about it.

Gentlemen, this country must have price stabilization. We are forgetting entirely that the greatest deflationary crisis in history is already in the making. The greater inflation is allowed to become from here, the greater will be the price we pay for it in the deflation which will follow. The deflation is being built primarily out of two failures in economic statesmanship: First, the failure to realize that purchasing power must be built up in the hands of the common man, the man who can be expected to buy the new avalanche of consumer goods which will come from our plant and equipment. Second, the failure to realize that what is being done to build up our purchasing power through the creation of a new minimum wage and through wage increases is being completely offset and perhaps more than offset by the wild price increases which are being both permitted and engineered in the Federal Government today.

I repeat that it is the responsibility of this committee and of this Congress to completely reverse the pattern which is being followed.

The price control law must be passed. It must obviously be passed without weakening amendments, but also without hidden, weakening deals with the Office of Price Administration. The Office of Price Administration must be given clear and sharp instructions to keep ceilings on and to keep those ceilings as tight as the earnings of industry permit, and the economic welfare of the Nation requires. The pressure group conglomeration of Congressmen on the Hill, which is purely a rump committee and which spends its time harrying the agency people who really believe in price stabilization, must be

given clear notice that it is the intent of the people of this country and of Congress to hold whatever is left of the price line. The Office of Price Administration must be provided with the funds which are necessary to carry out a vigorous price-control program. The subsidy program must be reactivated so that whenever subsidy assistance is needed to hold the price line, it will be available and forthcoming.

In addition to subsidies, the Department of Agriculture must be told that stabilization of the price line is in the public interest and that the functions of the Department must be dedicated to serving that interest. The other Government agencies, particularly the Civilian Production Administration, must be told that stabilization of the price line and full production within this line are not alone the functions of the Office of Price Administration, but are the responsibility of the entire Government administration. All of the powers available to these agencies must be thrown into the fight so that further inflation can be avoided and at least that part of deflation be prevented.

The Congress of Industrial Organizations will continue to do what it can to inform its members and whatever additional segments of the American people it can reach that these issues are vital and essential to their welfare, and that the measure of economic statesmanship of this nation and of the Congress which represents it will be found in the action taken here in the next few days.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. I will pass for the time being.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. I have no questions.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. No questions.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNKEL. Mr. Carey, I was interested in one thing here. I am not familiar with just what happened. If you will turn to page 7 of your prepared statement, at about the middle of the page it says "Nevertheless somewhere between the recommendation of the fact-finding board and the price order issued by the Office of Price Administration, this recommendation of the panel has been lost. The price increase in meat has required no absorption out of the profits of the industry." I do not know just what happened finally in that. Could you give me an outline?

Mr. CAREY. Well, to sum it up, Mr. Congressman, the amount of price increase granted to the industry would more than pay the amount of wage increase granted the workers, despite the fact that the panel's recommendation was that a portion of this increased cost brought about through the wage increase should be absorbed out of the exorbitant profits of the industry.

Mr. KUNKEL. Did or did not the industry have to absorb the 5 cents, according to the order?

Mr. CAREY. Apparently not.

Mr. KUNKEL. Well, did the order tell them to do that, or did the order just ignore that? What happened?

Mr. CAREY. As far as I know, Congressman, the recommendation—at least that portion of the recommendation of the fact-finding committee—was lost in the shuffle.

Mr. KUNKEL. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Hays.

Mr. HAYS. I have no questions, Mr. Chairman.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. I have no questions.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. No questions, Mr. Chairman.

The CHAIRMAN. Mrs. Woodhouse.

Mrs. WOODHOUSE. I have a question. Mr. Carey, from your present experience, have you any evidence that price control has retarded the return of the country to full production?

Mr. CAREY. No. We have indication that it has not. The difficulty we are confronted with at the present moment is the desire to withhold from the consumer markets certain commodities, in order to take advantage of the additional opportunities for increased profits that will result through a change in the Office of Price Administration ceilings, or in elimination of the price controls.

The instance in textiles would indicate that it was not the ceilings which stopped production, but there was a shortage of manpower, and when wages were increased, production began to roll. Although it is true, as I stated, that about 4,000,000 shirts are being withheld from the market on a speculative basis. They have nothing to lose by withholding them and they seem to feel that the gamble is worth while, and despite all the contentions of the National Association of Manufacturers and others, during a period of war, when we had price ceilings, production went up tremendously, as everyone knows. And that in itself is an argument against the statements made by the National Association of Manufacturers.

Mrs. WOODHOUSE. In this textile industry which you mentioned, there was an increase in wages without an increase in prices?

Mr. CAREY. That is correct. That especially applies to the establishment by collective bargaining of a 65-cent minimum in the industry, which attracted more labor and made greater production possible.

Mrs. WOODHOUSE. I know that your Women's Auxiliary has been very interested in the low-price garment. Do they find that low-price garments are coming back on the market?

Mr. CAREY. Well, we had, only yesterday, another order by the Office of Price Administration. It is very interesting, because it eliminates from price ceilings household accessories, and houseware, sporting goods, and clothing—some clothing, some sporting goods. Now, with the elimination of price ceilings on, say, baseball outfits and football outfits, undoubtedly there will be a tremendous increase in price. A great deal of the goods that would normally be used in other fields will be used in the production of baseball suits, and that will cut out some additional available material for normal consumer use. And the trends that are now apparent would indicate that there will be less goods available, especially in the low price field, because whenever the price ceilings are eliminated on some commodity that uses the same material, we have a reduction in the amount of consumer goods available to the consumer.

Mrs. WOODHOUSE. Thank you.

The CHAIRMAN. Mr. Monroney.

Mr. PATMAN. May I ask a question?

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. You stated that 4,000,000 shirts were being withheld from the market. How do you get that information? If you do not mind stating.

Mr. CAREY. Well, it was carried in several issues of the New York Times, and it is available, of course, to the general public, and it is known to our people because many of them are employed in these warehouses, and they expressed their views about the great need for shirts and yet the shirts are there in the warehouses and not available.

Mr. PATMAN. Well, you know the companies that have them, then?

Mr. CAREY. Well, the same reports in the New York Times carried some of the names of the companies.

Mr. PATMAN. Well, I talked to Mr. Small about that, and to the best of my recollection, he said they were using pressure on those people to turn those shirts loose in this way: they were going to deny them additional materials unless they did turn them loose.

Mr. CAREY. Well, I suppose the companies have the feeling that there are offsetting pressures being exerted on Mr. Small and on the Office of Price Administration and perhaps on the members of this committee, and the very delay itself that Mr. Small is going to do something about in the future adds the additional time element, and it makes it worth while to gamble, because if his only effort to enforce the release of those goods is to say that sometime in the future he may do it, that would be a repetition of some of the statements that have been made by Civilian Production Administration time and time again. But nothing of a concrete nature is done, at least enough to move those shirts from the warehouses to the stores.

Mr. PATMAN. Well, I am glad you brought that to the attention of the committee. I expect to pursue it and see why something is not done. It occurs to me that something should be done quickly along that line.

Mr. CAREY. I think so, Congressman, and I would like to point out that that is merely one example of a great number of things.

Mr. PATMAN. Now, of course, just newspaper reports are current information, and we get to repeating them, and we say, "Well, everybody knows it." But if you could bring to this committee or to me some specific information, I will guarantee you I will follow that up every day until something is done about it.

Mr. CAREY. I feel certain that the Congress of Industrial Organizations Committee has considerable information on the subject. But the governmental agencies have it in abundance.

Mr. PATMAN. You mean the Civilian Production Administration itself?

Mr. CAREY. Yes; and the Office of Price Administration.

Mr. PATMAN. And the Office of Price Administration?

Mr. CAREY. That is correct.

Mr. PATMAN. Well, that is something that should not be tolerated at all. That is hoarding against the public interest, and attempting to profiteer in the future at the expense of the public.

Mr. CAREY. And I might say, Congressman, that a great number of those things, such as the 4,000,000 shirts, were produced with goods that were under wartime controls.

Mr. PATMAN. That is the part that disturbs me. They were given these priorities and allocations, and yet are trying to use them to the detriment of the public and the country, apparently, which is, I think, very bad. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I have no questions.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. I have no questions.

The CHAIRMAN. Thank you very much for your statement, Mr. Carey.

Mr. CAREY. Thank you, Mr. Chairman.

The CHAIRMAN. Mayor O'Dwyer is to appear at 2 o'clock this afternoon. I understand there is a very important bill on the floor of the House, so the committee will have to give Mayor O'Dwyer an opportunity to appear.

The committee will now adjourn until this afternoon at 2 o'clock.

(Whereupon, at 12 o'clock m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

We have as our witness this afternoon General O'Dwyer, mayor of the great city of New York.

Mr. Mayor, I know the members of the committee, at least on this side, desire to congratulate you on your splendid victory. I know I speak their sentiments when I say that we hope you may have a most happy and prosperous administration.

The city of New York has as one of its representatives here Mr. William Barry. The committee has been honored by having him as a member of this committee. He is able, industrious and efficient, and always looking after the interests of his people.

It gives me great pleasure to ask him to preside during the presentation of your testimony.

Mr. Barry, will you take the chair?

Mr. BARRY. Mr. Chairman, thank you for those kind words. I also want to mention that the Bronx is part of that great city, and we have Mr. Peter A. Quinn, one of our colleagues from the Bronx.

Mr. BROWN. Will the gentleman yield?

Mr. BARRY. I yield to Mr. Brown.

Mr. BROWN. I think two among the most outstanding members of Congress from New York and of the United States happen to be on this committee, and I want to congratulate you, Mr. Mayor, for sending such good men to Congress.

The CHAIRMAN. Having in mind, Mr. Mayor, the gentleman I have asked to preside, I have not overlooked your other very able Congressman. Mr. Quinn also looks after the interests of his people in a most able and efficient manner. And we are happy to have him on the committee.

Mr. BARRY. Thank you, Mr. Chairman and Mr. Brown.

Now, Mr. Mayor, it seems to me that ever since you assumed office on the 1st of January as mayor of the great city of New York, you never had a dull moment. There has been one emergency after another, and frequently several emergencies at the same time. And I want to say this—and I say it sincerely—on the whole, the great majority of the citizens of our great city feel that you have handled those emergencies with courage and skill and to their satisfaction.

I read only today that you were coming down here to testify in favor of the continuation of the Office of Price Administration. I

have been on this committee for a number of years, and I have seen this act grow from its very birth, and have listened to the testimony pro and con about the things it has accomplished. I want to say to you that in doing what you are doing here now, the citizens of the city of New York, whose food costs have gone up 45.5 percent since 1940, and whose cost of living has gone up 33.9 points since 1940, owe you a debt of gratitude, because, in my opinion—and I think it is the opinion of the majority of the people of this country—if we ever break the line and have this inflationary spiral take place, all the other problems you have had to date will be minor ones in comparison. I do not think there is any question about that, because the same thing has happened in most of the countries of Europe and Asia at different times.

You may proceed with your testimony. It is a pleasure to have you here, and I know the entire committee shares that pleasure.

**STATEMENT OF HON. WILLIAM O'DWYER, MAYOR
OF THE CITY OF NEW YORK**

Mayor O'DWYER. Mr. Chairman and gentlemen, I am very grateful for your welcome here. I have a prepared statement that I would like to read, with your permission, unless you want me to testify otherwise.

Mr. BARRY. You may handle the situation as you prefer. If you wish to read it without interruption, you may do it that way. Or, if you do not mind, the committee might interrupt you at certain points.

Mayor O'DWYER. As you will, sir.

Mr. BARRY. All right. You may proceed as you desire.

Mayor O'DWYER. Mr. Chairman and members of the committee, I appear here before you today to urge the enactment of legislation extending the Emergency Price Control Act for another year.

Whatever we may think of price and rent regulation as a permanent feature of Government control of the national economy—and many people consider that the whole idea of controlling prices and rents is foreign to American ideas and principles, except in a period of grave national emergency—the vast majority of the American people acknowledge that price control was indispensable to military victory. It is a credit to the Congress that it provided the legislation. Mr. Bowles and his Office of Price Administration organization are to be commended for the difficult and complex job they have administered successfully to control the inflationary pressures upon our wartime economy.

I am no economist—and make no pretense of being one—but I came into contact with rampant inflation during this war and saw its ravishing effects upon a war-torn people.

During part of my Army career, I was chief of the economic section of the military government in Italy. I saw an uncontrolled economy in motion. I saw fantastic prices asked and paid for the barest necessities of life. I saw the black market in operation in Italy on so extensive a scale there was nothing that could be bought in the open market—but trade flourished at astronomical prices in the black market.

Price control is necessary in the transition period if we are to achieve our hope of a prosperous postwar economy. I need not tell

you gentlemen that the most punishing blows of war—next to the loss of life—are the devastating effects of inflation. You have probably been furnished by many sources with the statistical history of the inflationary experiences of our country in its earlier wars. I am told, for instance, that after World War I the buying power of the dollar was 40 cents, and that at the end of hostilities in World War II it was 76 cents. I have heard no one seriously challenge the assertion that we could not have maintained this high level of purchasing power of the dollar without price and rent controls.

In my own city, rent controls were not only necessary but have been effective. The demand for housing has been so acute and continues to be—particularly to meet the needs of our returning veterans—that we have to provide emergency housing facilities. This has been made possible by your appropriation of \$160,000,000 under the bill sponsored by the distinguished Senator from my own State, the Hon. James M. Mead. Even commercial space, stores and offices, have been in great demand in New York City. We have had to enact State commercial rent-control legislation which limits rent increases to a fixed percentage over the rent at the freeze date. Any relaxation of either of these controls at this time will result in a skyrocketing of rents—in the same way that uncontrolled sales of homes have resulted in sales prices that are shockingly in excess of any reasonable value of the land and buildings.

There are many cases in our small-home communities in New York City where homes were built in 1940–41 under Federal Housing Administration financing and sold for \$6000 and \$7000; they are now bringing prices of from \$10,000 to \$12,000. Our veterans cannot buy them in this price range. That is why it is important for Congress to enact as part of the price-and-rent-control extension program, authority to place reasonable ceilings on the sales of homes—old and new—and to enact without delay the housing program proposed by Mr. Wilson Wyatt.

Mr. PATMAN. May I ask you a question there, Mr. Mayor?

Mayor O'DWYER. Yes, sir.

Mr. PATMAN. Does your rent control on commercial buildings work out all right?

Mayor O'DWYER. Yes, sir.

Mr. PATMAN. I have a feeling we will have to do that for the Nation as a whole. So many people are abusing the privileges they have by reason of the fact that no controls are placed on the rentals of commercial buildings, and I think this committee, in the extension of this act, should consider embracing commercial buildings within the act.

Mayor O'DWYER. We have found it effective in our city, sir.

Mr. PATMAN. It is awfully hard on the little man who has a favorite corner, when his lease renewal comes around, when some large concern can outbid him and take the spot away from him that he has spent a lifetime building up.

Mayor O'DWYER. That has been our experience.

The CHAIRMAN. How long has business property control been in effect?

Mayor O'DWYER. Since 1941, I think, sir. I think 1941. I was away at the time, in the Army.

Mr. BARRY. Mr. Mayor, is it your opinion that the great majority of returning veterans will be unable to pay the prices, the prevailing prices for old homes?

Mayor O'DWYER. That is right. Well, here is a case of where they jump from the six and seven thousand dollar level up to the ten and twelve thousand dollar level. Without some control over that situation—this is only one phase of our housing that is outside of the means of the average veteran.

Mr. BARRY. And you believe it will get worse, do you, if we do not control it in some way now?

Mayor O'DWYER. It is bound to get worse, because the demand in New York at the present time is the worst I have seen it in my 36 years in the city. The city hall is just flooded with letters from veterans. I had one from a woman yesterday morning, a woman with three children, and one expected, living in one single room. Now, you know that is a hard picture.

Mr. BARRY. I quite agree with you. My brother-in-law just got out of service about 3 months ago and he scoured Queens, which is part of our city, then went out to Nassau County and finally bought a small six-room house in Lynbrook for \$14,500. That is the best he could do. And that is way out of reach of 90 percent of the veterans.

Mayor O'DWYER. You will have much worse conditions than that in New York City before this thing is over unless the controls are maintained. Even the 10,000 temporary homes that we were able to get for veterans, thanks to national action here in Congress, even that will only be a drop in the bucket. It will not come anywhere near meeting the need. We know that.

May I continue, sir?

Mr. BARRY. Yes, continue.

Mr. CRAWFORD. Mr. Chairman, may I ask a question?

Mr. BARRY. Mr. Crawford.

Mr. CRAWFORD. Do you know of any proposal before the Congress at the present time, Mr. Mayor, which would affect that price you referred to, on old homes, on the first sale?

Mayor O'DWYER. No, sir.

Mr. CRAWFORD. Well, then, we are not considering anything that would alleviate that condition, are we?

Mayor O'DWYER. Well, my suggestion was that, in the Wyatt proposal, that that would control, but I understand that that is not before Congress at the moment.

Mr. CRAWFORD. No; that had to do with the second sale and subsequent sales. It had nothing to do with the proposition you bring up now about old homes now selling for \$10,000, said first sale being beyond the reach of the veteran. In other words, the advance in price has already occurred. Now, we have had nothing before our committee which would affect the first sale of the old homes. I understand that is what you are talking about.

Mayor O'DWYER. I would be very happy if they were held right where they are now in the case of old homes.

Mr. BARRY. Well, Mr. Mayor, if I may interject, we had a bill before us and one of the provisions was for a subsidy to keep the prices of new homes down. Now, if the prices of new homes were kept down, and also if the subsidy was an incentive subsidy to encourage the

building of homes, would that not create less scarcity and not have a tendency to bring down the price of old homes, provided we kept the ceiling of today on them?

Mr. O'DWYER. I do not believe that, in'and of itself, for the next year or two, that it would. I see we are going to have a shortage in New York City. I am speaking about New York City. We are going to have a shortage of homes there for years to come. Our housing program now, public and private, are big projects that are just beginning. We cannot expect to open them for occupancy for at least a year. Once they begin to come through, a year from now, they will come through every month, and we will have some relief from that. But up to that time—and that ought to be a year and a half from now, at least—the skyrocketing of these prices of these houses, where there is no control at all, that is a considerable portion of the salable houses in the city.

After all, when you consider that during the war there was very little building of houses, if any, when you consider that materials are tight at the present time, and it is going to be some time before you have them, there is a picture of old homes—not old in years, but style, to distinguish them from new homes—they are the ones that have been in existence for a long time—that is a considerable portion of our housing. Some control should be placed on prices there. If not, we can expect just one thing: it will be a perfect example of why this act should be passed. It will prove why it should be passed. Because once they get into the market, you can watch the skyrocketing continue, and if they have doubled already, they will double again, in the year and a half.

Mr. BARRY. I agree with you completely, and the same evidence that existed 25 or 22 years ago in the Florida land boom exists all over the country today, and I spent a year in Florida during that period, I saw houses go up within six or eight months to three times their price, out in the West Palm Beach section.

Mayor O'DWYER. That is right.

No less urgently needed are the continuance of the major price controls. We had a recent experience in New York which exposes the dangers of premature lifting of controls on food. On November 19, citrus fruits were relieved of ceilings. The ceiling price in New York City that day was \$5.54 per box wholesale on Indian River Florida oranges—retailing at 9½ cents per pound. As soon as the lid was off, the price rapidly rose \$1.36 per box, to 12 cents per pound, an increase of 25 percent. Some time thereafter the Office of Price Administration had to restore its controls. Today the ceiling price for these oranges is back at 9½ cents a pound.

I offer that as one example of the dangers of lifting the controls too soon.

Shortly before I took office, there were indications that food subsidies, especially subsidies on milk, would be lifted. Whereupon, the producers and dealers immediately petitioned the Department of Agriculture for a price increase which would have inevitably meant a 2 to 3 cents per quart increase in the cost of milk to the people of New York City—in all, an addition of over \$30,000,000 a year to the cost of living. Our underprivileged people could ill afford it—they would have to reduce the consumption of milk—jeopardizing the health of those children who need milk the most.

I opposed the application and urged the continuance of the milk subsidy. It seems to me necessary to continue food subsidies to prevent living cost rises until inflationary pressures begin to abate. I strongly favor eliminating subsidies at the earliest practicable time, but I think it should be done gradually over a period of time, but only when there is no danger of a living cost increase.

Of course, all controls should be removed if and when the supply of any product comes into balance with the demands for that product, and there will be no inflationary price increase. But our Government economists and stabilizers tell us that it is difficult to predict in advance, at the moment, when inflationary pressures on the prices of a particular commodity will end to permit decontrol without price inflation. We should not gamble with the health and living standards of our people—we should play it safe.

As the mayor of the largest city in the country, employing in excess of 175,000 city employees, I have a very special interest in the success of this battle against inflation.

Some incomes, like those of speculators in commodities and black marketeers, rise sky high. Other incomes, like the take-home pay of factory workers, usually do not move up as fast as the cost of living, yet advance more rapidly than those of policemen, firemen, teachers, and other municipal workers. This is equally true of white collar and professional workers who work on a fixed-salary basis. It is these disparities which give rise to the inequities, injustices, and economic dislocations of inflation. Thus, inflation and its aftermath would infinitely complicate the problems and responsibilities of all mayors, including myself. The municipal income—the budget with which I have to run the New York City government and which is now in preparation—does not move upward rapidly when inflation sets in, if at all. Property valuations and tax rates are limited by law.

The income of a great city which is attempting to operate on a balanced budget, may not rise at all while its costs of operation are rising in every section of the budget. No mayor, no matter how great a financial wizard he may be, can solve this problem. With a fixed income you cannot balance a budget if rising costs absorb a slender margin of reserves. You cannot do it, that is, and run the kind of modern, progressive city that every mayor wants to run. A mayor's only recourse is to cut and trim away things which he may be forced to describe as luxuries, but which he knows in his heart are vital to the development of a healthier people in a greater city.

Let us just take one example. If we are going to make this world a better place to live in, we have to have better people in it. And if we are going to have better people, we have to start on them when they are children. We have to have more and better education. We have to keep the good teachers and get more good ones. We ought to have more and better parks, recreation, housing, medical care, and community centers. We may sometimes be tempted to call these luxuries when we are faced with the desperate need to trim off costs to fit fixed budgets. But in our less harassed moments, we know that it is upon these things that not only our economic but our cultural and our moral future depend.

But how can we have these things which all of us want if our hopes are squeezed away between an inflation of costs and a fixed budget?

How can we keep our best teachers and attract more of them if a rise in their cost of living makes it impossible for them to live decently on fixed salaries? Is it fair to our policemen, our firemen, and hundreds of thousands of other municipal employees to require them to meet increased living costs out of fixed salaries?

Mr. BARRY. Mr. Mayor, at that point, I mentioned before that the cost of food had increased since 1940 45.5 percent. Those figures were given me today by the Labor Department. And the cost of living, from 1940, 32.5 percent. Now, could you tell us what increase in salaries did those 175,000 employees, what average increase did they receive during that period?

Mayor O'DWYER. They received a bonus of 15 percent. That bonus was taken out of the fund that was set apart to pay those who had gone into the services. Now, that was distributed among those employees who did not go into the Army and Navy.

Now, at this time we do not have that fund any more in New York City, because people have come back from the services. We have to maintain, however, the bonus, and we have to give those who come back their salaries, and the bonus. So that we are faced at the present time in New York City with adding, almost from one extreme to another, one new expense to another, of essential expenses. We are faced with the necessity of providing \$80,000,000 in additional funds this year over last year's budget.

Mr. BARRY. That 15-percent bonus was less than half the rise in the cost of living?

Mayor O'DWYER. It was not half. The 15 percent was not half.

Mr. PATMAN. You mentioned paying these returning veterans. Do you pay them back pay for the time they were in service?

Mayor O'DWYER. No, sir; the money that was allocated for their pay, while they were away, that was taken and distributed to provide the 15-percent increase in the form of a bonus to those who did not go away. When they come back now they get their jobs. They get their jobs when they come back, at the original salary, and, of course, they participate in an equal amount of bonus.

Mr. BARRY. Are there not [other groups in the city besides the 175,000? I mean pensioners and white-collar groups who have not received more than a 15-percent increase during this period?

Mayor O'DWYER. I doubt if the white-collar groups in private industry got it. I doubt if any of them got that much. I think they are in a bad way, and I think if the cost of living were to shoot up again, as it definitely would if these controls are not maintained, it would just be a hardship that is unbearable. It could not be done.

Mr. BARRY. I agree with you. Take a county like Queens, where probably 85 percent, the county has a population of about a million, and a quarter or so of it is one-family homes. That is the great white-collar class which carries those homes, with the rising cost of living, and still trying to meet their mortgage payments.

Mayor O'DWYER. That borough is predominantly in civil service. The residents are predominantly civil service or white collar, and that 85 percent definitely would be faced with an impossible situation if you do not maintain these controls. That is true.

Mr. BARRY. I can say to you that I am getting a very good supply of letters from my county, which is Queens, advocating continuance

of the Office of Price Administration, and I want to say very frankly that a few years ago they were complaining about it. These same people. But they realize now what would happen to them if we did not have it. I think that prevails throughout the country.

Mayor O'DWYER. Well, New York City is very much aware of the need for controls. We are in a different position than the average city because we have so many of the white-collar and civil-service employees, and if you take the controls away now, I would not know what they would do. Of course, the day will come—and it may not be too far off, but no one seems to know when that day will be—when the shelves will be filled again, when the normal supply and demand will bring the price level down and stabilize it, by a natural process. When that time comes, of course, I would not come down here and suggest governmental control.

Mr. BARRY. I think we would concur with you on that. We all feel that way. When the supply and demand reach some kind of a balance, we are all in favor of taking off controls.

Mayor O'DWYER. What you have today is demand. You have no supply. And you are not likely to have it, at least for the year for which the extension of this control is asked, and within that year it would be a tragedy if price control was not maintained.

Mr. BARRY. You may continue, Mr. Mayor.

Mayor O'DWYER. I am about to finish, Mr. Chairman.

Mr. BARRY. Mr. Mayor I want to explain something. Those bells that rang were calling for a roll call. That is why some of these members have absented themselves.

Mayor O'DWYER. Thank you.

I am confident that the answers to these questions are matters of as deep concern to you as they are to me, and to others who find themselves in the same situation.

Your approval of the proposal to extend these price and rent controls for another year will give us the assurance that we will not face the dislocations and the hardships that may be otherwise in store for us.

Mr. PATMAN. A very fine statement, Mr. Mayor. I must congratulate you.

Mr. BARRY. Mr. Mayor, we are very grateful to you for your statement, and I know the members of the committee present at this time wholeheartedly agree with you. As I explained, the other members left because of the quorum call. I would rather miss the vote than miss listening to you.

Do you have any questions?

The CHAIRMAN. You have made a very convincing statement, Mr. Mayor, and we were very glad to have you here.

Mayor O'DWYER. Thank you very much.

The CHAIRMAN. The committee will adjourn until 10:30 a. m. tomorrow.

(Whereupon, at 3 p. m., the committee adjourned, to reconvene at 10:30 a. m., Saturday, March 9, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

SATURDAY, MARCH 9, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

I understand that Mr. Goss, master of the Grange, will be compelled to leave tomorrow and probably will not be able to get back before the hearings are concluded. So we have set this Saturday morning hearing for his testimony.

I am afraid there will not be too large an attendance, but I know Mr. Goss would like to make his statement for the record.

We are very pleased to have you as a witness, Mr. Goss, and you may proceed in whichever way you desire. Do you have a prepared statement?

Mr. Goss. I have a prepared statement.

The CHAIRMAN. Would you prefer to complete your statement before you are interrogated?

Mr. Goss. Yes.

The CHAIRMAN. Very well.

Mr. Goss. First, I want to express my appreciation to the committee for calling this Saturday morning session. It was the only opportunity on which I could be here for 3 weeks, so I appreciate your courtesy.

STATEMENT OF ALBERT S. GOSS, MASTER, NATIONAL GRANGE

Mr. Goss. For the record, my name is Albert S. Goss, master of the National Grange.

We agree with the Office of Price Administration that we stand in more serious danger of disastrous inflation today than at any time in the present crisis. In fact we are well on our road to such an outcome and we need a governmental organization with sufficient power to deal with the situation. The question at issue, however, involves more than extending the life of the OPA. It involves what policies the OPA would follow in an attempt to check inflation now, and whether those policies would be such as to fasten governmental controls upon us under peace conditions when the immediate aftermath of war is past. Those policies should be so clearly set forth in the law, and safeguarded with such adequate penalties, that the OPA cannot ignore them, as it has done in the past.

We refer particularly to section 3 of the Price Control Act of October 2, 1942, which provides that—

Modification shall be made in maximum prices . . . in any case where it appears that such modification is necessary to increase the production of such commodity for war purposes, or where by reason of increased labor or other costs to the producer of such agricultural commodity incurred since January 1, 1941, the maximum prices so established will not reflect such increased costs.

This provision of law is clear and understandable, but has been too frequently ignored.

We need certain controls against inflation more than ever, but these controls must be sound. Otherwise they may do more harm than good. It is our considered opinion that continuation of the policies which the OPA has followed for the past 4 years would promote inflation and retard recovery. If the choice were between continuation of those policies and removal of all controls, we believe removal of controls would be preferable.

Please do not misunderstand us. We believe certain controls are badly needed. We want to see sound controls and we want to see ample finances provided for making them effective, but we believe there must be some fundamental change in policies, because present policies will lead to more trouble than good. There are a number of factors which have led us to this conclusion.

First, the policies toward agriculture will either lead to a permanent subsidy program, or will augment the danger of inflation when abandoned. We will go into this in greater detail later.

Second, the activities of the OPA have not been nearly as effective as claimed, and the methods used are becoming less and less effective for reasons which we have pointed out to this committee several times before, but which we will also discuss later. Measuring the effectiveness of OPA operations by a cost-of-living index is almost meaningless when so many of the items making up the index are unobtainable, and consumers have to pay two or three times as much for substitutes; when inferior qualities double the consumption; and when the actual prices paid by consumers for so many products are made in unrecorded black markets, too often the only place where necessities have been available. General Bradley is authority for a recent statement that before the time an appropriation was requested for twenty-odd veteran hospitals, and the passing of the appropriation, the estimated construction cost had doubled. This was less than a year, and indicates what is actually going on. An excellent job has been done of selling the public that the operations of OPA have been an outstanding success. There has been much good, but there has been much bad—very bad.

Third, ceiling prices held below production cost, have driven from the market many much-needed products and actually resulted in raising the cost of living. For example, we all know that moderate priced shirts have been almost unobtainable for months, and consumers have had to pay two or three times as much for fancier shirts, when a relaxation of a few cents in the regulations would have permitted the cheaper shirts to reach the market. The general policy of OPA has been to hold the ceilings on low priced shirts below cost, and relax on higher priced products; then, by innumerable regulations and controls over operations and sales, to try to force the manufacturer to produce an adequate supply of cheap shirts and make up

his loss by profits on other items. This, of course, involves a completeness and complexity of control over industry impossible to enforce without an enormous organization with almost complete dictatorial powers. The item of shirts is used to illustrate a general policy being pursued with reference to a great many items under OPA control. Inflation control should not be used as an excuse for general control of industry.

Fourth, recovery has been retarded by refusal to recognize rising production costs. Until very recently ceiling prices on common brick have been held so low that 85 percent of the brickyards were closed down in spite of the fact that brick has been one of the greatest bottlenecks in the construction industry. Contractors were forced to use faced brick in solid construction at a cost of three or four times that of common brick, with the result that we held the cost-of-living index level, but actual construction cost was materially increased, and much needed construction was stopped. Brick is but one example of many similar items.

Fifth, efficiency in production has been penalized. For example, a factory which may have kept running through the 1939 period, though unprofitably, has its prices restricted to its 1939 performance, while a new factory is allowed substantially higher ceilings on an identical product, or even an inferior product.

Sixth, we have developed black markets and law violation on an unprecedented scale. It is inevitable that some black market operations would result from rationing, because some greedy citizens will always try to get more than their share. However, when you add to this group the pressure from producers who would be forced to go out of production or go bankrupt because of ceilings maintained below production cost, the pressure becomes irresistible. When producers, by edict of the OPA, are denied the protection of the law which requires ceilings to be adjusted to meet increased costs, too many of them feel justified in taking the law into their own hands, as a means of avoiding bankruptcy. Without attempting to condone such law violation we merely observe that lawlessness at the top breeds lawlessness throughout our economy.

The basic trouble with OPA has been that they have put almost their sole reliance on price ceilings which would hold their cost-of-living index steady, and too frequently have ignored the basic fact that production is the only real cure for that type of inflation caused by shortages. Too many officials in responsible positions have had no concern about supply, and have promulgated regulations designed solely to affect price. Such short-sighted policies have merely served to aggravate the situation, but they have existed in the face of provisions of law expressly designed to prevent them, and should serve to point out that in extending the life of OPA, effective means must be found for securing a complete reversal of some of the policies heretofore followed.

If inflation is to be controlled, some steps will be necessary outside the province of the OPA. If these are not recognized, and the whole burden is placed on OPA to stem the tide, that agency will have been assigned an impossible task. In such circumstances they will probably go right on trying to treat the effects of the disease instead of the cause. Inflation already has a good start. If the tide is to be turned, and disaster avoided, it will be necessary for every branch of government coh-

cerned with the problem to do its part in providing the remedy. The OPA cannot do the whole job. We, therefore, feel it advisable to review some of the basic principles involved, and the steps necessary to effect a cure, so that there may be assigned to OPA only those tasks which it can logically handle, while pointing out what else needs to be done outside the province of the OPA.

Three weeks before Pearl Harbor the National Grange sounded a strong warning against the dangers of inflation and sent a copy of its findings to this committee. In doing so it pointed out the basic causes of such an economic disaster and the steps necessary to prevent it.

Basically inflation is caused by the pressure of an oversupply of money on a shortage of goods. The remedy must be applied from both ends.

From the money end, hold increase in volume of immediately expendable money in check as far as possible by:

- (a) Increasing the income tax.
- (b) Directing surplus funds into long-time savings.
- (c) Holding Government issues of money and securities at a minimum.
- (d) Balancing the budget.

From the standpoint of meeting the shortage of supplies, the remedy should be:

(e) To secure maximum production. Inflation cannot exist where supply equals demand unless a nation deliberately refuses to balance its budget and depresses the value of its currency.

(f) Where it is not possible to maintain a supply equal to the demand, the demand should be adjusted to fit the supply through rationing.

(g) Profiteering made possible by shortages should be controlled by price ceilings, but if ceilings are used, two precautions are necessary.

- (1) Equity demands that all be treated alike.
- (2) Ceilings must be kept above cost, else production will be strangled.

This may seem like a complicated program but there is no simple way to control inflation in a complicated economy when war creates shortages.

Let us see how closely these related principles have been followed, and measure the results.

(a) Increase the income tax. The income tax was increased, exemptions lowered, and escapes greatly reduced through the pay-as-you-go policy. Unfortunately political pressure has caused relaxation of this effective but disagreeable remedy when it is most needed. This responsibility lies in another committee.

(b) Direct surplus to savings. A commendable record has been set in diverting a substantial portion of our national income to long-time savings. Regrettably, an over large number of those who bought war bonds through wage deductions or bond drives cashed them in without delay, so the number of those who still hold them is smaller than desired. Part of this arose through necessity, but more because of selfishness and lack of personal responsibility or interest in the public welfare. On the whole, however, the savings job has been commendable. This responsibility lies with the Treasury.

(c) Restrict Government debt. No attempt has been made to hold Government expenditures to a minimum, resulting in unnecessary

and unprecedented increases in Government debt. The evidence is so overwhelming on every hand that no further comment is necessary. This responsibility lies with all of us.

(d) Balance the budget. The budget has not been balanced for 15 years, and no serious effort has been or is being made to balance it. On the contrary, tax income is being reduced, while Government expenditures are being increased by many billions for hitherto undreamed of luxuries such as (a) subsidies to pay part of the food bill of people better able to feed themselves than any people in history; (b) social benefits in an ever increasing stream; (c) world-wide charities on a scale to stagger the imagination; (d) veteran benefits and pensions which will inevitably increase for at least 50 years; (e) public works of various kinds; and (f) military and a host of other expenditures. Some are necessary, others not, but the amount expended is measured more by our desires than by our ability to pay the bill. As long as we fail to balance the budget, so long will we continue to increase the dollars in circulation, and so long will inflation grow, expand and strengthen the upward spiral which may lead to complete economic collapse. While this responsibility also lies with all of us, some phases of it lie directly with this committee.

(e) Secure maximum production. Instead of pursuing a price policy designed to secure maximum production, we have tried to hold down inflation by a price-ceiling method which too often has strangled production as I just pointed out. This is a responsibility lying directly with this committee.

(f) Adjust demand to fit the supply by rationing. Rationing was conducted quite successfully for a while, and not only prevented want, but had a wholesome effect on price. However, coupled with a policy of holding ceilings below cost, black markets developed to such an extent that rationing has been almost abandoned. A producer who found ceilings below cost, was confronted with the alternative of going broke or selling in a black market as pointed out previously.

Rationing could have been preserved by complying with the law which required price adjustments to recognize increased costs and the maintenance of maximum production. This phase of the problem lies directly with this committee.

(g) Confine price ceilings to control profiteering. Price ceilings have not been confined to prevent profiteering as has been outlined earlier. This phase of the problem is the responsibility of this committee.

(g) 1. Treat all alike. Neither have all been treated alike. From the outset a policy was adopted to freeze everything except labor, and the Price Administrator fought every effort to control increases in labor, until the rapidly rising cost structure finally forced him to abandon his position. On the other hand, many prices on farm commodities were rolled back to less than cost, and in some instances to less than the prewar average. This is an OPA responsibility and therefore falls within the province of this committee.

2. Keep ceilings above cost. Instead of keeping ceilings above production cost to encourage production, the standard used has been to hold ceilings to preserve a meaningless cost of living index. To the extent that this has occurred inflation has been fostered rather than controlled, as pointed out a moment ago. This is a responsibility of this committee.

Subsidies. In the case of agriculture, it soon became apparent that the fixed ceiling price was threatening our food supply, so subsidies have been paid to keep farmers in production, in spite of the fact that the law expressly provides that in such circumstances "modification in maximum prices shall be made" to secure necessary production. The result is strongly inflationary.

Although we are enjoying the greatest income in history and paying the lowest percent of that income for food, and though one of our greatest causes of inflation is surplus spending power, we are deliberately increasing that spending power by more than a billion and a half dollars a year by paying that part of the Nation's food bill in subsidies and at the same time are encouraging the maximum consumption of food which is so desperately needed in a starving world. In other words we are making it possible for people to buy food at a billion and a half below cost, leaving them that much more money to buy other items which are in short supply. If present policies are continued we can look for a sharp increase in subsidies.

We are increasing the public debt by an extra billion and a half a year, and increasing the failure to balance the Budget by a like amount.

We are unnecessarily increasing the money in circulation by over a billion dollars annually.

To the extent the subsidies have failed to meet production costs, like in butter and some meats, we have either curtailed production or forced the product into black markets where the consumers have been stung right.

Summarizing the subsidy situation:

(a) We are short of food, yet we further reduce production and encourage excessive consumption by holding food prices below cost.

(b) We are suffering from excess spending power, yet we increase this spending power by reducing prices and creating billions of new money through our subsidy program.

(c) We have a dangerously high Federal debt, yet we increase this debt by billions and increase the amount by which we fail to balance the Budget.

(d) Our supply and demand economy is badly out of balance, yet we throw it out of line every day as long as we refuse to adjust prices to production costs, and thereby increase the probability that it cannot be brought into balance without an economic collapse. We do all this in the name of controlling inflation.

Let it be said right here that farmers would not gain a nickle by abandoning subsidies and adjusting price ceilings to compensate. Our sole interest and concern in the problem lies in the effect of such an unsound program upon our economy. We can see no program for getting rid of them, and believe that their inflationary effect will sooner or later prove truly disastrous.

Instead of directing its policies toward curing the basic causes of inflation, the OPA has built its major program around trying to change the effects of inflation by regulation. It can be done for a little while, but if the basic cause is not soon cured, the mounting unbalance reaches uncontrollable proportions, and the whole effort breaks down. We believe that our price-control efforts are now approaching such a situation. Let us look at the facts.

(a) We set out to control inflation by price ceilings.

(b) There have been inevitable and increasing break-throughs.

(c) Labor's demands for a substantial break-through have recently been granted and a general wage increase of possibly 18 percent is in prospect.

(d) When necessary to maintain profits, a corresponding increase in prices will be allowed.

(e) Apparently the settlements made, or in contemplation, carry implied or definite agreements under which organized labor will use its best influence to hold off strikes and further wage demands for a year, if food prices are held at present levels by means of ceilings and subsidies.

(f) Farmers are asked to support the OPA as is, under promise that subsidies will be abandoned and prices adjusted to compensate for them at the end of a year.

What does such a course hold for the future?

(a) A general upping of all production costs and prices. There may be some absorption by industry, but this will probably be offset to a considerable extent by the compounding of increases as products move through the channels of trade.

(b) Farm costs will increase sharply both because of increased cost of supplies, and particularly heavy increased labor costs. Labor is more difficult to obtain on farms today than at any time during the past 5 years. Workers won't go to farms when they can get more money for shorter hours of easier work in industry, with social security benefits, and with higher pay for unemployment than they can get for farm work. Either farmers must get enough money to pay wages which compete with industrial labor, or there will be a sharp reduction in food production.

(c) If food costs are held down, sharply increased subsidies will be necessary to secure production.

(d) At the end of a year of rising costs when these new labor contracts expire, the removal of subsidies and the adjustment of prices upward to maintain production would be just the springboard labor would need to demand another general wage increase and add an irresistible boost to the whole upward swing. It could all be most conveniently blamed on the farmers.

(e) The result would be that the promises would be forgotten again when the pinch came. The demand would be for bigger and better subsidies to prevent inflation, although subsidies have constituted one of the most inflationary influences in our whole price-control program. We all know what the result would be.

Somewhere we must take a stand. Now is the time, or it may be too late.

Labor, which has been the dominant group in demanding food below cost through subsidies, is just getting an unprecedented boost in wages, and is now better able to pay its food bill than ever before.

The OPA has shown itself completely void to practical ideas on how to get rid of subsidies. The only proposals are to maintain them until surplus production forces prices below present ceilings, which are admittedly below cost (otherwise there would be no need for the subsidies). With farmers' costs rising by leaps and bounds, this policy means a deflation drive on agriculture, just as was done following the last war with such disastrous results to the whole nation.

Very definitely the whole question of subsidies is the responsibility of this committee, and in its consideration of them, the committee

should recognize that some practical plan must be worked out to get rid of them or we are almost sure to have them with us in increasing amounts until our whole economy breaks down from the unnecessary burden.

This brings us down to the remedy.

We recommend the extension of the life of the OPA for 1 year, provided ways can be devised to write definite safeguards into the bill with adequate penalties to assure that the purpose of Congress is carried out. Our reason for recommending 1 year is to avoid uncertainty on the part of producers, dealers, the public, and the employees of OPA. The safeguards we suggest as essential are:

(a) The definite policies of OPA shall be designed to secure maximum production. No ceilings shall be maintained below cost in the expectation that the producer will make up his loss on other more profitable items.

(b) All ceiling prices shall be abandoned when it becomes apparent that the supply of any commodity under price control equals or exceeds the demand with reasonable prospect that ample supply will continue to be available. As far as foodstuffs are concerned, this decision should be made by the Secretary of Agriculture who is in the best position to know the facts.

(c) When the supply of any commodity is unequal to the demand, and it appears that such shortage may continue for 90 days or more, and that consumers may be seriously inconvenienced by reason of such shortage, it shall be the general policy of the OPA to invoke rationing in order to spread the short supply as equitably as possible.

(d) In the case of commodities upon which subsidies are or shall be paid, a plan for the progressive abandonment of such subsidies beginning within 30 days after the passage of this measure and ending not later than December 31, 1946, shall be formulated and put into operation. Such a plan shall provide for the concurrent adjustments in ceiling prices sufficient to compensate for all subsidies thus removed.

(e) No ceilings may be established or maintained on any agricultural product, without the approval of the Secretary of Agriculture. At least once every 90 days he shall review the case of all food items under ceilings to determine the merits of the case because of constantly changing conditions. In case of appeal to the Director of Stabilization, if the decision of the Director is adverse to the decision of the Secretary, the Secretary may appeal to the Director of War Mobilization and Reconversion, and said appeal will stay the decision of the Director of Stabilization. Either that or the decision of the Secretary shall be final.

The whole question of inflation and price control is so complex, dealing as it does with scores of thousands of items, that it is impossible to write detailed instructions into the law. General principles must be outlined and much left to administrative discretion. Because this has not proved satisfactory in the past, some new method of compelling the administrators to heed the will of Congress should be devised. I believe that either the bill should contain a policy section in which the basic principles for controlling inflation are set forth, or that the report of the committee should set them forth in terms which could not be misunderstood. I would then limit the appropriations to amounts sufficient to carry on the work for 90 days at a time, clearly setting forth the intent and purpose of Congress to

continue to provide ample funds if the policies of Congress are carried out, but to cut off the funds if the policies are ignored or openly violated.

The CHAIRMAN. Mr. Goss, has your organization prepared any proposed amendments to the bill which you think would carry out the policies you have stated?

Mr. Goss. No, we have not, Mr. Spence. We have just stated the principles which we thought should be applied.

I might add this to my statement, if I may: In reading it, we have been critical of the Office of Price Administration, and we are very critical. I do not want to leave the impression that everything has been all wrong with the Office of Price Administration. I think the statement, as I read it, sounded a little bit that way. There has been much good done. We appreciate that. But the basic principles of controlling inflation have been ignored and inflation is fast catching up with us. We feel that those basic principles demand a change in policies.

The CHAIRMAN. Well, I assume that notwithstanding you feel that there should be some material changes in the law to carry out the principles which you advocate, you still think that the repeal entirely of all controls would bring disaster to the United States, do you not?

Mr. Goss. I think that the repeal entirely would bring us a lot of trouble. I think that the continuation, as they have been proceeding, would also bring us a lot of trouble. It is nip and tuck as to which would be the worst. I think that if they should continue as they have, it would really result in more trouble than its abandonment. I have hopes that they will not continue as they have.

The CHAIRMAN. Well, a good many of the objections—not all, but a good many—that you have are purely from the administrative standpoint, are they not?

Mr. Goss. Yes, I think that everything we objected to could have been cured by a sound administration. I think the law clearly set forth the policy that ceilings must be adjusted to maintain maximum production. That has not been done.

Mr. CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Goss, I expect to offer an amendment to this bill to the effect that whenever production equals demand that they must immediately take the ceilings off those commodities. The things that bothered me in preparing that amendment was this: When it comes to food, it is easy, because all that is necessary is to have the Department of Agriculture certify that in certain food commodities the supply equals demand.

But as to other commodities, I do not know. We have to have something in this amendment to call upon somebody to look into this and let us know when supply equals demand. It strikes me that the Civilian Production Administration might certify to the Office of Price Administration other commodities. What do you think about that? I agree with you that when it comes to food the Department of Agriculture is in a better position to know than anybody else when supply equals demand. But on commodities such as clothing and so forth whom should we call upon to certify to the Office of Price Administration that in those particular commodities the supply equals the demand? We have to have something in the amendment that will make it work.

Mr. Goss. Well, the Civilian Production Administration, of course, has the responsibility of trying to get production.

Mr. BROWN. Do they not have the information? Do they not have all the information we need about the other commodities?

Mr. Goss. They should have. I quite agree, Mr. Brown, that there should be someone to whom appeal could be made, and who would have authority to act. Because our problem has been that we have appealed and appealed and appealed, and we have not gotten anywhere.

Mr. BROWN. I know, Mr. Goss, but we are back to this proposition. We cannot call upon 60 different agencies to certify things are equal, as to supply and demand. We have got to call upon somebody who has those figures. There would not be any trouble with food products. But as far as all other commodities are concerned, we ought to be able to require some agency who has the facts about those different commodities to certify when production equals demand.

Mr. PATMAN. Mr. Brown, permit me to make an observation right along those lines. As it is now, and as it has been in the past, the Office of Price Administration can only ration commodities and goods that are considered short by the War Production Board originally and now I presume by the Civilian Production Administration. In other words, the War Production Board was given the power to determine whether or not the supply of an item was scarce enough to justify rationing. It so, it was turned over to the Office of Price Administration to administer the program. The Office of Price Administration never did ration. They only administered. That is right along the line you are thinking.

Mr. BROWN. Yes. I do not want to embarrass the Office of Price Administration, because a lot of people would say it ought to be certified. I think that responsibility ought to be on somebody else.

Mr. PATMAN. Well, it is. For the same reason that you propose, if they could do it for the purposes of rationing, why could they not also do it for the purposes of determining whether price controls should be taken off?

Mr. BROWN. Yes, and it is my information that the Civilian Production Administration has that job now. You might give some thought to that, Mr. Goss.

Mr. Goss. I think you are working along the right lines, Mr. Brown. Just as an example, we have always felt, and I think the Administration has felt, that the Department of Agriculture's responsibility was to obtain maximum production of food. When we found, for example, in Miami, that the milk was being curtailed to a dangerous degree—they were getting a very small fraction of what they wanted, because they could not produce milk—and we took it up with the Office of Price Administration, they said, "Production is not our responsibility. Our responsibility is to control the price."

Mr. BROWN. I think such an amendment would satisfy a great many people who are now irritated about the Office of Price Administration. I think we have got to work it out. I do hope that we can get a good, workable bill. I know we will have some inflation,

but let us not do away with the Office of Price Administration altogether. We know a dollar will not buy what it could before the war, but at the same time we should try to have the dollar worth as much as possible.

Mr. Goss. I am glad to hear you say that, Mr. Brown, because that is exactly our position, if I understand your position. Your position would be that the Civilian Production Administration, or the Housing Administrator, or whoever is most concerned with the problem of production—

Mr. BROWN. Pardon me, Mr. Goss, but there are so many people irritated that they want to do away with the Office of Price Administration. This is a very serious matter. We must get together on those things, and get a better bill. We can not do away with controls at a time like this. Mr. Folger would like to ask you a question.

Mr. FOLGER. I want to call your attention, Mr. Brown, to a statement that Mr. Goss makes with respect to agricultural products. Those ceilings may be established on any agricultural product without the approval of the Secretary of Agriculture. Would that not cast upon the Secretary of Agriculture the responsibility of saying when supply was up to demand?

Mr. BROWN. That is the reason I asked the question. I agree with you. But we have a lot of other things to control besides agricultural products. And we have to have somebody. It strikes me that this agency, the Civilian Production Administration, would be in a better position to certify it to the Office of Price Administration. We cannot put the responsibility on 50 or 60 agencies. As I understand from my friend, Mr. Patman, that is their job now.

Mr. PATMAN. As to rationing, yes.

Mr. Goss. Both on rationing and ceilings. But do I understand your position correctly, Mr. Brown, that you would put on the Civilian Production Administration both the responsibility of determining when ceilings should be lifted and the responsibility of saying when ceilings are too low?

Mr. BROWN. Not but one responsibility on the Civilian Production Administration, to find out when supply equals demand and then to certify that to the Office of Price Administration immediately. And then the Office of Price Administration must take off the ceiling. I do not want to give them the right to take off the ceiling, because that is the function of the Office of Price Administration.

Mr. Goss. Well, how about this: for months and months the Office of Price Administration maintained a ceiling on brick, which was so low that there was practically no brick being produced. 85 percent of the yards were shut down.

Mr. BROWN. I know, Mr. Goss, but I propose, through this amendment, that it be effective just as soon as the Civilian Production Administration certifies to the Office of Price Administration that production equals demand, and then, instead of going into the merits of it, they must immediately lift the ceilings.

Mr. Goss. I do not think that is sufficient, Mr. Brown. There has got to be some agency which knows the conditions in the building industry, and which can say to the Office of Price Administration, "Your ceilings on brick are so low that you have cut off 85 percent of the production. Therefore, you have got to raise it."

Mr. BROWN. Well, we are getting right back to the same thing all the time. You want to have these thousands and thousands of commodities come up here and try to make out their particular case; it will be months and months before you have it corrected. If the Civilian Production Administration is not the right agency, somebody else should have the right in government to say what the supply is. I want to get something that will work right away. I do not want to have every class of producer come in here and go before the Office of Price Administration and try their case. It takes months and months to do it. I am trying to get something that we can enact quickly. If supply equals demand—I am not wedded to the Civilian Production Administration—but there must be some agency which knows these figures, and knows when supply equals demand.

Mr. BARRY. Will you yield, Mr. Brown?

Mr. BROWN. I yield to Mr. Barry.

Mr. BARRY. Mr. Goss, in agricultural products, the ceilings are all well above parity, are they not?

Mr. Goss. Well, I cannot answer that directly.

Mr. BARRY. Well, the law prohibits us from establishing a ceiling below parity.

Mr. Goss. I think maybe there are one or two that are below parity. I think we have potatoes under discussion right now.

Mr. BARRY. Under the law, we cannot establish ceilings below parity.

Mr. Goss. They cannot establish under the law a ceiling when costs have gone up, either, but they did it.

Mr. BARRY. Well, when the costs have gone up, that becomes a debatable question. But we cannot establish a ceiling below parity under the law.

Mr. Goss. Not legally, but they do it.

Mr. BARRY. They just cannot. The parity is established, is it not?

Mr. Goss. Well, I would like——

Mr. BARRY. Well, anyhow, here is the question I want to ask you: When the supply meets demand, then, automatically prices will fall, will they not?

Mr. Goss. That is correct.

Mr. BARRY. Would that not be the test?

Mr. Goss. That is correct. When supply equals demand, the forces of competition are brought back into play and theoretically you do not need ceilings. There may be some conditions which prevent them from falling immediately.

Mr. BARRY. Well, when those prices were above what they should be, they would start to fall automatically?

Mr. Goss. Surplus will result in that, that is correct, Mr. Barry, that is correct.

Mr. BROWN. I think Mr. Goss misunderstood me a moment ago. This particular amendment had only one purpose, and that is when supply equals demand. Of course, I know that the producing of brick does not pay enough. I am not speaking about that. That is

another proposition. You will have to correct that situation by another amendment.

Then, I say that your amendment is all right, as far as it goes.

Mr. BROWN. Well, you have got to have one thing at a time. You cannot reach everything with one amendment.

Mr. Goss. Well, I think you have to have another amendment, Mr. Brown, which will give the agency which the Government holds responsible for production the right to review and veto a ceiling which is preventing its carrying out its responsibility.

Mr. BROWN. I know, but that is another proposition than the one I referred to as to production equaling demand.

Mr. Goss. Let us separate them, then. The amendment you propose is good, but I do not think it is as important as the other.

Mr. BROWN. Well, I did not say that. I was just saying that we want to be able to satisfy the great majority of the people. We cannot satisfy all of them. But at the same time we must keep in mind that we have to hold down inflation as much as possible. We just must have some kind of control during this emergency. I think there are people who are irritated in the country and do not understand the proposition, who are just saying that we ought not have any kind of a bill. I want to keep the bill and I want production. If it takes amendments to get production, let us have them. At the same time, we must hold inflation down as much as possible. After war, you cannot hold it down altogether. We will have more inflation than we have now. But we do not want inflation to follow the pattern of World War I. For that reason we should put our heads together and try to get something that will carry out our objectives. I am not criticizing the Office of Price Administration. They have a tremendous job to do, and we all make mistakes, but the war is over, and you just cannot run counter to public sentiment. You will not get any law if you do.

Mr. Goss. Well, our indictment against the Office of Price Administration might be summed up in this one chief clause: That their policies have been such as to curtail production when production was most needed as the basic cure for inflation.

Mr. BROWN. Well, we want to cure that.

Mr. Goss. And I think that what we are proposing is a method by which it can be cured. We have made a suggestion, as far as agriculture is concerned. I would go further and say that insofar as your construction industry is concerned, that the ceilings on materials which go into the construction industry would be subject to review and adjustment on recommendation of the Expediter of Housing, Mr. Wyatt. Then, I think you would get rid of these brick troubles, and some of these other troubles. I do not think it is any vicious mal-administration on the part of the Office of Price Administration. I just think they have had a job so big that they could not keep track of what was going on on all these things, and we have curtailed production on item after item after item, and it has been inflationary in in effect, and that is what I think you ought to stop.

Mr. BROWN. Do not misunderstand me. I think everybody engaged in production ought to have a reasonable profit. I have maintained that all the time. If you get production, you have got to have a reasonable price. But we want to word these bills so as to get reasonable production. At the same time we want to cripple the

Office of Price Administration as little as possible while holding down inflation.

Mr. GOSS. I agree with that.

Mr. BROWN. That is a much bigger problem than many people appreciate. It is not one problem, but it is millions of problems. The Office of Price Administration is interested in many things. It is a big job.

Mr. GOSS. Would you permit me to ask you a question, Mr. Brown?

Mr. BROWN. Yes.

Mr. GOSS. Does this not mean to you, when we say that modification in maximum prices shall be made where, by reason of increased labor or other costs, the maximum prices so established will not reflect the increased costs—does that not mean that when the costs go up, they should adjust the ceilings?

Mr. BROWN. Why, absolutely; I agree with you a thousand percent. When the cost goes up, in the first place, if they fix ceilings right, and if cost of production goes up and they do not change them to meet that price, they admit, themselves, that they are wrong when they fixed the ceilings. I agree with you that when the cost of an article goes up and a man is not making sufficient profit, you have got to increase his price.

Mr. GOSS. Well, that has been the law since October 2, 1942, and our chief indictment of the Office of Price Administration is that they have ignored that section of the law; and because they have ignored it, we have been short of brick, we have been short of shirts we have been short of a lot of things; and those shortages are what have contributed to the basic inflation from which we are now suffering.

Mr. BROWN. I think they have corrected a great many of those items. Of course, they have been a little slow about it.

Mr. GOSS. I will say they have been slow.

Mr. BROWN. Of course, they may not have had enough help. I do not know.

Mr. FOLGER. Will you yield, Mr. Brown?

Mr. BROWN. I yield.

Mr. FOLGER. Mr. GOSS, we talk about one item, about the adjustment of ceiling prices as one thing, and the abandonment of the ceiling price policy as another. Essentially, your statement as to the policy to be pursued is this, is it not: That all ceiling prices shall be abandoned when it becomes apparent that the supply of any commodity under price control equals or exceeds the demand with reasonable prospect that ample supply will continue to be available? That is the crux of the matter, is it not?

Mr. GOSS. Well, that is one phase of it, Mr. Folger, but not nearly as important as the next phase, and that is that ceilings which are maintained be adjusted to meet costs and maximum production. That is the crux of the matter.

Mr. FOLGER. Well, that is the crux of the matter so long as you have got to maintain price ceilings?

Mr. GOSS. Yes. We want to see price ceilings maintained to prevent profiteering. We took that stand even before Pearl Harbor, and it is absolutely sound. But we do not want to see ceilings maintained at a figure which will strangle production. There is the whole thing in a nutshell.

Mr. FOLGER. In connection with that, though, I think you made a very sound statement, that when production is in a position to equal the demand, that then price controls should be eliminated, because competition will take care of the situation.

Mr. Goss. That is right. But that means that the danger of inflation from that particular article, anyhow—all that does is to remove the itch.

Mr. FOLGER. And as to foodstuffs, you say that that determination may probably best be made by the Secretary of Agriculture?

Mr. Goss. Yes, sir, he knows.

Mr. FOLGER. As to other commodities, it may be another agency of the Government or arrived at in some other manner?

Mr. Goss. That is right. And we think that in all commodities the agency of Government which is charged with the responsibility of keeping up the supply should have a voice in determining whether the ceiling is adequate to permit a maximum supply. That is where the Office of Price Administration has failed, and, as I have said, they have done a good job as far as a good job could be done, based on the wrong concept, and that wrong concept is that you can prevent inflation by holding price ceilings. You just cannot do that.

Mr. BROWN. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Goss, I think your formal statement is the greatest indictment, and at the same time the most constructive with respect to changes to be made, against the Office of Price Administration, as to the indictment, and suggestions to the Congress, that have been presented to this committee since the hearings started.

Mr. Goss. I appreciate that.

Mr. CRAWFORD. It further supports the reputation which you have across this country as one who is fair-minded in your approach to national problems.

I would like to ask you a few questions: First, I want to take up this proposal of our colleague, Mr. Brown, with which I am very sympathetic. But listening very carefully to the colloquy between you and Mr. Brown, I think the record will show that Mr. Brown did not exactly grasp the point you were attempting to make. Let us see if we can get that in the record now so that there will be no argument about it in the future. As I understand you, you are with Mr. Brown in his desire to have ceilings removed when supply approaches balance with demand?

Mr. Goss. That is correct.

Mr. CRAWFORD. But the big point you make is that the Office of Price Administration has not heretofore, and you are now asking that this committee put the necessary language in the law so that the Office of Price Administration will hereafter raise the price ceilings as the cost of production increases, so that production will continue to flow.

Mr. BROWN. I do not think there is any difference between Mr. Goss and me on that.

Mr. CRAWFORD. Well, now, wait a minute. Let us get the record straight.

Mr. Goss. That is correct.

Mr. BROWN. Certainly.

Mr. CRAWFORD. On which point do you place the greatest emphasis?

Mr. Goss. I place the greatest emphasis on getting production by adjusting ceilings.

Mr. CRAWFORD. To cover increased costs?

Mr. Goss. To cover increased costs. Getting rid of the ceilings when production equals demand is merely cutting away a lot of red tape which is proved to be out of date and useless.

Mr. CRAWFORD. And, as you expressed it awhile ago, removing the "itch"?

Mr. Goss. That is right.

Mr. CRAWFORD. All right. Now, let us be very emphatic. So then you place far greater emphasis on the proposition of this committee recommending to the House whatever is necessary to have the Office of Price Administration raise those ceilings so as to cover the increased costs; is that right or not?

Mr. Goss. That is right.

Mr. BROWN. Will the gentleman yield?

Mr. CRAWFORD. I yield to Mr. Brown.

Mr. BROWN. Of course, my interrogation was about one particular amendment which I had in mind. I was not arguing the merit of having another amendment requiring them to increase the ceiling so as to get production. I think that is a good amendment, too. I do not think Mr. Goss and I differ about that. I think we should have another amendment for that. And, as I stated, myself, it is very important to get production, to give the producer a profit.

Mr. CRAWFORD. I was not attempting to show any disagreement between you and Mr. Goss. I simply wanted to have the record complete so that we will not get off on a side issue that is of far less importance than the main issue.

Mr. BROWN. That is right.

Mr. CRAWFORD. Now, let me ask you this, Mr. Goss: Do you think that supply can ever reach a level with demand under price ceilings which do not recognize costs of production?

Mr. Goss. No.

Mr. CRAWFORD. So then, if we propose to follow the course—

Mr. Goss. Let me qualify that answer.

Mr. CRAWFORD. All right.

Mr. Goss. No, not if those price ceilings are below cost.

Mr. CRAWFORD. That is what I say.

Mr. Goss. Yes. When you said not recognized—they might be haphazard, but if those price ceilings are below cost, you cannot get supply equal to demand.

Mr. CRAWFORD. In other words, we never would catch up with demand?

Mr. Goss. That is right. And I might say this, Mr. Crawford: That the history goes back nearly 6,000 years, as to attempts to control inflation by price ceilings, and every such attempt in history has failed because they strangled production when the costs got up to that ceiling, and they refused to recognize it. The failure has been marked by a complete collapse, which reduced the purchasing power of the people to a point so low that it caught up with the supply.

Mr. CRAWFORD. Now, I want to ask you a question with respect to the interrogation of Mr. Brown, at which time I think Mr. Patman

said something about the power to ration. I am not exactly clear on what the situation was with regard to Mr. Patman and Mr. Brown. I will be glad to yield to you, Mr. Patman, to clear it up, if you wish, after I have asked this question.

You recommend the reestablishment of rationing in your formal statement, where the Office of Price Administration Administrator finds that goods are going to be short of supply as related to demand for a period of 90 days, I believe.

Mr. Goss. That is correct.

Mr. CRAWFORD. Do you know to what items rationing now applies?

Mr. PATMAN. Sugar only.

Mr. Goss. Sugar is the biggest one.

Mr. PATMAN. It is the only one.

Mr. Goss. I guess there is some rationing—as far as foodstuffs are concerned, I guess it is the only one.

Mr. CRAWFORD. Now, if the power presently exists, to which Mr. Patman referred—I want to be very technical and very precise on this point—If the power presently exists, to which Mr. Patman referred, so that they can place rationing on these items, why, in the light of this statement, which I shall read and which is very brief, the statement of Mr. Bowles to this committee [reading]:

It would be difficult to exaggerate the gravity of the inflationary crisis we face. An expectancy of higher and still higher prices is sweeping the country. The speculative fever is reminiscent of 1929. We can see it in the stock market, in the real estate market, and even in almost every commodity market. Everywhere men are betting on inflation. Everywhere the inflationary pressures have reached explosive proportions. It should be obvious to any reasonable mind that only by the most vigorous action, action taken now, can we regain control.

In the light of that statement, why are these rationing powers not exercised at this particular moment?

Mr. Goss. I do not know why. I guess I do know why, too.

Mr. CRAWFORD. Do you mind giving us your opinion?

Mr. Goss. The black markets which developed to such a huge extent made them, to a large extent, ineffective, and people were complaining, the pressure became so great that they were abandoned. I think that is the main reason for abandoning them. I think the main reason for the development of the black markets was that we opened up the pressure on both ends. There always will be people who will try to evade rationing, because they want more than their share. But the greatest pressure in the black market was from the producer who could not get enough to stay in business, and he just went around to the black-market door, and through the black market, in order to stay in business.

Mr. CRAWFORD. Let us develop that for a moment. Let us see if he did not have about three choices to make.

He could choose to proceed to produce and sell at a loss and exhaust his capital structure.

Mr. Goss. That is one.

Mr. CRAWFORD. Or he could appeal to the Office of Price Administration for an increase in price, and get it or not get it, and if he failed to get it, he could close down his plant or follow the first course?

Mr. Goss. That is right.

Mr. CRAWFORD. Or he could resort to the black market, and get by as best he could. That is about what he was up against, was he not?

Mr. Goss. That is right.

Mr. CRAWFORD. So, then, you feel that perhaps the black-market operations had a great deal to do with the abandonment of rationing?

Now, going back to my first series of questions: if the Office of Price Administration is to continue to ignore the costs, and the increasing costs of production, and thereby hinder production, will that not aggravate and accelerate black-market operations?

Mr. Goss. Yes, certainly it will. And it all contributes to the inflation which we so greatly fear.

Mr. CRAWFORD. Yes. You believe that if this committee would recommend to the Congress, and if the Congress were to put it into law, a certain provision, and tie that provision of law up with the appropriate power and policy recommended here, and thus force the Office of Price Administration to obey the provisions of the law with respect to putting a price ceiling in operation which recognizes costs, that that would have a great influence in destroying the black-market operations?

Mr. Goss. Yes, I think it would help a whole lot. I will not say it will cure it, because there will always be some black marketing—and it is pretty well established now, too.

Mr. CRAWFORD. In the absence of this committee taking such action, and the Office of Price Administration taking such action, what, in your opinion, would be the effect of the reinstatement of rationing at the present time on many of these items which are short, insofar as black-market operations are concerned?

Mr. Goss. I think it would fail.

Mr. CRAWFORD. You think the rationing would fail?

Mr. Goss. Yes, I think you have got to back it up by giving a producer a chance so that he can come within the provisions and supply the goods and meet the conditions of rationing. My proposal for reintroduction of rationing, I do not think, is practical unless some of these other steps are taken.

Mr. CRAWFORD. Now, I would like to ask you a few questions about subsidies. Recently, while in my home town, in Saginaw, Mich., and following the President's address to the Nation, I invited to my office five top local Congress of Industrial Organizations spokesmen, and suggested to them that perhaps they had some questions they wanted to ask me. I told them I had some things to say to them after they got through with their questions. They submitted the questions, and I answered them. Then I said certain things which displeased them very much. But in that conversation, and in a later conversation which I had at a meeting held under the auspices of the League of Women Voters, and particularly at this latter meeting, a rather heated argument developed over the proposition which was submitted to me, to the effect that farm leaders of this country have steadfastly demanded subsidy payments to the farm people. Have you, as head of the Grange, ever advocated subsidies on farm products?

Mr. Goss. No, sir; not as a primary move.

Mr. CRAWFORD. That is what I mean.

Mr. Goss. I have said this: that where the prices of daily products were held so low that they could not produce, that farmers would have to have subsidies if they stayed in production. But, starting before this committee, before the Senate committee, and a statement that I submitted to this committee in September 1942, I have been hitting the subsidies and the unsoundness of them as hard as I knew how, Mr. Crawford, for 4 years now.

Mr. CRAWFORD. Yes, and at the time the charges were made, I denied that three major farm organizations, the Grange, the Bureau, and the Milk Producers Association, had supported the payment of the subsidies as a policy.

Mr. Goss. You could have added the Cooperative Council to that group.

Mr. CRAWFORD. Yes. And as far as you know, these four organizations mentioned have never advocated, as a policy, the payment of subsidies instead of letting the market furnish the price?

Mr. Goss. That is correct. And, as far as we are concerned, we want to get rid of them now, although we realize it would cost farmers real money to do so, and our reason for wanting to get rid of them is because we think they are very, very dangerous to continue.

Mr. CRAWFORD. Now, when the Secretary of agriculture was before this committee this week, he emphasized the necessity for subsidies. And at the time, as I understood him, he tied the great necessity somewhat to the proposition that there is a great foreign demand for food-stuffs. I asked him, in substance, what weight this foreign demand was given in his arrival at this strong recommendation for continuation of subsidies, and you will find the answer in the hearings. I wish you would comment on that approach made by the Secretary of Agriculture.

Mr. Goss. I do not agree with the Secretary. The Secretary said, in effect, that he was opposed to subsidies; he did not think they were right in principle, but that because of serious food shortages in Europe, he thought they would have to be continued.

Mr. CRAWFORD. Yes.

Mr. Goss. Well, I cannot follow that reasoning. If we had prices which would compensate for production, we would produce just as much without the subsidies as we do with them. But with subsidies, we are encouraging an enormous consumption of goods which are needed in Europe. Today the consumption per capita in the United States is the greatest in history, and what are we doing? We are encouraging it by selling them those goods below cost, when those goods are so badly needed in Europe. I just disagree 100 percent with the conclusions that Mr. Anderson reached in his testimony before your committee.

Mr. CRAWFORD. Continuing on this matter of subsidies, on page 11, subparagraph (d), in your statement, you make what I think is a statement of fact there. Let us see if we cannot prove that by what Mr. Chester Bowles, the Office of Price Administration Administrator, said before this committee, on page 7 of his statement, February 18. Quoting Mr. Bowles, he said:

It is not too much to say that our farmers today hold the key to economic stabilization largely in their hands, for unless food subsidies are maintained beyond July 1, the control of the present inflationary dangers will become impossible.

Now, listen to this:

If food subsidies were withdrawn, food prices would rise promptly and dangerously. The index which has been held steadily since May 4, 1943, would immediately rise more than 8 percent. This would force a major increase in the cost of living. This, in turn, would force compensating wage adjustments on a broad scale. As surely as day follows night, we would be started on a spiral of wage and price increases leading directly to disaster.

I think Mr. Bowles has confirmed, in that statement that I have just read, the statement you made: namely, that when subsidies are withdrawn, prices will advance—it does not make any difference when they are withdrawn—and that whether it be this coming July 1 or July 1, 1947, or at some subsequent date, when they are withdrawn, the farm owners and operators and hired hands of this country will be pointed out and stigmatized as the causes of the increased price of living and you will receive the economic curses of organized labor in particular, and the demand will then come from organized labor in particular for an increase in wages and salaries. Would you care to comment on that?

Mr. Goss. Yes. The proposition was put up to us to support the continuation of the Office of Price Administration for 1 year, and it was suggested that they would be willing to write into the law, into the continuation statute, a provision that subsidies would be abandoned at the end of the year, and prices adjusted to compensate.

Mr. CRAWFORD. At the end of what year?

Mr. Goss. At the end of 1 year of extension. I stated this: that I thought that was the most inflationary proposal which had yet been made, that during the year our costs would continue to advance, subsidies would continue to increase, and at the end of the year, just when these wage agreements, which labor is now signing up, expire, subsidies would be abandoned, prices raised, and immediately labor would have the best excuse possible for the demand for bigger and better wage increases than they have ever had before. And I stated this: that somewhere we have got to take a stand; that now, when the advances to labor have been even greater than the cost of living, that labor could afford to pay its food bill better than ever before, and that if we did not have enough guts to take a stand now, we might be mighty sure we would not have enough guts to take a stand when the strike season arose next year, and that we would into another great big wage increase, or we would have subsidies fastened around our neck, which we never could get rid of.

And I feel very strongly, Mr. Crawford, that that would be a terrible mistake to make. You might get by the election of 1946, but you would never get by the danger of inflation by any such program as that. And I think that this committee should look to what is going to happen 1 year from now, in practical terms, because if we should raise prices just at the time that these labor contracts expire, there is not a man in the room but what would agree that the demand for increases in wages would come on us in overwhelming force. And we just cannot keep on raising wages forever. Why, that is the very spiral Mr. Bowles talked about, that is the very essence of inflation. And here it was proposed to us that we back a program that was the very essence of inflation to get by this crisis right now.

Mr. CRAWFORD. And who made that proposal to you?

Mr. Goss. Well, it was made in some conferences we had with the Office of Price Administration officials.

Mr. CRAWFORD. So, in other words, where you say, on page 11 of your statement, "It could all be most conveniently blamed on the farmers —."

Mr. GOSS. It would be.

Mr. CRAWFORD. We find on page 7 of the statement of Mr. Bowles, that the blame is already placed on you in this language: "It is not too much to say that our farmers today hold the key to economic stabilization largely in their hands." It is already tied up and the rope is around your neck?

Mr. GOSS. What he means is this: That if we went out and fought the extension of the Office of Price Administration, it would be blamed on us, and the rope is around our neck.

Mr. CRAWFORD. And if you oppose subsidies, it will be blamed on you.

Mr. GOSS. And I will not stand for being blamed as an inflationist. We fought against inflation from the start. We fought for sound principles. We fought for the principles of maintaining production at a maximum. I do not agree with Mr. Bowles as to the remedy. I do not call him an inflationist, and I do not think he has any right to call us inflationists, or to blame it on us. We have differences of opinion, but I did not like the testimony which inferred that those who disagreed with him were inflationists, because I do not agree with that policy of continuing the subsidies, and continuing prices below cost. We feel sincerely that it is inflationary.

And I just want to put this in the record, too: Farmers have not complained about these ceilings too much. We have gone ahead and we have done as good a job as has been done in all America, without any strikes, and without complaints. We have done it by the women and the children getting out and working at tasks at which we do not like to see them work, and hours which we do not like to see them work, and we have done it, I believe, because we sincerely have, in agriculture, a group that is truly patriotic. I do not think there has been a better demonstration of service to the Nation than that which farmers back in the back country have put on.

Today they come and say, "Getting rid of subsidies will cost us money out of our pockets. We want to get rid of subsidies because we believe the welfare of the Nation commands it," and I do not want to see them charged with being inflationists, when they take that stand.

Mr. CRAWFORD. I am going to ask you a question now, and I am not going to press you for an answer to it. Do you know of a conference held between Mr. Bowles and the Office of Price Administration officials and spokesmen of the Farm Bureau and the Grange and Milk Producers, wherein it was roughly proposed that certain steel price advances and certain wage advances would be approved, and that with respect to those advances as related to the holding of the line, they would be frozen as a bulge, but that the farmers were asked and would be expected to go along without any increases in their wages, represented by the foodstuffs and other farm products which they put on the market? Do you care to comment about that conference?

Mr. GOSS. Well, I sat in on the conference, and we discussed some things which were asked to be held confidential. I do not know that I want to quote anybody, but the general program, Mr. Crawford, is that agriculture is asked to hold the line, with no change in ceiling

prices, except subsidies, while there has been a bulge made in the line, and that bulge is, in my judgment, going to be a new level, and agriculture is expected to hold the level down below, with everybody else you have above. And it cannot be done.

Mr. CRAWFORD. Now, related to that conference, and what you have just said, would you care to comment on this statement, which appears on page 9 of Mr. Bowles' presentation before this committee, in which he said:

Let me repeat that it is not unreasonable or unfair to ask the farmer to accept the present general level of prices for his production.

Mr. Goss. Well, I think I have commented on it pretty well. I do not think we can hold one line for agriculture and have everybody else above that line, Mr. Crawford. I am not saying but what the farmer has done all right. I am saying—

Mr. CRAWFORD. That is not the question I am debating. Perhaps the man in the factory and the shop and in the office, and in the bank, has done all right.

Mr. Goss. A lot of folks have done all right.

Mr. CRAWFORD. Yes, but here is my position. If the Federal Government assumed the responsibility of stepping into the picture, and saying what wages and hours shall be, what profits shall be, and what costs shall be, that is, when it moves ahead with one particularly highly organized branch of labor, that the moral responsibility on the Federal Government is to treat the other groups similarly, and let their income move up.

Mr. Goss. We maintain that we must all be treated alike. We have said that straight though. If you try to develop, by law and by regulation, an unbalanced economy, it is going to topple over somewhere sooner or later.

Mr. CRAWFORD. You made a statement on page 1 of your formal statement to this effect:

We need certain controls against inflation more than ever, but these controls must be sound. Otherwise they may do more harm than good. It is our considered opinion that continuation of the policies which the Office of Price Administration as followed for the past 4 years would promote inflation and retard recovery. If the choice were between continuation of those policies and removal of all controls, we believe removal of controls would be preferable.

Now, in the light of a question asked you by the chairman, I want to use that statement upon several occasions, unless you desire to change it at the present time.

Mr. Goss. In using it, I wish you would use it in this way, Mr. Crawford—of course, anything that is in here, we will stand on.

Mr. CRAWFORD. Yes.

Mr. Goss. But I wish you would use it in this way: It is true, but we put it in that way to emphasize the absolute necessity of changing the policies.

Mr. CRAWFORD. Yes, sir. That is the way I understand it.

Mr. Goss. If the policies are changed, we can avoid disaster. If we take off all ceilings, we cannot avoid trouble. Or if we go ahead without changing the policies we cannot avoid trouble. There is only one way to avoid trouble, and that is to continue the controls and change the policies.

Mr. CRAWFORD. Now, let me ask you about that changing of the policies. When you say continue the controls and change the policies,

do you limit that change in policy concept to what has been referred to here with respect to the Office of Price Administration Act and the Stabilization Act, or do you carry that concept on into your several proposals that the Federal Government and Congress and the various committees involved change the policies with respect to these fiscal functions of Government? Do I make myself clear?

Mr. Goss. Yes; I think you do. I think I understood you. The policies which need changing are an effective program of adjusting prices, so that maximum production can be maintained. I have also recommended some steps which will be necessary before we can control inflation effectively, and those steps are to be taken by the Treasury, and some by others. But I would not say that it would be absolutely necessary for them to take the steps—or I would not say this: That if they failed to take the steps, that we would recommend the abandonment of the Office of Price Administration; no. I think that if the Office of Price Administration changes its policies, so that its efforts are devoted to maintaining maximum production, it should be maintained.

Mr. CRAWFORD. Let me ask you this: Do you believe that the Office of Price Administration can efficaciously prevent inflation, eliminate black markets, prevent great advances in the cost of living, if we make the changes in the Office of Price Administration and Stabilization Act to which we have referred, and if the Office of Price Administration Administrators conform to those changes, and all in the absence of the Government discontinuing monetizing the debt, discontinuing deficit financing, discontinuing selling bonds to commercial banks on new and refunding issues, and discontinuing the other inflationary steps to which you have referred? Can the Office of Price Administration do the job with these suggested changes in the absence of all of these other steps on the part of the Federal Government, in your opinion?

Mr. Goss. No; not the whole job. I think they can help a whole lot, but I think before we actually start the spiral in the other direction, these other steps have got to be taken, too.

Mr. CRAWFORD. On page 4 of your formal statement, you bring out a thought that I do not think has ever before been emphasized. In the cost-of-living index, the quoted price is the one which appears. In other words, so long as the Office of Price Administration quotes a ceiling price, and the goods are not available to be bought at that ceiling price, the ceiling price quoted moves into the cost-of-living index, and does it not also go into the index on which parity is based?

Mr. Goss. I cannot answer the last half of that.

Mr. CRAWFORD. You see the importance of it?

Mr. Goss. Yes. I say that the prices which go into the ceiling index are very frequently not a true index of what the prices are in the market, or what people actually have to pay, and we have been fooling ourselves with this index, not only by reason of that, but the quality of the goods in the index has gone down, so that their value is not measured in price accurately.

Mr. CRAWFORD. Have you ever heard any farmer say anything about not only paying a higher price for a lower quality, in actual dollars and cents, across the counter, but also in having, in many instances, to contribute additional time in making the purchase, over

and above normal contribution of time, which, when monetized on the basis of hourly wage under the low prices he receives for his products, amounts to as much as the cost of the item itself?

Mr. Goss. Well, if what you are saying is have I ever heard him kicking about having to run all over town for a shirt, why, yes.

Mr. CRAWFORD. Yes. And stand in line minutes and minutes and minutes after they find the shirt?

Mr. Goss. Yes.

Mr. CRAWFORD. So that cost is not reflected in the price index, is it? It is not in there?

Mr. Goss. That is not in there; no.

Mr. CRAWFORD. Now, I would like to ask you this question: As farm wages advance into the present level, is it not a fact that upon many occasions a little piece of machine-repair part involving no more, in actual dollars and cents, than, say, 25 to 50 cents, will have to be removed from a machine, and that the labor incurred in that removal and in the replacing of the new part often runs as high as \$5? Have you any complaints along that line?

Mr. Goss. Well, I do not know that on that particular item. We have had, of course, a great many complaints about the increased cost of labor both in the wage scale and in the efficiency of labor, and it is heavy, it is very heavy.

Mr. CRAWFORD. Let me give you an illustration. You can take the drain pipe on an ordinary tractor radiator, which when it becomes rusty, has to be removed, and which costs no more than 7 cents to go and buy the piece threaded and ready to insert in the tractor, and you have to have two men remove the front end of the tractor and spend two and a half days or the equivalent of a full day's work to install the part?

Mr. Goss. You do not blame that on the Office of Price Administration, do you?

Mr. CRAWFORD. I do not blame that on the Office of Price Administration, but I blame the Office of Price Administration for not taking into consideration these increases in cost which the farmers have to face.

Mr. Goss. While we are speaking of labor, I do not want to be misunderstood. Our labor costs have gone up enormously, the highest of any of our costs. We are not kicking about the justice of higher wage rates on the farm. They have been too low. We must have a price structure, however, which will support them. I do not mean to be defending all the wage rates on the farm, but I wanted to go record as saying that the National Grange believes that the wage rates on the farm have been too low for a period of years, and they should be adjusted. They can only be adjusted with a price structure sufficient to support them.

Mr. CRAWFORD. Did you have an opportunity to carefully study the recommendations of Chairman Eccles of the Board of Governors of the Federal Reserve System, and Mr. Small, Administrator of the Civilian Production Administration, with respect to the necessity of Congress and the Administration taking these other anti-inflation steps along with the extension of the Office of Price Administration?

Mr. Goss. No; I did not. I have been out of circulation 2 or 3 weeks and I got a bit behind.

Mr. CRAWFORD. I suggest you read their recommendations and see how closely you line up with what they have to say on those particular phases. That is all, Mr. Chairman.

Mr. BROWN. Mr. Patman.

Mr. PATMAN. Mr. Goss, I am very much interested in what you have had to say, although I do not agree with you a hundred percent on your conclusions. I think your statement is a very fine statement, very interesting, and very thought provoking.

I notice that you brought out, 3 weeks before Pearl Harbor, a warning about the danger of inflation, and at that time you brought out the necessity of increasing the income tax and syphoning as much money as possible away from the excess purchasing power.

Mr. Goss. Yes, we did.

Mr. PATMAN. I agree with you that that is a major problem in connection with controlling inflation, or preventing inflation, and I presume that you have been consistent in that policy all during the war, and that you have been watching those particular points.

Mr. Goss. Yes; we were pleased with the increases, we were pleased with the pay-as-you-go policy. We did not approach the reductions which we felt were premature.

Mr. PATMAN. Well, now, let us take the Ruml plan. Did you take any stand on the Ruml plan?

Mr. Goss. We advocated a pay-as-you-go policy. It was possibly a little different from the Ruml plan.

Mr. PATMAN. But what attitude did you take on the plan that really cost us six and a half billion dollars in tax money? You know, the passage of that Ruml plan meant that the Treasury failed to receive six and a half billion dollars that it would have received if that bill had not passed.

Mr. Goss. Our position was this: We did not advocate the Ruml plan as such. We advocated the pay-as-you-go policy, which would have avoided that loss.

Mr. PATMAN. Of course, I was for paying as you go, but I was against giving this back at a time when our money supply was so much in excess of the goods and services available. And I presume from what you say that you were opposed to it, too.

Mr. Goss. I have forgotten the details of the plan which we presented—I think we presented it to this committee, if I am not mistaken.

Mr. Patman. No; that was presented to the Ways and Means Committee.

Mr. Goss. Oh, yes.

Mr. PATMAN. Now, last year we had a tax reduction bill. Did you appear before the committee on that bill, Mr. Goss?

Mr. Goss. No; we did not.

Mr. PATMAN. You did not express any active opposition?

Mr. Goss. As I recall, we took it up with the chairman of the committee, but at the time the hearings were on, it was impossible for us to be here. I have forgotten just what the time was.

Mr. PATMAN. Anyhow, you were opposed to the reduction and did not appear before the committee in opposition to it?

Mr. Goss. That is right. There was something that prevented our appearing before it.

Mr. CRAWFORD. I do not think they had public hearings on that bill.

Mr. PATMAN. I think they did. At least, they had witnesses. I do not know—

Mr. CRAWFORD. I think you will find it was executive session.

Mr. PATMAN. But anybody was allowed to appear, I understood.

Mr. GOSS. We did not appear. I do not remember the circumstances. But we did advise the members of the committee that we were opposed.

Mr. PATMAN. I think that was one of the most serious blows we have had to our efforts to prevent inflation.

Mr. GOSS. I have stated that in my testimony here. Mr. Patman.

Mr. PATMAN. Yes; and I opposed the Ruml plan and I opposed that reduction bill and voted against it, and I believe it was very damaging to our economy. I agree with you that it should not have passed.

Mr. GOSS. I should say this: We believe there should be some very decided changes in our tax system, but we do not think it is the time to reduce our intake from the income tax.

Mr. PATMAN. You cannot get a tax structure that will suit everybody. Any group can always make a pretty good case for a change in their favor. I do not think there is a group that could not. Mr. Eccles has advocated something that I think is worthy of consideration in the event these prices get absolutely out of hand. That is a 90-percent excess-profits tax. You know, a lot of people say that we should permit prices to rise, because it would help us pay off the national debt. But, under our tax structure, the part that the Government would get would be so small, compared to the inflation, would it not, Mr. Goss? In other words, our tax structure is not high enough?

Mr. GOSS. I do not think we could go along with a 90-percent excess-profits tax. We would like to see some way of getting the profits distributed and taxing the money where it is.

Mr. PATMAN. What I mean, if prices should get clear out of line, that there should be some way of channeling or capturing more of them in order to pay off the national debt, as inflation gets out of hand. And 90 percent, of course, is the top limit. Of course, that would be placed on real large incomes.

Mr. GOSS. I personally made this recommendation. It has not been approved by the National Grange, but I made it in questioning over in the Banking and Currency Committee of the Senate the other day. That where prices got so extreme, there is an indication that our free economy is not working as it should, the competition has not taken the place it should, and that maybe the practical approach would be to set a standard for wages and a limitation on profits, and what came above that would be divided part with labor and part with industry, and the cost of the things that were being sold to the public should be reduced.

Now, in all of this monkey business about wages, and adjustments, the public has had pretty short attention. The consumer has really been pretty much left out of the picture.

Mr. PATMAN. But in your division there, you left out the Treasury, did you not, Mr. Goss?

Mr. GOSS. If the consumer is able to get his living reduced, I think the Treasury can be compensated by the consumer paying a little more taxes.

Mr. PATMAN. But that tax bill which passed last fall, you know, eliminated some 12,000,000 people from the tax rolls.

Mr. Goss. Yes; and I do not like it.

Mr. PATMAN. You suggested something here that I am afraid would just absolutely scuttle the Office of Price Administration Act if you were to pass it. In fact, I think it would be just about useless to pass it, if we were to adopt your suggestion, namely, that we should pass a law limiting the appropriations for amounts for them to carry on the work only for 90 days at a time. Of course, that means that you are just passing the law for 90 days at a time.

Mr. Goss. Well, if you read the balance of that—

Mr. PATMAN. I do not believe you could get the support of the people behind the program, especially when you have a lot of gripes about different rules and regulations that involve 8,000,000 prices, and it would depend upon how noisy a minority could be in Congress as to whether or not the Office of Price Administration could get sufficient money for the continuance. I think that would effectively scuttle the Office of Price Administration, Mr. Goss.

Mr. Goss. Reading the balance of this "clearly setting forth the intent and purpose of Congress to continue to provide ample funds if the policies of Congress are carried out."

Mr. PATMAN. I know, but I do not think that helps it any, Mr. Goss. The statement is that you would give them money available for 90 days at a time.

Mr. Goss. Let me tell you a circumstance, Mr. Patman. The January 30, 1942, act provided that ceilings should not be placed below certain levels.

Mr. PATMAN. Yes.

Mr. Goss. They were placed below certain levels and we went to Mr. Henderson a number of times and tried to get them adjusted. He always said, "I will blister them a little bit, but I will never puncture those ceilings."

Finally, I got word that the first big crop to come off is berries out in the Pacific Northwest. I got word that 53 percent of the berries had not been picked because the prices were so low they could not get the pickers. So a bunch of us went down and talked to Leon Henderson about it. I laid the two telegrams I had before him. That made him scratch his head. Finally he said this:

I will tell you what I will do. If you can show me that all the margin between the producer and the consumer is squeezed out, I will puncture the ceiling.

Well, that was not acceptable to us, because that was his job, not ours. All we asked was that he obey the law, and so the farm organizations came and presented the matter to the Appropriations Committee of the House, and the House and the Senate wrote in a provision that they would have to adjust the ceilings within 60 days, or their appropriation would be cut off.

Mr. PATMAN. When was that, Mr. Goss?

Mr. Goss. That was in August of 1942. And that 60 days expired on the 6th day of October, and then it was that the President sent a message to Congress, saying there was a great emergency that had to be met and if the Congress did not convene and meet it, he would. Now, the emergency was what forced action. The emergency was that the pipe line to the Treasury was going to be cut off on October 6, and that is the first time we ever got those ceilings adjusted.

We have been so impotent in getting these ceilings adjusted, Mr. Patman, that I suggested this, I do not like it, I will admit, and if there is some other way of getting it done, it ought to be done.

Mr. PATMAN. Well, that would just mean the end of the law, you know, because right now, if people knew they had to get an appropriation every 90 days, they would begin to hold things back and say, "This law will be blocked, we can filibuster."

Mr. Goss. But here they have in the law in 1942 that ceiling prices shall be established in increased costs and they have not done it.

Mr. PATMAN. I know, Mr. Goss, and I understand how you can get awfully aggravated at it. Take ceilings on strawberries. There you were in August, right after we had started the war, when you were thinking about strawberries, which you should think about, because you represent the farmers. At the same time, in wartime it is a luxury crop, and they needed workers so badly in all these shipyards to build ships, and tanks and guns and they did not want to increase prices sufficiently to entice people away from the making of materials for war, to grow a luxury crop. That same thing applied to watermelons and things like that. So you had the labor element involved there. I think the Office of Price Administration was perfectly justified sometimes in failing to adjust price ceilings that would draw people away from necessary war work and put them into production of things that were not needed. That was a factor. Do you not realize that, Mr. Goss?

Mr. Goss. Well, it might have been an occasional thing, but it certainly was not in the dairy industry, and it certainly was not in the meat industry, and in the basic food industry. I just cited berries—

Mr. PATMAN. I know, I could cite a lot of them myself. I was very much aggravated about that during that time, but when I ran up against this labor business, I could not fight with them, because, with our boys in the service, and our promising to back them up with all the best equipment in the world possible in order to save the greatest number of lives possible, I could not justify people leaving the war work to go out there.

Mr. Goss. Well, you would not find the farmers kicking about the little things. It is the big things we are kicking about.

Mr. PATMAN. I know you would not deliberately do it, but I am just calling your attention to the fact that back then there was a different situation than now. You are complaining about the unit cost. You are insisting upon every item being sold at a price that would give the seller a profit, are you not?

Mr. Goss. I do not quite understand.

Mr. PATMAN. You brought out awhile ago—you read that section of the law about raising of prices.

Mr. Goss. Yes.

Mr. PATMAN. Well, did you read that in connection with the phrase "generally fair and equitable"? You picked that out by itself and it sounded awfully bad. But the law reads that the prices should be "generally fair and equitable," that is written in there, too, and it is just as effective as the part you read.

Mr. Goss. I do not think we have asked for anything that is unfair and unequitable. We have asked that when it is recognized that the price for milk or some other commodity is away down below cost—

Mr. PATMAN. I know, Mr. Goss, but you cannot make a price for one without making it clear across the board. You have got to satisfy them all.

Mr. Goss. But Mr. Patman, you cannot satisfy people by holding the price down so low below cost that you do not get the production.

Mr. PATMAN. No; I do not want that at all.

Mr. Goss. You do not want that. We are not kicking about the little things in it at all, but when a general policy of holding ceilings below cost of production prevails, we feel that is distinctly inflationary and I think you think it is, too.

Mr. PATMAN. I certainly agree with you. You are talking about just changing the policy to where the prices will be raised on everything to where they will bet a profit. That is the part that I wanted to discuss with you. Take, for instance, a store out here which handles 50,000 items, a department store downtown. There has never been a time in the history of that store when they always sold all their items at a profit. They have loss leaders, and they sell some at cost, and so on. If you come in here now with a rule that they should get a profit on everyone of them, that just puts everything clear out of line. Of course, on farm products, I do not think the farmers have fared well in this war, I do not think they have gotten too much profit at all. In some cases they have produced at a loss, and I think they have done an excellent job. They have increased their production 25 percent in 1944 and the same amount in 1945?

Mr. Goss. Just about.

Mr. PATMAN. And with the limited number of people to work on the farm, with old and worn-out machinery, I think they have done an excellent job. And they were producing food, which was just as vital and as essential in the war as bullets, and I think the farmers should be commended. I want to help them. But I am just pointing out it is not a simple thing to do. You cannot just lay down a section of law and make it apply just to dairy farmers or strawberry farmers, and not have it apply to everything else. If you do, you will run into disaster.

Mr. Goss. Of course, there is no way in which you can control prices without dealing more or less with averages. I realize that.

Mr. PATMAN. Oh, yes "generally fair and equitable."

Mr. Goss. Yes. You cannot have any law that will set up these details. But the general principle that the price ceilings shall not be established below cost is the one we are fighting for. That is something that they have ignored.

Mr. PATMAN. Well, of course, offhand, you would say that is wrong, and you would be right. I do not know what the other factors are that enter into any particular case. I have found the Office of Price Administration wrong a great many times. The question is, if we are going to hamstring them with having to get an appropriation every 90 days, why, we will just not pass the law.

Mr. Goss. If you could find some other way of making them carry out the intent of Congress, I would say, go ahead and do it. But there ought to be something in there.

Mr. PATMAN. This intent and purpose would be determined in a great many instances by complaints from people back home to Members of Congress, and the result would be to stop the appropriation. Even a filibuster can last 90 days in the Senate. So just a few people could get together and say, "We are going to stop this by keeping them from getting their money." I think there is too much sentiment in the country that the Office of Price Administration represents some bureaucratic arrogant group which is against the people. But the people in the Office of Price Administration I have dealt with I have found to be good, sensible, and reasonable people. I know they do not do everything I want them to. Sometimes they do things that I think are absolutely crazy and senseless, but when I go to look into it, most of the time I find a good reason why they have done it. And I think Mr. Bowles generally has done a mighty good job. He is not a man who wants to hold his job. He is a man who is very wealthy in his own right and is not looking for a job to hold onto. I think we ought to look at that as more of an agency which is trying to do something for us, for the public good, and the only way they can do things for us is for us to give them power to do it. Give them the power to administer the law. You cannot write administration into the language of an act. It just cannot be done. And if we are not willing to give them that power, we should not pass the law. So although I commend your statement in many ways, I take exception to that part, which I think, Mr. Goss, would just scuttle the act.

Mr. Goss. Let me say you have raised the question of Mr. Bowles. I would like to add to what you said. I think he has done an excellent job. I think he was given an impossible job at the start. I think Leon Henderson started this thing off on the wrong basis, to begin with. He though you could control inflation by ceiling prices. He did not want to put any ceilings on labor, to start with. He was just going to put it on the things that people bought and he got off to such a start that it was almost impossible to reverse it by the time Chester Bowles came along. I think he has done a good job.

Mr. PATMAN. I was a disciple of that faith myself. You see, we wanted just as few restraints as possible. And the farmers were a party to it, too. They said, "Do not put ceilings on us unless you have to." And we all yielded to it, in this committee. The theory sounded beautiful, that we would give this Price Administrator this power. It sounded all right, but it did not work, just as you said. But we did it in the interests of trying to keep down bureaucratic rule just as long as we could. We tried everything we could as long as we could. But I see now, of course—and hindsight is always very good—in looking back, that it was a terrible mistake.

Mr. Goss. I would just like to put in the record that we told you it would not work before you did it.

Mr. PATMAN. Did you advocate a price on everything?

Mr. Goss. We advocated a price on those things which would prevent profiteering.

Mr. PATMAN. Well, that was the same theory we had.

Mr. Goss. But on the basis of production cost.

Mr. PATMAN. That is what we adopted, and it did not work.

Mr. Goss. Well, it did not work because they did not obey what you told them to do, Mr. Patman, and all I am trying to do is to try to find some way of getting them to obey it.

Mr. PATMAN. But we cannot do it by hamstringing the Administrator. We either have to give him the power or abolish his position, as I understand it.

Mr. Goss. We made him come to time once when we could not do it by any force of argument, by that very method, so I recommend that for your consideration.

Mr. PATMAN. In that particular case I know that the question of manpower was involved, and if you had to take men out of essential work to go into work that was not so essential, you would not feel so good, would you?

Mr. Goss. I did not get that.

Mr. PATMAN. I say that is the time manpower entered into it and if you had convincing evidence that that rule would take men away from shipyards and vital plants to make war materials, and enticed them over into making something that was not so essential, you would not feel good over it. There is no reason why you should feel badly because I presume that did not happen.

Mr. Goss. Well, it was more than that, Mr. Patman. We had the dairy and the pork industry both up at that time. We had some major commodities. Berries, it is true; watermelons, it is true, but we were not fighting for those.

Mr. PATMAN. And I know one of the greatest fights here was "do not put price ceilings on nonessential items, such as musical instruments," and watermelons, berries, and so forth. The truth of the matter was that manpower was so short that if you did not put price ceilings on watermelons, they would quit growing potatoes and would grow watermelons and make more money. They would quit making wheelbarrows and valuable materials and contrivances and machines to help in the war effort and go into the making of slot machines and pianos and things like that. It induced labor from one to the other.

Mr. Goss. I appreciate that, and I do not think we opposed any of that.

Mr. PATMAN. I know you did not do anything, Mr. Goss, that was deliberately for the purpose of interfering with the war effort, and I do not indirectly or directly or even remotely make any accusation of that kind. But I am just discussing these elements we are now considering. That is all, Mr. Chairman.

The CHAIRMAN. I am going to call Mr. Folger to the chair, Mr. Goss. I am very glad you had an opportunity to appear before your your trip. Your great organization certainly has the right to be heard on these matters, and I think your statement is worthy of consideration by the committee.

Mr. Goss. Let me express again my appreciation to the members of the committee who have broken into their Saturday to come out. I greatly appreciate it.

The CHAIRMAN. We are always glad to have your views, Mr. Goss. Mr. Folger, will you take the chair?

Mr. FOLGER. Dr. Smith.

Mr. SMITH. Mr. Goss, we are always glad to have you with us. I have been greatly worried ever since I have been in Congress, especially since I have been on this committee, to see a peculiar drift which appears to simulate the movement which took place in Russia after the Revolution and which resulted in the complete control and subjugation of the agricultural group by the city politicians.

I have pointed this out to this committee, I think, on two previous occasions. Do you recall the speech which President Roosevelt made in September 1943, when he said, or just as good as said, that the farmers were racketeers? Do you remember that speech?

Mr. GOSS. That was in September of 1942.

Mr. SMITH. Now, we have Mr. Anderson, Secretary of Agriculture, who came before this committee, and bluntly said that the farmers should consider the necessity of accepting lower prices for their products. That is, in substance, what I understood him to say. And I have been wondering whether the farmers in general are recognizing the seriousness of this situation.

Mr. GOSS. Well, the farmers feel very keenly that the program as projected would put them into a class by themselves, expecting them to become practically a subsistence industry for the benefit of the rest of the economy, and they do not intend to accept that if there is any way of avoiding it.

Mr. SMITH. I do not wish to insinuate that the rank and file of working people in the cities have any such thought in mind.

Mr. GOSS. I do not think they do have.

Mr. SMITH. I do think, though, that politics is involved in the proposition. Fundamentally it is a political movement, just as it was in Russia, and I think it is very dangerous, and shows what can happen to us when any group comes to Washington and asks for class legislation.

Mr. GOSS. I think that practically every group would disclaim any such motive as you have indicated as an outright motive, but here is what it amounts to: If agriculture, in order to get a price to stay in production, has to get part of its income from the Federal Treasury, that means that it is recognized as not playing its full part in our general economy of production and distribution of wealth, and it means that whenever it becomes necessary for us to balance the Budget—and it will become necessary, if we do not go broke—that they are going to be squeezing down on those subsidies until agriculture has to come, hat in hand, begging for enough subsidy to stay on the job, and we will be given just enough to keep us on the job, which is subsistence living, and, of course, we resent any such proposal and we fear greatly any such outcome.

Mr. SMITH. I believe that your statement needs just a little correction. I do not think there is any thought on the part of the political powers that be that agriculture is not playing its part. I think that the thought back of this whole movement is political control of agriculture. I do not wish to accuse anyone of deliberately fostering this idea. In this world, motives have very little place. It is what comes out of a proposition, not what it was intended for, that really counts.

Mr. GOSS, we are hearing a great deal about balancing production against demand. The Office of Price Administration is talking bla-

tantly about it. When we can get production up to equal demand, prices will become stabilized, and ceilings can be removed—the Office of Price Administration can be disbanded. So Mr. Bowles and others repeatedly tell us. Now, you have indicated in your testimony that the Office of Price Administration is the cause of the lack of production. Now, we have another factor, and a very forceful one, which I would like to discuss with you for just a moment, which has to do with this failure to produce, or the break-down of our production. I think you will agree that industry is disorganized at the present time. We can perhaps illustrate it best by looking at the problem of forward quotations by industry, from the producer of raw material to the finished product. It is a fact that the concerns having to do with production are unable to quote prices on goods far in advance of delivery.

Mr. Goss. Yes, there is great uncertainty as to what their costs will be, of course.

Mr. SMITH. The condition of our finances and money is very uncertain. That is true, is it not?

Mr. Goss. That is true; yes. I think that there are many factors which prevent being able to see very far into the future as to costs.

Mr. SMITH. Yes. At any rate, we know that it is impossible to quote far ahead, and that seriously affects one of the basic principles underlying sound business. When money is sound, and finances are sound, you can quote ahead over a period of years. When they built the railroads of this country, they quoted prices as much as 50 years in advance. That is what gold bonds meant. Now, that cannot be done. We are living more and more from hand to mouth, from day to day.

Mr. Goss. If we supplant economic forces by forces of law or regulation, we inject an unknown into the economy, very much more unknown than we could expect if economic laws were permitted to prevail. Of course, we have had an awful shock in the war, and we have had to do this. The question with us is that we would like to get rid of regulations and get back to economic law that everybody can understand and work on as soon as we can.

Mr. SMITH. One of the propositions we face is the volume of Government printing press money. I discuss this so much that some of my colleagues think I am a crank about it, but I shall nevertheless continue to discuss it. After all, supply divided by the volume of money, represents, in a general way, price. Is that not true?

Mr. Goss. Well, it sounds so. I do not want to get into a money argument, because I do not know anything about money. I used to think I did, but I am inclined to think I do not.

Mr. SMITH. You understand this as well as I do. We have a demand side and a supply side, which express themselves in terms of prices; is that not true?

Mr. Goss. That is right.

Mr. SMITH. Now, the Office of Price Administration has avoided discussing this money factor. We have a large supply of money. Prices rise with the volume of money, is not that true?

Mr. Goss. That is what they have tried to dam up through their price regulations, but the dam has not held.

Mr. SMITH. All right. I made the statement that you understood it as well as I do, and that is about the substance of it. They are trying to hold this volume of money by damming it up, as you say.

Now, how much Government printing-press money do we have in existence? This is very important. Mr. Eccles testified before this committee that we have something like \$220,000,000,000 or \$240,000,000,000 of Government securities which are in a liquid form—which can be converted into things. I do not remember the exact figure, but the Federal Reserve Bulletin for February shows the amount of marketable Government securities to be about \$200,000,000,000.

In addition to that, we have \$48,000,000,000 of War Savings bonds, which are redeemable upon demand, within a period of 6 months, and which represent potential cash in hand. Certainly those bonds could be converted into cash, and would add to the volume of inflation.

Now, in addition to that, we have about \$28,000,000,000 of circulating currency, much of the greater portion of which represents Government printing-press money. We have, in other words, between two hundred and fifty and three hundred billion dollars of Government printing-press money.

Following World War I, the total debt was about \$26,000,000,000. We had a small amount of debt that had been carried over from pre-war years. As I recall, the debt resulting from the war was about \$25,000,000,000. Now, assume, for argument's sake only, that all of that was Government printing-press money. But conditions then were not as they are at the present time. The securities representing that debt bore a much higher rate of interest than do the Government securities at present. Consequently, they were attractive to investors, and were bought as investments. So long as they were held as investments they did not affect commodity prices.

Now, we have this volume of Government printing-press money, amounting to, as I said, between two hundred and fifty and three hundred billion dollars, with our Government securities, carrying a much lower interest rate—so low, on a great many issues, that they simply will not be carried as long term investments unless the interest rate is raised.

Now, Mr. Goss, the point in connection with this discussion is this: We have a disorganized economy, and fundamentally this is caused by Government printing-press money, which is in my judgment, more important than the regulations and controls of the Office of Price Administration.

If you removed the Office of Price Administration tomorrow, or if the Office of Price Administration could be so operated as to obviate the evils which it practices, you still would have this depreciated currency affecting prices and quotations. We would still have this printing-press money operating to disorganize industry.

I believe that we ought to face this issue and face it squarely—not kid ourselves about it at all—because we are up against a terrible proposition. If we had no more than \$25,000,000,000 of Government printing-press money following the other war, and practically none of it was, from a practical standpoint, liquid, and we had a rise in prices.

such as we saw in the 1920's, I ask you, Mr. Goss, what is going to happen to prices under present conditions, when we have between two hundred and fifty and three hundred billion dollars of Government liquid assets, printing-press money, bidding against this small volume of goods, disorganizing industry to create still further shortages?

Mr. Goss. I wish I could answer, Dr. Smith. I think anyone who reviews the picture, as you have reviewed it, must have great concern. I think the only answer is going to be to maintain a maximum volume of production, so much so that it will come as close as possible to meeting demand. If that printing press money, or the \$300,000,000,000, was equally distributed among all of our people, I do not suppose that that would be possible without an enormous inflation.

I do not know what the answer is, except that we have got to try to hold that money back, on the one hand, we have got to do everything we can to prevent its increase, on the other hand, and we have got to maintain maximum production, on the other side of the picture. That seems to me to be the only way that we will ever get out of a most dangerous situation.

Mr. SMITH. Now, Mr. Goss, I think you see this picture as well as I do. Certainly, one of the first things that must be done is to balance the Federal Budget.

Mr. Goss. That is right.

Mr. SMITH. Even if we must drastically reduce agricultural and all other appropriations to effect a balanced budget we should not hesitate to do so. Does not the seriousness of the situation call for drastic action?

Mr. Goss. Let me suggest this, Dr. Smith, as a very rough and rather simple—

Mr. SMITH. Will you pardon me for interjecting? Do not understand me to be reflecting upon any efforts that you or your organization are making. I sympathize with you, or I would not have brought up the matter at the beginning of this discussion.

Mr. Goss. I was just going to suggest this as a very simple measuring stick—and I realize there is danger in too much simplification—but those appropriations which will contribute toward increasing the production of wealth, will probably help us out. Those appropriations which contribute to the expense, expense that we may not be able to afford, will lean in the other direction, and I think it is possible for Congress to be penny wise and pound foolish in not looking after the appropriations which will help us increase the production of goods.

Mr. SMITH. But at the same time, you would advocate a balanced budget regardless of anything?

Mr. Goss. Absolutely. Get a balanced budget just as fast as possible. I am not so much afraid of \$300,000,000,000 of debt, if we balance the budget and begin to move in the other direction and can maintain a production sufficient so that people have an income high enough to begin to cut into that. I think it is possible to come out of this thing, but I do not think it is possible to come out of it if we just keep on adding debt, adding debt, adding debt, under the crazy idea that we owe it to ourselves and, therefore, it does not count. And that

seems to be a philosophy which has pretty much permeated official Washington, and I do not agree with it at all.

Mr. SMITH. If I were appointed director of the Office of Price Administration and were told, "Your business now is to master this inflation, which will involve your increasing production," I would take this position: That wherever I was in doubt as to whether a particular price level might be hindering production, I would resolve that doubt in favor of raising prices. I would be following your line of reasoning?

Mr. Goss. Why, I think so. That puts me in a little bit of a prejudiced position of saying that I believe in raising prices all the time. I do not. I think there are many, many cases where the price should be held. But I do believe, above all things, in getting production up. I cannot see any way out unless we get production. Believing that, I think I would do about as you said. If I were in doubt, I would lean toward the production side.

Mr. SMITH. I am glad to hear you say that. I am positive that neither the Office of Price Administration, nor any other agency is going to control inflation. It is upon us, and we will have to meet it, and I take this position that the stress should be placed upon production more than price control.

Mr. Goss. Absolutely.

Mr. SMITH. Because we must have production, even to live; is that not true?

Mr. Goss. Yes, sir. I do not quite agree with you that nothing is going to be able to control inflation. I believe that we are not going to be able to stop inflation. In other words, we are going to have more. But I do think it can be controlled. If we just let the thing go without any attention, if we just——

Mr. SMITH. You mean, by control, that we can keep it from rising too rapidly; is that right?

Mr. Goss. Reaching the spiral of inflation, the tip where our whole economy collapses. I do not think we are going to get there. However, we would get to that point if we did not take reasonable steps to prevent it. That is what I mean by control. I think we are going to have a higher price level than we have now. Part of it is because of the reason you have been talking about. We have \$300,000,000,000 of loose money lying around, and we just cannot hold it where we now are by pure price control. I come back again and again and again. The only way is to get production, so that the production meets the demand and controls the price. The price is the result.

Mr. FOLGER. Mr. Goss, I believe I would come next, and I will yield to Dr. Talle in just a minute. I think the burden of the statement of everyone who has testified here is: ample production.

Get busy. Get things done. And then maybe your price controls, or maybe before that your subsidies, become superfluous. What we want to do is to get to the end of price control as soon as we can; is it not?

Mr. Goss. That is right.

Mr. FOLGER. And probably the best formula is the one you have given here, when production is in apparent equality with the demand, then, the price controls are no longer necessary.

Mr. Goss. Let me qualify my answer to your former question, when you said we want to get rid of price control as soon as we can.

We want to maintain price control as long as it is necessary, and it can help us in solving the inflation problem. I think our formula for getting rid of price control item by item, which I have given here, and which Mr. Brown outlined, is sound. But, of course, the main objective we want to attain is to prevent inflation. That is our main objective.

Mr. FOLGER. Yes. And the definite policy of the Office of Price Administration should be designed to secure maximum production while the Office of Price Administration is in operation.

Mr. Goss. That is right, and we will get rid of price control fastest that way.

Mr. FOLGER. That is right. That is all.

Mr. TALLE.

Mr. TALLE. Mr. Goss, I always find your statements stimulating and convincing, and they are in such form that they are easy to follow. I appreciate having you here again today. It is nearly a year ago that I had to toot the horn vigorously for maximum production, balancing the budget, and stopping the monetizing of our Federal debt, but it was a voice crying in the wilderness at that time. I have kept on, but with little success. I think we are overlooking one factor when we say we want to bring demand and supply into balance. I think we must remember that demand can rise as well as supply, so that while we are lifting our supply, we will have an account of the possible moving upward of demand, too, because human wants are variable. Would you recommend rationing where that would help to fix the demand?

Mr. Goss. Yes, we do. We recognize that demand may reach a point where it is temporarily impossible to supply it, and that rationing is the equitable thing to do, and if we could conduct rationing as fully as we might wish, it might have an effect on price. There was a time, a couple of years ago, when meat was under rationing when it had an effect on price. There was a surplus under rationing.

Mr. TALLE. I remember you took that view on previous occasions.

Mr. Goss. Yes, sir.

Mr. TALLE. If we do not do something like that, will we not simply be chasing the devil around the stump?

Mr. Goss. We may have to do something like that. I cannot, of course, predict whether demand is going to rise as fast as supply.

Mr. TALLE. Nobody can tell.

Mr. Goss. If it does rise as fast as supply, we have got to go into a period of rationing, I am satisfied.

Mr. TALLE. Anyway, the possibility is there?

Mr. Goss. The possibility is there. I do not know whether it is a probability or not.

Mr. FOLGER. Will you yield, Doctor?

Mr. TALLE. Yes.

Mr. FOLGER. Is it not more desirable, however, to increase your supply all the time?

Mr. Goss. Yes, sir. It is desirable to have this demand, this higher standard of living coming along, but I think they can go along together and that the supply can keep ahead of the demand. I think it is possible.

Mr. TALLE. I think so, too. But the trouble is that we are delaying our maximum production so long that we are complicating the demand side.

Mr. Goss. That is just what I have been hollering about for the last 2½ hours. We are trying to solve this problem without the recognition that the one thing that can cure it is supply, and while we have given lip service to it, in actual practice, it has not been followed. I only cited a few things, shirts and bricks, but you can go down the line and find hundreds of them.

Mr. TALLE. That is right. I think that is the purest gospel that anybody can preach, that we need maximum production, and I hope we may get it soon. The hour is late, and I imagine you would like to have some lunch, Mr. Goss. I will be glad to pass now.

Mr. FOLGER. Mr. Buffett.

Mr. BUFFETT. Mr. Goss, you have made a magnificent statement on this entire inflation situation.

Mr. Goss. Thank you, Mr. Buffett.

Mr. BUFFETT. I think your comments on subsidies and the general discussion of subsidies is the finest exposition of that subject that I have ever heard.

Mr. Goss. Thank you.

Mr. BUFFETT. You have one sentence here or paragraph stating "Somewhere we must take the stand. Now, is the time, or it may be too late." I am 100 percent in agreement with that statement, and I think that the duty of the farm organizations in that respect cannot be overstated. That is, this is a time for action by the farm organizations, if they are not to fall right into the trap that apparently Mr. Bowles set in his statement here when he set up subsidies as to be abandoned a year from now, when the situation would be much more untenable than it is today.

Mr. Goss. Not only untenable; it is crazy.

Mr. BUFFETT. Well, I was making an understatement. But many people feel—and I think I am one of them—that the Congress of Industrial Organizations' White House steel political wage deal was about the foulest economic blow ever struck against the American people, coming when it did and being handled the way it was. That deal gave steel workers, and set a pattern, of a 15 percent raise for wages. The cost of subsidies in our national economic structure is about 3 percent in the cost of living. They raised wages 15 percent. If you took out the subsidies, that would take out 3 of that 15 percent, would it not?

Mr. Goss. Those are the figures I have heard quoted.

Mr. BUFFETT. I think those are the Office of Price Administration's own figures.

Mr. Goss. Yes, I believe so. We have felt they were a little below that. But I am not able to dispute them or to confirm them.

Mr. BUFFETT. Yes, they would be below, because when the subsidies come off, production would be encouraged instead of discouraged, and prices would decline some. But assuming that it was a full 3 percent increase in the cost of living, at a time when the steel workers had a 15 percent raise, and that pattern is being generally adopted, is that not a perfect time to drop subsidies?

Mr. Goss. We think it is. We think there has never been a better time to drop them than right now.

Mr. BUFFETT. Well, certainly the farmers of this country have pretty strong political and economic weapons in their quiver, if we want to use the simile of an archer. Those weapons are available.

I do not like economic warfare. I think it is a tragic thing. I think this administration has encouraged it for a long time and accentuated it in late months, and from that standpoint I think that they have done this country and the world a great disservice. But I think it would be tragic if the farmers, through inertia, sat by and watched this situation go from bad to worse, when they have in their hands both political strength and economic strength which could be used to rectify a situation that is moving toward disaster.

Mr. Goss. Well, it is not quite as simple as that. I wish it were. We have been shooting these arrows for quite a while, and I do not know whether we have missed the mark, or the arrows are too short, or the bowstring is not strong enough, but it seems now as though people are beginning to realize it more, when they are face to face with the actual results of inflation, as has been demonstrated by the strikes against rising costs and one thing or another. Now they are beginning to see it for the first time. Before it was only talk.

Mr. BUFFETT. Yes, we are seeing it rapidly.

Mr. Goss. Although I do not think many people understand all the causes behind it, I am very much hopeful that the Congress will take such action that the Office of Price Administration will have to stick to sound principles.

Mr. BUFFETT. Well, I wish I could feel that the Congress would take action in the absence of any powerful pressure from the people, but I do not think they will. It is too easy to vote for appropriations, and it is too easy to postpone the day of reckoning with these problems. But you are familiar with them, and I hope I am. For example, in the great bread basket of this country today, the majority, at least, of transactions in corn, grain, cotton cake, and those things, are being carried out by means of barter or black markets or other outlawed transactions.

Mr. Goss. That is right.

Mr. BUFFETT. Well, when a great segment of American industry has been reduced to illegal methods, certainly we have a situation that people who want our moral civilization to continue cannot continue to ignore.

Mr. Goss. That is right. I do not think that barter is illegal, but it is extralegal. That is, it is something different that we have been forced into.

Mr. BUFFETT. Barter is legal, but it is a throw-back.

Mr. Goss. Yes.

Mr. BUFFETT. That is not nearly as bad as black market.

Mr. Goss. It means that they are not able to carry on and exist under present conditions and doing business in the ordinary way. They have had to take some extraordinary ways to keep going, and I think that is a very bad sign.

Mr. BUFFETT. Well, the next 60 days will see the farmers making planting determinations for 1946, will they not?

Mr. Goss. Pretty much. There are a lot of them being made now.

Mr. BUFFETT. Yes, but most planting is being done in the next 60 days.

Mr. Goss. That is right.

Mr. BUFFETT. Certainly, if there was a time when farmers could talk turkey to this Government about getting rid of subsidies, that time is now, with the wage increase to steel, on the one hand, and, on

the other hand, the request that farmers produce on as great a scale as possible.

Mr. Goss. We are a pretty large bunch and we are talking as loud as we can.

Mr. BUFFETT. In other words, I know how a lot of these people feel. I know that farmers are thoroughly disgusted with this situation. I think their disgust can and will, eventually, take a violent form, unless this Congress is realistic about this situation, and also this Government is realistic about it.

Mr. Goss. We have a lot of requests to try to engineer a farm strike. We have not taken any action, and we do not believe in that way of doing business.

Mr. BUFFETT. No, it would be unfortunate.

Mr. Goss. It would be resorting to the same kind of tactics that we are condemning in others.

Mr. BUFFETT. That is right.

Mr. Goss. It would be condemning 90 or 95 percent of our people, who are completely powerless to do anything about the strikes which are going on, for the benefit of taking a crack at about 5 percent.

Mr. BUFFETT. That is right.

Mr. Goss. Further than that, they could not do it if they wanted to. I suppose there is a year's supply of food in the hands of people other than farmers, and to say you are going to strike and shut that off—well, it just could not be done if you wanted to do it. And we do not believe in that way of doing business. But what will happen is, as resentment piles up more and more, that you cannot tell what agriculture as a whole will do. They are 6,000,000 people and they have 6,000,000 divided ideas, and when they have had just about so much—I do not know what they are going to do about continuing planting. I think they have done a swell job up to now. I think they are going to continue to do a swell job. But, as I say, they are getting pretty well fed up.

Mr. BUFFETT. Under the present situation, are we not in this kind of a fix: that the Government is making it, through subsidies and price fixing, very easy for the individual to satisfy his requirements for food? As a result, there is a tremendous incentive given to idleness in this country and today there are 3,000,000 plus unemployed drawing benefits. You can go into any farm community in America and at least a third of the farmers are looking for help. Now, if the farmers are going to do their part in solving this problem, they should be vigorous in presenting their views, do you not think so?

Mr. Goss. I think so. I have presented to the President amendments that I thought would help solve that particular problem without destroying the benefits of unemployment compensation, but when we get into that, we are getting into another big problem.

Mr. BUFFETT. The problem you face is that the farmers are trying to solve this problem by the methods of good will and sweet reasonableness. But there are other elements that do not operate along those lines.

Mr. Goss. We are doing the best fighting we can, Mr. Buffet. I do not mean that we have not got good will and good reasoning. But we are not just sitting idly by and letting the folks run over us. We are not as strong as some other groups. Labor organizations may

have an income of—I have heard it quoted as being above half a billion dollars a year, and all the farm organizations put together would not have 1 percent of that, I suppose, or not much over it. So we are just not organized to put up the same kind of fight. We are doing the best we can. I think we have got the farmers pretty much behind us.

Mr. BUFFETT. In all those great inflations in history, where price control has failed, the farmer has eventually come out on top, because he has what other people cannot get along without.

Mr. Goss. Yes, but he has had an awful time getting on top.

Mr. BUFFETT. That is right. And I do not want to see it drift in that fashion.

Mr. Goss. No.

Mr. BUFFETT. And I think it will drift in that way unless the farmers are very emphatic in making plain their conception of the economic facts of the situation. It is all an economic problem. And when you take one great segment of the population and treat them unfairly, from an economic aspect, trouble is inevitable.

Mr. Goss. Yes.

Mr. BUFFETT. As I say, I have seen some of the outcroppings of that already in this general break-down of morals, so far as business transactions are concerned, throughout a vast area in this country, and for the Congress, and for the Government, and for the farm leadership not to get pretty forthright, or pretty emphatic under those conditions, I think is not to take their responsibilities fully.

Mr. Goss. Well, I will accept the responsibility. We are doing the best we can. I want to put it right up back up to you men here, though. You are the men who take the action and it depends a great deal on what you men do in passing measures of this kind, what sort of a country we will have tomorrow.

Mr. BUFFETT. Well, I can tell you one thing that your statement, in my judgment, is a splendid and a scientifically accurate analysis of this situation, and I expect to be guided by those principles very thoroughly as far as I am personally concerned.

Mr. Goss. Thank you.

Mr. BUFFETT. Thank you.

Mr. TALLE. Mr. Goss, may I ask one more question? Is not an emergency agency in a very peculiar position in this sense, that the better job it does, the shorter its life?

Mr. Goss. I think that is true. I will say, also, that I know there are a good many of those connected with the Office of Price Administration who would like to see it just as short as they can.

Mr. TALLE. Yes; I agree with you.

Mr. Goss. Some are in there for the jobs, but a lot of the administrators are in there with a spirit of trying to serve and they would like to get back into civilian life as soon as they can.

Mr. TALLE. Yes.

Mr. Goss. There is also the urge to extend their job. I know that.

Mr. TALLE. But those, assuming there are some, who would like a controlled economy, would obviously like to extend it to an interminable date.

Mr. Goss. Yes; there are some in Government now who strongly believe in controlled economy, and who would like to extend Govern-

ment controls in many directions, much further than we think is advisable.

Mr. TALLE. Thank you.

Mr. FOLGER. That is all. We thank you very much for your appearance, Mr. Goss.

Mr. Goss. Thank you, gentlemen.

Mr. FOLGER. The committee will meet on Monday at 10:30.

(Whereupon, at 1:30 p. m., Saturday, March 9, 1946, the committee adjourned, to reconvene at 10:30 a. m., Monday, March 11, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

MONDAY, MARCH 11, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 2 p. m., the Honorable Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

Mr. SMITH. Mr. Chairman, I would like to be recognized for just a moment.

I would like to have some understanding about the galley proofs. We have been holding hearings for weeks, and we have not had one so far. I understand that only one proof is out.

The CHAIRMAN. That is not the fault of the committee. There is so much congestion down in the Government Printing Office that you cannot get them.

Mr. SMITH. Well, now, the impression I have been given is that it is not the fault of the Printing Office. It has not received the transcripts.

The CHAIRMAN. Who said that?

Mr. SMITH. I may be incorrect about that.

The CHAIRMAN. Who told you that?

Mr. SMITH. I was told by Mr. Brodie's office.

The CHAIRMAN. Often, as you know, committee members request to see the transcripts before they go to the printer, and there has been some delay caused by that. There is no disposition on the part of the committee to delay the galley proofs and we are going to try to get them as soon as we can.

Mr. SMITH. All I want to know is: When are we going to get them?

The CHAIRMAN. All I can say is: We are going to send them down there as soon as we can.

Mr. CRAWFORD. How many galley proofs are printed now?

Mr. SMITH. Just one.

Mr. CRAWFORD. What do you mean one?

Mr. SMITH. One session of the hearings.

The CHAIRMAN. We will investigate that and see what the cause for the delay is.

Mr. SMITH. There have been 88 pages printed.

Mr. CRAWFORD. That is a big start on the hearings if we have had 88 pages printed. Why can we not get those?

Mr. SMITH. The point is this, Mr. Chairman. We had the same thing in the case of Bretton Woods. I feel that we ought to have

these galleys the second morning, because we can get them, and I have been informed by Mr. Brodie's office that is possible.

The CHAIRMAN. We are going to continue the hearings, and I am going to do the best I can to get the proofs here, but if we are going to continue the hearings and there is congestion in the Government Printing Office, we cannot get them. The clerk will distribute what we have had so far.

Mr. SMITH. Mr. Chairman, that does not answer my question. You say you are going to do the best you can. That is what you told us with respect to Bretton Woods, and we did not get them. Now, there is a rule here that the Printing Office follows, and they can deliver them.

The CHAIRMAN. If we can get them, we will get them. If we cannot get them, we will go on with the hearings. That is the ruling of the Chair. We will do the best we can.

Mr. CRAWFORD. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes.

Mr. CRAWFORD. The chairman just made a remark to the effect that these galley sheets are being delayed because of members of the committee inspecting the transcript.

The CHAIRMAN. That is what the clerk tells me.

Mr. CRAWFORD. May I ask the clerk if he permits these transcripts to leave this office.

The CHAIRMAN. No, they come here to see them. Is that not right?

The CLERK. That is right. The greatest delay, Mr. Crawford, is that certain members of the committee asked certain statistics of the witnesses who testified. Where possible I would like to get those statements in the record before they go to the printer for the galley proofs. Otherwise they do not have the informational effect that the committee members ask for.

Mr. SMITH. There is nothing that stops you from sending those transcripts to the printer every night.

The CLERK. That can be done. Some of the committee members asked for the prices on some 500 items of steel. I presume it has some significance. I would like to get those into the galleys in order that the members might have the information.

The CHAIRMAN. You have often asked for information to be supplied later, doctor. If you do not care whether that gets into the record or not, we will send them over.

Mr. SMITH. Mr. Chairman, do not misunderstand me. I do not want to be unfair about the matter, but I feel that we ought to have these galleys the second morning after the hearing.

The CHAIRMAN. We will get them as soon as we can. I do not know whether we can get them the second morning after the hearings, but we will do the best we can. We will send them promptly to the Government Printing Office and urge the printer to have them back here just as soon as he can.

We have as our witness this afternoon Mr. Koppel, vice chairman of the Metropolitan Fair Rent Committee, New York.

Have you a prepared statement, Mr. KOPPEL?

Mr. KOPPEL. Yes. I think it will be better than speaking extemporaneously, so the record will be clear.

The CHAIRMAN. I may say that Mr. Wolcott asked us to invite Mr. Ralph Roby of Newsweek magazine to appear this morning. We extended him an invitation and he failed to appear. That is the reason

we had no hearing this morning. I understand he is a statistician for Newsweek magazine.

Miss SUMNER. What was his interest: newsprint?

The CHAIRMAN. I do not know. We were asked by Mr. Wolcott to invite him. I think he is a statistician. But he did not appear, although we set aside the morning for him.

Mr. KOPPEL. Shall I proceed, sir?

The CHAIRMAN. You may go ahead, Mr. Koppel.

**STATEMENT OF ARTHUR D. KOPPEL, VICE CHAIRMAN,
METROPOLITAN FAIR RENT COMMITTEE, NEW YORK**

Mr. KOPPEL. My name is Arthur D. Koppel. I am the vice chairman of the Metropolitan Fair Rent Committee of New York, which is a voluntary organization of property owners and real-estate boards formed for the purpose of trying to have rent control made fair and equitable.

We have 5 real-estate boards and 35 other organizations of property owners represented on our executive committee.

I have requested your indulgence in granting me some time to appear before you to present the views of the owners of one-seventh of all the housing units in the United States under the Office of Price Administration rent control for your consideration in making recommendations with respect to the rent section in the proposed extension of the Emergency Price Control Act.

This year we are confronted with a situation radically different from that of the war period. Practical considerations may delay the official statement proclaiming the end of the war. Nevertheless, the armed conflict is ended. The war is over. Our house must be put in order.

The victory which has been so dearly won can be lost on the home front. Every practical step must be taken with all possible speed to enable the country to enter into a period of peacetime prosperity.

A pent-up demand exists in this country for every type of product. The shelves are bare and the customers are waiting. The rest of the world, as well, is looking to us for the supplying of many of its needs. The purchasing power of our people has never been greater. The foundation for prosperity exists.

The successful solution of the problems which confront us in the reconversion necessary to enable us to take full advantage of the opportunities presented is largely dependent upon the Congress of the United States.

The housing industry is one of the major industries of the country. Its problems deserve the most serious consideration. If it is to continue under private ownership and if capital is to be provided as required to supply the demand for additional rental housing, action must be taken to correct the unfortunate situation now confronting the industry.

As the inevitable consequence of a great reduction in the normal amount of apartment and home building during the depression years of the 1930's, aggravated by a practical cessation of such building during the war years, the greatest housing shortage that has even been known in this country now confronts the Nation.

Unfortunately, newly created rental housing units, particularly in the multifamily dwelling type of housing, are not being produced.

The situation is becoming more and more aggravated as time goes on, without the authorities recognizing wherein the fault for the delay lies. Prompt action must be taken to make it possible for rental housing construction to proceed in volume.

I will not impose upon you at this time to go into a detailed analysis of the problems confronting the man willing to build an apartment house. We are sending every Member of the Congress a booklet entitled "The War Is Over—Our House Must Be Put in Order." And the members of this committee have just been furnished with one of these booklets.

Here will be found a more comprehensive presentation of the builder's problems and the injustice being done the housing industry generally than time permits me to make today. However, the most important question confronting the apartment builder is "What will the rent be?"

This is the most important factor of all. Construction and operating costs may be higher than anticipated. Mortgages may be less in amount than the costs of completion warrant. Nevertheless, if sufficient rents can be obtained to provide a reasonable return, commensurate with the risk to which the capital invested is subject, the other factors will not stop building.

If rents are going to be controlled, and particularly so at a scale announced by the Office of Price Administration with a 20-percent limitation over prewar rentals, builders generally cannot proceed. It must be remembered that even an approved rent roll based on anticipated costs may be totally inadequate when final costs are known upon completion. Then the city multifamily housing builder, under the present provision of the Emergency Price Control Act still has to face operating his property under the jurisdiction of the Office of Price Administration rent control division.

Private builders of multifamily structures cannot proceed to produce new apartments if they are to be hemmed in by Government regulation. Many of the most prominent builders of apartments in the city of New York advised us that they cannot see their way clear to build new apartments if the rents are to be held to a level of even 25 percent above those of March 1, 1943, for comparable housing. They have further stated that, irrespective of any rent level which might be promulgated, they will not build apartments if they must operate the completed structures under the arbitrary administration of the Office of Price Administration. These statements are borne out by the very fact that, despite the overwhelming demand for new housing, construction has commenced on only a negligibly few apartment buildings.

The fact that apartment builders generally are not proceeding with the erection of apartment buildings is the most convincing proof that they cannot build when faced with artificial controls of their rents and of their operations.

This is recognized by the Office of Price Administration itself on its efforts to coax an apartment builder here and there to announce he will build and by the Office of Price Administration "canned propaganda" to be issued if it is successful in an isolated case or two.

On January 4, 1946, the press published a statement made by Fred H. Ecker, chairman of the board of the Metropolitan Life Insurance

Co. Mr. Ecker is reported to have said: "The builder just can't do it, knowing that when he is finished he will be confined by the Office of Price Administration" and "Something must be done whereby rent ceilings will be taken off all new construction."

If new apartments are to be produced, governmental control of rents of newly created housing units must be removed. The ordinary business risks involved in construction are great enough. The builder cannot submit himself to the whims of a bureaucratic Government agency.

The removal from rent control of new buildings and additional apartments created by alteration of oversize units and remodeling of closed buildings will not raise the rent of a single existing housing unit. Every time a tenant leaves an existing apartment to move into a new building his old apartment comes into the market at Office of Price Administration ceiling rent. Thousands of lower priced apartments will be freed for the use of returning servicemen and others who need a city home.

The State of New York, in controlling apartment rents after World War I, exempted new buildings. In addition it granted tax exemption up to \$1,000 a room of assessed valuation to the builders. The result was a tremendous surge of apartment building which in time overcame the housing shortage and eliminated the need for rent control of even the existing buildings.

It is time we face the facts regarding the one and only means of curing the housing shortage, and that is exemption of newly created housing units from rent control.

For this purpose we suggest that an additional subsection be added to section 2 of the Emergency Price Control Act reading as follows:

No regulation or order issued under this act shall, after the effective date of this subsection, apply to any additional housing space created subsequent to October 1, 1945, by alterations, rehabilitation, or new construction.

The operation of the law of supply and demand can be relied upon to keep the rents down to the lowest practical economic level, but builders must have an incentive if they are to provide additional housing.

The time has now come when the control of residential rents should be placed in the hands of such States as will accept their responsibilities. There is no sound reason why rent control, where necessary, should not be administered by the States in a period when this country is not engaged in an actual armed conflict. There is every reason why the States should perform this function.

Basically, rent control is purely a local problem. The Office of Price Administration itself has recognized this fact by freezing rents in various sections of this country at varying levels as compared to that of 1939. In relation to 1939 the rent levels in 1943 varied as follows: In Philadelphia, approximately 7 percent above; in Los Angeles, approximately 10 percent above; in Chicago, approximately 14 percent above; and in Cleveland, almost 16 percent above, while in New York rents were practically at 1939 levels.

The approach by the Office of Price Administration to the problem of administration of rent control varied in the different localities and finally we find that even the regulations promulgated by the Office of Price Administration for rent control differ in various sections of the country.

Rent control, as compared to the other price control and rationing, is purely a problem for the individual States. No matter how efficient or how lax the control of rent by an individual State may be, such efficiency or laxity has no repercussion upon the housing situation in the rest of the Nation. Buildings, unlike the ordinary commercial product, are not part of interstate commerce.

Under a price control program the sales of a commodity at a varying price level in different States would result in an overabundance of supply in a State having a higher price level to the detriment of a State having a lower price level, but this cannot occur in the case of rents. Varying price levels by States would defeat any rationing program, as under such conditions, States with low prices would suffer in the supply of goods received as against States permitting a high price policy. This is not true of rents or housing. Housing is permanent and stationary and the level of rent will not shift the available supply from one State to another. Again we state "Basically, rent control is purely a local problem," and should now be placed in the hands of such States as will accept their responsibility.

The Emergency Price Control Act should be amended to make it mandatory that the Administrator of the Office of Price Administration relinquish Federal control of rents in any State which has or adopts its own laws governing rents of housing accommodations. For this purpose we suggest that an additional subsection be added to section 2 of the Emergency Price Control Act reading as follows:

When any State is prepared to undertake the control of the rent of the housing accommodations located in areas within its boundaries and when any State finds its housing conditions warrant such control and adopts a State law providing for the control of the rent of housing accommodations in such areas in the State as the local authorities find require such control, section 2 (b) of this act and the provisions of any other section of this act relating to rent shall no longer apply to any area located within the boundaries of that State. The Administrator, within 30 days after the passage of such a law by any State shall issue a regulation or order abolishing the controls upon rents imposed in such State by authority of this act and is prohibited from reestablishing such controls.

The principle of home rule and the sovereignty of the States calls for the adoption of such an amendment.

Real estate has, over the centuries, been recognized by economists as the basic foundation of all wealth. Its development and ownership is an objective to be encouraged.

The ownership of developed real estate, and this is particularly true with respect to rental housing, does not lie in the hands of a few tremendous corporations or multimillionaires. There is no United States Steel Corp., General Motors Corp., Standard Oil Co., United States Rubber Co., E. I. du Pont de Nemours, American Telephone Co., or other such gigantic concerns generally involved in the ownership of rental housing.

Over 80 percent of the buildings in the United States rented for housing purposes are owned by little people. Together they represent the hard working small business man or employee who has invested a large part of his earnings in the ownership of property. This is the type of citizen popularly termed "the backbone of the Nation." These people are not floaters nor "Johnny-Get-Rich-Quicks." They are serious, solid citizens.

There are about 8,000,000 of these small owners of rental housing. Of these, 6,000,000 own single-family houses; 1,600,000 own two-family

buildings and 600,000 of them own three- or four-family buildings. Their livelihood is largely dependent upon the stability of real estate and its ability to earn its way and show a reasonable profit.

Then we come to the people who own the other 20 percent of the buildings in the United States rented for housing purposes. We find no gigantic concerns here either. Here and there is found a wealthy family whose assets are largely invested in real estate but in the main we find the man of medium circumstances. True, he may be primarily in the business of owning and operating buildings containing rental housing, but as often as not, he is primarily engaged in some small manufacturing or sales business or is engaged in one of the professions. The stability of real estate and its operation on a basis to return a reasonable profit on the capital invested is most important to these people too.

There are others than the owners themselves, however, who are adversely affected when the housing industry is denied the right to earn a reasonable return.

The millions of small holders of life insurance policies, of savings bank depositors, or members of mutual benefit societies and other similar organizations who have tremendous investments in mortgages must be considered. Their life savings are at stake.

The millions of people living in the cities and towns throughout the Nation are dependent upon the maintenance of the tax collections from real estate for their hospital, school, fire, police, sanitation, and multitude of other services to which they have a right.

We are convinced that a policy such as has been pursued by the Office of Price Administration in its administration of the control of rent can well ruin the entire economy of the United States. There may be some merit to the argument that such a policy was necessary during the war period and that any losses that the property owner sustained because of rent control were his contributions to the war effort. The property owner, however, cannot carry on ad infinitum under the present Office of Price Administration policy or rent control.

We make some serious charges against the present operation of rent control. I will state a few of them:

The Office of Price Administration has consistently pursued a policy of controlling rents without regard to the ability of the owner to earn a reasonable return—or in many cases any return at all—on the fair value of his property at the level of rents established.

The Office of Price Administration has flouted congressional intent by refusing to make general upward adjustments of unreasonably low rent levels, for relevant factors of general applicability and by refusing to make general upward adjustments of unreasonably low rent levels, as required to offset increases in operating costs.

The Office of Price Administration has flouted congressional intent by refusing, as a practical matter, to make individual upward adjustments in rents, in those classes of cases where substantial hardship has resulted since the maximum rent date from a substantial and unavoidable increase in operating costs.

The Office of Price Administration has flouted congressional recognition of individual property rights by endeavoring to force owners to continue the operation of rental housing when they wish to with-

draw same from the rental market, despite the section of the Emergency Price Control Act stating:

Nothing in this act shall be construed to require any person to offer any accommodations for rent.

The Office of Price Administration has consistently conducted a vicious propaganda campaign arousing tenants against owners and inciting class hatred and discouraging the private ownership of rental housing.

This discriminatory conduct or rent control should be reformed and without delay. We have urged the withdrawal of the Office of Price Administration from States which adopt their own rent control laws. We further urge that an over-all modest increase be permitted over the existing rent level in all areas where Federal rent control will continue and that the Office of Price Administration be required to make further upward adjustments in individual cases as may be necessary to permit the owner to earn a reasonable return on the fair value of his property.

For these purposes we suggest that section 2 (b) of the Emergency Price Control Act be amended by inserting after the third sentence thereof:

The Administrator shall authorize an increase of 15 percent, effective on and after July 1, 1946, in the maximum rent in effect on that date in all defense-rental areas which have been designated prior to that date and in designating a defense-rental area on or after July 1, 1946, the Administrator shall, upon designating the maximum rent date, provide for an increase of 15 percent in any rent in effect on the date determining the maximum rent.

and by inserting after the first sentence of section 2 (c):

The Administrator shall, when so requested in cases of individual properties, make adjustments of the maximum rents of the housing units in an individual property as necessary to provide sufficient income to cover all current costs of operation, administration, repairs, current and deferred maintenance, insurance, taxes (other than income taxes), depreciation, and in addition thereto, a reasonable return on the fair value of the property.

The protection of the life savings of the millions of small property owners, life insurance companies policyholders, savings bank depositors, members of mutual benefit societies, et cetera, and the welfare of the public, call for the adoption of these amendments.

I am leaving a number of our presentations, *The War Is Over—Our House Must Be Put in Order*, with your committee. Here are presented specific examples of the Office of Price Administration maladministration. Your examination of this booklet will show you:

The inability of owners in the largest area in the United States to earn a reasonable, if any, return on the fair value of their properties is shown by figures based on surveys made by the Office of Price Administration itself. Yet, although in this area rents were frozen at practically depression levels, the Administrator refuses to make even a modest adjustment to compensate for increased costs of operation.

Calculations based on these surveys show that on either assessed value, original investment, 1944 investment, appraised value or even on sales prices; after depreciation, interest and deferred maintenance the owners can earn only between forty one-hundredths and sixty-three one-hundredths of 1 percent.

For over 2 years the owners have been unsuccessfully endeavoring to obtain relief from this inequitable situation.

Gentlemen, this is more interesting. You have provided that anybody may go to the Emergency Court of Appeals if they are not being fairly treated by the Administrator of the Office of Price Administration. This relates to the one-seventh of the houses in the New York rental area. We have been able to get relief. Here is the story. In December 1943 they protested to the Administrator without obtaining an adjustment. In September 1944 they appealed to the United States Emergency Court of Appeals. That body, in June 1945, rendered an opinion that the rent level was improper as to at least certain classes of apartments, but in a few weeks vacated its order to reopen the case and accept further evidence from the Administrator.

Another court hearing is expected late this spring. This is 2½ years, practically, after we started asking for relief. And the owners ask, "If the court again decides partly or even entirely in our favor, what protection have we against that order also being vacated to accept still further evidence?"

Gentlemen, we have no relief under the program you gentlemen have laid down for us to get relief. We cannot get a final judicial determination in the courts or, rather, let me modify to say that we have not been able to get, to date, after 2½ years of effort, a final determination from the courts as to whether we or the Rent Administrator are right.

Here is a situation where every passing month sees the owners deprived forever of the reasonable return they believe they are entitled to for that period. They do not want to withdraw their accommodations from the market and as a practical matter cannot do so without losing their buildings. So they must continue to operate without earning a reasonable return and often at a substantial loss.

The foregoing is submitted as ample evidence of the necessity of the Congress granting, through legislation, a moderate over-all increase in the rent level.

The vicious propaganda of the Office of Price Administration is factually described as well as an example given of its un-American method of instructing its enforcement staff. This was described by one of your colleagues as sounding like instructions to a gestapo agent. The example is in the booklet.

The inability of owners in specific cases to obtain the relief which Congress intended them to have, and which the Office of Price Administration represents that it provides, is also shown.

The constant attempt to reduce, without justification, even the rents existing on the freeze date, can be seen from some of the examples given.

What is not shown, but what is one of the most unfair conditions imposed by the Office of Price Administration on property owners is the Office of Price Administration refusal to make its orders retroactive as justice would dictate.

If an owner has an unfair rent reduction corrected or a rent increased on allowable grounds, after protest to the Administrator or after an appeal to the court, the proper rent may be collected only after the correction is made instead of from the time the owner was actually entitled to it. Similarly, no matter how long it takes the Office of

Price Administration to process an application for relief filed by an owner, the latter may collect the proper rent only from the date of the order instead of from the date on which he filed his application.

We understand the Office of Price Administration, after almost 3 years of complaint by property owners, is finally rectifying this procedure, but, however, even as late as February 25, we find the Office of Price Administration insisting upon Bernard Chess, an owner, who is sitting here today, refunding retroactively approximately \$1,200 to tenants in a building. This, despite the fact that Ivan D. Carson, the Deputy Administrator, has been advised that a protest is being filed with the Administrator against the order of the local official which we believe should result in a reversal of the unfair order. Nevertheless, the owner will have paid out \$1,200 without being permitted to collect this sum again even if the Administrator finds that the refunds should not have been ordered.

This lack of retroactivity has cost individual owners collectively a tremendous sum they should not have been called upon to forfeit. No rule of justice or equity should deny an owner for even one day the right to the rent the Office of Price Administration, the Administrator, or the court finds proper.

Lack of information to owners, control of interpretations, and so forth, not available to owners, use of improper forms, inequitable regulations, and many other unfair methods of administration are still part of the Office of Price Administration's rent control procedure.

The rental housing industry looks hopefully forward to the day when rent control will be fairly and equitable administered.

Gentlemen, I am sorry to have taken so much time, but it is a big subject. The housing industry in our city is just stagnant. It is being ruined. New housing is not being produced and it is up to you to give the answer if you expect our people to be housed by anything but Government money.

I thank you.

The CHAIRMAN. Is there not a Rent Control Act of the Legislature of New York?

Mr. KOPPEL. There is no residential rent control in the State or city of New York today. The Legislature of the State of New York is considering a residential rent control bill which, as I understand, would become effective should the Office of Price Administration withdraw. That is why we have made the suggestion that in any State which adopts its own residential rent-control laws, the Congress demand that the Administrator of the Office of Price Administration withdraw his control.

The CHAIRMAN. Have you adopted a business rent control in your city?

Mr. KOPPEL. Yes, sir, they have adopted business and commercial rent laws in the State of New York.

The CHAIRMAN. Well, that goes further than the Office of Price Administration.

Mr. KOPPEL. Mr. Spence, you can go to the court and obtain justice directly. You are not subject to a bunch of gentlemen who are in a bureaucratic Government agency—whether they are seeking to perpetuate their jobs, I do not know—but I do know that their actions and their conduct on rent administration in New York has been ruin-

ous to owners, has been arbitrary, and has discouraged capital from wanting anything to do with building or providing apartments for the city of New York.

The CHAIRMAN. How is the administration of the New York business control operated?

Mr. KOPPEL. Through the State courts.

The CHAIRMAN. How has that been operated? Has that been operated to the satisfaction of the people up there?

Mr. KOPPEL. I think everybody is quite happy with it. There was one weakness in it, Mr. Spence, which is being corrected. There was a provision that an existing tenant—not a new tenant coming in, but an existing tenant—could pay a higher rent than the emergency rent provided that an arbitration set that rental. The weakness in that was that the original law did not provide the method of arbitration, the necessity for an arbitrator being impartial or that the arbitrator's decision be sworn. Therefore, it was possible for an arbitrator selected to be pretty loose in his decisions. That is being changed this year by the State of New York.

Incidentally, the State of New York, and its commercial-rent control, has also made a recommendation that all new commercial construction be exempt from rent control and, as Mr. Mallory Stevens said in his report, "This is the only way you can get the owners to build," and I am saying you can force them to operate their buildings or lose their investment. We cannot get out of that. We are hooked. We are fish on a line. But you cannot get us to jump overboard.

The CHAIRMAN. Do you advocate the lifting of rent controls on existing accommodations?

Mr. KOPPEL. Absolutely not, Mr. Spence. I think it would be a great mistake, not because the large number of property owners whom we have known for years would not be responsible, but there is nothing to stop the sale of buildings, there is nothing to stop irresponsible property owners from getting possession of buildings if there is no ceilings, and going wild in areas where there is a shortage. But I think it is a State function, in time of peace, when there is no shortage, to state whether there should be control in the various areas. It was necessary—I could see the reason for it—for Federal control during the war, so that you would not have to wait for State legislatures or local bodies to act, and also that your war program would not be subject to whatever vicissitudes or ideas the State legislature might have in enacting State legislation.

But when peacetime comes—and we have it today, despite the fact we have not had a declaration of it yet—it is strictly a State function, because it does not affect another State.

The CHAIRMAN. What do you consider is the shortage of housing accommodations in New York as compared to normal times?

Mr. KOPPEL. That is a difficult question to answer accurately. If you ask my opinion, I think we are short at least a hundred thousand dwelling units in New York. We have not had any amount of apartment construction since 1930. Around 1936 to 1940 there were a few accommodations built. They amount to almost nothing. During the depression we had the doubling up, then came the war, and people going to war, and vacancies coming along, and the vacancies were over 7 percent when the Office of Price Administration control came in, as of that date. And today we find those conditions reversed and

I should say we have at least a 5 percent shortage today, which would be about a hundred thousand units. But those are apartments. They are not individual houses, and I have appeared at certain veterans' meetings on invitation, and the boys feel pretty badly about the fact that they cannot get apartments. They do not understand it. They do not want to be put in public housing projects—not that there is anything wrong with them for the man who has been living in tenements and whose condition is being improved by being taken out of uninhabitable quarters and being given small quarters at decent rents—but they are not ideal living conditions, they are not places you would want your sons and daughters living in, and actually there is a control of income, under which they cannot use those unless their income is below a certain amount, and they are upset at being put in quonset huts and Government quarters. They are happy to have them. Our Governor and our mayor have done a swell job in jumping into the breach and putting up something so the boys will have some place to go. But they are inadequate, they do not have enough of them, they are not thought highly of by the veterans, and the rents on them are quite high.

The CHAIRMAN. What character of ownership do you represent?

Mr. KOPPEL. Private ownership, sir.

The CHAIRMAN. Mostly apartment buildings?

Mr. KOPPEL. Practically all rental housing. The great majority of New York City is apartment buildings.

The CHAIRMAN. Those are the people you represent?

Mr. KOPPEL. I represent all people. The one- or two-family house people who rent just as well as the big ones. It is a voluntary organization. I have little people writing in to me saying, "Thank God, there will be somebody here who will be able to go in and talk to somebody." Our people cannot talk to an area rent director in general.

The CHAIRMAN. Most of your complaints are with reference to administration, are they not?

Mr. KOPPEL. Administration, plus the inability to get relief through the court, because of the lengthy procedure. I have just cited the major complaint. We were frozen at a depression level, the Office of Price Administration's own survey showed that we do not earn any money, we only earn half of 1 percent on the valuation of a building, which is nothing. We have a tremendous amount of replacements and maintenance work to be done, that could not be done during the war. We are faced with it. We have no money to do it from the earnings of the buildings, and we go to court and for two and a half years we cannot get a definite court decision. And there is not a thing in the world to stop a repetition of what happened last summer where the court says, "Yes, on this class of apartments the Administrator must raise the rents, and we give him 30 days to do it." Then 10 days later the court says, "Order vacated because the Administrator is going to bring in new evidence." Not evidence of the past, but the Office of Price Administration guesses as to the future, and they are always wrong.

The CHAIRMAN. What court made that order?

Mr. KOPPEL. United States Emergency Court of Appeals, the only one that has the power to do it, unless the Supreme Court has. That, I do not know. I am not a lawyer. But we have to go to the Emergency Court of Appeals.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. Do you represent apartment hotels, too, or apartment buildings?

Mr. KOPPEL. Rental housing; not hotels.

Mr. BROWN. Not hotels?

Mr. KOPPEL. No; not hotels, sir. The hotel men have their own association. We are the central organization for all the property owners' organizations and the taxpayers' organizations on rental housing.

Mr. BROWN. Does your State law or city ordinance provide for ceilings on hotels, too?

Mr. KOPPEL. We have no law, sir.

Mr. BROWN. You have no law?

Mr. KOPPEL. We have no residential rent-control law. A commercial law, only.

Mr. BROWN. I see.

Mr. KOPPEL. A bill will be recommended—it has been announced by the committee of the legislature which has the matter in charge, and it may be recommended today or tomorrow, I understand, but it has not come out yet, and I do not just know what it is going to be.

Mr. BROWN. You do not think, then, that we can take off ceilings on the type of houses that you represent? If we take off the ceilings that the rents will go very high?

Mr. KOPPEL. Mr. Brown, the last thing I would want to see, as a builder and a man who has owned real estate, at this time, would be to see rent control removed as such.

You see, the responsible people owning properties are not going to jack up rents more than is necessary to get a reasonable return on their investment. But, on the other hand, some of these people have been pretty well disgusted with the ownership of rental housing. They have been through a depression and they have been frozen for the last 3 years at rents that have caused them nothing but trouble, so they want to get out of that, and if they sell those buildings, they are not going to be fussy whom they sell them to. And if they get into the hands of people who would raise the rents unconscionably, it would be very bad for the entire industry.

Mr. BROWN. What are you advocating: increase in the rent ceilings?

Mr. KOPPEL. Yes, sir. A modest increase in the rent ceilings to bring it up to the normal level of the 18 predepression years, that is, from 1921 through 1938. Going through a cycle of prosperity and depression. We are 15 percent below that line, and we think, to bring it up to that average line of 17 prewar years is not inflation. At the present time we are facing depression in our business. We think it is only fair to bring it up to that.

Mr. BROWN. Am I mistaken when I say that you have asked, in your statement, that the increase be 25 percent over 1943?

Mr. KOPPEL. No, sir.

Mr. BROWN. What does that have reference to?

Mr. KOPPEL. We are speaking about the rents on new construction. New construction units, new apartments, builders state they will not build at a rent level of 25 percent over the frozen rents of 1943, because construction costs are up somewhere, in the City of New York, around 70 percent over 1939, the last figure, and other figures have been men-

tioned from 60 to 80 to 100 percent. The actual level, we do not know, because it is an operation for a year ahead, building an apartment house.

Mr. BROWN. But you are not asking for that increase on existing houses?

Mr. KOPPEL. No, sir; we are only asking for 15 percent to bring us up to the normal of the 18 prewar years.

Mr. BROWN. But you are asking 25 percent increase on new homes?

Mr. KOPPEL. No, sir; we are asking for no ceiling at all on new construction. No Government control, neither in the rental of them nor operation of our properties. We are not asking that. We are suggesting that to you gentlemen, if you want the private builders to supply apartments.

Mr. BROWN. And you state, then, that you will not have any more buildings unless the man who owns the building can rent for 25 percent above the 1943 ceiling.

Mr. KOPPEL. I go further than that, and say that builders tell me that they will not build at 25 percent above the 1943 ceilings. Those are depression rents, Mr. Brown. And, as I say, our cost is between 60 and 100 percent over the 1943 level. That is a well-known fact.

Mr. BROWN. All right, Mr. Crawford.

Mr. CRAWFORD. On that same point, Mr. Koppel, did you hear of a proposition down here before the Congress, approved by President Truman, of 10,000 homes to be built, to rent for \$80 a month?

Mr. KOPPEL. Yes, sir.

Mr. CRAWFORD. You are not getting any such rents in New York City, are you?

Mr. KOPPEL. We are not getting \$80 rents—the house that is being sold today, if I may explain that to you, sir—I have an ex-partner who is building 12,000 houses. He started out to build a house that used to sell for \$6,500 in 1939. He figured he could sell that house at \$9,000. He started that operation in October, after the priorities were lifted, and builders were free to proceed. He has had one devil of a time getting materials and labor, and he is now to a point where he is going to sell those houses for \$11,000—that is, a \$6,500 house—and he will make less than \$500 on a house on that. That is where we have gone with inflation. Your \$6,000 house, in our area, would be practically nothing but a dog kennel. It is all right for temporary war housing where a man may have to live for a year, but for permanent housing, we are going to make slums of the suburban areas around New York at a \$6,000 level, and at a \$10,000 level will not even produce today a six-room house.

Mr. CRAWFORD. The point I am getting at is this: When the Administration proposed \$10,000 homes to be rented up to as high as \$80 per month, is that rental not much higher than what the Office of Price Administration allows under present regulations?

Mr. KOPPEL. Six rooms—it certainly would be, sir.

Mr. CRAWFORD. Because you know and I know that homes all over this country, \$20,000 homes, that are renting for \$80 to \$90 a month, or as low as that. Now, as I understand your testimony, the point you make is that a man will not go out today and put \$20,000 into a home if, in advance of building it, he knows he is going to have to rent it for \$75 to \$100 a month under the Office of Price Administration rulings.

Mr. KOPPEL. That is absolutely correct, Mr. Crawford.

Mr. CRAWFORD. That is what you mean, is it not?

Mr. KOPPEL. Yes. And furthermore, irrespective of the rent level, if he is going to have some clerk in the Office of Price Administration tell him, "We do not like the service the tenant is getting. We think you should have painted this last week," or next week, neglect their own notices, lose their own notices, lose that man's rent and give him no way of getting that rent back except going to the Emergency Court of Appeals, because the entire tenant feeling in the Office of Price Administration right through the Office of Price Administration to the Administrator is to support the rulings of that clerk.

Mr. CRAWFORD. As a member of the committee, I never had much faith in that language we put in there with respect to the Emergency Court of Appeals, because it is not what I, a nonlawyer, would accept as a practical court. In other words, I think that court acts under, bluntly speaking, Administration domination.

Mr. KOPPEL. Mr. Crawford, the last thing I would do would be to reflect on the court. I am not a lawyer. I am a bricklayer.

Mr. CRAWFORD. Well, perhaps if I was a lawyer, I would not say that.

Mr. KOPPEL. But I will make this statement: We have been, for 2½ years, trying to get judicial relief and we cannot get it.

Mr. CRAWFORD. Perhaps if I was a lawyer, I would not say it. I may be cited for contempt of court, as far as I know.

Miss SUMNER. You cannot be cited for that.

Mr. CRAWFORD. The point I am making is—and you have already made it and I want to emphasize it—in all of this time, you got no relief?

Mr. KOPPEL. That is right.

Mr. CRAWFORD. And you have not even had a promise of any relief?

Mr. KOPPEL. That is correct, sir, that is why I have come here and said we would like to have 15 percent, because it is the only way we can see to cut through this administrative tape and court procedure and get justice.

Miss SUMNER. Will you yield?

Mr. CRAWFORD. Yes.

Miss SUMNER. I do not think you are going to get any relief from Congress, when you stop to think that most of the people in the Government and in the Congress represent homes, and that this town has, according to my information, one of the tightest situations with respect to rental property in the country. Is that not true?

Mr. KOPPEL. Are you speaking of New York?

Miss SUMNER. No. I say Washington has one of the worst shortages in housing for the country.

Mr. KOPPEL. I would rather not speak for Washington.

Miss SUMNER. Well, is not Washington considered one of the worst spots?

Mr. KOPPEL. I have found it difficult on occasion to get a hotel room myself, Miss Sumner.

Miss SUMNER. Well, when you consider that and consider how many people around here rent homes, I think your prospects of getting relief are gloomy. But I would like to ask you this: Has it occurred to you—it just occurred to me and I have not given it any study—but it seems to me that you have a very strong constitutional

case, to go to the courts. I mean here is a situation where a war is not going on. Congress declares that it has war powers, when, as a matter of fact, there is no state of war existing, and, on the other hand, it occurs to me that the fact that there has always been a State relief for rental purposes—I mean if a man is indigent and needs it, he is assisted—and until the war started, the State was the only one having jurisdiction. That seems to show that the Federal Government has not been delegated the right to give relief or subsidy for rent.

Mr. KOPPEL. We are only waiting for you to say the war is over. We have said it in our booklet.

Miss SUMNER. But I am saying to you that it looks to me as if you have a very slim chance of getting the Congress to say at any near date that the war is over with respect to rental property, and that your one chance is to go to the courts and say that this law, which gives a subsidy to people renting, is beyond Federal control of Congress for two reasons: In the first place, the Federal Government has no jurisdiction, and the State has the only jurisdiction, and, secondly, it is using war powers when there is no war. It seems to me, without giving it any deeper study, that there is your only chance for relief. Not that I want to discourage you. I think your position here is sound.

Mr. KOPPEL. Well, I will be glad to report your opinion back to my committee and let them think that one over, Miss Sumner. We are desperate to get it, and I thank you for the suggestion. I will be glad to bring it back to my committee.

Mr. CRAWFORD. Now, going back to the other point, Mr. Koppel, in your amendment, in one, you ask that the rent control shall not apply on new buildings, or old buildings materially altered, rehabilitated, subsequent to October 1, 1945.

Mr. KOPPEL. Yes, sir.

Mr. CRAWFORD. And your only reason for doing that is to get new buildings and rehabilitated buildings into the market for the use of tenants?

Mr. KOPPEL. That is correct, Mr. Crawford.

Mr. CRAWFORD. There is no law, then, which you know at the present time, which will force people to take their funds and invest in housing facilities at this moment?

Mr. KOPPEL. Sir, I thank the Lord that is one law we have not got yet.

Mr. CRAWFORD. You will notice I said at the present time.

Mr. KOPPEL. Yes, sir.

Mr. CRAWFORD. Because I think we are rapidly moving into a position where a national emergency will be declared, and that proposal will be before us, as fantastic as that may appear.

Miss SUMNER. What else is the Wagner-Ellender-Taft bill?

Mr. CRAWFORD. So I reemphasize, your only idea is to get additional housing?

Mr. KOPPEL. That is correct, sir, that is the only way we can see to end the housing shortage and eventually get rid of rent control altogether.

Mr. CRAWFORD. Your second amendment is to bring this under State control.

Mr. KOPPEL. Yes.

Mr. CRAWFORD. For instance, in your State, you now have your commercial rent control, which you say is operating fairly satisfactorily.

Mr. KOPPEL. There has been no general criticism of it.

Mr. CRAWFORD. May I ask you if that is not due primarily to the fact that the citizen has access to the open, uninfluenced courts?

Mr. KOPPEL. That is the secret of the whole thing, judicial process instead of a bureaucracy.

Mr. CRAWFORD. And we have been trained for 170 years to get along that way, so we all like it pretty well.

Mr. KOPPEL. We went through rent control in the State of New York after World War I under judicial process without any trouble, too, when we had a severe housing shortage.

Mr. CRAWFORD. And you would leave the Federal control running 100 percent where the State refuses its obligation?

Mr. KOPPEL. As long as there is a housing shortage in the area; yes, sir.

Mr. CRAWFORD. And then the third amendment, you ask for a 15-percent increase all the way across the board, as we say here in Washington, on those rates now applying, that 15 percent to be effective as of next July 1?

Mr. KOPPEL. Yes, sir.

Mr. CRAWFORD. There is one thing in that recommendation which bothers me a little. I think you have made it clearer here than I ever saw it before, when you demonstrate that the Office of Price Administration, in setting these original ceilings, participated in greater regularity all across the country. In other words, assuming that it is a fact that irregular rates were approved originally, you still feel that the increase should be 15 percent straight across?

Mr. KOPPEL. The reason I have asked for that straight across is because every time we have endeavored to get individual relief for a property owner, and every time Congress itself, in its wisdom, has tried to give us relief if it was warranted, the Administrator has found a way to block it, and we have not been able to get relief in court. So we say, gentlemen, you are the ones we have come to if you do not want to see it ruined. We are pretty close to it now.

Mr. CRAWFORD. If there was some practical way of equalizing it, you would not object to that, but you do not know of any?

Mr. KOPPEL. I do not trust it. I am very serious about that, sir.

Mr. CRAWFORD. Going to your fourth recommendation, that is simply a clear-cut proposition of having the Administrator listen and act on these individual cases where the owner is being economically guillotined.

Mr. KOPPEL. That is right.

Mr. CRAWFORD. That is all you are asking for in that?

Mr. KOPPEL. That is right. I believe the 15-percent increase would cure most of the hardships in existence today, which would leave only a few individuals who might come under that No. 4 recommendation, and I did that so that the Administrator could not say, "This is administratively impossible," which he said every time you suggested making individual adjustments.

Mr. CRAWFORD. Have you any figures as to the total number of individual applications that have been made by your members for

individual relief, and the number that have been granted, and the number refused?

Mr. KOPPEL. We have been unable to get the number of those petitions from the Office of Price Administration. You must remember we have 250,000 residential property owners in New York. It is very difficult to make the contact. The Office of Price Administration has not told us how many petitions were filed. But we know that there were only one or two multifamily adjustments made in the city of New York, as against something that happened within the last month, where they took an apartment hotel, which at the freeze date, had half its rooms on a daily rate and properly so and admittedly properly so by the Office of Price Administration. People came from all over the United States and went into those rooms, they could have thrown them out at the end of five days, but they thought that was terrible. They left the people stay there and they do not have room at the daily rate and they have not been able to do anything, because the Office of Price Administration says the minute a person has asked for that monthly rate instead of the daily rate, you cannot put them out. So they are frozen in the entire hotel at weekly and monthly rates when the hotel was a transient hotel, was on a transient basis at the time of the freeze. They have reduced those rents without mercy, and the act of the owner, in trying to be decent to people, has been penalized.

Mr. CRAWFORD. Have you had any evidence, in your area, of where the Office of Price Administration has propagandized the tenants in a manner which would create animosity in their hearts against the people owning the buildings?

Mr. KOPPEL. We have plenty of it, yes, sir. Some of it is in that booklet that you have before you.

Mr. CRAWFORD. That is all I have, Mr. Chairman.

Mr. MONRONEY. Mr. Koppel, on your statement asking for a lateral increase of 15 percent on your estimate of 8 million tenants across the country, are there any equitable rents in New York?

Mr. KOPPEL. Are there any equitable rents in New York?

Mr. MONRONEY. Yes. Are there any fair rents in the City of New York that give a fair return on the valuation?

Mr. KOPPEL. I will try to answer that fairly. The new buildings that were built between 1936 and 1940, which are less than 1 percent—it may be closer to $\frac{1}{2}$ percent—of all the housing accommodations in the City, the owners of those buildings are not suffering. And those are practically the only ones who are not suffering, on a fair value.

Mr. MONRONEY. As I understand your proposed amendment, the exorbitant rent would be increased 15 percent as well as the fair rent. That is, the fellow who has been gypping the tenants—and in 8 million cases there would be a few of those—would be gypping them 15 percent more, which would give him a greater amount taken away from him than the owner who has rented on a fair basis. And yet you are going to reward, by a greater percentage, clear across the board, the exorbitant rent charge, than you would the fellow who has had a reasonable rent. It seem to me you have a pretty good example of oversimplification.

Mr. KOPPEL. Mr. Monroney, I have the highest respect for you, sir; and I mean that very sincerely, because I feel you have taken a

deep interest in the entire operation of the Office of Price Administration. I do not remember saying anything about an exorbitant rent. I do not remember admitting exorbitant rent. And if the Office of Price Administration says they are exorbitant rents being charged, the Office of Price Administration, some place, has fallen down on its job, and I do not know where. You asked me if any owner was getting a reasonable return, and I said the owners of new buildings, since 1936, are not gypping them. They rented those buildings when there was over 10 or 15 percent vacancy in the city of New York. They obtained higher rents, as the owner of every new building has, since I have been in the business. A new building commands a higher rental than an old one, and the tenants in those buildings who came in in 1936 to 1940, came in when there were 10 or 15 percent vacancy throughout the City of New York, when the rest of the rents were at depression levels, whatever rent they pay they paid freely in an open market and there is no suspicion of gypping and even Chester Bowles will tell you that the rent level set in New York is no gyp in any one single instance.

Mr. MONRONEY. Well, if you can cover the whole city of New York on the basis that every rent is exactly right, why, then, perhaps your ceiling, and the lateral increase of 15 percent would be equitable. But we go clear across the country, and there are different rent freeze dates. In fact, one of the most difficult things in rent control that I found is that a freeze date that came early in one community caused a member of the armed forces oftentimes to rent his house for \$50 while he had to pay \$100 in a camp area. By this simple formula that you give, a man who is renting his house at \$50 a month in his home town would only get a \$7.50 increase. But the poor service man who must rent for \$100 in an area that was later frozen will have to pay \$15 more, and perhaps in many cases the accommodations are in no way comparable.

Mr. KOPPEL. Mr. Monroney, I do not think you mean that in any one area Chester Bowles permitted rents to be frozen at a hundred percent over the level of another area. The figures that I have given you, which I got from the Department of Commerce, Bureau of Labor Statistics, indicate somewhere up to 25 percent above the lowest level at which Mr. Bowles froze rents. So you have a difference of 25 percent and not 100 percent, to start with.

But if Mr. Bowles has frozen rents on those bases, do you not think that Mr. Bowles should have made an adjustment some place along the line for the fellow who is away down at the bottom or pulled the top man down? Do you not think Mr. Bowles has fallen down on his job? Because if that condition prevails, some place, either the bottom should have come up or the top should have come down to reasonable levels, and it is our contention that Mr. Bowles has fallen down in not raising those rents that were frozen at an improper low level, which do not permit an owner to earn a reasonable return on his property. If Mr. Bowles had given one area in this country relief because of a depressed condition at which he froze rents, I would not be here asking for a general rent increase. But my entire statement to your Committee, sir, is that Mr. Bowles has refused in any way, shape, or form to give any recognition to the owners' troubles. He has arbitrarily set his rents. He has not followed your Congressional act, the Emergency Price Control Act, and we cannot get relief. So

we say, "Please give us a blanket increase." If you could have an administration that would honestly—and I say honestly—go through it and make adjustments where required, I would be very happy to see it operate, but we have been trying that for 3 years, and all that has come from the Office of Price Administration is complete disregard of every single provision that you gentlemen have given us in the last two sessions of Congress, to give us relief.

Mr. MONRONEY. The only way I can see that your testimony on the lateral increase for every house throughout the country could stand on any equitable basis, would be to assume that every rent in existence today, across the country, was absolutely equitable to the owner. I do not think it is, I think you are going to magnify your present inequities, and, because of the method of fixing rents, which this Congress has determined, you take the law of supply on a certain date and you raise it. Now, there is no time that your rent level is absolutely uniform. There are always going to be some people with apartments and houses who are going to have a higher rent at that period and other people are going to have a lower rent. What you are asking is to give 15 percent more to the one who happens to be frozen on a high rent, and you give him more because he happens to be up there than you do the fellow who is suffering most for the low rent.

Mr. KOPPEL. Mr. Monroney, I am not asking that, sir. Or, rather, I am asking that, but there is a reason why I ask it. It is because every time the Congress has attempted to get individual adjustments required for individual cases, depending on that owner's condition that you are mentioning, Mr. Bowles consistently said, "It is administratively impossible."

Mr. MONRONEY. You are going clear across the board to say,

Well, we are awfully sorry, but even though two or four million people are now paying a presently high rent, we are going to increase their level another 15 percent because there is somebody else who happens to be in the saddle who needs 15 percent increase to protect themselves.

Mr. KOPPEL. But you cannot disregard your own national statistics, the general average throughout the country is 15 percent below the 18 prewar years. You cannot throw it out the window. I did not make the figures.

Mr. MONRONEY. But you are going to give more dollars-and-cents relief to the man who is in the best position in rental property.

Mr. KOPPEL. Did you not do that when you froze rents? When Mr. Bowles froze rents, did he not give a better break to the man who happened to have a higher rent than the man who had a lower one, and did not the Supreme Court say to the woman who went down there:

This act Congress has seen fit in its wisdom to declare that it shall be handled in a certain manner, and rents frozen by the freeze-date method, and, of course, somebody is going to get hurt, but during wartime, that cannot be helped.

Lots of people were hurt, Mr. Monroney, and nobody gave a darn.

Mr. MONRONEY. But you are asking to hurt a great many more million people who may be paying all the rent in the world that their house is entitled to stand. And you are arbitrarily going to up that rent 15 percent clear across the breadth of this Nation.

Mr. KOPPEL. I would be delighted with any suggestion you would make and would enforce, Mr. Monroney, that would see that owners generally got a fair and equitable return on the reasonable value of

their property. If you can wash it out, I would be delighted. I have seen you gentlemen work for the last 2½ years, I have seen the Administrator block every effort you have made to do that, and it has not happened yet and the condition is getting worse and worse. You want housing and sometime you are putting the whole industry, which is 15 percent below the average of the 18 prewar years, on a basis where it does not make money as an industry, and you are saying, "Give us housing." We cannot do it.

Mr. MONRONEY. Here you come in on an across-the-country demand for raising the high rents and low rents 15 percent, which will give the man who has been charging the most the greatest amount of profit. It is not relief. The higher the rent, the greater the amount of profit the owner will receive.

Mr. KOPPEL. That is correct, sir. That is absolutely correct. That is what you did when you froze rents by the date method.

Mr. MONRONEY. That is the basis of your suggestion to give the man who charges most the most relief?

Mr. KOPPEL. It is exactly the same as original passage of your own act. You did it by a freeze-date method without any adjustments for the underdog. I just want to continue what you are doing, but give justice to the general average.

Mr. MONRONEY. Well, of course, you assume that the general average is off 15 percent.

Mr. KOPPEL. I did not make the general average. The Bureau of Labor Statistics has got the general average of 18 prewar years, as against the cost of living up to 118.

Mr. MONRONEY. Well, I cannot go along with you on the 15 percent across the board.

Mr. KOPPEL. Well, I hope you can work it out so the fellow who is hurt gets fixed up. The general average, that is a correct statement, according to the Bureau of Labor Statistics, and I want to get away from it.

Mr. MONRONEY. I presume this statement was prepared before the emergency veterans' housing bill was passed by the House.

Mr. KOPPEL. It does not do us any good in the city of New York, sir.

Mr. MONRONEY. I do not claim it does, but in that act we directed the Housing Expediter to channel materials into the housing bill particularly for veterans.

Mr. KOPPEL. At a price level which, in the lower part of our State, the New York City area, does not do the veteran very much good. You cannot build the houses for that.

Mr. MONRONEY. If you are going to channel this material for home ownership and for rental purposes, do you not think it would be a grave mistake not to have a price ceiling on this stuff that is built for rent for the veteran?

Mr. KOPPEL. You are not going to get it built for the rent for the veteran in our section.

Mr. MONRONEY. What is that?

Mr. KOPPEL. You are not going to get it built under that act in our section for the veteran. It does not work out. You cannot build a six-room house and sell it for \$10,000 in our section, of course, if you want people to build all four-room war workers houses, the 20 by 24 house with a flat roof, and make slums of our city, somebody might

do it. But as a property owner in New York, the property owners around are going to be awfully upset when you make slums of our city.

Mr. MONRONEY. You do not believe that any material going into this housing that you want to build would be used for veterans housing? The veterans would be the ones who would take the second-hand housing and the persons living in those houses would move into the new housing.

Mr. KOPPEL. That is exactly what I think will happen. That happened after the last war. And every time new housing is built that happens. In normal times—forgetting this altogether—it commands a much higher market than the existing housing, and it will leave your existing housing available to your veteran at a controlled rent. And second-hand is a little rough because some of your stuff may be a hundred years old, but some is a good deal less.

Mr. MONRONEY. Well, I favor endeavoring to get new housing built for the veteran.

Mr. KOPPEL. I think you are sound on your program of channeling a lot of material into a line that will permit the veteran to have housing accommodations.

Mr. MONRONEY. Of course, you speak specifically. You see, you are talking about a New York condition. That is one spot in this country. It is hard for a New Yorker to realize that. But there are an awful lot of other places throughout the country in which a veteran can build a house for four or five thousand dollars. We come from the South, many of us.

Mr. KOPPEL. I think you are absolutely right.

Mr. MONRONEY. There are going to be a lot of houses built for four or five thousand dollars for rental to veterans, yet by your oversimplified formula, you would put no ceiling on that new construction.

Mr. KOPPEL. Well, you will have your national associations present the picture for the other sections. We are only one-seventh up there, and we only have one million boys coming back from the service. Maybe we are only judged by that million, but a million is an awful lot of boys to take care of, and I have two sons-in-law myself in the same boat. One of them still is in the hospital and I will have to take care of him and his wife and two babies for a while, so I have plenty of personal interest, and I am just as interested in the veterans as any other owner. There is hardly an owner around who has not got somebody close to him in that boat. This is not just a question of somebody sitting up on the dais in the Congress and talking about the veteran. We feel deeply for the veteran and want to take care of them, Mr. Monroney. I hope you believe me.

Mr. MONRONEY. Yes, but there are 48 States in the Union and we want to get rental housing for the veterans, and you come in here and ask for no ceiling whatever on construction, which, in my section, would, in effect, deny the use of new material for veterans for housing. He would have to move into cast-off housing because the rental in that new house would go immediately up to \$125 or \$150 a month, away out of proportion.

Mr. KOPPEL. I would not call this cast-off. It is not second-hand clothing. The rental market consists of buildings which various tenants occupy for periods of time. And I can assure you that if you told Mr. John Rockefeller, Jr., that he was in a second-hand apart-

ment he would feel pretty upset about it. I can tell you about other people who have plenty of money—

Mr. MONRONEY. I am talking about conditions that I have seen, when I speak of second-hand housing. I think it is the dregs of the housing market to which these veterans have returned, because the people who have been here 4 or 5 years have filled up the existing pool of housing. And they are dregs. I have seen them living in chicken coops, remodeled hamburger stands and filling stations, and paying rents entirely too high for that, too, because, under the guise of remodeling and various other loopholes, they have managed to squeeze the ceilings up some way somehow to \$50 or \$60 a month.

Mr. KOPPEL. Do you want to do something for your veteran?

Mr. MONRONEY. And yet you say that when we build a new house for rent, we must not keep that rent low enough, although we have given the power to Government to get priorities for him to build, we must not let a veteran have a chance to live in it with a price ceiling on it. We must let the ceiling go up to whatever the market is.

Mr. KOPPEL. Do you want to do something for the veteran, Mr. Monroney?

Mr. MONRONEY. Definitely.

Mr. KOPPEL. All right. Let your builder build his house and make a dollar. Let your building material man, who supplies material, let him make a dollar. Do not add to inflation by subsidies to those people, where the general public gets the benefit of it. But when that house is finished and on the market, give your veteran some money to buy it with.

Mr. MONRONEY. Well, that would be a mighty good thing for the real estate people, but I hardly think it would be a good idea for the veteran.

Mr. KOPPEL. Are we not entitled to make a living?

Mr. MONRONEY. You are not entitled to vote a bonus of \$2,000 and \$2,500 that will go to the real estate people.

Mr. KOPPEL. Let him spend it for what he wants to spend it. If he needs a home, let him put it into real estate. That stops inflation.

Mr. MONRONEY. Well, maybe the car people would like to see him put it into automobiles and others would like to see him put it into something else.

Mr. KOPPEL. If my son-in-law needs a house, I would like to see him buy it and not see him put the money into an automobile.

Mr. MONRONEY. I would like to ask you another question about this business of fair market value, fair value for his property. As to the appraisal, what basis would you use as fair value for his property?

Mr. KOPPEL. It depends on the section you are in, Mr. Monroney.

Mr. MONRONEY. I am reading from page 11 of your statement.

Mr. KOPPEL. I said it depends on the section of the country they are in. What your market value is, the market value of your property, as compared to your assessed valuation: that depends upon what section of the country you are in. By that method you can determine what the fair value of the property is, and a check on that, by reproduction costs.

Mr. MONRONEY. That would be normally about 60 percent above prewar costs.

Mr. KOPPEL. No. In our area, which I can speak for on that point, the assessed valuations are a few points over the market.

Mr. MONRONEY. Well, I do not know anything about New York assessments. But I know the builders in Oklahoma City are uniform in saying your reproduction costs are about 60 percent above prewar levels.

Mr. KOPPEL. I give you three measures by which that can be arrived at. And that can be done by administration.

Mr. MONRONEY. You take the present market value.

Mr. KOPPEL. The assessed valuation and reproduction and check your values by those three methods.

Mr. MONRONEY. Reproduction less depreciation?

Mr. KOPPEL. Absolutely. In New York, in submitting this to the court in our own rent case, we gave five different measures of value: Original cost less depreciation, investment costs, reproduction costs, appraised valuation, and so forth, and figured them all.

Mr. MONRONEY. Averaging them?

Mr. KOPPEL. No. We left them open. They come within a few hundredths of a percent of each other.

Mr. MONRONEY. That is all I have.

Miss Sumner.

Miss SUMNER. I will yield to Mr. Crawford. He has a comment on your questioning.

Mr. CRAWFORD. Your 15 percent increase formula is taken from President Truman's wage increase formula; is it not?

Mr. KOPPEL. Well, we had that in back of our minds. But what we actually took that 15 percent formula from were the figures of the Bureau of Labor Statistics, which show the average of the cost of living, and the average of rents, as compared to the average of 18 prewar years. That gives you a cycle of prosperity in the twenties, or maybe inflation, and a cycle of deflation in the thirties. The average of that as a norm. From that norm, we are about 15 percent below the general cost of living, and including rents, it is 18 percent above. If you took rents out of the general cost of living, that 18 percent above would be even higher. We say by holding rents where they are today you are creating a depression. It is not inflationary to bring them up to the average of an 18-year cycle. In the chairman's absence, will somebody authorize me to file this with the committee?

Mr. MONRONEY. Without objection, that will be filed.

(The above document was not received for the record.)

Mr. CRAWFORD. You substantially follow the Administration program and formula?

Mr. KOPPEL. Yes, sir. Except we do not want to restrict ourselves to '36-'39 as an earning period for purposes of the comparison, because we were in a depression in our industry. We had never come out of the depression. We never got a chance to.

Mr. CRAWFORD. Following the same line of thought, do you have any reason why the Federal Treasury should subsidize your grocery bill and my grocery bill?

Mr. KOPPEL. Mr. Crawford, there is only one answer that I can give you. No, sir.

Mr. CRAWFORD. So when you start digging into this socializing program, this welfare state that we have, you get into so many fantastic

equities that personally I do not think you should be criticized on your 15 percent approach.

Mr. KOPPEL. I would much rather join you in that than criticize the Emergency Court where I have to go next week.

Mr. CRAWFORD. It is the administration program all the way through.

Miss SUMNER. It is worse than a subsidy program. Because in a subsidy all the people pay it, and the whole country pays it. But with this thing, you pick from one man who rents and give him the benefit, and maybe he is a very wealthy man, and maybe the man who owns it is in very modest circumstances. It is the most fantastic thing. I think it illustrates just one thing: when you put in this kind of control into the Government, you are going to get what you see in your situation. You are going to have the Government bearing down on the politically weak people for the benefit of the people who have a lot of votes. Do you agree with that statement?

Mr. KOPPEL. I think there is no question of that, Miss Sumner. I think there is no question of that. Basically, the economists state—and I am not the authority for it, I am only a bricklayer—that the cause of inflation is an overabundance of money in the hands of the people and a lack of merchandise on the shelves. By subsidies, I think you simply continue to aggravate that situation which exists today. High prices are not inflation. The signs of measles on your face; that is not measles. Cure the measles, never mind the signs, they will go away by themselves.

Miss SUMNER. Well, I will tell you something else. That theory—I do not pretend to be an economic expert, but I have talked to a lot of people who are leading economic experts in the United States, financial analysis, and plenty of them feel that the trouble with the men over in the Office of Price Administration, some of the professors that make the policies that men like Mr. Bowles enunciate, is that, without knowing it, they are influenced by the old quantity of money theory, and a lot of this money that is out shopping today is money of smart people who are trying to evade taxes by putting their money in capital. It is money doing another thing: buying at cheap prices because they know that sooner or later this country is either going to have to give up price controls or stop production. So they are out buying. If tomorrow they knew that the Office of Price Administration was going to be liquidated, smart people would stop buying until prices came back to the low level. You agree with that, do you not?

Mr. KOPPEL. I certainly do, Miss Sumner.

There is one gentleman here who is an outstanding managing agent in New York. If any of you gentlemen have ever been to our town, you have heard of Douglas L. Elliman, and if Mr. Monroney would like a little information from him on general renting conditions in New York, on the hardship of the individual owners, I would love to have him speak for about 2 minutes, and you can question him on details. I am sure he would be glad to.

Mr. MONRONEY. We have another witness scheduled. I think it would be better to take the next witness first, and then if there is any time remaining, we will hear from him.

Mr. RILEY. Mr. Koppel, what will it cost to build an average five or six-room house in your territory? Do you go out into suburban areas?

Mr. KOPPEL. We have a suburban area around New York. The actual cost, I do not have. But I told you that a man who built for \$6,500 sale in 1939 is selling that identical house and making a \$500 profit doing it, at \$11,000. Practically a hundred percent increase, and just a little less margin of profit.

Mr. RILEY. Would not some of the cost of that house be caused by his delay in getting materials?

Mr. KOPPEL. Very little of that. The inability to get material might reflect itself in paying a higher price to get it, but not the delay in getting it.

Mr. RILEY. You do not think the delay in construction would add to the cost of it?

Mr. KOPPEL. It is not serious enough to mean very much. The real trouble comes when you cannot get material, and you have your money there, and you are either going to lose your money or finish your house. You are going to pay for your material and get it. And that is one trouble with your priorities, too. I do not know whether they will be able to hold them.

Mr. RILEY. Now, Mr. Koppel, what does the average man's apartment rent for in your territory?

Mr. KOPPEL. Well, you pay your money and you take your choice. We have substandard apartments running under \$30 a month. Then we have about the cheapest class of steam-heated apartments which rent around \$25 to \$30, or up to \$40, and from there you have your medium walk-ups that run usually up to around \$60 or \$70, and then you have your little elevator jobs that run up to about \$75, and from there on you start getting into staff jobs, and higher-priced apartments.

Mr. RILEY. Do you know what the per capita income is of the middle class group?

Mr. KOPPEL. No, sir. It is much higher in New York than it is in other sections of the country.

Mr. RILEY. I realize that.

Mr. KOPPEL. Yes.

Mr. RILEY. What I would like to know is how you expect these young men coming back from the service, starting out, to pay abnormal rents, or to purchase houses at these high prices, with the income that they are going to have to take.

Mr. KOPPEL. I do not expect them to pay abnormal rent. I expect Mrs. Jones, who is home all day, and her husband is down in the office, and she says, "John, there is a nice new house being built down the street. You are in the office all day, but I have to stay home. They have a lovely streamlined kitchen," and John says, "It is going to cost more rent," "I do not care. You play poker all night and I have to stay home. We are going to move there." I am saying that in a jocular manner, but that is what happens in families. And what I want to say is that that leaves the old Jones house free to rent at a controlled rental.

Mr. RILEY. But if he does not have the income, Mr. Koppel, how is he going to pay for that new house?

Mr. KOPPEL. I did not ask him to pay for the new house. I told him to take the house that is there under rent control.

Mr. RILEY. What are you going to do about these folks who cannot afford to pay?

Mr. KOPPEL. The fellow who cannot afford to pay—

Mr. RILEY. Talking about the average man now, I am not talking about the fellow earning a substandard wage.

Mr. KOPPEL. Are you speaking about the general lot of citizens in New York?

Mr. RILEY. Yes.

Mr. KOPPEL. Not veterans?

Mr. RILEY. Well—

Mr. KOPPEL. Because I think the veterans should get subsidies for a while.

Mr. RILEY. You can include the veterans in that.

Mr. KOPPEL. I would separate the veterans and separate them very decidedly, because our scale of rents in New York is fitted generally to the pocketbook.

As a matter of fact, the wage scales and earnings in New York have increased far beyond any rents. I am sorry I did not bring the statistics with me, but our wage scales in New York are away up.

Mr. RILEY. Well, are not those jobs open to the veterans just as they are to the civilians?

Mr. KOPPEL. Yes; they are, but unless we get production going in this country, there are going to be an awful lot of jobs that are not open. And as long as the Office of Price Administration continues telling manufacturers they do not care whether they make money or not—and that includes the builder—where are the jobs going to come from that you want these veterans to have?

Mr. RILEY. I am still trying to get what you think the average man can afford to pay, in New York, for his living quarters. I am not talking about the top strata nor the low average man.

Mr. KOPPEL. I am sorry; I did not bring those figures with me.

Mr. RILEY. I would be glad if you sent them. I will be glad to have you send them.

Mr. KOPPEL. I will be glad to get them for you and send them to you.

Mr. RILEY. Thank you. That is all.

Mr. MONRONEY. Dr. Smith.

Mr. SMITH. Mr. Koppel, I have been quite interested in your presentation. The Office of Price Administration has a bull by the tail, and it is having a lot of trouble. I myself do not know how this housing shortage is going to be solved. I sit here and listen to the testimony that is given in these hearings, but I do not see how a solution is going to be reached. You say you will not be able to build any houses under the bill which we passed. That is correct, is it not?

Mr. KOPPEL. I say you cannot build good housing, decent housing under the bill you passed.

Mr. MONRONEY. Qualify that, for New York City.

Mr. KOPPEL. That is correct, Mr. Monroney. For any sections where you need insulation, heat, and frostproof foundations, wherever that may occur, and with the high wage scales.

Mr. SMITH. Well, of course, we are not interested in New York City. We are just interested in the rest of the country.

Mr. KOPPEL. Mr. Bowles has always left us out of his surveys when he gives these composite charts here. He does not like New York, either.

Miss SUMNER. Oh, he does.

Mr. KOPPEL. Oh, yes, Miss Sumner. He does not like New York, either.

Miss SUMNER. Why?

Mr. KOPPEL. Because there is no city that he has surveyed as much as New York, and I doubt if there is one that has any worse results of operation than New York. So when Mr. Bowles brings in a beautiful chart of 39 cities, he never includes New York.

Miss SUMNER. Does he include all the other cities?

Mr. KOPPEL. Well, he has more than 39 cities, but New York is left out.

Mr. SMITH. Now, you are estopped from building in New York City. You just cannot build under the present regulations?

Mr. KOPPEL. We cannot build rental housing. The great majority of people in New York City live in rental housing.

Mr. SMITH. And you cannot build new homes?

Mr. KOPPEL. That is right, on a rental basis.

Mr. SMITH. You are estopped?

Mr. KOPPEL. That is right.

Mr. SMITH. Now, I wonder whose fault that is. I wonder how that condition was brought about? You mentioned subsidies. Of course, you had the thing figured correctly. The more subsidies you pay out, the more inflation, because inflation is made up of that sort of thing. And you cannot build any homes. New York City is a pretty big segment of the country, after all, everything considered. Probably we are better off because it is there than if it were not there, and it might deserve a little consideration, but do you know, Mr. Koppel, that is exactly the way the Office of Price Administration works with respect to various groups throughout the country?

Mr. KOPPEL. That is why we asked for it countrywide, and let the country support the requests for the balance of the country, and I am prepared to support the requests for New York City.

Mr. SMITH. And what you would be satisfied with is that the Office of Price Administration consider these apartments individually and made individual adjustments? If they did that, you would not need to be asking for this amendment; is that not correct?

Mr. KOPPEL. You are absolutely right, Mr. Smith.

Mr. SMITH. Yes. So that I do not see how it can be contended that you are asking for anything unfair.

Mr. KOPPEL. I will leave that to you to judge.

Mr. SMITH. Well, if you make individual adjustments, that would certainly be more fair than to have an arbitrary figure representing the rent as of a certain date.

Mr. KOPPEL. Bearing in mind that we have absolutely no confidence in the Office of Price Administration's integrity in making such adjustments.

Mr. SMITH. Of course, you must understand the Office of Price Administration wants to hold the line. It is not interested in whether you get any homes. It must hold the line; is that not true?

Mr. KOPPEL. Yes; and I thought your Emergency Price Control Act said "stabilize" and not "crush."

Mr. SMITH. Well, that word "stabilize" has a lot—

Miss SUMNER. That means to make people live in a stable.

Mr. SMITH. It may come to that. Everything should give way to production.

Mr. KOPPEL. The whole country is crying for that, in every line, Mr. Smith.

Mr. SMITH. But all these restrictions and rules and regulations will not get production; is that not right?

Mr. KOPPEL. I do not think they will.

Mr. SMITH. That is all.

Mr. MONRONEY. Mrs. Woodhouse.

Mrs. WOODHOUSE. You have talked here several times about 6,000- and 10,000-dollar houses.

Mr. KOPPEL. Yes.

Mrs. WOODHOUSE. How important are these unit dwellings in New York City in comparison with the multiple dwellings? They would be very minor, would they not?

Mr. KOPPEL. I consider them quite minor except for one point which might be helpful. That is speed. You can produce a quantity of those.

Mrs. WOODHOUSE. Yes; but as a general proposition, are we very likely to have very many of these small, individual houses in New York, or are we more likely to have apartment houses?

Mr. KOPPEL. If the builder had the ability to produce in either sphere, you would get greater proportion of rental apartments than individual houses.

Mrs. WOODHOUSE. That is what I thought. The discussion of these 6,000- and 10,000-dollar houses is not very pertinent. What we are interested in are unit costs.

Mr. KOPPEL. I had to answer Mr. Monroney.

Mrs. WOODHOUSE. I was interested in a statement you made. The stability of real estate is most important. I, of course, agree with you very much on that. How can you plan to have stability if you are taking off all ceilings on new construction?

Mr. KOPPEL. I will refer you to the experience of the State of New York after World War I, where we had a somewhat analogous situation to that confronting the Nation today, and where the State of New York put on residential rent control and operated, as I said, under a judicial system. In those laws of 1921, the emergency rent laws of the State of New York, they exempted new construction completely, and they went further. They granted tax exemption to the value of \$1,000 per room.

Mrs. WOODHOUSE. Excuse me. That does not answer my question. By stability I have assumed that you meant a rather continued level of the selling value of these places. Now, of course, today we are experiencing quite a different thing.

Mr. KOPPEL. No. By stability I mean putting things on a sound basis, and if the line on which that rests goes up, then the price of the house goes up.

Mrs. WOODHOUSE. You are really talking about stability of returns to the owner rather than stability of real estate in an economic sense.

Mr. KOPPEL. Well, I am not sure whether I had the economic sense correct, but what I meant by stability was its ability to maintain its way, and have a level of sale or rent which would be comparative to the factors which it has to pay out.

Mrs. WOODHOUSE. That would have nothing to do with the actual selling price. At the end of the last war, as you know, we had greatly increased selling prices of real estate, and that lasted for a period of time.

Mr. KOPPEL. That is right.

Mrs. WOODHOUSE. Then, about 1926, about 3 years before the big crash, we had a considerable falling off in real estate. I would call stability the avoidance of that terrific down, but I see you have something quite different in mind. I was also interested in another statement you made. Speaking about people building new apartment buildings, you say, "Irrespective of any rent level which might be promulgated, they will not build apartments, if they must operate the completed structure under the arbitrary administration of the Office of Price Administration." I was wondering how you differentiate that, on the part of builders about a threat to strike.

Mr. KOPPEL. You are talking about a strike of a person who is working, and I am speaking about the person who is not working, and saying, I will not work in that factory as long as that foreman is there. I do not have to go to work for that man. We are not working in the building industry. You have stopped us. We do not like your foreman and we do not like his ways.

Mrs. WOODHOUSE. I had a notion that you had said that the purpose of all your program was to provide housing, and that was the only reason that I questioned that one point.

Mr. KOPPEL. Mrs. Woodhouse, personally, I am a builder. I am dying to build. I cannot build. You are stopping me. I want to build. I do not want to make a million dollars on a job, I want to make a reasonable, fair profit for my family. I cannot do it.

Mrs. WOODHOUSE. But you said irrespective of any rent level.

Mr. KOPPEL. I would not build an apartment house today if I were faced with having the Office of Price Administration telling me how I am to run that house, when I am going to paint it, how many doormen I am going to use, whether they like the way this is, or that is, and not based upon competent, qualified men who are telling me this, but people who never operated buildings, many of them do not know what it is all about. And I will say this for Mr. Bowles, I have been told by his men, and I believe them, that he has been up against it because his budget was not large enough for him to hire people at salary scales that would warrant taking on qualified people. But he has got, in our town, a group of people generally, in the lower strata of the administration—and that is the man who cuts rent—too many men of that type, for me to want to operate a building that way. I do not want to be summoned by a man who does not know anything about building operations and told how to rent my building. If I tell the fellow where to go, I get the rent cut, and I cannot get it fixed. I have a great many letters from a bunch of outstanding people in the business, if you care to see them.

Mrs. WOODHOUSE. That is all.

Mr. MONRONEY. Dr. Talle.

Mr. TALLE. I will pass.

Mr. MONRONEY. Mr. Patman.

Mr. PATMAN. No questions.

Mr. MONRONEY. Mr. Buffett.

Miss SUMNER. You talk about not having enough budget. The chances are the most qualified people do not like to work for the Office of Price Administration any more than you do.

Mr. KOPPEL. I will frankly say I would not take a job with the Office of Price Administration, no matter what salary I was offered. Not under the present system or policy.

Mr. BUFFETT. Mr. Koppel, if you are having trouble getting adjustments from the Office of Price Administration, maybe this is an impractical suggestion, but you might hire Henry Kaiser. He testified a few days ago before this committee that he got every adjustment he wanted promptly and satisfactorily with the Office of Price Administration. So it can be done. I sympathize with your position, but you are in a tough spot. The landlords, as you know, are outnumbered about a hundred to one at the voting booths, and legislators like to stay in office, and I think it is possible—not probable perhaps—that they respond more readily to vote pressures than abstract principles of justice.

Mr. KOPPEL. Mr. Buffett, I think that argument is somewhat like our subway fare argument in New York, and the polls of leading newspapers taken within the last week in New York of the average subway rider picked as they come in, surprisingly enough, show that people are willing to pay if they understand what it is all about. What you have got down here, and what you do feel through the country, is a vociferous minority who do not give a darn about the fellow's ability to earn a dollar. They are vociferous, but they do not speak for the mass of the public in this country. I think there are too many people in this country who have no sound judgment and sense of fairness and equity.

Mr. BUFFETT. I think you are absolutely right, but those people do not have time to appear before congressional committees and tell about the abuses they have suffered.

Mr. KOPPEL. That is right.

Mr. BUFFETT. I think it is fair to say today that capital is locked out of the housing industry because it can see no prospect of getting a fair return on its money.

Now, you mention the Metropolitan Life Insurance Co. Are they doing any building now that you know of?

Mr. KOPPEL. They are building a job in New York City that was started when the priorities were first lifted. And it was after that that Mr. Ecker, the chairman of the board—and, incidentally, that is the largest private builder or institutional builder of housing in the United States and also the largest mortgage loan institution of the United States—he said you cannot go ahead and do it in this way. And he certainly is not looking to make a fortune out of housing.

Mr. BUFFETT. No. Whatever dollars the Metropolitan Life makes out of housing goes back to their policyholders and widows and orphans in the form of dividends and payments on their insurance policies; is that not right?

Mr. KOPPEL. That is correct.

Mr. BUFFETT. Then, certainly, Metropolitan Life would be building on a large scale today if they thought they could get a return of 3 or 4 or 5 percent for their shareholders, would they not?

Mr. KOPPEL. So Mr. Ecker stated, and he is the chairman of the board.

Mr. BUFFETT. Well, he is working entirely for those policyholders?

Mr. KOPPEL. That is right.

Mr. BUFFETT. That is his job?

Mr. KOPPEL. Yes, sir.

Mr. BUFFETT. It seems to me your situation is very acute from the standpoint that any raise you get comes directly out of the pockets of the people, and there is no way in which we can use a subsidy or a bounty, or a program of premium payments, or some other scheme to avoid the people finding out that the cost of living is going up if your rents are raised?

Mr. KOPPEL. That is right.

Mr. BUFFETT. And unless those rents are raised, we are following a pattern that is a nonviolent method of destroying private capital in housing, is it not?

Mr. KOPPEL. There is no question about it and we sometimes wonder if there is not an attempt, some place along the line, to socialize housing completely, at any rent level.

Mr. BUFFETT. Are you familiar with the housing ventures of the government in central Europe after the last war?

Mr. KOPPEL. Only in a very superficial way.

Mr. BUFFETT. Is it not true that during some of their inflation, the value of rental properties in Germany and in Austria all went almost to zero because their taxes and operating costs went up while the rents were fixed by Government fiat?

Mr. KOPPEL. I would hate to answer that affirmatively. I do not have the proper information to answer that, Mr. Buffett.

Mr. BUFFETT. I have been told that by people who know.

Mr. KOPPEL. I have heard the same thing. But I do not know. I have not examined the figures.

Mr. BUFFETT. It is interesting to me because I have, over in my office, a city of Vienna dwellings loan that was issued by the city of Vienna after the last war, to build houses because of the shortage of dwellings, and because private enterprise was not building those houses. They got the houses built, apparently, but the entire structure of their finances collapsed and the bonds were worthless. I did not buy them. Somebody gave them to me as a present.

Mr. KOPPEL. Mr. Monroney, speaking of your cheap rental housing, as Mr. Buffett just brought out, the city of New York has a tremendous public housing program through which they prepare to give the veterans first opportunity to move in and they took bids on the first one of those jobs last November and found their costs were 70 percent over the estimated costs for that building, which were a little higher than 1939. They have advertised for bids again, which will come in on March 26 of this year, at the end of this month, and it is going to be very interesting to see how much higher those bids are going to be because they waited that 3 months to take the figures over. I am just wondering whether the city of New York, under the most ideal conditions, where they do not have to make a profit, and where the Government is giving them a large part of this money at a low rate of interest and where they do not have to pay taxes, is going to be able to supply houses even on that basis for this veteran they would like to fix up at low rentals. I think it is an interesting thing, and I think it would be well worth your watching.

Mr. MONRONEY. It would be very interesting, particularly in the light of this 70 percent figure on increase in reproduction costs.

Mr. KOPPEL. That was last November. I am wondering what is going to happen now in March.

Mr. MONRONEY. Will not that 70 percent, if it goes higher, be reflected in this new fair value of the Office of Price Administration fixing of rents?

Mr. KOPPEL. It has got nothing to do with the fair value of the property. It is construction bids.

Mr. MONRONEY. But you just got through testifying that that would be one of the elements for fixing value.

Mr. KOPPEL. That is right.

Mr. MONRONEY. To me it is the fairest element to fix the value. I think it would be controlling.

Mr. KOPPEL. That might very well be.

Of course, practically all the buildings—again speaking for this New York area—that nobody puts in the chart so practically all those buildings are at least 1,930 buildings, so you have between 15 and 20 years of depreciation at 2 percent a year, which cuts that down below the actual depreciation cost without the depreciation.

Mr. MONRONEY. Do you have further questions?

Mr. BUFFETT. That is all.

Mr. TALLE. Mr. Chairman.

Mr. MONRONEY. Mr. Talle.

Mr. TALLE. What kind of building materials do you use in New York generally?

Mr. KOPPEL. We have two classes of apartments, generally, in New York. They all have a shell, which is usually brick and hollow backing. Some types have a steel frame with concrete slabs and are known as fireproof buildings, and the majority of that type are usually jobs of nine stories or over.

Your six-story elevator jobs are usually wood beams with firewalls inside, and fireproof halls and so forth. But the actual structure inside is of wood beams and wood-studded partitions. Fire stops at the floors and fire walls to the exits.

Mr. TALLE. You probably use so little lumber that you do not have great difficulty in getting enough?

Mr. KOPPEL. The non-fireproof apartments use quite a little bit of lumber, because they have almost the same number of floor beams and partitions that your little bit of a house that is all lumber. The difference comes in the enclosing walls. You save lumber there.

Mr. TALLE. I suppose you have encountered difficulty in getting other materials? Are you doing any building?

Mr. KOPPEL. The apartments in New York that are proceeding—I do not think there are 5 apartments proceeding in New York. There should be 105.

Mr. TALLE. Would you know where to get the hardwoods that you use, and the finishing materials?

Mr. KOPPEL. That last fellow I know just paid \$200 or \$250 a thousand for some oak flooring, to get oak flooring to finish a house. There is an interesting thing, too. To get it he had to buy flooring that was finished before it was laid. So it was laid that way, and then the labor unions demanded it either be scraped or \$50 per house

turned over to the union because that should not have come to the job finished. And I do not blame the delegate, either, because he said his men were hungry for work and they saw this stuff going in and they were not getting the work. But you pay through the nose if you want things today. You cannot help it. Despite the Office of Price Administration. The only thing is the finished house and rents are easy to control. But it is not easy to force people to build.

Mr. TALLE. That is all, Mr. Chairman.

Mr. MONRONEY. Mr. Patman.

Mr. PATMAN. No questions.

Mr. MONRONEY. There is one thing I would like to clear up. In Mr. Buffett's questioning I seem to get the impression that Mr. Fred H. Ecker had endorsed this whole program of 15 percent raise.

Mr. KOPPEL. No, sir; there was no such intimation, I hope.

Mr. MONRONEY. In the cross-examination, I got that impression.

Mr. KOPPEL. No. Mr. Ecker has not been consulted. Mr. Ecker has not been spoken to. The statements of Mr. Ecker were taken as stated in the presentation from the public press. And they were made at a public meeting. And they were simply with regard—

Mr. MONRONEY. I just wanted to clear that point up, to be sure that the record did not show that Mr. Ecker might have subscribed to this 15 percent increase.

Mr. KOPPEL. I do not know whether Mr. Ecker would or would not subscribe to it.

I know they have plenty of buildings on hand yet that they foreclosed, on which they cannot make enough money at their foreclosed price to sell them, and that their buildings were among those surveyed by the Office of Price Administration, and if you would like information, if Mr. Bowles will bring out some New York figures, get him to give you some information made on the ownership of metropolitan houses in New York City and their lack of earnings at today's rentals.

Mr. MONRONEY. Do you have the foreclosures for the last 3 years in New York City on apartment buildings?

Mr. KOPPEL. We have them in New York.

Mr. MONRONEY. I wish you would put that in the record.

Mr. KOPPEL. Yes, sir; I will.

Mr. MONRONEY. On apartments.

Mr. KOPPEL. Yes, sir.

(The document above referred to was not received for the record.)

Mr. MONRONEY. Are there any other questions?

We would like to take this gentleman if we finish with the other scheduled witnesses, for 2 or 3 minutes, if that is agreeable.

Mr. KOPPEL. Very well.

Mr. MONRONEY. Now, Mr. George M. Englar of the Apartment Owners Association.

STATEMENT OF GEORGE M. ENGLAR, PRESIDENT, NATIONAL APARTMENT OWNERS ASSOCIATION

Mr. ENGLAR. Gentlemen, I am very sorry that I cannot give you a mimeographed copy of my remarks. I was not notified until Saturday morning that we were expected to come on at this time. My understanding was that we were to be on the week of the 18th, so what I have to read to you will be something that has been prepared in short

order. It is being printed, and I will see that each member of the committee gets a copy of it when it is finished.

Mr. MONRONEY. We will appreciate that, sir. We are sorry to have inconvenienced you by the step-up of the schedule, but some scheduled witnesses have not been able to appear and we are trying to take as many witnesses as we can.

Mr. ENGLAR. My name is George M. Englar. I live in the Roland Park Apartments, Baltimore, Md. I am the president of the National Apartment Owners Association. I am a veteran of World War I.

I am not an economist, but I have had the supervision of real estate, representing several millions of dollars, for the past 17 years.

This was not from choice, but from necessity. The bank and mortgage company with which I became connected in 1920, financed many multiple unit buildings in Baltimore and Washington between 1920 and 1925. The year before the bank crash I became responsible for the operation of the policies on which the mortgages had not been paid off.

Many of these buildings were constructed during World War I inflation, when building costs were approximately 50 cents per cubic foot for modern, fireproof building. The present rents on them, at the Office of Price Administration levels, are 60 percent over the levels prevailing at the time they were built.

I am a tenant. The Office of Price Administration fixed a rent on my apartment at \$150 a month. It was originally rented at \$300 a month when the building was built. The cost of the building in which I live, and of the land underneath, is \$900,000. It was purchased by the present company several years ago at \$400,000, and with the present rent ceilings in February, after fixed charges last year, it shows a loss of \$109,000, compared with a loss of \$1,459 in 1944.

This large improvement in net income was actually a decrease and loss, and necessitated foregoing repairs to meet mortgage payments. The owners are not drowning in 20 feet of water. They are just drowning in 10 feet. When this property sought relief, under the hardship amendments, to increase rents, in an amount previously agreed to by the tenants, 90 percent of the tenants signed up to pay 15 to 25 percent increase, because they knew that they ought to be paying more rent. They wanted repairs made to the building. But the Office of Price Administration, on November 17, 1944—this was after the hardship amendment—wrote:

Since section 3 (a) (12) was designed to cover actualities, a petition based on nonexistent figures and conditions would be unacceptable under that section. If the operator finds himself with an actual hardship due to the unavoidable increase in property taxes and operating expenses, allocation of expenses to the periods benefited, according to proper accounting principles, having, of course, been made, a petition correctly filed would reveal whether the petitioner was entitled to relief on the basis of a hardship situation.

Gentlemen, the money from that building had to go, every cent of it, to pay off the mortgage, when the property had been bought for \$400,000 against an initial cost of \$900,000.

I am a landlord, and, as such, I, and approximately 8 million other citizens in the United States who fall in the same category, are the victims of unfair news releases almost daily, and canned speeches distributed to radio stations across the country. Magazine articles, written by Mr. Bowles, or by persons to whom he has supplied information, are employed to stir up class hatred, and to build up a popular demand for the extension of rent control.

The recent article in *Colliers* is an illustration. To furnish the material for such vicious propaganda, the records of the Office of Price Administration were combed to find eight landlords whose shortcomings were used to damn 8 million owners of residential property.

I want to interpolate and say this, because of Mr. Koppel's testimony about New York: Judge Knox appointed me the voting trustee of 1088 Park Avenue. That is one of the large, luxury apartments in New York. I am not the landlord. That building is owned by 1,200 people, scattered all over the United States, who put their money into bonds. And for years they did not get a cent on it, and last year we were able to pay them 1 percent. Now, the tenants in that building are, many of them, millionaires, and the rent schedule in that building is 50 percent or less of what the apartments rented for when the building was built in 1927.

Our industry continues to be the pet peeve of the Office of Price Administration, but it is the only one that is producing almost 100 percent. In some of our cities, where feelings run high against the Office of Price Administration, units are being withheld from the market when they become vacant. The paper calls it a landlord's strike. After 5 years of persecution, why should not the landlord be permitted to allow his property to remain vacant if the present rents are insufficient for him to keep it in repair?

Fairness and justice do not force us to furnish living accommodations to wage earners at 15 percent lower rents than those which prevailed at the peak of World War I inflation, while the income of labor has increased 68 percent. Is it reasonable to extend rent control without modification under such conditions? The group affiliated with the organized labor department of the Office of Price Administration thinks this should be done. Mr. Bowles thinks so. Those who have already appeared or who expect to appear before you and recommend that the act be extended with that amendment think so. Justice demands fair rents, not frozen rents.

The argument has been made by certain of these groups, that repeal of the Excess Profits Tax bill would enable industry to absorb increased costs. Under rent control, few properties show earnings enough to pay even normal taxes. One property managed by our office, representing a million dollars investment, changed hands at 40 percent of its costs. It paid an income tax of \$4,189 in 1944. In 1945 its tax will be \$1,678. I might add that is the only property that we manage that might be—it might be a reflection on the management—but it is the only one that pays income tax.

Now, gentlemen, the veterans housing situation is serious. It has a direct relationship to apartments. The Wyatt-Bowles bill, for the building industry, will not get houses built unless controls are taken off materials. Even if materials are subsidized, builders will hesitate to go ahead until newly created residential units are exempted from rent control.

The Patman bill, as it left the House, provides ceiling prices on new construction. This applies to all housing, multiple unit apartments included. Certainly no builder will be able to interest an investor to go ahead and buy a property that is to be built if the purchase price becomes the ceiling. Now, I think that was probably an oversight in the bill as reported from this committee. But that

is the way it stands now and that is one of the reasons you will not get relief from the housing crisis under it.

Mr. Bowles, in his February 18 testimony before this committee, on page 8, stated:

I further urge, with all the vigor at my command, that the Congress enact at the earliest possible time, legislation to stop inflation in the real-estate market. If this inflation is permitted to continue unchecked, it will undermine the construction industry just as it did after the last war.

The construction industry, at the present time, is not a producing industry, when the profit incentive has been removed, and it was not undermined after the last war, because that was the time when our larger apartment houses, multiple unit houses, were being built. What the country must have to achieve maximum production and full employment and to avoid inflation is freedom to produce and to employ.

In a letter to Senator Radcliffe, of Maryland, on February 9, 1946, I stated:

The most serious aspect of this situation, it seems to me, would be the fact that the present Office of Price Administration policies simply stifle all construction work. Certainly we are not going to undertake to build new apartments or reconvert houses to provide living accommodations while there is such an inflexible control of rents. If rents were permitted to be increased in proportion to the increase in the operating expenses, I believe the housing shortage could be overcome. But such a suggestion last year received an emphatic "No" from Mr. Bowles. It looks very much, to me, as if it is the plan of the CIO-PAC group, which has so much influenced Mr. Bowles, to stifle all private enterprise, and building construction, and gradually run down the properties that are now in private hands, so that they cannot compete with the Government housing program that is now being so strongly urged by the CIO-PAC group in Washington.

Mr. Bowles again testified:

Sales prices of 63,348 single family houses reported to the Office of Price Administration were 149 times monthly rental receipts, compared with the generally accepted normal ratio of 100 times rental receipts.

Mr. Bowles did not tell you how many of these houses were sold because the owners found that with Office of Price Administration rent control it was impossible to get a fair return on their investments. The fact is that a high price can be obtained for old property because new houses are being built, and the Office of Price Administration insists on making it unprofitable to manufacture building materials.

I will again interpolate. I sent the members of the Senate and House of Representatives a letter on March 4 enclosing a copy of the resolutions that were passed at our national convention.

We made certain definite recommendations in that letter. I suppose the letter will probably wind up in the waste basket, but we sent it.

Mr. MONRONEY. Would you care to put a copy of that into your statement at this time?

Mr. ENGLAR. I will be very glad to do so.

Mr. ENGLAR. Now page 4 of the Office of Price Administration chart interpretation, read to this committee on February 18, 1946, states:

A little inflation is highly dangerous. It took 1½ billion dollars annually in subsidies to check the spiral of inflation that was under way in 1942, and early 1943.

Was it stopped? Look at your chart; see where the cost of living is, where wages are, while rents remain at 85 percent of normal.

I think it appropriate to remind you that Mr. Bowles wanted to spend hundreds of millions of dollars on subsidies on a public housing program to provide homes that private enterprise will undoubtedly produce if new construction is exempted from rent control. You may be surprised that our association advocates this. It was not an easy matter to have our entire group go along. But I maintain that the housing shortage will never be solved until there is new construction.

New construction will not proceed in volume until rent ceilings are removed. Labor, direct and indirect, which makes up about 85 percent of the cost of new construction, has increased approximately 70 percent. We, who have sweated with our properties during rent control, are worried about the competition that will come in a free market from properties erected at the present costs.

It should be noted that all charts used by the Office of Price Administration are based on 1939 figures. Rents were 85 percent of the 1921-38 average, and wages were 11 percent above. We refer you to a copyrighted chart of Roy Wenslick & Co., entitled "Wages, Rents, and the Cost of Living in the United States."

This chart is based on 1921-38 averages. Look at this chart, and see the horrors of inflation that the Office of Price Administration has saved us from. The cost of living at the end of 1945 was only 18 percent below the peak of inflation after the last war, with rents 15 percent below those prevailing on December 31, 1920.

If rents were at the 1921-38 level, the cost of living would be even closer to that prevailing at the peak of post-World War I inflation.

In our letter of March 4, we also mailed you a pamphlet, called: "Caught in the Housing Shortage."

This was prepared by one of our local associations in Los Angeles. In that pamphlet, the blame for the housing shortage for both veterans and civilians is placed where it belongs. It is given to every person applying for an apartment, and a number of our local associations are having it reproduced to apply to their community.

I will be very glad to put one of those in the record.

Mr. MONRONEY. How long is it?

Mr. ENGLAR. It is just a short three-page pamphlet.

Mr. MONRONEY. Very well, you may insert that in the record.

(The following is the above-mentioned pamphlet:)

CAUGHT IN THE HOUSING SHORTAGE?

YES, WE DO WANT TO HELP YOU, BUT HERE'S WHY WE CAN'T—NOT YET!

(Prepared by Apartment Association of Los Angeles County, Inc.)

ADDITIONAL THOUSANDS CAN BE HOUSED! HERE'S HOW!

Spreading out

Here in Southern California we like to spread out in comfort, and enjoy living. During the war we've done just that—in apartments.

For example—

In Los Angeles County there are—

Homes and duplex units ¹	820, 000
Multiples (apartments, flats, etc.) ²	288, 000
which is sufficient space to house more than 4,000,000 people—	

If—

Only 4 persons occupied each of 820,000 homes.....	3, 280, 000
--	-------------

¹ Reports of Regional Planning Commission as of December, 1944.

Only 3 persons occupied each of 156,000 unfurnished flats or apartments	470, 000
Only less than 3 persons occupied each of 132,000 furnished apartments ²	374, 000
Available housing space for	4, 124, 000
Present population (estimated) ³	3, 584, 000
Space for additional persons in excess of present population	540, 000

Doubling up

During the war we learned to share again, in the traditional American spirit, almost everything—except our housing.

For example—

We shared the ride to spread short supplies of gasoline.

We shared the food to provide for everyone the basic necessities.

We shared the rubber to keep transportation from breaking down.

But—

Did we share the housing?

In 132,000 furnished apartments there now live a total of only 220,000 persons, or 154,000 less than capacity, as follows:

In bachelor and single units (an average of 1.3 persons)	120, 000
In doubles (1 bedroom) (an average of 2.2 persons)	44, 000
In large multiples (an average of 2.8 persons)	56, 000

A total of

Why?—

This condition exists because the OPA has frozen rents at a fixed amount, not allowing reasonable compensation for sharing apartments, thus actually discouraging additional occupancy. Present OPA schedule for additional occupants in apartments starts at 4 cents a day in unfurnished units and 8 cents a day in furnished units. Costs have increased, income is frozen, so owners cut expenses by reducing occupancy.

Don't disturb—please

Present tenants are happy and secure in possession of their apartments—whether they need them or not—

Because—

We dare not ask them to move to smaller quarters—to do so would violate the law (OPA).

We admit that many single girls and men living alone could move to private rooms and make way for you or for a larger family. But we can't ask them to.

We admit that many tenants who live out of town and keep their units vacant a large part of the year could release their apartments. But we can't ask them to.

We admit that couples living in large apartments could move into singles, temporarily, to help ease the critical housing shortage. But we can't ask them to.

We admit that present tenants have a priority on the housing they occupy, as long as they pay the rent.

In short—

Our hands are tied!

We can't help to share the housing!

We can't disturb present tenants!

We can't give any priority to returning war veterans!

We can't help remedy the critical housing shortage without violating OPA's rules!

² Occupancy as follows:

2 persons in each of 92,000 singles and bachelors	184, 000
4 persons in each of 20,000 doubles	80, 000
5.5 persons average in each of two and three bedroom apartments	110, 000

Total capacity

³ California Taxpayers Association, December 1945.

Remedy

The only plan which will remedy the housing shortage now, and at no cost to the Government for temporary barracks, dormitories, etc., is:

If—

Your Congressmen and other public officials will persuade the OPA to make slight changes in policy, as follows:

1. Lift controls on rental of rooms in a private home, thus avoiding possible indignities to the home owner, and open up as many as 40,000 private rooms.
2. Keep present controls on apartments, but allow additional rent of 10 percent (with a \$5 per month minimum) of the ceiling for each person in excess of the following number: 1 person in a bachelor or single; 2 persons in a double (1 bedroom); 3 persons in a triple, etc.
3. Do this by area-wide order, thus eliminating present delaying red tape to service a separate petition required for each individual apartment unit.
4. Allow owners to keep the peace in their buildings and help you obtain an apartment by taking directly to our State courts (not through OPA) cancellation of tenancies of—
 - (a) Obnoxious tenants objectionable to other tenants in the same building;
 - (b) Persons who do not occupy regularly as a home (nonuse).
 - (c) Persons who occupy larger apartments than they need.

Then, and only then, will we be able to help you.—The Management.

Mr. ENGLAR. Yes, sir.

Mr. ENGLAR. A study of the Wenslick chart, based on information supplied by the Bureau of Labor Statistics, should convince you that the claim of the Office of Price Administration has saved us from inflation is just as fallacious as its argument that landlords are making more money under rent control than before. Profound announcements that Office of Price Administration rent regulations have saved millions of dollars are only true when it is understood that the property owners have been relieved of exactly that amount.

Furthermore, the rents saved by tenants did not provide 1 cent of taxes to the Federal Government. If increased rents had produced profit to property owners, income taxes would have to be paid.

Inflation is the scare line of the Office of Price Administration. Inflation, collapse, depression, stated Mr. Bowles before you on February 18. Look at the chart. Does the Office of Price Administration think that business can survive the philosophy that the increase in wages can be absorbed by increased production? Even admitted that that philosophy is correct, how can our industry increase production? We have been at 100 percent of capacity for many years, and our equipment is worn out, with 5 years of peak operation without adequate maintenance.

Mr. Bowles' favorite argument, that increased production will absorb increase in costs, will not hold in our industry, and his "boom and bust" scare line, to us, is just "bust." To continue to permit the Office of Price Administration to block fair rents by hiding behind the pretense that increasing the rent ceilings to offset the rising costs, on the theory that this results in inflation, is dodging the issue. It is not fair to real estate, which is the foundation of our country's wealth, to ignore the fact that other elements in the national economy have already substantially increased.

The wage-price policy will not hold the inflation line, so long as the administration is leading the assault to breach that line on the wage side. The proportion of the cost of living paid out in rent continues to drop.

Mr. Bowles boasted before this committee, on February 18, that now only 19 percent of the cost of living was paid out in rents. This

figure was about 25 percent in the prewar years. The fact that 8 million of us, who supply shelter for those who find it cheaper to rent than to buy houses, is no justification for discrimination, and misrepresentative by a bureaucratic administrative department.

Mr. Bowles, on February 18, further said, when he appeared before this committee:

Industrial and other wholesale prices, as well as retail prices, have been held very close to VJ-day levels, while thousands of collective bargaining agreements involving substantial wage increases have been concluded in orderly fashion.

I am told that 6 million workers have received wage increases during this period.

On the next page of his statement, released to the radio and to the press, he states:

Rents represent 19 percent of the cost-of-living line. This new policy will have little or no effect on rents. The rent line can and must be held. The prices of food and apparel must be kept from rising. On that all important factor, there can be no retreat.

Gentlemen, I think those two statements prove our claim that we are being discriminated against by the Office of Price Administration.

Mr. Bowles, on the same day, said:

Is it true that a little inflation may help some of our Nation's problems and would not hurt anyone? The policy of the Office of Price Administration has been to make only such price increases as are necessary to meet the standards set up by Congress and by Executive orders.

That is a misrepresentation, gentlemen. Those of you who recall the 1944 compromise between the House and the Senate know that Congress expected rents to be raised to meet increased operating expenses and taxes. You expected the Office of Price Administration to be fair. The formula which the Office of Price Administration adopted provided that for your total relief our net income had to drop below the 1938-39-40 level in an amount equal to 5 per cent of our gross rent. This meant if we spent 1 month's rent on repairs in 1938, 1939, and again in 1940, we had to spend that much in each of the war years before we were given any credit for the increase in labor or fuel costs.

In one of our buildings, we spent \$15,000 just before the freeze date for new heating equipment that saved about 40 percent in coal. This saving, although it cost us \$15,000, deprived us of any relief under the Office of Price Administration's formula because of increased labor and fuel costs.

Further, answering this same question, Mr. Bowles states:

If our economy were made up of isolated and insulated areas, a program of having a little inflation would work; prices in one area could be advanced without affecting those in others.

That, gentlemen, is our situation. Apartments do not cross State lines. And that is one of the reasons our national convention passed the resolution that has been sent to you. This resolution calls for an amendment to the Federal Rent Act to this effect: In the event a State sets up its own administration of rent control, the Federal act would not apply.

That has worked in Washington throughout the war. It has worked in New York on commercial rents during the past year, and we have not had the disastrous sky-rocketing of commercial rents prophesied

by Mr. Bowles in December of 1944 if all commercial properties were not placed under rent control.

The Office of Price Administration finally predicts:

Less pressure areas will be had on building materials and rents; pressures on rents will endure so long or until Congress will have, at some time, transferred rent problems to the States, ending further need of the Office of Price Administration.

Gentlemen, here our industry and the Office of Price Administration are in agreement. We propose that when a State sets up the machinery for rent control, the Office of Price Administration should step out. If that is what Mr. Bowles says must eventually happen, why not now?

We urge your favorable consideration of that amendment.

Now, on the question of surveys. In a survey published October 9, 1943, covering 75,000 rental units, the Office of Price Administration stated:

Residential rental real estate is currently in its most favorable operating position in 4 years.

That was a survey upon which the Office of Price Administration based its opposition to any change in rent control 2 years ago.

At that time—that is at the time of the survey—10,000,000 units were under rent control. Approximately one-third of them were in 39 cities covered by the survey. The survey stated that rent control assures a reasonable rent, and a security of home to war workers and service personnel, and that the survey was to guide the Office of Price Administration in administering the Rent Control Act. The figures from which these conclusions were drawn were taken from the reports compiled by the Office of Price Administration employees who selected apartment houses containing 55,000 units in the 39 cities, most of which had vacancies in 1939 because of low industrial production.

The stimulus of war caused these vacancies to rapidly disappear by the middle of 1942 in these cities. The October 1943, survey, contains charts covering the period from January 1, 1939, to June 30, 1942, and it did indicate a larger profit in 1942 than in 1939. But the rent control actually did not start until after July 1942, in many of these cities, and much later in some of them.

The roll-back of rents to the early 1941 level was not reflected in reduced income until in the last half of 1942 and in 1943.

Labor, fuel, and material costs, had their sharpest rise after this survey was published. This widely publicized conclusion, that landlords were making more money under rent control than ever before, was, we submit, without foundation of fact, when this survey was being used before this very committee, early 1944.

On February 18, 1946, Mr. Bowles again appeared before you with a survey dated January 1946, covering 1939 to 1944 operations in 36 cities. It does not appear that Mr. Bowles advised you that these 36 cities are not the same cities used in the previous survey. Only 13 of them were included in the 1943 survey.

In 23 of the 36 cities, rent control did not become effective until after July 1, 1939. Now what do these surveys show?

Chart No. 9 of the 1946 survey shows that in 1942 apartments in these cities averaged earnings of \$154 a year, to pay interest and depreciation, and that in 1944 it was \$158 a unit.

The avaricious landlord received an annual income of \$4 per apartment more in 1944 than in 1942, while fuel alone, the Office of Price

Administration's chart shows, increased \$3 per apartment, labor \$3 per apartment, and repairs and maintenance were only \$2 per unit less. We submit these figures prove conclusively that landlords did not make more money after rent control was in effect than before in these 36 cities selected by Mr. Bowles.

The Bureau of Labor Statistics, published in the same survey, show that the average hourly earnings of repair and maintenance men, using 100 as the 1939 base, was 143.8 in September 1945, as against 112 in January 1942. We do not believe that any member of this committee can possibly follow Mr. Bowles' reasoning, that by receiving \$4 more on a unit, and spending \$6 more on wages and fuels, landlords were making more money under rent control in 1944 than in 1942, when only \$2 less per apartment was spent on maintenance and repairs, without giving any effect to deferred maintenance.

Under Office of Price Administration accounting, it is admitted that deferred maintenance is 2 percent of the gross rents. We maintain it is closer to 4 percent. If operating expenses had not increased 1 cent, a 10 percent increase in rents now would only take care of 5 years' deferred maintenance, at the rates admitted by the Office of Price Administration.

Now, what did this 39-cities, 1942 survey show? That has been quoted before this committee repeatedly by both Mr. Bowles and his assistants. It showed a net operating income of \$234 per unit in 1942, against \$183 in 1939. But in 1939, the buildings were being maintained, and many were being improved to meet competition.

In 1942, because of the war, they could not be kept up. Does the fact that an apartment was not papered or painted in 1942 with this extra \$51, justify a continuance of the same rent through 1943, 1944, 1945, 1946, and as now proposed, until June 30, 1947?

The Office of Price Administration argued before you that work done for tenants in 1939, 1940, and 1941, made renovations unnecessary in 1942. That might have been true for interior work, in the early stages of rent control. But add 4 more years. The exterior must be painted, the roof fixed, new gas ranges and refrigerators must be purchased, and the interior work must most certainly be done.

In this 1943 survey, the Office of Price Administration again generalized that there was a 5 to 10 percent vacancy prior to rent control. Here again, the well-managed houses, with low-rent schedules, that were 100-percent occupied prior to rent control are being further heavily penalized after taking it on the nose for 5 years.

With the rise in wages and fuel, needed repairs and replacements could not be made—even if materials and skilled mechanics had been available—because the cash previously could be spent for such a purpose, had to be used to meet rising labor costs and increased fuel expenses.

The payment of mortgage and interest, and amortization, could not be deferred, so maintenance was.

The full impact of the rising wages has never been reflected in any survey, if the houses selected were ones with the larger staffs. These staffs had to be cut down during the war, by War Manpower regulations, so that the aggregate pay roll did not show the full increase of normal operations.

The Office of Price Administration forced those of us whose rents were rolled back to April 1941, to use the 1938, 1939, and 1940 earnings to establish our base period. If our net income was not 5 percent less than the average of these years, we were not entitled to relief. Here again is an arbitrarily, unjustified formula, set up by the Office of Price Administration, that has denied relief to many persons, when Congress clearly indicated that increased expenses should be offset by increased rents.

But Mr. Bowles determined otherwise, and little relief has been received.

Last year, in presenting our case we used a series of charts showing the cost of living, rents, and wages. The Office of Price Administration attacked these charts with the surveys that I have previously explained to you.

This year, I am not going to lay myself open to an attack by using our charts, but we will use the Office of Price Administration's charts, namely chart No. 4698. That is chart No. 4, page 9, in the Baltimore survey of September 23, 1943.

That chart will be attached to the presentation when it is given to you.

This Baltimore survey was dated September 23, 1943, 16 days before the 1936, 39 cities, survey was released. You will note the chart shows 1943 estimated, but all figures were taken before rents were rolled back. Actually, the 1943 were higher than Office of Price Administration estimated, but its own chart shows janitorial pay roll increased 20 percent in the first 2 years; fuel about the same amount, above the freeze date.

Gentlemen, this survey that I have reproduced, which will be given to you, was very difficult to obtain. We know conditions in Baltimore, and I knew that the figures that Mr. Bowles quoted could not possibly be sustained, so I asked for the Baltimore survey.

Senator Radcliffe wrote to the Office of Price Administration State Director on May 1, 1945, Mr. McCormack, who replied:

I have taken this matter up with the district rent director who advises me that no recent rent survey has been conducted by this office. At the present time a survey is being made by organized labor at the suggestion of our national Office of Price Administration Labor Office, but this survey has not yet been completed.

Also I understand that a survey is being made throughout the Nation, in many large cities, Baltimore included. As soon as this is completed, and statistics are available in Baltimore City, will be very glad to furnish you this data.

On May 23, 1945, Mr. Bowles sent Senator Radcliffe the 1943 survey, and said another one was being made.

On February 6, 1946, a month ago, I wrote Mr. Bowles as follows:

In your letter to Senator Radcliffe, No. 80043, you forwarded a copy of the survey of Baltimore housing rentals. In that letter you stated that a survey was then in progress, and when it was published, you sent me a copy.

I would greatly appreciate a copy of the survey referred to as being in process on May 23, 1945.

No reply has been received to that letter, and Baltimore City is not one of the cities included in the 36 just reported to you. We believe we know the answer. When I was a boy, I worked in a dry goods store, and I used to be annoyed by people coming in and asking for samples. A little corner was cut off of several pieces of goods and after a great deal of consideration by the housewife, sufficient material

was bought to make a dress. The one sample that pleased the housewife sold the goods. And the other samples were thrown away.

The Office of Price Administration surveys are samples. And apparently, if they do not please Mr. Bowles, that city is discarded, and another picked out that will.

Even if that method were used, the 36 cities just reported to you actually did not prove that landlords were making more money under rent control than before. You were just asked to believe it.

The Office of Price Administration charts show expenses rising constantly since 1939. The hourly wages of uniformed help and porters in New York have risen from 45 cents per hour on April 1, 1939, to 65 cents per hour at the present time. This very committee, in its report No. 764, dated June 19, 1945, made various recommendations to Mr. Bowles on the question of surveys, and the hardship amendments, but as far as we have been able to determine, such recommendations have been completely ignored.

It is a significant fact that the results in New York City are excluded from both the 1943 and the 1946 surveys; because of the litigation there, there was probably a more accurate survey made in New York City than any other place in the Nation.

Approximately one-seventh of all the housing units of the United States are located in New York City. We doubt if there is any area that shows the owners' plight more clearly.

In New York City, without any allowance for deferred maintenance, the net operating return for 1944 is less than 2.3 percent over that of 1939, and after an allowance for deferred maintenance, the net operating return for 1944 is actually 5.5 percent less than in 1939.

The total operating expenses, in 697 apartment buildings containing 25,628 units, increased \$254,492 between 1939 and 1940. That excluded deferred maintenance of \$306,000 on the Office of Price Administration's admitted figures.

Now gentlemen, in spite of that fact, the Office of Price Administration, with a Government Printing Office mark, in 1945, has issued a pamphlet called *Has Rent Control Been Discriminatory?* And on page 10 of that pamphlet appears this statement:

Operating expenses have not increased.

There it is. That, and other statements in this book, designed to stir up tenants against owners, enable us to answer the question printed in large type on the cover, which you can probably see from where you sit. Yes, rent control has been discriminatory, and there has been gross misrepresentation of the facts by the Office of Price Administration.

I wish I had the time to point out to you, item by item, the unfair implications in the statement made by Mr. Bowles before this committee and in this book. I will only mention one more, and this is a statement made by Mr. Bowles on February 18, 1946:

During 1945, a total of 278,863 petitions for rental increases have been received. Of these, 19673 have been granted.

Now, out of this 278,000, according to the type, there were only 192 granted. I am pretty certain that decimal point is in the wrong place, but it must not be so far out. But if that is a comma, what that statement means, and the implication that we have got 70 percent of what we asked for, is a misrepresentation.

Owners throughout the country are disgusted with the methods used when a petition for relief is filed. Tenants are sent notices, and the petitions rejected, notwithstanding tenants' desire to pay fair rents.

It should be brought in mind that if you move furniture from one apartment to another, you file one petition to get the rent increased, and another to get it decreased. But that does not give you any more income.

Our association has local associations which think that landlords should be permitted to appeal directly to the Federal courts, just as the Office of Price Administration does. Justice supports this view. Others point out the unfairness of making rent-reduction orders retroactive and rental increase orders effective in the future. If we are not being discriminated against, such relief should be forthcoming.

We ask this committee for fair treatment, and fair rents. Our experience with the Office of Price Administration shows that it will do nothing for us, even when relief is recommended in your reports.

Relief must be spelled out, and we ask for the specific amendments.

One, that the Office of Price Administration recognize that an owner is entitled to a reasonable return on the fair value of his property. Until this is the basic principle of rent control, there will be no justice. This is as fundamental as the right of fair competition for labor.

Two, a reasonable over-all increase in ceilings of rents to meet increased operating expenses, and to provide funds for the maintenance that has been deferred during the war. This must be done to preserve our properties. We have heretofore pointed out to the Office of Price Administration accountants, and the Office of Price Administration accountants admitted that this is 2 percent of income. Five-year accruals would be 10 percent. Surely no one can deny the increases in operating expenses since the freeze date, and deny the justification for a 5 percent increase.

We therefore ask that the Administrator be directed to authorize an increase of 15 percent in present rental ceilings, in connection with a 1-year extension of the Price Control Act. That would bring rents to the average of the 1920-38 period. Is that not reasonable?

When everything else is far above, is that not reasonable?

Gentlemen, we have not asked you to abolish rent control. Our program is fair. Justice demands fair rents. Thank you.

Mr. MONRONEY. Thank you, Mr. Englar. Mr. Crawford, do you have a question?

Mr. CRAWFORD. Mr. Englar has made such an emphatic statement here, that I do not know whether it could help the situation by further expanding upon it. It seems to me that our people are finally coming to the conclusion that if they are to survive, they have got to come here and fight for their rights, and I congratulate you on having sufficient spunk to present your case.

Mr. ENGLAR. Gentlemen, I feel badly about one thing: I am sitting up here talking about the apartment industry. If you knew, if you saw the letters that come to our office daily from small property owners, all over the country, you would be absolutely amazed at the feeling of unfairness engendered by the Office of Price Administration.

Just today I received a letter—I did not get a chance to read it—but I do not want to take up your time to read it; it would be very informative to you if I did. It would only take 2 minutes, however. Do you want me to read it?

Mr. MONRONEY. Yes.

Mr. ENGLAR. This letter is from Josephine Rogers, of California:

Mr. GEORGE M. ENGLAR,
New York City.

In reply to your urgent appeal—

and I will explain that that was not an appeal for funds, it was an appeal for information—

I wish to state that I am a member of the Apartment House Association here in San Jose, but I cannot fill out the blank you sent. I rent my home, which was made available for rent as two apartments. My experience with the Office of Price Administration, in the 20 months which have elapsed since I have first rented my home, has been such that, knowing others are having similar experience, I marvel at the very mild, to speak reservedly, action of the local and national Apartment House Owners Association.

The Office of Price Administration propaganda, for which we are paying, is so pernicious and misleading, and is reaching all the public, that our association to accomplish anything ought to fight and fight hard.

I have written long letters to my two United States Senators and my Congressmen, but what is one letter? If I were not an old lady, 76 years old, and unable to speak extensively on account facial neuralgia, I would get out and work. But I would work assiduously to inform the people of the real menace that the Office of Price Administration is to our country. The same methods that the Office of Price Administration and Chester Bowles are using, are the same propaganda that got the German people under Hitler, and we are going the same way.

Savior of the country. Of course. The usual cry. The strongest appeal. I was in Germany when Hitler was elected in 1933, and I studied the situation. We are going the same way. I call the Office of Price Administration the gestapo of America. The Office of Price Administration stands in my estimation—and I believe you would agree that the facts substantiate my claim to its appropriateness—opponents of productive activity.

As productive activity is the only cure for inflation, freedom from this awful demoralizing regimentation is the only hope for America. Another year of Office of Price Administration will but entrench one still deeper in the Government. It should be eliminated entirely as un-American, un-democratic. The Office of Price Administration is so proud to point to reductions in rent. My place rented for \$250 a month before the war. The Office of Price Administration has put a ceiling rent of \$100 a month on it. Most of the time there have been three families in it, and I paying the water bill, which 1 month amounted to \$25.

I could go on in further detail to state what I have suffered in these 23 months under the Office of Price Administration, but it would not help matters any, and would take your time to read it and mine to write it. The demoralizing effect of the Office of Price Administration rulings, I have pointed out in my letters to my Senators. They probably did not read them.

I am a widow, and have an invalid daughter to support. I must sell my home, in order to do something to eke out my small university's pension.

I do not know what to do, and all due to the Office of Price Administration, for I could get a little rent for my home if it were not for them. The present tenants want me to pay their electric bills besides.

It took 300 hours of hard labor to get the grounds in order after 1 year of renting. It was a beautiful place at the time of renting.

You may use any part of this letter, if it will help you.

Gentlemen, that is the story of a university widow, on a pension, that has come to our desk. I could bring many others up here.

Mr. CRAWFORD. What movement do you know of, in the United States, looking toward a genuine, close-knit organization of property-for-rent owners, where their voice would receive some attention down here in Congress, for instance, as the Congress of Industrial Organizations receives attention now?

Mr. ENGLAR. That is a very difficult question to answer, because anybody who really organizes property owners is called a lobbyist, and all sorts of charges are hurled against him. I am president of

this national association. It has 50 cities, with local organizations. Its total expenditures last year were about \$22,000. I do not get any salary. I pay the office expenses. And I think what I am fighting for is fact. But I cannot go out and organize the property owners of the country, and there is no movement to do it.

Mr. CRAWFORD. Well, as a member of Congress, I think you are going to lose out, unless you do. Now, let me ask you this question: you can answer it if you want to, and if you do not want to, I am not going to press you for an answer. Assuming that 1 or 2 or 5 years from now we run into a rather serious economic depression in this country—say, through direct action of government—now, governments have reached a point these days where they precipitate deflationary movements and where they promote inflationary movements—assuming that, through the action of government, a deflationary movement is precipitated, or it comes about in some other way, what reason has your group to assume that at that time rents will be continued to be paid, or what reason have you to assume that your tenants, propagandized by the Office of Price Administration and other Government agencies, will tell you to go to grass, that they will not pay your rents?

Mr. ENGLAR. Well, you do not have to put 5 years on that. I have about 600 tenants, and at the present time they tell us to go to grass. They do pay the rent. Now, I suppose the reason for that is that that is about the only way in which we can control our own property. If they do not pay the rent, we can put them out.

Mr. CRAWFORD. Yes, but I am talking now about widespread deflationary conditions throughout the country, where, we will say, there are 15,000,000 unemployed. What reason have you, as property owners, to assume that tenants, generally, will pay rents or that tenants, generally, will repudiate the rent obligation, as a national emergency?

Mr. ENGLAR. We have no reason.

Mr. CRAWFORD. To assume that they will pay the rents?

Mr. ENGLAR. That is right.

Mr. CRAWFORD. I think you have every reason to assume that the rents will not be paid across the country. I do not mean to say that a hundred percent will not pay them, but I mean to say, as a general movement on the part of nonowners against owners, with tenants propagandized by Government agencies to dislike and to somewhat economically hate the man who saved and sacrificed, or the woman, or the widow, who saved and sacrificed. We are teaching our people to disrespect ownership and to depend upon the social state. And that is a part of this program that I have disrespect for and I have no faith. You talk about being criticized as a lobbyist. Is your skin too thin to stand that criticism? If it is, you should not be here. I am pictured as a friend of Tojo, as a promoter of Hitlerian tactics, as a hater of the common man, and when my skin gets so thin I cannot stand that, this is no place for me. When the people get tired of me, they can retire me. I am hired for 2 years at a time. I regret that it is for that long. I wish they could remove me on 30 days' notice, at their will. I would like to see the Constitution so amended that my people could remove me at any time. This is a day when you have to have thick skin, and do not be afraid of criticism.

Mr. ENGLAR. Well, I am not afraid of criticism, but unjust criticism, that has no basis in fact, does get under my skin a little bit.

Mr. CRAWFORD. But we have to take it.

Mr. ENGLAR. After I prepared these remarks, a newspaper clipping came to my attention, which said that there are 2,933 houses for rent in Baltimore; 2,933 apartments for rent in public or privately owned wartime projects. Now, notwithstanding that, there is a terrific pressure of people trying to get apartments, and this article is headed "Veterans Urge Housing Bureau," and this was what the veterans said:

What we want to know is why cannot the Office of Price Administration raise the ceiling on some of these apartments in town so the people who own them can put them on the market? We have got the money to pay for them, but the Office of Price Administration, when you ask them about that comes back with a lot of regulations.

Gentlemen, that appeared in the Baltimore Sun on February 8. The remarks were made by Albert Duke, commander of the Maryland Veterans of World War II.

Mr. MONRONEY. Do you have any further questions, Mr. Crawford?

Mr. CRAWFORD. The only other comment I would make is: If you have been thrifty and saved anything today, you had better screw up your courage to where you are willing to fight for your property rights. That is all.

Mr. MONRONEY. Miss Sumner.

Miss SUMNER. I have no questions.

Mr. MONRONEY. Mr. Riley.

Mr. RILEY. Mr. Englar, is it true that on new construction the Office of Price Administration will give you rental prices based on the cost of that construction?

Mr. ENGLAR. That is one of the announcements, but try and get it. Try to get the information. We have a builder in Baltimore, in the best apartment section, who is on the local apartment committee with me. I said, "Nothing would suit me better than for you to go ahead and build an apartment of 200 units on that." His plans are drawn, and every time he tries to get some information as to what rents he can get, he gets the run-around. Then, if he ever gets down to the point where it might be the rental he could get, why, he cannot build because he cannot get materials, and the fact that the Office of Price Administration says they will do that, simply has not produced apartments, and it will not produce apartments. Not a single one is going ahead in Baltimore at the present time.

Mr. RILEY. Thank you.

Mr. MONRONEY. Dr. Smith.

Mr. SMITH. Did you say that you are a public accountant?

Mr. ENGLAR. No, sir, I am not a public accountant.

Mr. SMITH. That is all.

Mr. MONRONEY. Mr. Talle.

Mr. TALLE. No questions.

Mr. MONRONEY. Thank you very much, Mr. Englar, for your testimony. We appreciate your coming here.

I believe Mr. Koppel had some witness we could hear from now.

Mr. KOPPEL. Mr. Douglas Elliman of New York, leading managing agent, who will present the point of view of the managing agent.

Mr. MONRONEY. We will be pleased to hear him.

**STATEMENT OF DOUGLAS ELLIMAN, NEW YORK CITY,
REAL ESTATE AGENT**

Mr. ELLIMAN. I think the field has been pretty well covered by the last two gentlemen. I have very little to add to it except some few facts in regard to the situation in New York City with which I am familiar.

Mr. Crawford was speaking of rent strikes. I went through something similar to that, Mr. Crawford, in the strike out in Long Island City in 1932. We had built there a model settlement for the white-collar class in 1924, but not for rental. We had sold them the property on very easy terms. Sunnyside, it was called. Perhaps you have heard of it. When the crash came, after 1929, they refused to pay taxes, they refused to pay interest, and simply went on strike and stayed in the houses and picketed the life-insurance companies who had loaned the money, and they got a lawyer to sue everybody connected with it for fraud and all sorts of things. Perhaps you will remember Mrs. Roosevelt was one of those sued and a few others of us who had a little milk of human kindness at that time, which has soured a little bit since.

But to get to the facts in New York City, the present rent freeze, you perhaps would not believe it, has resulted in apartments in the best part of Park Avenue, in the 50's and 60's, still held at the rent of \$25 per room per month, or less.

We have buildings which were worth at one time—at one time we managed about a hundred million dollars' worth of property. They are worth much less today. For instance, the depreciated rents that have been frozen have resulted in such sales as one that took place last week, of a building which sold, in 1930, for \$4 million. It was sold last week for \$1 million, and it did not pay on that.

Another building, I am familiar with, one of the big life-insurance companies took a loss on it last week of \$6,000, because of the rents, and I could go on indefinitely and point out to you the enormous amount of losses that have been suffered in New York because of the sales that are forced by these frozen rents.

Miss SUMNER. When that man sells his property, do the tenants have to leave?

Mr. ELLIMAN. No, they are well taken care of. They can stay right there at the low rents.

Miss SUMNER. That is by Office of Price Administration regulations?

Mr. ELLIMAN. Yes, they cannot be removed except under special conditions. If the buyer files plans for a legitimate improvement, they can be moved out. But not otherwise. So that the subsidy continues, we might say, for all these tenants, and many of them would be perfectly willing to pay more rent. Many of my tenants have come to me and offered to pay more rent.

There is only one other point, and that is in connection with our request for a 15 percent increase. Mr. Monroney, that would interest you. The New York State commercial law permits of increases, or did permit last year of increases up to 15 percent.

Mr. MONRONEY. Without any approval, you mean?

Mr. ELLIMAN. Yes, without approval, as a fair increase. So that was done—

Mr. MONRONEY. That was by agreement of the tenant and landlord?

Mr. ELLIMAN. No, that is an increase that any landlord can compel

the tenant to pay. Then, they can get even greater increases than that by mutual agreement, on a reappraisal of the space. Thank you.

Mr. MONRONEY. Could I ask you what the normal rent in the apartments you operate is, per month?

Mr. ELLIMAN. I do not know what the normal rent is any more, Mr. Monroney.

Mr. MONRONEY. The going rate.

Mr. ELLIMAN. Shall I tell you what they used to rent for?

Mr. MONRONEY. I would like to know just what they rent for today.

Mr. ELLIMAN. Well—

Mr. MONRONEY. A typical apartment under your management.

Mr. ELLIMAN. Well, there is a wild range. In the old buildings, built prior to 1931, \$300 is about a fair rent, \$300 to \$350. In the new buildings, where the apartments are more concentrated and with fewer number of rooms, they get as high as \$600.

Mr. MONRONEY. The apartments you operate range from \$300 to \$600 per year?

Mr. ELLIMAN. Per room, yes.

Mr. MONRONEY. But what is the apartment?

Mr. ELLIMAN. Well, they vary some in size. They vary from one room up to 20. We have all sizes.

Mr. MONRONEY. What would a two bedroom apartment with living room, dining room, what we would call a five-room layout, rent for?

Mr. ELLIMAN. You mean two bedrooms, living room, dining room, and kitchen?

Mr. MONRONEY. Yes.

Mr. ELLIMAN. It would depend on its location, and on its age. They would run all the way from a rent of \$2,000 up to \$3,000.

Mr. MONRONEY. Per year?

Mr. ELLIMAN. Per year, yes.

Mr. MONRONEY. I see.

Mr. CRAWFORD. Take the old buildings on Park Avenue or along Central Park, the old buildings.

Mr. ELLIMAN. Yes, sir. You mean Fifth Avenue? Because Park Avenue does not touch the park.

Mr. CRAWFORD. Yes, Fifth Avenue.

Mr. ELLIMAN. Yes, sir.

Mr. CRAWFORD. Roughly, on this size of an apartment, what would the rent be?

Mr. ELLIMAN. On the old apartments?

Mr. CRAWFORD. Yes.

Mr. ELLIMAN. Well, I am trying to think of some old building we have along there. Up in the 90's we rent as low as \$300 a room up there.

Mr. CRAWFORD. Per annum?

Mr. ELLIMAN. Per annum, yes. \$25 a month per room. Then, on the very fine buildings lower down, again, they might rent for five or six hundred dollars per room per annum.

Mr. CRAWFORD. Going over onto Park Avenue, in about the same geographical area, do they run any higher or lower?

Mr. ELLIMAN. They run a little bit lower.

Mr. CRAWFORD. A little lower?

Mr. ELLIMAN. Yes.

Mr. CRAWFORD. Now, if you step over along Riverside Drive, in the vicinity of Columbia University and Grant Park.

Mr. ELLIMAN. I am sorry, Mr. Crawford. I am not very familiar with that territory.

Mr. CRAWFORD. Those are mostly all old buildings?

Mr. ELLIMAN. Yes, and they have been very difficult to rent.

Mr. CRAWFORD. That rent over there would run lower?

Mr. ELLIMAN. Yes.

Mr. CRAWFORD. Where students, for instance, would pay \$35 to \$45 a month for one room?

Mr. ELLIMAN. In the neighborhood of One Hundred and Sixteenth Street, Columbia University elevator buildings, \$50 to \$60 a month per room.

Mr. CRAWFORD. That is pretty choice stuff, is it not?

Mr. ELLIMAN. Yes, very low prices.

Mr. CRAWFORD. Overlooking the Hudson River?

Mr. ELLIMAN. Yes.

Mr. CRAWFORD. Now, where the tenant pays those prices you have referred to, and rents one room or two rooms to a student in Columbia University or to one of the girls or boys working downtown, what do they generally get per room?

Mr. ELLIMAN. They are not supposed to rent them, but if they do, I should not be surprised that they get enough to pay for a four-room apartment out of one room.

Mr. CRAWFORD. They get pretty close to that. I happen to know some of the folks.

Mr. ELLIMAN. Yes.

Mr. CRAWFORD. Now, out through the country, in Michigan, we have similar situation, where under the Office of Price Administration, a house will rent, say, for \$25 to \$35 per month. And where the family will rent one room and collect enough from one tenant or two tenants in that room to practically pay the entire monthly rent, and where the owner carries the property at a financial loss and no adjustment made. That is the reason I contend that in many of these cases you are taking property away from people without due process of law, and I do not think it is right, and I do not think it encourages thrift, and I think individual justice should be given.

Mr. ELLIMAN. We have a big building at Fifty-eighth Street and Park Avenue that does not even pay expenses, without any mortgage.

Mr. MONRONEY. Do you have any questions, Dr. Smith?

Mr. SMITH. Just one question. Is there a tendency on the part of owners of rental property to sell at a cost below value because of low rent ceilings?

Mr. ELLIMAN. Well, the rent ceilings create the value, sir. They are sold on an investment basis. Much below the cost of reproduction. Away below.

Mr. SMITH. Much below the cost of reproduction?

Mr. ELLIMAN. Yes.

Mr. SMITH. That is being done?

Mr. ELLIMAN. Oh, yes.

Mr. SMITH. Because of the low rent ceilings?

Mr. ELLIMAN. Yes.

Mr. SMITH. It would not bring in enough income to justify holding the property; is that the idea?

Mr. ELLIMAN. Certainly.

Mr. SMITH. In other words, they have places where they can invest and receive larger returns that are possible from real estate?

Mr. ELLIMAN. Yes, sir.

Mr. MONRONEY. Are there any further questions? If not, thank you very much for your testimony, sir.

We have another witness who would like to be heard.

STATEMENT OF MRS. LINNIE W. BARRETT, DALLAS, TEX.

Mrs. BARRETT. I am sent here by the small property owners of Dallas, Tex.

I do not think that you have received the viewpoint of the small property owner. The owner of maybe a little home, who rents one or two rooms, or has a little duplex, or a small apartment, or a small house of some kind. Here I have pictures that show the difference in the rents as received by Government-controlled properties and private ownership.

Here is a little picture which shows a very small shaky house that rents for \$42.50. Here we have a picture of a colored rental unit, and that rents, a three-room apartment, occupied by Negroes, unfurnished, no hot water, two baths for four apartments.

Mr. MONRONEY. At what price was that rent, the last one, I do not believe you gave that?

Mrs. BARRETT. This is three rooms, a three-room apartment, occupied by Negroes, unfurnished, no hot water.

Mr. MONRONEY. What is the amount?

Mrs. BARRETT. \$23 unfurnished. No hot water, two baths for four families.

Mr. MONRONEY. Thank you. I wanted the record to show the price.

Mrs. BARRETT. This is another one: Negro apartment. I guess that is the same apartment.

Here is a house which a woman owns at 5417 Ross Avenue. She is a Southern Methodist University graduate and holds two degrees. She had some money and has been paying for this property. She objected to the acts of some of the girls who occupied the apartment and got into trouble with them, and she was eventually arrested and put in jail, and fingerprinted. She was in jail 2 weeks with women with disease, and head lice, I believe they call it.

Mr. SMITH. On what charge? By the Office of Price Administration?

Mrs. BARRETT. Through the Office of Price Administration. They complained—they put her out. When she went home in the evening, they put her out of her own apartment, these girls and their young men friends.

Mr. SMITH. Did she have a separate apartment in which she lived?

Mrs. BARRETT. I think they put her out of her house, out of her hallway.

Mr. SMITH. Did she have a separate part in the building that she occupied?

Mrs. BARRETT. I do not know just what her housing there was. But I know that she was prohibited from occupying or going into her premises for some time. There are a number of pictures here which I would be glad to show you, showing the character of the apartments.

Mr. SMITH. What happened to her eventually?

Mrs. BARRETT. When I left Dallas, she was out on bond.

Mr. TALLE. Does her Congressman know about that?

Mrs. BARRETT. Yes; Mr. Sumners wants to appear before this committee. He told me he was going to, and he telephoned over here this morning. I thought he would be here today.

Now, here is Mustang Village—

Mr. MONRONEY. Before we leave this case, in what court was she—

Mrs. BARRETT. In the United States district court.

Mr. MONRONEY. He is the one who committed her to jail?

Mrs. BARRETT. Yes. He did not start out that way, but he is doing it now.

Mr. MONRONEY. Did she violate an injunction?

Mrs. BARRETT. Yes; she probably violated some provision of the Office of Price Administration. Here is a view of Mustang Village, a Government-built project. There are four units in that, that rent for \$160, and you can see the character of the building, the floors, and so on.

Mr. MONRONEY. That is \$40 per unit?

Mrs. BARRETT. \$40 per unit, unfurnished.

Mr. MONRONEY. How many rooms?

Mrs. BARRETT. Five rooms.

Mr. MONRONEY. Five rooms?

Mrs. BARRETT. Yes; but they are just shacks, you see.

Mr. SMITH. Is the point you are making in connection with the photographs you are showing, that the Government houses are renting higher than the privately owned houses?

Mrs. BARRETT. That is true. And it is a fact, in Dallas, that Government-owned houses have had raises permitted in rents for the reason that the tenant was getting more salary or wages.

Here is a house at 2509 Ross, Government control, two-room apartment in the rear, \$27.50 unfurnished. It might be lower. That is a two-room apartment. The label is on each.

Here is a four-room apartment at 2106 Fairmount Street. That man spent quite a bit of money reconditioning this house. Here are inside views. They all have nice woodwork, and they are not furnished. They are for Negroes. This is to be compared with this house that I showed you at first.

Mr. SMITH. What does that rent for?

Mrs. BARRETT. These rent for \$22 or \$23.

Mr. SMITH. Those are privately owned?

Mrs. BARRETT. They are privately owned. And each has a kitchen and bath, and they are in first-class condition. They are at 2106 Fairmount Street.

Here is the registration blank that goes with those houses, showing what he asked for and what he was allowed.

Here is a house at 3305 Swiss Avenue, two rooms, unfurnished, \$40. Government controlled.

Mr. MONRONEY. By Government controlled, do you mean that it is built by the Government?

Mrs. BARRETT. No; they take over these old houses and convert them into so many apartments. It would be a large house and out of date, perhaps, and they rent these for so much from the owner, and then

they remodel them into small apartments and rerent them, and they may at any time be turned back to the owner; that is my understanding.

Mr. MONRONEY. Then, the owner gets the benefit of it?

Mrs. BARRETT. No; the owner is paid a certain amount.

Mr. MONRONEY. What I mean is what happens after the Government turns it back to the owner?

Mrs. BARRETT. Well, he gets benefits of the so-called improvements, but, to my mind, they are not much improved. I would not want them put into a house of mine.

Mr. MONRONEY. But they get them without cost after they are turned back?

Mrs. BARRETT. Yes. Now, here is an interesting case at 2509 Ross Avenue. It is Government controlled and remodeled. The owner gets \$50 and the Government has been getting \$22.50. This is a house in the rear of that place, rear of 2509 Ross Avenue. Government control, the Government gets \$20 a month from white people, Negroes used to pay \$1.25 a week.

Here is a house, Government-leased, 613 North Haskell, a three-room apartment, price \$37.50, by the Government, and they have reduced that to \$29.75. A five-room apartment was \$40. I think that has been reduced to \$30. An eight-room, \$30. No, these are all two-room apartments. Those are the numbers of the apartments. The two-room apartment: one, \$37.50, another \$40, another \$40, two more, \$37.50, and another, \$40. They have been reduced a few dollars.

Here is a house at 3305 Swiss Avenue, Dallas. This house, there is an Office of Price Administration stamp on the back of it, so these pictures are authentic. They have a two-room apartment, \$42.50; three-room, \$45; one two-room apartment, \$42.50; one two-room \$37.50; three-room, \$42.50, and one-room \$35.

Mr. SMITH. Those are Government-controlled?

Mrs. BARRETT. Yes. Here are some other houses: this little house here at 21 Alcalde Street, for instance; the owner gets \$15 per month from the Government; the Government gets \$122.50, unfurnished; one apartment, \$42.50, another \$37.50, another \$42.50; the house across the street brought \$17.50, a house of the same size. The owner could not raise the rent, so he sold it.

The house next door to this one at 21 Alcalde Street, four rooms, furnished, bills paid, \$30 a month, and three rooms, furnished, bills paid, \$7.75 a week.

Here is some property that is privately owned. I think the owner lives in that house. This is another house he owns. On that first house, he gets over \$600 a month; on this house he is getting \$80 a month. And in this little house in the rear, he rents two furnished rooms for \$60 a month.

Mr. SMITH. That is privately owned?

Mrs. BARRETT. Privately owned.

Mr. SMITH. In other words, you are trying to demonstrate to us that there is some favoritism shown, is that it?

Mrs. BARRETT. I do not know whether that is registered or not. I am merely giving you the prices. I asked the man for the address and he said: "Let the OPA find it."

Here is the Benhamin Hotel, 2227 Bryant Street, rooms by the week, \$12.50; by the day, for a couple, \$3, single, \$2.50. The ceiling prices were \$5 and \$6 a week. That has been reported, and nothing done about it.

Then, 3407 Colonial, Office of Price Administration ceiling, \$39, garage \$5 extra. They allowed me \$2.50 for the garage.

Here is a letter drawn up by the property owners at a mass meeting. Would you like me to read it?

Mr. SMITH. Yes.

Mrs. BARRETT (reading) :

Whereas the Congress of the United States, during the recent war between this Nation and Germany and Japan, enacted a law for the alleged purpose of controlling prices, and a bureau for the administration of this act, namely the Office of Price Administration, was authorized, and

Whereas this Office of Price Administration was clothed with all power and authority to construe this act, to make regulations, to set arbitrary prices for commodities and rents, and to judge and punish actual or alleged violations of their regulations; and

Whereas the administration of this act with regard to rents in this Dallas rental area has resulted in untold loss, hardship, and humiliation to the owners of residence rental property; and

Whereas, the administration of this act with regard to rents in this Dallas all commodities and wages throughout the Nation, and costs of repairs, upkeep, and taxes have increased by heavy percentages, to the end that the average owner is operating at a substantial loss, the result of the arbitrary setting of rental prices and rulings of the Office of Price Administration resulting in practical confiscation of private property for the benefit of all comers (regardless of their ability to pay a "living rental"), and a few of whom are returned veterans; and to the end that property owners are no longer free in their own homes to exercise the rights and privileges due them and guaranteed to them by the Constitution of the United States, and

Whereas, hostilities have actually ceased, the war is over, and there no longer exists a condition or excuse or right under the Constitution for further operation or extension of the powers granted to the Office of Price Administration under the wartime powers of Congress; and

Whereas, there exists a housing shortage in the Dallas rental area which works a hardship on the returned veterans; and

Whereas, actually there are thousands of homes which would be opened to returning veterans and their wives for temporary abodes, were it not that the owners of such property would be putting an OPA noose around his or her neck, for such temporary accommodations would have to be reported, arbitrary rent set, an inspection of the private domicile of the owner made by the gestapo force of the Office of Price Administration, and if an undesirable tenant had been accepted, such tenant could not be removed without the red tape and humiliating circumstances of an appeal to the Office of Price Administration, and

Whereas, the Office of Price Administration as administered in the Dallas rental area is wholly confiscatory, vicious and un-American and a violation of the rights and privileges and protection to individuals, guaranteed under the Constitution of the United States;

Now, therefore, be it resolved by these citizens in mass meeting assembled that :

We wholly condemn the manner in which this rental area has been and is administered, and we condemn the officials of this rental area for their arbitrary and merciless rulings as to rents and evictions and their arrogant attitude toward the victim owners of residence rental property, and we pray relief and urge that the Office of Price Administration be abolished;

I move the adoption of this resolution and that copies be sent to Senator Tom Conally, Senator W. Lee O'Daniel, and Congressman Hatton W. Sumners; and for good measure to Senator Harry Byrd, of Virginia, and Senator Robert Taft, of Ohio.

The foregoing resolution was presented by T. Morgan and was unanimously adopted at a mass meeting called by Mrs. William Bacon, representing the State Federation of Women's Clubs, January 29, 1946., Dallas, Tex.

(Signed) L. A. WILLIS, *Acting Chairman.*

This survey was made by the Texas Federation of Women's Clubs with a view to getting people to open their houses. I had a letter—Congressman Sumners has it now—from Mrs. William Bacon, in which she said there were about 2,000 rooms or units reported at that meeting for that purpose, which would be open were it not for the Office of Price Administration.

A week before I left Dallas a couple came to my house; they needed a room very urgently, and they had heard that I had a room. I said: "No, I could not rent you a room; I would have to go through the Office of Price Administration."

They said: "No; you could not."

I said: "Oh, yes; I would."

They were paying \$4.50 for a room in a tourist camp.

Mr. CRAWFORD. Per day?

Mrs. BARRETT. Per day. I made application to rent a room with a private bath in my home, and they allowed me \$20.

Mr. SMITH. \$20 a week?

Mrs. BARRETT. No; \$20 a month, and volunteered the information that if I allowed kitchen privileges, they would allow \$5 for one person and \$7.50 for two, the owner to pay all bills. This is one of the worst abuses of the Office of Price Administration.

Mr. CRAWFORD. Mr. Chairman, may I ask the lady a question?

Mr. MONRONEY. Mr. Crawford.

Mr. CRAWFORD. Let us make certain we understand you. What group of women was this?

Mrs. BARRETT. Texas Federation of Women's Clubs.

Mr. CRAWFORD. And they made this survey to find out how many spare rooms or living units were available in the private homes, provided the people who lived in those homes did not have to go through the regulations of the Office of Price Administration?

Mrs. BARRETT. That is right.

Mr. CRAWFORD. And you found that there were something like 2,000?

Mrs. BARRETT. I think she said 2,000.

Mr. CRAWFORD. Was that in the Dallas area?

Mrs. BARRETT. That was in the Dallas rental area, which comprises all of Dallas County. Those were just the ones reported at this mass meeting.

Mr. CRAWFORD. Is it the understanding of this group of ladies, first, that you must apply to the Office of Price Administration, and make known to them that this room, or this little apartment, is available?

Mrs. BARRETT. No; you rent the room or the apartment; you send in a registration blank, which is in triplicate.

Mr. CRAWFORD. After you have rented it?

Mrs. BARRETT. Yes; and you state the price for which you have rented it. And the Office of Price Administration sends that back to you, with the price, and they stamp it "subject to examination and review." At any future time, they can and do go in and reduce that rent.

This one, for instance, represents a rental unit of five rooms and bath, which was rented by its owner, on vacating, for \$65; the owner had the tenants sign a contract and letter to the effect that, on their honor, if the Office of Price Administration reduced the rent, they would vacate it; that there was no law to force them to stay; that rent was never reduced.

Another five-room apartment, belonging to the same owner, within five blocks of it, and a home just like this one, was ceilinged at \$32.50.

Mr. CRAWFORD. Let me ask you this: Suppose you rent this spare room of yours to a couple, and then you send in the notice to the Office of Price Administration, and they approve the rent you are charging that couple; then, suppose they come home some night, quite intoxicated, and raise a general commotion all night long, and the next day you should decide you wanted them to move out; what can you do about it?

Mrs. BARRETT. You can give them notice, and you can go to the Office of Price Administration; if the tenants want to stay, and can out-talk you and prove that things are really the way they say they are, they can probably stay.

Here is a case in point. The tenant went around practically unclothed in the summertime, with the curtains tied in knots and the shades up to the top; the owner asked for the apartment and he defied her. She went to an attorney, and he gave notice. He got out. But if they want to put up a fight, they can more often stay.

Mr. CRAWFORD. And you ladies do not like to go through that kind of performance in your private homes.

Mrs. BARRETT. No. And as to a small increase in rent of a few dollars, or a small percentage, the average owner just would not want to be bothered.

Now they talk about a 15 percent raise. Near that \$65 apartment, in the house next to that, in 1923, 1924, and 1925, and on until the depression really hit us, those apartments rented for \$145 and \$155—four rooms and bath; and those went down to \$60; they were ceilinged at \$60 unfurnished. Then the house changed hands; the owner fixed it up and sold it. The point there is that a 15-percent raise would not be adequate for that purpose.

Mr. MONRONEY. It would be more than adequate for some of these other examples you have given here today, would it not? Some of these exorbitant rents?

Mrs. BARRETT. They are not exorbitant. I do not think that \$65 for a five-room and bath home would be exorbitant. The Government owned the property, Mr. Monroney; these rents I have talked about are on Government-owned homes, except that one, which might be black market.

Mr. MONRONEY. Fifteen percent of a \$600 rental would be \$90.

Mrs. BARRETT. Do you think that is registered with the Office of Price Administration?

Mr. MONRONEY. I do not know.

Mrs. BARRETT. I doubt it.

Mr. MONRONEY. I think a man might be taking a chance if it was not; do you not think so?

Mrs. BARRETT. They do it. He might go to jail, too. But I think this gives you an idea of the abuses that owners are subjected to by the Office of Price Administration.

I went to Mr. Thomason, head of the Office of Price Administration for Dallas. He said: "Well, Mrs. Barrett, you ought to be glad you make expenses." Well, I do not make expenses on my residential rental properties. If I did not have a little business to make up for it, it would be just too bad.

Here is a piece of property that was improved after rent control, and it was rented at \$35 and was reduced to \$25, and then, some months later, back to \$30.

Speaking of this stamp of the Office of Price Administration on the registration blank, "subject to examination and review", there is a woman in my neighborhood, a widow who works, and she has a son who is married—she is a grandmother, she rented her four-room-and-bath apartment in December 1944, for \$50. Then man expressed himself as being entirely satisfied. At the end of 1 year he moved and she rented it to his secretary. She lived in it for a year, when, without any advice or advance notice, she got a notice from the Office of Price Administration reducing that rent to \$30, and because she had not sent in the registration blank within the required 30 days, she was ordered to refund \$20 a month for 2 years' elapsed time; she had to give a check for \$240 to one tenant, and a check for the same amount to the other. And the man who had been so overjoyed to get a place at first, said: "This is a nice Christmas present."

Mr. Monroney and gentlemen, these are not just fictions; they are facts.

You have all no doubt read the inscriptions on the Archives Building, on the right-hand side, as you face it from Pennsylvania Avenue; If we are going on with this, those inscriptions ought to be chiseled off. That building is dedicated to the people who conceived, and founded, and built these United States, and they had nothing like this in mind when they did so.

I could go on and cite you many more instances, and there are many more things I could say, which I have left unsaid because I am not a very good extemporaneous speaker. I had prepared a statement, but I did not think it was very good, when compared with the presentation these other gentlemen have made.

Mr. MONRONEY. If you would like to place it in the record, we will be glad to have you do so.

Mrs. BARRETT. I heartily endorse everything they have said. And further, as to comparative rents, the depression did not strike Texas until several years after it struck up here; so we had not really gotten out of it when these ceilings were forced upon us.

Mr. MONRONEY. If you have a written statement, we would be glad to have you put it in the record, Mrs. Barrett, in addition to the testimony you have given orally.

Mrs. BARRETT. I heard Mr. Bowles make his presentation, and I wrote this in reply.

Mr. MONRONEY. We are glad to have it.

Mrs. BARRETT. Thank you.

(The statement referred to above was not received for the record.)

Mrs. BARRETT. We do need relief, gentlemen. I do not know whether I agree wholeheartedly with the resolution, namely, that the Office of Price Administration be abolished immediately, but I think real corrections should be made; not permissive corrections, but mandatory corrections, for these Office of Price Administration administrators in the various rental areas. There is no reason why these rents cannot be adjusted. I do not think that the people are really greedy, and I do not think that the people who come here, before you, to present the woes of these small property owners, are greedy.

We will be taking care of people who cannot pay their rents. My mother and father did it before me, and I will be doing it. I did it under the last administration, and I will do it again. But we would like to make enough to tide us over during these times, instead of having to be foreclosed.

Mr. MONRONEY. I am sure that if everybody was as honest and considerate as I know you are, we would need no laws at all.

Mrs. BARRETT. I think you can credit the American people with that.

Mr. SMITH. Just before you go, I would like to, if I may, remark that your testimony has been as valuable as any that has been given before this committee. It is touching. And when you read, in this resolution, a reference to the Office of Price Administration as a gestapo, I think you were right. More and more people are calling it a gestapo. There is no question about that at all, and I think that if anyone has made a plea before this committee which ought to count, and cause us to stop and think, you have, Mrs. Barrett.

Mrs. BARRETT. Thank you.

Mr. MONRONEY. We appreciate your coming before the committee and giving us the benefit of your views, Mrs. Barrett. Thank you.

Mr. MILNOR. Mr. Chairman, may I register my views, very briefly, before the committee?

Mr. MONRONEY. Very well.

STATEMENT OF BENNETT MILNOR, PRESIDENT OF WOOD-HARMON CORP.

Mr. MILNOR. Mr. Chairman and gentlemen, we own about 1,800 apartments in New York City. I am definitely in favor of continuing rent control, but I am violently opposed to the methods employed by the bureau. In my opinion, Mr. Bowles does not know the meaning of the word "justice". I will not say any more.

Mr. MONRONEY. You may, if you care to do so.

Mr. MILNOR. No, sir. It is late, and we are all very tired. I am wondering if you might grant me a hearing tomorrow?

Mr. MONRONEY. I am sorry, Mr. Milnor, our time for tomorrow is all taken up by other witnesses.

The committee will now adjourn to reconvene at 10:30 tomorrow morning.

(Whereupon, at 6 p. m., the committee adjourned to reconvene at 10:30 on Tuesday, March 12, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL
AND STABILIZATION ACTS OF 1942, AS AMENDED

TUESDAY, MARCH 12, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., March 12, 1946

The committee reconvened at 10:30 a. m., the Honorable Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

We will hear today representatives of the Machinery and Allied Products Institute.

Mr. Kelly is the president and he may conduct the hearing and introduce the witnesses as he desires.

Mr. Kelly, you may proceed as you wish, and you may call any other witnesses you have in the order in which you wish.

Mr. KELLY.. Thank you, Mr. Chairman.

STATEMENT OF WILLIAM J. KELLY, PRESIDENT, KELLY STEEL WORKS; OSCAR E. KIESSLING, SECRETARY, MACHINERY INSTITUTE; GEORGE H. HOUSTON, GEORGE H. HOUSTON & CO., NEW YORK; R. E. LeBLOND, PRESIDENT, THE R. K. LeBLOND MACHINE TOOL CO., CINCINNATI; E. J. SCHWANHAUSSER, VICE PRESIDENT, WORTHINGTON PUMP & MACHINERY CORP., HARRISON, N. J.; GUY A. WAINWRIGHT, PRESIDENT, DIAMOND CHAIN CO., INC., INDIANAPOLIS

Mr. KELLY. Mr. Chairman, for the purpose of the record, may I say that I am William J. Kelly, president of the Kelly Steel Works, Inc., of Chicago, and that I am appearing here today in my capacity as president of the Machinery and Allied Products Institute.

I have with me, as associate witnesses, a few gentlemen to whom I should like to refer in just a moment.

May I say first that the Machinery and Allied Products Institute appreciates the opportunity to comment on H. R. 5270, which proposes extension of the Emergency Price Control and Stabilization Acts of 1942, as amended, to June 30, 1947.

As a federation of trade associations in the industrial equipment field, the institute has a special interest in the effect of the price-control program on manufacturers of capital goods. The producers' machinery and equipment these manufacturers make range from drills and cutting tools, through such larger items as machine tools and Diesel engines, to giant hydraulic presses, rolling mills, cranes, and locomotives.

Naturally, our interest concerns the problems of these manufacturers in conducting their operations under the various price regulations now in force. More importantly, however, it also concerns the effect of price control on the production of industrial machinery and equipment needed for the volume manufacture of consumer goods at the lowest possible cost.

Since the institute is interested primarily in the effects of price control upon the production of industrial equipment, it has made no attempt to seek answers to questions posed by controls over prices of consumer goods or cost of living items. Accordingly, the views and recommendations we shall present are limited to matters of special significance from the standpoint of manufacturers who produce the tools of industry.

Now, Mr. Chairman, so that we could present to your committee the most comprehensive comment on these matters in the shortest possible time and make available to you experts on the manufacture of these items, I have the privilege of being associated here with five other witnesses. I think, if you will permit, that we can make a more orderly presentation of our case if at this time you will invite Mr. Oscar Kiessling, the secretary of the Machinery and Allied Products Institute, to present our formal statement to you.

If Mr. Kiessling may be permitted to read without interruption the statement, then I should like to identify for you and the other members of the committee the witnesses associated with me, and perhaps ask them to make very brief extemporaneous remarks and then make them available to you and your committee members for such questions as you wish to ask of us.

The CHAIRMAN. You may proceed as you desire.

Mr. KELLY. Mr. Kiessling then will proceed with the statement, Mr. Chairman.

Mr. KIESSLING. Mr. Chairman and members of the committee.

I. THE ROLE OF MACHINERY IN THE BATTLE AGAINST INFLATION

Before taking up the particular problems of the industrial equipment industries under price control, we comment briefly on the role of modern efficient machinery in the battle against inflation because this has direct bearing on the significance of our subsequent observations.

The committee has heard previous witnesses testify on the processes of inflation and on the dire potentialities that reside in the large volume of liquid savings and in the pressure of high national income upon inadequate supplies of consumer goods and services. There is no need to touch further on this subject, but we note that all the experts, although differing widely as to methods of accomplishment, prescribe the same remedy—volume, low-cost production.

It is broadly assumed by these experts that the Nation's industrial plant is at once physically capable of smothering the economy with the low-cost goods now needed to supply the accumulated demands of consumers. Such an assumption is contrary to the facts.

One of the principal barriers to production of consumer goods is a deficiency of machinery needed for high-volume output. This deficiency is a result of two factors.

First, the peacetime industrial plant was badly undersupplied with modern efficient equipment at the beginning of the war as an aftermath of the depressed conditions of the thirties.

Secondly, except in a few segments of the economy which expanded to meet ballooned war demands for peacetime products, consumer goods producers in general have just completed 4 years of capital-equipment starvation as the war program permitted no serious diversion of materials and manpower for machinery used primarily in civilian production.

With equipment replacements generally unavailable in civilian goods manufacture after 1941, much outmoded and inefficient machinery was continued in use. It was possible to continue with limited capacity and outmoded machinery while many important items, such as washing machines, refrigerators, and vacuum cleaners, were virtually out of production and other civilian products were turned out at greatly reduced rates. However, new machinery is now required—to increase capacity, to meet deferred replacement needs, and to remove bottlenecks in present operations.

The demands of plants normally engaged in civilian-goods production are augmented by the conversion of war plants to the production of consumer goods. That the conversion process is time consuming and requires much new machinery and equipment is being vividly demonstrated at present at Willow Run where finished automobiles will leave the assembly line only after needed machinery is forthcoming and the production lay-out completed. Similarly, other plants fitted for war activities require either much new machinery or important supplemental equipment before they can contribute to peacetime production.

Thus, manufacturers of all types of civilian goods are currently in the market for the latest and most efficient production machinery. These requirements must be met if the industrial plant is to be physically capable of delivering the volume production needed to checkmate inflationary forces.

The attainment of volume production is not enough. Modern equipment is needed for another reason. Costs must be held in check if we are to avoid an upward spiral of prices, and industry looks to more efficient machinery as the most important means for offsetting the major rise in manufacturing costs which has taken place. Although all costs have gone up, the rise of 44 percent between 1940 and the end of 1945 in straight-time hourly earnings for all manufacturing—reported by the Bureau of Labor Statistics—is dominant—(Monthly Labor Review, January, 1946, page 117). Further increases in wage and material costs have occurred since the beginning of 1946 as a result of latest changes in the Government's wage-price policy. Moreover, the impact of increases still to come remains to be felt.

The net result of these developments is to place a premium on cost saving. Obviously, improved technical efficiency that will offset rising unit labor costs by reducing unit manpower requirements affords the major possibility whereby producers can hold down, or further reduce, prices of consumer goods and services to the buying public. Equally obvious, failure to neutralize the increased costs through more efficient equipment and technology would mean that a major rise in price levels of consumer goods was inevitable.

Aside from its short-term aspects, the attainment of greater technical efficiency has important long-range implications, particularly significant for wage earners. By increasing productivity per worker,

technologic progress operates to reduce unit costs and to make possible a low-price economy despite the long-term upward trend in wages. In fact, an increase in productivity furnishes the only sound basis on which a higher wage structure can be maintained so as to mean anything to workers. This is because the benefit of any wage rise is not measured by a given amount of money, but by the purchasing power of the total wage under existing price levels. If increased wages are simply translated into higher prices, the value of the higher wage is destroyed as far as the worker is concerned and he suffers further damage in the impaired purchasing power of his reserve savings. It is a delusion to seek higher wage levels unless costs and prices are held in check by a compensating increase in productivity, achieved with the aid of aggressive technologic progress. Such progress must be stimulated as a necessary foundation for a high-wage, low-cost, mass-production economy. Producers of industrial equipment can make a major contribution to such progress whenever they are permitted to do so.

II. THE INDUSTRIAL EQUIPMENT INDUSTRIES UNDER PRICE CONTROL IN PEACETIME

The current situation of the industrial equipment industries under price control, like Topsy, "just grew up" without the benefit of adequate forethought. During the war, price control over machinery was integrated with other important controls—such as those over materials, components, wages, and manpower—and conditions of wartime production were exceptional as to volume and nature of output. Under this combination of factors, production at 1941-42 ceiling prices was possible and price control had very little practical effect on manufacturers' operations.

With the collapse shortly after VJ-day of the broad structure which made operation possible under price regulations in wartime, the picture changed. As the impact of economic forces set in motion by the war began to register fully on peacetime business, price control evolved slowly but surely from the nuisance category to become a growing hazard to production and to proper functioning of industrial equipment manufacturers in the economy. By the end of 1945 the price situation for equipment producers was difficult and getting worse. Developments since January have further intensified the seriousness of the problem and the need for solving it.

Unless an adequate solution of the price-control problem is forthcoming, equipment manufacturers will be forced to adjust their activities in various ways. Such adjustments have already been made by individual companies to a limited extent, but they will be wide-sweeping under conditions now in prospect. Before considering how such consequences can be avoided, we review briefly the nature of the artificial pressures price control has been building up within the industrial-equipment industries.

From experiences reported by its member companies, the institute knows that a progressive paralysis of incentives for production has been taking place. Under the hold-the-line program, the prices of various types of machinery and equipment have been frozen at 1941-42 levels. That this freeze has been effective is proved by the reports of the United States Bureau of Labor Statistics which show no aggregate

rise in machinery prices since 1941. (See following mimeographed releases of U. S. Bureau of Labor Statistics: Machine Tool Prices, July-December and Year 1945; Prices of General and Auxiliary Machinery, July 1944-September 1944; and Prices of Construction Machinery, October-December and year 1945.)

While prices have been rigid, all elements of cost have surged upward to distort grotesquely the normal price-cost relationship and to reduce radically, or squeeze out, profit.

How intense has been the pressure of rising costs on profits from 1941 through 1945? Hourly earnings of wage earners in general machinery manufacture, according to Government figures, have advanced 43 percent in this short period. For important segments of the field, the rise was greater, as is shown by the 47-percent increase in hourly earnings in the machine tool industry. (The data on earnings in this paragraph are from mimeographed industry reports of the U. S. Bureau of Labor Statistics, which are obtainable on request.)

Although over-all figures are not available on material and component costs of machinery producers as a group, experience records of individual companies indicate that the increase in material costs since 1941 ranges typically from 10 to 20 percent and that the rise in costs of components and semifabricated items is in the nature of 20 to 30 percent. Since 1945, as mentioned previously, there have been further cost rises that will substantially increase these percentages.

These are magnitudes of the greatest importance. Taken in conjunction with the change to normal individual order business since VJ-day, which is substantially less profitable than the block-order repetitive production of the war period, they have progressively nibbled down profits in the equipment industries under the hold-the-line program. Indeed, for many companies production during the past few months has led either to break-even operations or to major operating losses.

With manufacturers already in a difficult position, the additional increases in costs of materials, components, and labor—resulting from the current wave of general wage increases sweeping the country—will make large areas of production unprofitable under existing equipment price ceilings. To protect themselves, producers will be forced to curtail output, abandon loss lines and items, shift to other than normal products, and eliminate developmental work on new types of cost-saving machinery.

Although there is great national need for modern cost-saving machinery, it is already clear that price control will increasingly discourage the production of industrial equipment. We know of numerous instances where companies have already reduced their activities and where new business cannot be accepted because prospective losses loom too large. This reaction will become widespread when equipment manufacturers generally feel the effects of sizable cost increases now on the way. Small wonder that the OPA Deputy Administrator for Price, in his appearance before the House Appropriations Committee on February 6, testified that lack of important machinery was the only remaining difficulty in attaining adequate production of certain important consumer items.

Production is also discouraged by certain characteristics of machinery manufacture which make operation under price control exceptionally precarious. Machinery and equipment are not counter

goods, but are normally sold on order before fabrication is undertaken and the production cycle usually extends from 3 to 18 months, or longer. Hence, orders taken on the basis of past prices and costs are a sure road to insolvency when, as in the months ahead, a sharp upward rise in costs is inevitable during the period of fabrication.

We ask the members of this committee to place themselves in the position of the heavy goods manufacturer who, today, is confronted with the decision of whether he should continue production of a machine at the 1941 frozen price, say \$10,000. Let us assume that this machine has over a thousand parts and components, of which one-half are furnished by subcontractors and suppliers who are now increasing wages and filing applications for price relief with the Office of Price Administration under the new wage-price policy. Do you believe that there is anyone in the universe with such consummate wisdom that he can foresee the results of the Office of Price Administration price action on these hundreds of requests? Moreover, who can forecast today what wage increases and higher material costs the producer will have to pay in the next 12 months on the work he does on the machine? Is not the only prudent answer to the manufacturer's problem that the cards are stacked against him and that he should not undertake production until he knows where he is going to come out?

Besides holding in leash the full power of the equipment industries for maximum production, price control will increasingly force other adjustments highly disadvantageous to the economy. We have knowledge, for example, of instances where price regulations have encouraged companies to drop production of certain lines and undertake the output of different machinery, or simply to exchange products with another manufacturer—all without regard to economic needs. Such adjustments distort both the composition of production and the normal competitive structure of the industrial equipment industries.

It is not surprising that what individual companies can produce without loss under price regulations should grow in importance as a determinate of production. A very substantial portion of machinery output comes from companies that are moderate or small in size. They do not have large financial reserves and their ability to withstand operating losses is narrowly limited. Hence, with rising costs increasing the number of machinery items whose production involves losses and with decreasing opportunity to balance such losses against profits on other items, the manufacturer's only option is to cease making the loss items. Thus many substantial, long-established, and efficient producers will find it necessary to stop entirely, or to reduce to a low rate, the fabrication of certain machinery lines.

The same factors that bedevil production also operate to distort the normal competitive pattern of the equipment industries. We are acquainted with instances where companies that have dropped loss or break-even lines have found it advantageous to inaugurate the manufacture of established lines of equipment different from what they have heretofore produced. The prices permitted by the Office of Price Administration on the lines thus adopted include a profit mark-up which, though low, is more satisfactory than the absence of profit on the previous production. We also know of other instances where manufacturers have simply exchanged products to their mutual advantage. Such adjustments are a result of regulations which

allow no price relief to include profit on loss or break-even lines or items. They have the net effect of contracting the efficient low-cost segments of production and expanding the high-cost areas. Thus by substituting other criteria than low-cost, efficient operation as a basis for production, price control progressively warps the normal competitive structure of machinery production and sets in motion long-term unstabilizing influences within the machinery industries.

There is also growing evidence that price control retards technologic progress and stifles the development and production of entirely new types of machinery that would further reduce manufacturing costs or produce better products. Since such developmental ventures are largely experimental and beset with many exceptional hazards, they can be undertaken only when there is a possibility of realizing the higher returns that are necessarily associated with the greater risks involved. Work of this type is so much of a gamble under price regulations that manufacturers cannot afford to undertake it.

Obtaining official approval of a price for an entirely new type of machine is not only a ponderous, time-consuming and difficult process, but the regulations are written so as to prohibit an adequate return on such production. According to Office of Price Administration rules, a new-type machine must be priced under what is known as the formula procedure. In simple terms, this means that a manufacturer must arrive at a price by using the labor rates, material costs, overhead charges and mark-up in effect on the appropriate 1941-42 freeze dates. Holding the profit on such work to the rate of mark-up on regular products obviously results in a reward insufficient to compensate for the higher risk in making the new-type equipment. Moreover, it is not enough to encourage speculative investment in facilities needed to put the new machine into production. This situation, of course, differs entirely from that mentioned previously where a manufacturer drops a loss line and shifts to a different established product and where the conventional profit mark-up represents a more attractive return than the abandoned production.

It is particularly unfortunate that technologic progress should be thwarted at this time when there are wide areas of industry where the opportunity for technical advance is both promising as well as urgent from a social standpoint. In the field of low-cost housing, for example, there can be no doubt that only through the application of new technical ingenuity and new machinery can the \$6,000 house for veterans become a reality. With no downward trend in costs of building materials and supplies in sight, any opportunity for substantial cost reduction lies in greatly increasing the productivity of construction labor which represents 30 to 50 percent of the cost of residential projects. As evidence of the willingness of labor and management to meet its public responsibilities in this connection, we call attention to the recent collective bargaining agreement between the International Brotherhood of Electrical Workers and contracting companies in New York City which provides for the use of entirely new cost-saving machinery. However, this equipment must be designed, developed and produced. On last report the union was earnestly seeking to interest various machinery producers in the project, whereas under normal conditions manufacturers would be seeking the opportunity. It is a tragedy of this time that price control or any

other influence should be permitted to discourage technologic improvements and to defeat the social progress that is within our grasp.

We dismiss as illusory the thought that price relief through Office of Price Administration action has been, or will be, administered to stimulate production effectively or to mitigate the baneful economic results of price control in the machinery industries. The Office of Price Administration dispenses price relief for these industries under blanket regulations that reflect the complete orientation of the agency's policy thinking to pricing problems in consumer goods manufacture. For example, underlying Supplementary Order 142—which is the regulation governing relief action for most machinery and equipment items—are the basic assumptions that (1) losses during the transition period are inevitable and should be absorbed by business because the period is abnormal, and (2) a large proportion of costs incurred in this period are "bulge costs" and must be eliminated in any price consideration. Applicable as these assumptions may be to the typical producer of consumer goods who is in process of change-over to his regular lines and has not yet attained high volume, they are unrealistic and discriminatory when applied to manufacturers of machinery and industrial equipment. These manufacturers have no conversion problems which justify the theory of "bulge costs" disallowance. Any price relief granted equipment producers on the basis of such principles is bound to be inadequate.

There are also insuperable administrative obstacles in the way of effective price relief for industrial equipment producers. With a flood of applications for relief pouring into The Office of Price Administration as a result of the new wage-price policy, it is now generally admitted that the only practical hope for constructive price relief lies in the approval of flat or percentage price increases on an industry basis. The committee will recall that on his appearance before it last Wednesday, Mr. James F. Brownlee, Deputy Director of the Office of Economic Stabilization, testified that price relief is practical under the new wage-price policy only where it can be dispensed on an industry basis.

But what, indeed is an industry in the producers' equipment field with its multiple product companies each turning out a widely different assortment of machinery and parts? That the Office of Price Administration, which prefers to administer relief on an industry basis, has been unable to do so for industrial equipment is admitted by the former OPA Administrator. "In the machinery field," said Mr. Bowles, "it has frequently been found impossible to clearly define an industry, and it is partially for this reason that price adjustments * * * have generally followed along the individual adjustment lines rather than the industry-wide basis" (Office of Price Administration Supplementary Order 142, issued December 11, 1945. P. 11).

What this means is that machinery and equipment producers differ so widely in their individual operations that, in general, OPA has found it impossible to deal with them on an industry basis which is the only practical pattern for price relief in the future. To be sure, we are told that "individual applications for relief will continue to be considered." However, such applications not only require a myriad of minuscule administrative operations and rituals which thoroughly

obfuscate and defeat the applicant; they will be far down in the list of responsibilities taken seriously by the pricing agency. There is no hope that the procedure of individual relief will solve the pricing problems of machinery producers.

We submit that continuation of industrial equipment under a pricing program designed primarily for control of consumer goods and rents is an economic perversion. It discourages the manufacture of vital machinery urgently needed in the battle against inflation, it distorts production and the pattern of normal competition, it arrests technologic progress, and it threatens economic disaster for a strategic segment of the economy. In addition, price control imposes an insuperable burden of administration on both government and machinery manufacturers. These are cogent reasons why price control over industrial equipment should be terminated. However, members of this committee will properly question what effect such action would have on the economy as a whole. Therefore, we now consider whether the removal of industrial equipment from price control involves any inflationary threat.

III. PRICE DECONTROL OF INDUSTRIAL EQUIPMENT IS NOT INFLATIONARY

Because cyclical fluctuations of business have an accentuated impact on the capital goods industries, the institute has long been especially interested in the problem of economic stabilization. We know from experience that continuous high-level business activity is the proper short- and long-term goal and that both inflation and deflation—while harmful for all industry—are disastrous for manufacturers of producers' equipment. It is for this reason that the institute, in its recommendations to the House committee considering the full employment legislation, strongly urged the creation of an agency capable of giving constructive direction in the solution of the economic stabilization problem (Statement to House Committee on Expenditures in the Executive Departments, October 23, 1945).

We would be the last to recommend any course of action that would initiate or add impetus to inflationary forces. There is nothing, however, which supports the view that removal of capital goods from price control would be inflationary. On the contrary, the evidence is positive that such decontrol would aid in holding living costs in check and that there would be no unwarranted increase in the price level of machinery and equipment.

With the prevention of a major rise in living cost the keystone of the stabilization program, it is important to understand fully why the cost of living is not materially affected by the price level of capital goods. We buy consumer goods for direct individual consumption, to keep body and soul together. The purchase is virtually unavoidable and no element of choice is involved except among kinds of goods that serve the same purpose. Thus a rise of 1 cent in the price of bread, milk, or a baby's nursing bottle is felt immediately in the households of millions of Americans. Such increases directly affect living costs and are inflationary.

The motivation for the purchase of capital goods and the influence of the price level for such goods on consumers are entirely different. In the first place capital goods are not purchased for direct consumption by individuals. They are bought entirely for industrial use to make volume and low-cost production possible. They are never purchased when, in the judgment of the potential buyer, they would in-

crease over-all production expense. The sole objective in their acquisition is lower-cost or better consumer goods.

The prices paid for capital goods have little significance in costing and pricing the consumer goods and services they produce. This is because expenditures for capital equipment enter production expense in the form of depreciation charges, and these charges constitute a very minor fraction of manufacturing costs—less than 2 percent of aggregate costs in all branches of manufacture, according to Treasury reports. Depreciation is also a relatively inflexible fraction of costs since it is dominantly determined by capital assets already acquired. New additions to capital account, either at high or low prices, would cause no material change. Clearly, the price level of producers' equipment has no material short-term influence on costs and prices of consumer goods. These costs and prices are determined by other factors in the production equation.

Although the price level of capital goods is a negligible factor in the cost of consumer goods, this should not be interpreted to imply that the use of capital equipment is unimportant from the standpoint of living costs. The reverse is the truth. Capital goods perform a most vital function in keeping living costs down by making possible the manufacture of consumer goods at the lowest possible cost. It is the operating savings accomplished by capital equipment in mass production, not the price of the equipment, which is really important in achieving low prices for consumer items. This explains why the availability of adequate machinery is so imperative in the battle against inflation.

Will the removal of industrial equipment from price control result in excessive prices to buyers and unconscionable profits for manufacturers? This question expresses a fear which is a delusion. It is true that the price level of industrial equipment must rise inevitably to reflect a proper proportion of the increases in costs previously noted, but there is nothing to justify the belief that an unbridled upward surge in prices will take place.

There is no possibility of excessive prices for capital goods because the pressures which normally operate to keep prices at reasonable levels have been reinforced by important influences generated by the war. Two war-created factors which are highly significant as brakes on prices in the industrial equipment market are the large wartime increase in the capacity of equipment producers and existence of large stocks of Government-owned equipment. They combine with strong normal pressures favoring low prices and with powerful limitations on opportunistic pricing to prevent an unwarranted rise in the price of machinery.

Expanded production capacity adequate to meet all needs and assures intensive competition.—The slogan "Tool America for War" which rang throughout the land at the beginning of the war was primarily a challenge to producers of industrial equipment. Time was of the essence in the challenge, and it was met successfully because manufacturers notably expanded their capacity for production.

How great this expansion has been is revealed by comparing production rates during the war with those in a prewar year such as 1939. Aggregate figures are not available for this purpose, but detailed records of the War Production Board indicate that production during

the war was many times the 1939 rate. For example, percentage increases in rates of output in 1943-44 over 1939 for specific items of equipment were as follows: machine tools, 556; internal combustion engines, including Diesels, 1,402; cutting tools and metal-working accessories, 601; pumping equipment and compressors, 599; industrial cars and trucks, 414; power transmission equipment, 377; and locomotives, 1,533 (Facts for Industry Series 50-3-5, published by War Production Board and U. S. Department of Commerce, November 15, 1945, p. 16). Such increases in output could be obtained only with substantial expansion of production facilities.

With production expanded during the war 4 to 15 times prewar needs, it is clear that manufacturers can meet all possible demands in the period ahead. It is also obvious that the expanded capacity assures intensive competition which will hold prices and profits within reasonable limits. These are the criteria for price decontrol action named by the Stabilization Director on the second day of his recent testimony before this committee. By these criteria, industrial equipment should be removed from price control without delay.

Competition augmented by Government-owned surplus equipment.—The effective competition otherwise assured throughout the industrial equipment field will be reinforced in certain important segments of machinery manufacture by additional competition from Government-owned surplus equipment. The real importance of the Government surpluses as a market factor is not simply that they cover an extensive aggregate array of machinery, but that they include exceptionally large quantities of specific types of equipment normally used in peacetime production. Commenting on the composition of the Government holdings in his recent report to the Congress, the Surplus Property Administrator advised that machine tools and metal-working machinery comprise the largest single block of the Government-owned equipment and that other important categories include general-purpose plant equipment and electrical machinery. Thus it is clear that the competitive influence of surpluses on the machinery market, while selective, will be important and acute in many areas.

The stock of Government-owned equipment is so widely distributed that an over-all inventory, begun over 2 years ago, (Disposal of Government-Owned Production Facilities, Machinery Institute Research Memorandum No. 4, January 1944, p. 5) is not yet available. However, it is known that at the end of the war the Government owned about 600,000 machine tools (American Machinist, October 11, 1945, p. 123). Partial tabulations of other equipment items, believed to represent about two-thirds of Government holdings, show 158,342 general-purpose machines, 16,830 special industry machines, and 189,650 other items of machinery and equipment (American Machinist, October 11, 1945, p. 125). Detailed break-downs for these categories are not available but the group designated "general purpose equipment" includes important quantities of such items as industrial engines, compressors, pumps, conveyors, cranes of all types, fans and blowers, dust-collection equipment, power-transmission equipment, industrial presses, and miscellaneous additional general-purpose machinery.

Such figures, although impressive in the aggregate, must be analyzed in connection with other facts to determine their full meaning. In the case of machine tools, for example, the probable surplus available for disposal after Government requirements are satisfied will be from 400,000 to 500,000 units, or something like 10 years' normal output. For other kinds of machinery and equipment the ratio of Government surplus to normal production varies in accord with the size of Government stocks.

Where the quantities of surplus machinery are important, the procedures employed in disposal have a significant impact on prices that can be charged on new production. Under the Clayton formula, which governs disposal prices for machine tools and certain other machinery and equipment, the disposal price of a 3-year old machine—which would normally have more than three-fourths of its useful life remaining—represents a 54.8 percent reduction from the original cost price. (The percentages of discount stated apply on sales to a buyer not in possession. The discounts are 5 percent less when sale is made to a contractor in possession.) The discounts are graduated in accord with age and a machine 1 year old is sold at a reduction of 35.6 percent from cost. Equipment not priced by formula is sold by negotiation in which the formula discounts are a dominant consideration. Disposal prices combined with Government financing of surplus equipment sales set standards which weigh heavily in the pricing of new production. It is true that a new machine will be more efficient and attractive than used Government equipment, but the fact that a surplus machine is available at bargain discount limits the extent to which prices can be increased on new machinery and still attract purchasers.

Normal pressures for fair capital-goods prices strong.—Even if there were no expanded production capacity and Government surpluses, strong normal pressures operate constantly to keep machinery and equipment prices reasonable. These derive from the strategic position of the buyer of machinery and equipment whose decision to purchase is optional and is determined largely on the basis of short-term cost savings.

None of the desperation psychology which characterizes customers for war-scarce consumer goods is applicable to buyers of capital equipment. Such purchasers are well-informed and deliberate. Calculations based on engineering and economic data determine their decisions. If they conclude prices of machinery are excessive, purchases are simply deferred and the market dries up.

Fair prices reduce sales resistance for another reason. In general, industry justifies replacement of capital equipment on the basis of a short pay-off formula (*The Short Pay-Off on Machinery Replacements*, Machinery Institute Research Memorandum No. 1, June 1943). Briefly, this means that a new machine must recover its price in the form of cost savings over a relatively brief period. Obviously, the lower the price of the machine, the more ready the demonstration of required cost savings in the short period. Equally obvious, high prices make more difficult the economic justification of purchases and reduce the volume of equipment that can be sold.

Limitations on opportunistic pricing important.—The suggestion that opportunistic pricing of industrial equipment for temporary

gain might become significant is amazing to anyone familiar with the pattern of producer-buyer relationships in the capital goods industries. Unlike the untold millions who are outlets for consumer goods, the number of potential buyers for capital equipment is comparatively small and their confidence is carefully cultivated. Close relationships exist, not infrequently dating back a half century or more, between equipment manufacturers and their customers. The purchase of large, expensive, complex, and frequently individually designed machinery requires a high degree of cooperation and mutual trust on the part of both buyer and seller. The influence of this condition as a market factor cannot be demonstrated statistically, but we submit it is a powerful deterrent to unwarranted and opportunistic price increases.

IV. CONCLUSION

A wise national stabilization program should be discerning and adjustable on the basis of economic necessity and advisability. At best price control is simply a tool designed to do a job and it should be modified or discarded wherever it fails to meet the test of proper performance. We submit that in the field of machinery and industrial equipment production it fails to meet this test. The observations leading to this conclusion are briefly summarized as follows:

1. Despite a deficiency of production equipment required for volume low-cost output of consumer goods, the production of machinery urgently needed in the battle against inflation is discouraged and thwarted.

2. Technologic progress in the development and production of new cost-saving machinery, important in offsetting rising labor rates, is stifled.

3. The composition of machinery production is distorted by the effect of price regulations on manufacturers' operations and does not properly reflect the real economic needs of industry.

4. The normal competitive structure of industrial equipment production is warped and long-term unstabilizing influences set in motion within these industries.

Fortunately, there is no need to continue price control over machinery and industrial equipment. It can be terminated entirely since such action would not be inflationary and would not result in unwarranted price increases for the following reasons:

1. Due to phenomenal expansion in productive capacity, industrial equipment producers are capable of meeting any possible peacetime demand under conditions that encourage production.

2. Intensive competition is assured among equipment manufacturers, who are normally highly competitive, as the wartime expanded capacity presses for outlets.

3. Important types of machinery must face additional acute competition from large stocks of Government surplus equipment which are available at generous discounts.

4. The strategic position of industrial equipment buyers and the economic justification required for purchase exert strong pressures against unwarranted price increases.

5. The prevailing pattern of producer-customer relationships makes opportunistic pricing unattractive.

The conditions of production and competition in the industrial equipment industries conform in every way with the criteria for price decontrol action advanced by responsible officials. Moreover, price control over machinery and industrial equipment is not only unneeded in peacetime, but defeats the major objectives of the stabilization program. No useful purpose will be served by legislation which extends beyond June 30, 1946, the authority of the pricing agency to exercise price control over this segment of the economy.

On the basis of the compelling circumstances we have presented, the institute recommends that the proposed legislation for extension of price control beyond June 30, 1946, specifically name industrial machinery and equipment as exempt from its provisions.

Mr. KELLY. Now, Mr. Chairman, if I may do so at this point, I should like to ask two of my associate witnesses to make very brief extemporaneous comments in order to clear up for the committee two questions that may be in your minds.

We said back in the early part of the statement, in effect, that the Office of Price Administration is designed to control adequately the consumer goods industries, the cost of living items, rents, and so on. We are not experts in those fields, but those regulations which may properly cover consumption goods lines cannot possibly cover machinery and industrial equipment producers because of the difference in the underlying characteristics of those two great segments of the economy.

Now, I think it would be helpful perhaps to all of you to hear for a moment from one of my associates, who will outline the difference in the underlying characteristics of those two great groups of businesses.

George H. Houston, of New York, is a businessman who has given perhaps more thought to abstract economic study than any other businessman, certainly in the capital goods industries. He can say a word here which I am sure will be helpful to all of us, so, Mr. Chairman, with your permission, I would like to ask Mr. Houston to speak for a moment.

The CHAIRMAN. Mr. Houston is recognized.

Mr. HOUSTON. Mr. Chairman and members of the committee, Mr. Kelly has asked me to amplify very briefly the concept of consumption goods and capital goods.

Consumption goods are those end products which are consumed or used in the processes of living. Many of them are ephemeral in character, destroyed with initial use, such as food, cigarettes. Many of them are durable, such as housing, house furnishings, automobiles. They are consumed only by extended use, accidents, and obsolescence.

Capital goods are those which are used in the processes of production and distribution of goods. They are all durable in character. They are consumed only by extended use, accident, and obsolescence.

Consumer goods are very highly standardized. The element of repetition in their production is very high.

Capital goods, by their very nature, are made to supply the facilities for production. They are created to solve the problems of production and distribution. Standardization in the field of capital goods is at the minimum, specialization at the optimum.

Consumer goods, by their very nature, are continuously necessitous. We must all have food, clothing, and shelter, and as many of the comforts of life as we can acquire.

New capital goods are in demand only for the following specific reasons:

- (1) To replace capital goods which are worn out or destroyed in use.
- (2) To increase volume of production.
- (3) To improve quality, because existing capital goods cannot make goods of the best quality.
- (4) To make new products for consumption which existing capital goods cannot make.

Now, the demand for capital goods arises entirely, we may say, from business. Practically no capital goods are acquired by the consumer for his own use. The demand is based primarily, in private enterprise, upon the ability to make a profit from the use of those goods. If their procurement will not provide a profit, they will not be purchased. Therefore, the capital goods producer is always subject to pressure from the buyer of his equipment to show that it will make a profit in its immediate use. That profit is almost invariably computed on a short-term basis. Therefore, the pressure upon the capital goods producer to show cause why new capital goods should be bought is continually at the maximum.

Thank you.

MR. KELLY. Mr. Chairman, one other point that I should like to have amplified has to do with two statements we have made about witnesses who have appeared before your committee prior to today. One of them is Mr. Brownlee, Deputy Director of the Office of Economic Stabilization, who said to your committee that price relief is practical under the new wage-price policy only where it can be dispensed on an industry basis.

Mr. Bowles also said this. "In the machinery field," Mr. Bowles said, "it has been frequently found impossible to clearly define an industry and it is partially for this reason that price adjustments have generally followed along the individual adjustment lines, rather than the industrywide basis."

Now, we have, on the one hand, Mr. Brownlee, of the Office of Stabilization, who says that it is impracticable to give relief on an individual basis, that it must be done on an industry basis; and we have Mr. Bowles saying that it cannot be done on an industry basis. And we are the industry about whom these gentlemen have been talking.

I think we can very easily illustrate to you what the problem is that Mr. Brownlee is talking about and that Mr. Bowles is talking about. We have many companies in the machinery and industrial equipment field that, in themselves, manufacture in many industries. One of my associate witnesses is Mr. E. J. Schwanhausser, vice president of the Worthington Pump & Manufacturing Co. His company is one of those corporations that manufactures in many industries, and therefore, has the problem that Mr. Brownlee and Mr. Bowles are here discussing, and rather contradicting themselves about.

With your permission, Mr. Chairman, I should like Mr. Schwanhausser to say a word on that point.

MR. SCHWANHAUSSER. Mr. Chairman, ladies, and gentlemen. I apologize for any reference to the particular company with which I

am identified inasmuch as officially I am not here to even discuss or advocate the merits or the demerits of our particular situation, but, rather, as Mr. Kelly has pointed out, to bring before you a typical case of what is going on in the machinery and industrial equipment industry to a very large degree.

Many companies like our own operate many factories in different geographical parts of the country, and are engaged in the manufacture of diversified and numerous lines of products. In our own case we operate seven factories at present, including our subsidiary companies, and we are engaged in the manufacture of industrial equipment of the character described here today, in perhaps as many as 20 different lines of activity. In each of those various lines of our production, we meet an entirely different field of competition, and again in our various factories we are confronted with union organizations of different kinds.

For example, three of our factories have units of the American Federation of Labor, and three of our factories have units of the United Steel Workers of America, and the remaining factory has a unit of the United Electrical and Radio Workers of America.

The factories where the employees are represented by the steel workers, are out on strike today. The others are not, and we have made agreements with them on various wage and other issues.

To settle our differences involves sitting across the table with those unions which are on strike, or that union which is on strike, confronted with the ramifications of the many industries in which we are engaged, and the fact that in each of those diversified lines we meet an entirely different field of competition.

As a specific example of that, one factory makes fluid meters, which is substantially a bronze product, and is out on strike today by reason of the fact that the employees are represented by a unit of the steel workers. I think it is a true statement that no other company in the manufacture of that type of equipment is out, or is out because of the fact that they have a steel workers' employee organization.

We have settled, as I have said, in our other factories, our differences as to wages, and our question now probably becomes one of settling with the employees still on strike. Obviously the steel workers organization is looking to the general pattern of 18½ cents. Imagine, if you will, our going along with that premise and meeting our competition in a field which is not broadly represented by that union. Again, the sales outlook for fluid meters is almost entirely through municipal purchasing, and I am sure I do not have to explain to you folks that municipal purchases are decided on the basis of the lowest reputable bidder.

Now, then, to face our problem of price control on an industry basis would involve our joining the 20 or more industries in which we are identified in submitting industry applications to the Office of Price Administration. I am sure you must realize, and do realize, the imponderable problem which that represents.

It is for that reason that we join in this activity, and are trying to persuade you folks that in the particular field we are discussing today, machinery and industrial products, that they be removed from

price control in order that we can take our whole situation, evaluate it, work it out with our people, and then look competitively to the different lines of activity in which we are engaged for an over-all solution that will permit satisfactory performance from both an operating and a financial point of view.

Thank you.

Mr. KELLY. Mr. Chairman, you and the members of your committee have been very kind in listening so patiently to our remarks. Mr. Wainwright and Mr. LeBlond, the other members of the panel, with the gentlemen from whom you have heard, will be very glad to assist me in answering any questions that you would like to put to us. If you will give me the question, I will try to pick out the gentleman in the panel to answer it for you.

The CHAIRMAN. Your members manufacture nothing but capital goods; is that true?

Mr. KELLY. That is correct, Mr. Chairman.

The CHAIRMAN. Almost all of your members were engaged in war work, I presume, were they not?

Mr. KELLY. I should say without exception.

The CHAIRMAN. To what extent did they have to convert to go into the manufacture of war materials?

Mr. KELLY. To go into the manufacture of war materials?

The CHAIRMAN. Yes.

Mr. KELLY. The conversion was an expansion in their cases. They were called upon—in Mr. LeBlond's industry for example, the machine-tool industry—he is not here to speak for that industry precisely, but I should like to use it in this example—the machine-tool industry was called upon to expand its production according to the official figures we have given you here, by some 600 percent. Actually, we think the expansion was somewhat greater, but we feel it would be better for your purposes if we used official Government figures rather than industry estimates.

Now, what is true of that industry is true of practically every other branch of the machinery and equipment industry we are talking about.

The CHAIRMAN. The Government assisted you in the expansion, of course? In the expansion that was necessary to meet the needs of the war effort?

Mr. KELLY. Well, I think that it is fair to say that many companies were assisted by the Government. I think it is also accurate to say that many companies did not take advantage of the offer of assistance by the Government.

The CHAIRMAN. I thought practically all of them took advantage of it. All that I know anything about did, I think.

Mr. KELLY. Well, let us see what we mean by "assistance," Mr. Chairman. Perhaps you are referring to the special amortization.

The CHAIRMAN. Yes.

Mr. KELLY. Which was offered under the tax law. There is some question as to whether that will net, in assistance. Special amortization has been used in these industries very widely. It may have caused many plants to expand beyond any ability they shall ever have

again in peacetime to fill their plants. We shall see. If that has happened, I do not think that it was assistance, but nevertheless it was precisely what each of those companies should have done, because they wanted to do a good war job, and I think the record shows that they did it.

The CHAIRMAN. To what extent will you have to reconvert in order to get into the production of machinery to make consumer goods?

Mr. KELLY. We have substantially no reconversion problem in these industries, and, therefore, when the Office of Price Administration says to us that we are going to have to accept certain losses because those losses are attached to reconversion of plant, they are talking about a nonexistent fact.

The CHAIRMAN. Well, the things that you made for the war effort, machines, tools, and so forth, what proportion of them can be used for the manufacture of consumer goods, would you say? In other words, the machines that were constructed for the manufacture of war goods, can they be generally used now to manufacture consumer goods?

Mr. KELLY. Well, generally, they can be, but that, of course, is a very general response. What can happen depends pretty much upon the condition of the individual plant.

Now, certainly, the plants which today are trying to get into large production of consumption items cannot use the equipment they had prior to the war if they are going to give to the country the lowest possible price in the merchandise that comes off those tools. If we are going to produce at the least cost, as we have stated in this paper, we must permit the country to take advantage of the technological progress we have made during the war, and that means the purchase, by consumption goods manufacturers, as well as by manufacturers within our own industries, of the newest tools.

However, those new tools cannot be sold at a substantial or unwarranted or unreasonable increase in price, because there are too many of the Government-owned tools that can do the job, though not as well, in competition with our production. So, on the one hand, we have to meet the greater increase in costs to handle, and, on the other hand, we must produce so efficiently that the price of our tools will be kept down, so that we will not drive our customers into the market to take a less efficient tool, a used tool, from the Government.

The CHAIRMAN. What is the demand at the present time for tools, as compared with the normal demand?

Mr. KELLY. What is the demand now?

The CHAIRMAN. Yes.

Mr. KELLY. Well, the demand now is very large, I should say, Mr. Chairman, in practically every field.

The CHAIRMAN. Every company has hundreds and hundreds of orders it cannot fill at the present time; is that not true?

Mr. KELLY. I do not believe that that is the case. I believe that the discussion of backlog can be very misleading unless we keep in mind the definition of backlog as it applies to our industry.

We are a long-cycle industry. As we said in our statement, we take an order for a tool which may take from 3 months to 18 months to produce. We are not in a mass production industry where once you get your dies set, the machines roll off, or the bread rolls off, or the shoes roll off the line.

The CHAIRMAN. What is the life of the ordinary machine tool? I suppose it varies, but how long will the ordinary machine tool last in the performing of its functions?

Mr. KELLY. Of course, that depends upon the tool and the company using it. We find that some tools are used in plants for a long, long time.

The CHAIRMAN. Well, what would you say is a long time?

Mr. KELLY. I think there are tools in use 15, 20, 25 years—some tools. Locomotives are running which have been in use, I suppose, for 30 years. However, they are certainly not the efficient locomotives that are now coming off the lines of the locomotive companies.

The CHAIRMAN. I would like to know how long they will remain efficient and up to date on an average. About how long you can use them, and how long a progressive manufacturer would retain a tool and get the best service out of it.

Mr. KELLY. Well, Mr. Chairman, supposing, as a matter of assistance, I call upon one who has bought many more tools than I have bought, to answer your question.

I will ask Mr. Houston to answer your question.

Mr. HOUSTON. Mr. Chairman, I would say that there is no practical limit to the life of many articles of capital goods from the point of view of physical use. The measure of their life is the period in which they are of value in use as determined by economy in the use of old equipment as compared with the use of new equipment. The demand for improved services arising out of the use of new equipment, which services are of a kind that the old equipment cannot give—as, for instance, new railroad cars as compared with old, or new street cars, such as you have here in Washington, as compared with the old—measures the life of capital goods. Generally speaking, and in the broadest possible terms, you can think of capital goods being turned over about once every 20 to 25 years. In many areas of our economy, the life of capital goods is being artificially extended entirely beyond the period of their real economic usefulness, because conditions are not favorable to their replacement. What we are advocating here today, we believe very deeply will contribute very substantially to the rapid replacement of capital equipment in this country, and therefore to the improvement of production and distribution.

The CHAIRMAN. Well, I was not thinking of streetcars, particularly. I was thinking of productive machinery, and how long that machinery would ordinarily remain efficient.

Mr. HOUSTON. The same rules will apply. I will show you lathes in this country which have been in existence for 50 years, but I will show you new lathes that will turn three to four time as much in volume, and of a quality that those old lathes cannot possibly touch. Therefore, the life of the old lathe will depend entirely upon its economic usefulness to the community. If it is to be set aside merely for the maintenance of a piece of equipment now and then, it will last indefinitely. If it is to be used in mass production, its life should be very short.

The CHAIRMAN. Do you think the ordinary manufacturer would write off about 5 percent a year for obsolescence and depreciation of a lathe?

Mr. HOUSTON. Well, now, if you are talking about the very narrow line of metal working equipment, I would say that the technological arts involved in the processing of metal, the machining of metal, cutting and grinding, are progressing so rapidly that very little equipment 20 years old is of any economic value to the country. I would think more nearly 15 years would be the case.

In other lines of industry—for instance, in the making of textiles—equipment used to be used for a very long time. In the last 25 years its life has been enormously shortened by technological developments.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. Mr. Kelly, during the war years, I presume some of your companies made a fair profit, and some did not make any profit; is that true?

Mr. KELLY. I did not quite get your question.

Mr. BROWN. I presume that during the war years some of your companies made a fair profit, and some did not make any profit; is that true?

Mr. KELLY. I think that, generally speaking, in the war years, all companies operated at a profit in these industries.

Mr. KELLY. You were satisfied, then, with the ceilings during the war years.

Mr. KELLY. The ceilings during the war years had no practical effect, for the reason that the orders, the volume of business, was so huge that the ceilings did not affect us at all.

Mr. BROWN. Due to volume?

Mr. KELLY. Due to volume.

Mr. BROWN. What are you asking now? Are you asking that ceilings be raised or that they be taken off entirely?

Mr. KELLY. We are asking that the ceilings be removed entirely. We are asking for decontrol.

Mr. BROWN. Do you have any competition with the Government in construction and building of machinery?

Mr. KELLY. Do we have any competition with the Government?

Mr. BROWN. Is the Government in competition with you or your companies?

Mr. KELLY. Oh, yes, indeed, I think the Government is in competition with many of our companies, since the Government has very large quantities of tools that the Surplus Property Administrator must dispose of, and we feel he should dispose of them as rapidly as possible.

Mr. BROWN. Many of those would be obsolete now, would they not?

Mr. KELLY. I think some of them are obsolete. Some of them are impossible of use because they represent special tools, but we have given you some figures here which we have taken from Government files. I think we have said here that in machine tools alone there are some 600,000 Government-owned tools still unsold, according to the latest records that we have been able to get.

Mr. BROWN. The question I am getting at is this: if you had no ceilings, and no competition, you would demand a higher price. If you had competition among yourselves, of course, that would be different, but if you do not have any competition, as a rule, you can get a very good price. Just come to that point for a moment.

Mr. KELLY. I do not believe that is the case, sir, in these industries. I do not believe there is anything in the history of the machinery and

equipment industry that indicates that prices can go out of hand, for the reason that we deal with business enterprises. We sell to them. We do not sell to the man on the street. We have nothing to sell to him. We sell to business enterprises. They are in a very strong position to negotiate an exceedingly fair price.

Mr. BROWN. If you do not have any competition, what is going to prevent you from hiking the price?

Mr. KELLY. We have competition among ourselves.

Mr. BROWN. Do you have competition among yourselves?

Mr. KELLY. We have very sharp competition among ourselves.

Mr. BROWN. That answers my question. Thank you.

I have no other questions.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Kelly, going to the question of obsolescence raised by our chairman, do you not have, in your industry, scores of instances where powerful and costly and heavy machines have been installed and have operated for a few months, or not to exceed a year or two years, and have been 100 percent dumped out by the purchaser and new machines installed by reason of technological improvements?

Mr. KELLY. That happens, yes, sir. I may give you an illustration in my own company.

Mr. CRAWFORD. That is what we are trying to get.

Mr. KELLY. In my own company —

Mr. CRAWFORD. You know your business. Tell us about it, so we will know something about it.

Mr. KELLY. About 6 or 7 years ago, I bought a new steel burning tool. At that time it was the finest thing on the market, and I thought that we were going to have it in our shop for a very long time. Technological development advanced so rapidly in that particular field that in order to compete, I found it necessary to throw that tool out in about 9 months, and buy another new tool. That happens.

Mr. CRAWFORD. Can you give us any direct information on what happened with the so-called Valley filter presses as against the Oliver filter presses when that technological improvement occurred and made the Valley filter presses all across the country absolutely worthless and had to be thrown out, and Oliver filters installed, to save the companies from bankruptcy. We can go through the company files and find scores of cases like that. I think that is the point Mr. Huston tried to make by reason of the economic death of a piece of equipment due to obsolescence. It is uneconomical to operate it unless the company wants to fail financially?

Mr. KELLY. That is right.

Mr. CRAWFORD. That is the point you are trying to make?

Mr. KELLY. Yes, sir. May I call to your attention, Mr. Crawford, that this morning, at Milton, Pa., a company is proposing liquidation to its stockholders for the reason that it has not, it says, remained competitive with the industry. Because it has not remained competitive with the industry, technologically—its prices are high—it cannot get relief from the Office of Price Administration, it does not have the money now to buy the equipment needed to make it competitive, and so it is proposing this morning, at a meeting of stockholders, to dissolve.

My own company has been buying from that concern, I suspect, for at least 40 years. We will be very sorry, as one of its old

customers, to see it go out of business. That is what happens, as you were indicating, when a company does not keep itself technologically competitive.

Mr. CRAWFORD. Looking over the last set of your statement, on your Advisory Committee, you have four gentlemen listed. I notice one of them is Ralph E. Flanders, president of Jones & Lamson Machine Co.

Mr. KELLY. Yes, sir.

Mr. CRAWFORD. Mr. Flanders was before our Committee the other day, and in his summary he pointed out four steps to be taken:

(1) Extend the areas of automatic self-assigned pricing with Office of Price Administration review.

Does your industry participate in that recommendation?

Mr. KELLY. No, sir; we do not agree with that recommendation. May I say a word here, Mr. Crawford, about Mr. Flanders' statement? I think it is only fair to say, on Mr. Flanders' behalf, that he was making a statement covering all items in the economy.

Mr. CRAWFORD. That is right.

Mr. KELLY. We are not. Mr. Flanders is an expert in all fields. We do not consider ourselves experts in all fields.

Mr. CRAWFORD. That is the reason I asked you this question, because I want to emphasize that what you are asking is for the removal of price controls from capital goods production.

Mr. KELLY. Exactly, and I do not know but what Mr. Flanders might agree with that.

Mr. CRAWFORD. He no doubt would. I think I am going to prove that he will agree with your position.

Mr. KELLY. I think you can.

Mr. CRAWFORD. Now, the second recommendation, base prices on actual costs, not forecasts.

And the third—now, listen to this—"Vigorously and positively seek out the areas in which ceilings may be suspended."

Mr. KELLY. I think there he was referring to us.

Mr. CRAWFORD. Does that not meet your proposition?

Mr. KELLY. Yes, sir; it does.

Mr. CRAWFORD. I think this is as clearcut a case as this committee will have before it, of a step that can be taken in conformity with the third recommendation of Mr. Flanders, and if you cannot eliminate price controls from the field of capital goods, as you have requested here, I would like to know an industry on which they could be eliminated. It seems to me that any man who has financed companies and brought mortar and steel and brick and electrical wiring and machines and machine tools together and made them operate in our economy, would have to agree with the statement you have presented, if he knows anything about the business.

Now, on the question of the age of the equipment in these plants owned by your associates. Did we take any steps during the war, under lend-lease, the net effect of which places modern equipment in the capital goods manufacturing plants of other countries, that we have in our own plants here in the United States?

Mr. KELLY. Well, I think unquestionably we improved the capital goods of certain other countries in the world through lend-lease.

Mr. CRAWFORD. Yes; but is it not a fact that in manning new plants—I am asking for information now—in Russia, for instance,

where the plant is new, they have practically, if not completely, 100 percent new equipment with which to compete in the peacetime production field?

Mr. KELLY. I suspect that may be true, Mr. Crawford.

Mr. CRAWFORD. You would not want to testify as whether or not it was a fact, to your knowledge, and when I say "you" I mean to include your associates here. Because if that is a fact, our people should know about it. During the war we put great producers of capital and consumers' goods in business by giving them plants, equipped with the finest machines and machine tools which American ingenuity could design. With that equipment now proceeding to compete with you people in your line of work, and with others producing consumers goods, if that is the fact, I think your industry should tell us about it. If they are not facts, that should be stated.

Mr. KELLY. I think there is no question but what those are the real facts, Mr. Crawford, and I think that it is extremely important that our own country understand the element in our own security that is guaranteed by a modern tool plant in America.

Mr. CRAWFORD. The chairman thinks we have to recess, and the very thing that I have been fearing is happening. That is, that the opposition witnesses have no chance to develop their case. If you gentlemen cannot come back this afternoon—

The CHAIRMAN. Can you come back this afternoon?

Mr. KELLY. Yes. At what time would you like to have us?

The CHAIRMAN. We would like to have you back at 2 o'clock. We have another witness who is set for this afternoon, but we will give you an hour and a half this afternoon, if you can come back.

Mr. KELLY. We will be here at 2 o'clock, sir.

The CHAIRMAN. We will give you an hour and a half this afternoon. Is that satisfactory?

Mr. CRAWFORD. That is all right.

Miss SUMNER. I would just like to ask you one question at this time. Is it not true that a man does not buy your kind of tools and equipment except when he sees a chance of reducing his costs and prices by so doing?

Mr. KELLY. That is correct.

Miss SUMNER. When they leave you out of production, they are actually working to raise prices?

Mr. KELLY. That is correct, except do not say that it is the only reason he does it. That is the first reason why he does it. There are several other reasons.

Miss SUMNER. He does not do it unless he sees a chance to decrease his costs?

Mr. KELLY. That is right.

Miss SUMNER. There is the crux. When they run you out of position, they are absolutely pushing the prices up and promoting inflation?

Mr. KELLY. That is exactly right.

The CHAIRMAN. The committee will adjourn until 2 o'clock.

(Whereupon, at 12 noon, the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

We will proceed hearing the witnesses of the Machinery and Allied Products Institute. We will then have to suspend because of previous assignment of time.

Mr. KELLY. Thank you, Mr. Chairman.

The CHAIRMAN. I want to say that during the recess I called up the Office of Price Administration and talked to some of the higher officials down there, and told them that you had been testifying and that I thought you had made a very good case. They said to me that they hoped to establish decontrols on capital goods, and that they intended progressively to do that, to get capital goods from under control as soon as it could be reasonably done.

Mr. KELLY. Mr. Chairman, that is very encouraging information for us to have. We have not been able to get that kind of information from the Office of Price Administration in our conferences with them.

The CHAIRMAN. They did not tell me in confidence, and they did not make any assertion about whether it was in confidence or not. They just told me they intended to do it. If they intend to do it, there ought not to be any secret about it, and I am glad to convey that information to you.

Mr. KELLY. Thank you, Mr. Chairman. You may be sure, sir, that we will give them such assistance as they will accept from us in expediting that particular action.

Mr. Chairman, may I go on?

The CHAIRMAN. You may go on.

Mr. KELLY. I think it would be helpful to the members of your committee to have a further discussion on the question as to the relative importance of the first cost of new capital goods versus the benefits of new capital goods in reducing costs, in improving quality, and in increasing volume of consumer goods. I know that your committee is greatly interested in those three matters concerning consumer goods, and I think that we might be able to throw some further light on that particular question, so, with your permission, I am going to ask Mr. Houston again to say a word on that point.

The CHAIRMAN. Mr. Houston.

Mr. HOUSTON. Mr. Chairman and members of the committee, as the committee is aware, the cost of capital goods enters into the cost of consumer goods only through some form of depreciation or amortization of the capital goods.

Mr. CRAWFORD. Mr. Houston, will you yield there?

Mr. HOUSTON. Yes, sir.

Mr. CRAWFORD. Let us see if you should not add something else to that. The cost of capital goods that I put into my plant may result in decreasing the direct costs of labor and materials in the product which I turn out by 10 or 25 or 50 percent?

Mr. HOUSTON. I am coming to that.

Mr. CRAWFORD. Due to the fact that I put the modern equipment in there. So I would not limit it to depreciation?

Mr. HOUSTON. I am coming to that. But I say the cost of capital goods adds to the cost of consumer goods only by some form of depreciation or amortization of the cost of capital goods. But the

use of the most modern, most effective capital goods, may decrease the cost of consumer goods, or improve the quality of consumer goods, or make possible the increase of volume of consumer goods, not by the small percentage of cost that is represented by the depreciation or amortization of the capital goods so put to use, but as the Congressman has just said, by many times that amount. It increases the cost on one side by the addition of depreciation or amortization of the articles of capital equipment used, and it decreases the cost by the effectiveness of the goods so used.

Not only that, if our supply of consumer goods is to improve, consumer industries must be constantly supplied with new capital goods that will do things that old capital goods will not do.

The industry for making of synthetic fibers could not make nylon. That involved a complete new outlay of equipment. And yet we all know the benefit to the consumer of nylon as compared with the older synthetic fibers, and the popularity of it. That is one very important additional point that must always be kept in mind in considering the value of adding capital goods to the facilities for the satisfying of consumer requirements.

Mr. CRAWFORD. Mr. Houston, let us develop that thought further, because I am afraid we may leave out what seems to me to be the most vital element. Are wages paid from profits or are wages paid from capital, or are wages paid from production?

Mr. HOUSTON. In the ultimate analysis, and over any sustained length of time, wages must be paid from the gross proceeds received from the sale of the products.

Mr. CRAWFORD. That does not answer my question. Suppose you and I are operating Corporation A, and we exactly break even; we have no profits whatsoever. What do we pay our wages out of?

Mr. HOUSTON. From the gross proceeds of the products. From the sale of the goods, the sales price of the goods.

Mr. CRAWFORD. Where do you get your product? You produce it, do you not?

Mr. HOUSTON. Why, certainly.

Mr. CRAWFORD. Well, then, wages are paid from production, are they not?

Mr. HOUSTON. You can put it that way, perfectly soundly.

Mr. CRAWFORD. Is there any other right way to put it?

Mr. HOUSTON. I will not debate that. That is satisfactory.

Mr. CRAWFORD. Well, now, listen here. People constantly tell me that wages are paid out of profits, and the new philosophy is to analyze your undistributed profits account and determine your wage. Now, do we pay wages out of production or do we pay wages out of profits?

Mr. HOUSTON. You do not pay wages out of profits.

Mr. CRAWFORD. You certainly do not. What do you pay it out of?

Mr. HOUSTON. You pay it out of what industry receives for what it makes.

Mr. CRAWFORD. But you have based your whole case on the proposition that capital goods, produced and put into production, increases the per capita production. The per capita production is what you increase, and when I increase my per capita production, you can increase my wage, can you not?

Mr. HOUSTON. Other things being equal, yes.

Mr. CRAWFORD. Well, now, tell me on what basis you can increase my wage, over a long period, except out of my production?

Mr. HOUSTON. We do not debate that.

Mr. CRAWFORD. Well, it is time we debated it. That is what I am trying to get you to do.

Mr. HOUSTON. Well, we are perfectly willing to accept that definition of the case.

Mr. CRAWFORD. I do not want you to accept it unless it is sound. I am trying to find out if my argument is sound.

Mr. HOUSTON. All right. You are using certain words. We say those words are perfectly acceptable to us, that wages must be paid from output.

Mr. CRAWFORD. Well, when you come to sell me an improved piece of machinery, do you not use, in your sales talk, the proposition that I can step up my per capita production in the plant?

Mr. HOUSTON. That is one of the propositions we may use. Another may be that you will make a better product, which will demand a higher price, because it will receive greater sales acceptance.

Mr. CRAWFORD. That may be true, too.

Mr. HOUSTON. Another is that you may be able to produce something that you cannot produce now at all.

Mr. CRAWFORD. That part is all right, too.

Mr. HOUSTON. Yes.

Mr. CRAWFORD. Now, in the mass production philosophy, must we not step up the per capita production or retire from the field?

Mr. HOUSTON. You must constantly step up the per capita production if you expect to continue to step up the per capita wage.

Mr. CRAWFORD. Why, certainly. That is the point I was trying to develop.

Mr. HOUSTON. Sure.

Mr. CRAWFORD. Of course. So then, in your capital goods machinery, you bring about a new product which could not be produced with the old machinery, you make a better product, but the important sociological fact is that you enable the worker to step up his production and, therefore, step up his wages, and, therefore, enjoy these things which the American people expect to demand?

Mr. HOUSTON. That is right.

Mr. KELLY. Mr. Congressman, I wonder if you would like to have an illustration on that point, an illustration of a homely item. A washtub, how washtubs are made better, and sold for lesser prices, because of technological improvement in capital goods? Now, Mr. Wainwright, who is one of my associates, will be glad to tell you of such a specific instance.

Mr. WAINWRIGHT. I think all of us are so familiar with instances where capital goods have reduced the selling price of consumer goods that we are apt to overlook another actual reduction which the consumer enjoys, by means of an increase in quality, through an increase in usefulness brought about by the greater use of capital goods. This homely illustration contains some rather typical elements.

The ordinary domestic laundry tub has always been made in different pieces, put together, either riveted or welded or soldered, and I am familiar with a new development of manufacture which will make a series of tubs in one operation, out of one piece of material, thereby

eliminating the seams that ordinarily catch dirt and start erosion, rust, or corrosion.

This manufacturer has produced an article which is of much longer life to the housewife, which costs no more money, which is considerably more valuable, but he must have a perfectly tremendous machine to make it. He must invest in a very large press, comparable with one that the automotive people use, a machine designed to produce this new device. That is simply one illustration, and I think in your homes you could find many of a similar character.

Mr. CRAWFORD. Let me ask you this question: Is it not a fact that the American payrolee receives the highest wage on earth, due to the fact that he has more machines and more machine tools with which to work than any other payrolee on earth?

Mr. WAINWRIGHT. I think that is almost the sole reason that he is able to earn so much more.

Mr. KELLY. I wonder if we can go on with that point in just another way, Mr. Congressman. We read a good deal these days about the socialization of the coal industry in England. Undoubtedly there are many reasons why the coal industry of England is being socialized, but I think many Englishmen, including labor leaders, are now ready to concede that perhaps the most important reason the coal industry of England is being socialized is because it is so far behind mechanically. It did not keep abreast of the times technologically, and England will work for years before she will approach the output of the American mines, which have had the advantage both of technological progress in the coal-mining and in the coal-mining-machinery industry in this country. That, I think, is an adjunct to the point you are making.

Mr. CRAWFORD. Yes. What I am trying to do is develop the last paragraph on page 4 of your testimony:

By increasing productivity per worker, technological progress operates to reduce unit costs and to make possible a low price economy despite the long-term upward trend in wages.

Mr. KELLY. At any time, Mr. Congressman, that anyone, including the distinguished gentlemen and women who sit in the Congress of the United States, want countless illustrations on that point, we shall be very glad to supply them. It runs through every industry.

Mr. CRAWFORD. Let me ask you gentlemen in this capital-goods industry this question, because, in my opinion, we stand at the crossroads in this country as to whether or not free enterprise is going to survive, not because of some political party, but because of the thinking of our people: On what grounds can we justify the private enterprise and competitive economy except on the basis that it merits the worker to increase his per-capita production and thereby increases his daily income, and maintains an ample supply of goods of high quality at a decreasing price? On what other grounds can you justify its existence?

Mr. KELLY. And it does that, while at the same time protecting him and the liberties that he now possesses.

Mr. CRAWFORD. Do you know of any other defense we could put up?

Mr. KELLY. I do not.

Mr. CRAWFORD. If you do, I wish you could tell me about it, because I am looking for it.

Mr. KELLY. None could be sounder.

Mr. CRAWFORD. I have to use it. People are constantly writing me that the Government planning and execution can do a better job. We have got to justify it if we are going to argue against it. So I was trying to develop that part of your testimony.

The Chairman, when he opened the meeting awhile ago, answered one of the main questions I had to ask you. I was going to ask you what progress you were making with the Office of Price Administration in this plea of yours for decontrol on this particular line of production. But I think the Chairman has answered that.

Miss SUMNER. I wish you would go into that, Mr. Crawford, because the Office of Price Administration has said here, "We are going to let people out from underneath controls as soon as the supply equals the demand." Here is an industry which has been going on for months and months, and the Office of Price Administration has done nothing. We have had promise on promise. I think somebody ought to ask questions about whether they are going to do it. Just a promise does not mean anything.

Mr. CRAWFORD. I think the Chairman has sufficiently stimulated the thinking processes of the industry before us so that they can proceed to do what is necessary down there in defense of their own livelihood.

Mr. KELLY. We shall be glad to comment further, however, if you wish to take the time to do so here, on the matter of administration. Mr. Kiessling, who is Secretary of the Institute, and who appeared before you this morning, is probably as well informed as any man in America.

The CHAIRMAN. We would like to hear what he has to say on that subject.

Mr. KELLY. Mr. Kiessling.

Mr. KIESSLING. Mr. Chairman, members of the committee. Virtually all of the facts that have been presented here to the committee today have previously been presented to the Office of Price Administration. We have been talking to them for almost a year, arguing our case, pointing out the cogent reasons why decontrol was not only advisable but how the lack of it was doing actual harm to the economy. I am sorry to report that up to the present we have had no considerable action of any kind whatever to report.

I believe at one time, a few very small items of equipment, such as X-ray machinery, of which the Army bought a great deal during the war, were decontrolled. But certainly as far as the Office of Price Administration is concerned, there has been no significant action up to the present time.

You might well raise the question, "What are the reasons that the Office of Price Administration gives you as to why they do not wish to decontrol?" Well, they are very weak reasons.

In the first place, there is a directive known as directive 68, which says that you cannot decontrol if, for example, there is any danger of increasing prices at all. At the same time that this directive exists on the books, the Office of Price Administration is busy meeting the inevitable in granting some price increases. Unless production is to stop entirely you have to increase prices somewhat to meet the increased labor costs.

A second argument given is that these industries might bid up wages and steal manpower from other industries. That, of course, is perfectly ridiculous, because these industries had a production of 600 to 1,500 or 2,000 percent above the war level. At the present time they are contracting their labor force. Our problem today is not a problem of obtaining manpower. Our problem today is providing jobs for the veterans who are coming back from the war and who want their old jobs back. We are beginning to have a serious problem of employment in these industries. We cannot proceed, Mr. Chairman, on the assumption that a promise, or an idea, that the Office of Price Administration is getting around to decontrol will solve the problems of our industry. It simply will not do. We have to have more assurances than that. I think this covers decontrol by administrative action to date.

Mr. CRAWFORD. Mr. Kelly, going to your testimony at the bottom of page 8 and the top of page 9, you asked this question:

Do you believe there is anyone in the universe with such consummate wisdom that he can foresee the results of the Office of Price Administration price action on these hundreds of requests?

Well, frankly, I do not think there is such a person. Now, let me ask you a question. Do you believe that God Almighty put into the thinking tank of any individual a sufficient knowledge to do a good job in planning the economy of a people which has grown up under institutions and ideas such as ours?

Mr. KELLY. I am very sure that that is one of the privileges that God has withheld from all of us.

Mr. CRAWFORD. Are you familiar with the testimony presented by Mr. Flanders, which I think perhaps resulted in the interrogation I made of him which somewhat involved Mr. Brownlee, and there followed two telegrams sent to the Chairman, which the Chairman had placed in the record, with respect to the position that those two gentlemen had on the point under discussion? Have you had a chance to look at that testimony?

Mr. KELLY. No, sir, I have not seen it.

Mr. CRAWFORD. I was going to ask you about it, but if you have not had a chance to read it, I will forego any questioning on that point.

Now, on page 14 of your statement, you further emphasize that continuation of industrial equipment under a pricing program designed primarily for control of consumer goods and rents—which I think is the primary concept which has been before us—if the Committee would like to have it, it could go in the record, but in the absence of additional thought on that before the committee, if you will expand that thought and get it into my hands, I will try to use it to your advantage.

Mr. KELLY. Thank you, sir, we will take advantage of your kind offer.

Mr. CRAWFORD. And it can go in the record, if the Committee so desires.

On page 20 of your testimony, you say:

Under the Clayton Formula, which governs disposal prices for machine tools and certain other machinery and equipment, the disposal price of a 3-year-old machine—which would normally have more than three-fourths of its useful life remaining—represents a 54.8 percent reduction from the original cost price.

Is your industry under competitive strain up to the present time, by reason of the distribution of surplus war goods; or is that problem still ahead of you primarily?

Mr. KELLY. I think, Mr. Congressman, the major part of the problem lies ahead of us primarily for the reason that although the Machinery Institute has done much to encourage a more rapid distribution and sale of the surplus material held by the Government, we have not been able to get it out on the market yet in large quantities.

Now, I want to emphasize here that this Institute has done everything in its power to encourage the Government to sell that machinery in competition with us. We want it sold. We want the good machines now owned by the Government to get into the production stream in America, so that of whatever value those tools can be in increasing the standard of living—and there is no question in our minds but what those tools can contribute much in that direction—that that value shall be applied at the earliest possible time. We want that competition. We invite it. And we have urged it.

Mr. CRAWFORD. I have one other question, and then I will be through. Somewhere in your testimony I heard you refer to the increased productive capacity. It is on page 17 and the top of page 18. In many instances the people engaged in your industry increased the capacity or size of their plants by 25 percent, 50 percent, or 100 percent, or perhaps more, did they not?

Mr. KELLY. They did, indeed.

Mr. CRAWFORD. And in many instances, complete new units were built through encouragement of the Government to other people to get into the production of these particular capital goods?

Mr. KELLY. That is correct.

Mr. CRAWFORD. Now, in many instances, members of your industry financed their expanded program without any assistance whatsoever?

Mr. KELLY. That is entirely correct.

Mr. CRAWFORD. From the Federal Government?

Mr. KELLY. Yes, sir.

Mr. CRAWFORD. Other than such benefits, questionable or otherwise, as might come to you through the amortization provision of the Revenue Law?

Mr. KELLY. Yes, and in some cases, Mr. Congressman, many plants in the machinery and equipment industry financed new additions, and new equipment, without resorting to special amortization under the Revenue Laws.

Miss SUMNER. Why did they do that?

Mr. KELLY. The reason they did that is because many of them feel, I think, that it would be better for them to retain the accounting systems that they are using within their plants, and the depreciation rates that had been applied to their businesses theretofore, than to change those in any particular. But that is a matter of business judgment.

Mr. CRAWFORD. Now, to the extent that a plant expanded its facilities, and that plant is not able to use those facilities in the postwar period, they have a dead carrying charge, as related to the idle part of the plant, hanging on the neck of the busy part of the plant, to what extent? Let me make it a little clearer. Suppose you put \$500,000 additional into the expanding plant, none of which you

operate, and you have a million dollars invested in the portion of the plant which you do operate. What percentage of the \$500,000 cost do you people estimate you would have to carry as an annual burden, as related to depreciation, taxes, watchmen's service, and insurance?

Mr. KELLY. I do not know that I can give you a satisfactory generalization on that, Mr. Congressman. It would be——

Mr. CRAWFORD. Let me ask it this way, then: What do you figure you add to your overhead charges when you add \$100,000 to your expanded plant? Is it 5 percent, 20 percent, or 15 percent? Or what is it?

Mr. KELLY. Let me ask Mr. Wainwright to answer that question.

Mr. CRAWFORD. Let me make it a little clearer, because I would like to get your answer on it. We are going to have to deal with it sooner or later. Suppose I am your plant superintendent, and I come in to you and say, "Mr. President, here are some plans we boys have been working on, and I would like you and the directors to approve \$100,000 additional. Here are the specifications, and here is my argument." What do you figure the overhead would go up as a result of that hundred-thousand-dollar figure?

Mr. WAINWRIGHT. You incur new property taxes; you incur interest on the investment; you incur some type of amortization or depreciation. Accounting practice would differ very widely. Perhaps 10 percent is a figure that I rather pulled out of the air, and that I would not want to defend too much.

Mr. CRAWFORD. You would not want to what?

Mr. WAINWRIGHT. I would not want to defend the 10 percent figure as a figure scientifically arrived at.

Mr. CRAWFORD. If you ever run into a case where it is less than 20 percent, will you write to me about it?

Mr. WAINWRIGHT. It could well be.

Mr. CRAWFORD. Yes, sir. If you take those items you have enumerated, add to them your watchmen's service, the insurance, the ones you cannot escape from, expenses that you have to carry. When you take a situation like that, you may find that a lot of people have been running into some very serious financial and cost difficulties as a result of expanding your plant, even with the aid of Federal money or with the amortization privilege.

That is all, Mr. Chairman.

The CHAIRMAN. Miss Sumner.

Miss SUMNER. There is one elementary question that was raised, Mr. Kelly, and I do not think you have made it clear. I think it is important that it should be made clear. You were asked about competition. As I understood it, you left the impression that a man buys a new piece of capital equipment only in response to competition. He wants to meet his competition so he buys a new piece of machinery that will make him produce more efficiently. But I would like to have you put in the record, as your statement, if it is true that it is not only competition that forces him to do that, but he does it often when there is no competition, in order to make more money. If he can produce the thing more cheaply, he can make it himself even though his rival is not producing that cheaply; is that not true?

Mr. KELLY. I should be glad to say for the record that anyone who buys new equipment has, as incentive No. 1, a desire to make the profit

that he sees that new equipment can return him. I think there can be no question about that.

Miss SUMNER. And then in addition—

Mr. KELLY. Oh, there are other reasons: He wants to make a better product, so as to fend off his competition, or he may want to stay up with his competition; he may want to experiment in new fields. There are a number of other reasons. But unless he can make a profit out of the tool, he is not going to buy it.

Miss SUMNER. So it is a fair statement, is it not, from you as an expert, to say that a man will only buy a piece of capital equipment, like a machine tool, in the hope of decreasing cost of production? Is that a fair statement?

Mr. KELLY. I think that is a very fair statement.

Miss SUMNER. I know that is elementary to you, but one runs into politicians and theorists in Washington who do not seem to have the business understanding that a 3-year-old child has who is raised out in Illinois where you and I live and where everybody is in business.

I would like to ask you this: with reference to your plants, have you any plants in your industry that are closed down due to Office of Price Administration ceilings, or refusal to increase price ceilings?

Mr. KELLY. Entire plants?

Miss SUMNER. Yes.

Mr. KELLY. Well, there is no entire plant, to my knowledge, that is closed because of Office of Price Administration regulations. Not an entire plant. We have, running throughout our industries, many, many cases where tools have been dropped from manufacture because they cannot be produced at a profit or even at a break-even point, under Office of Price Administration regulations.

Miss SUMNER, I would like to go on and give you an example of the incongruity of Office of Price Administration regulations.

If you do not mind, Mr. Chairman, we will give to you and to your committee now, a specific case of a well-established concern making a tool which has been on the market for many years, being driven out of business in that particular product, and being replaced in that business by a new concern which is permitted, by Office of Price Administration to charge for the same tool, or approximately the same tool, about \$3,000, although the old manufacturer needed an increase in his price from about \$900 to \$1,000 in order to stay in the business. If you do not mind, I will ask Mr. Kiessling to give you the details of that particular case. I think it may be of interest to you because it is rather indicative of a number of situations in the machinery and industrial equipment field.

The CHAIRMAN. Mr. Kiessling.

Mr. KIESSLING. Mr. Chairman, the case that Mr. Kelly refers to involves an inclinable press.

Miss SUMNER. An inclinable press?

Mr. KIESSLING. Yes. Now, a line of inclinable presses look like a string of elephants at Barnum and Bailey's Circus, each one of them being progressively smaller.

I want you to notice particularly in this catalog exhibit the catalog press A-3½, because that is the one on which I am going to concentrate, but I also wish to submit other information.

This line of presses is manufactured by the Niagara Machine & Tool Works. With all due deference to our friend in the press industry,

I think it is generally admitted that this is one of the oldest and most reliable and lowest cost operators in the country. The company was incorporated in 1879, and has been in business approximately 75 years.

Now, it happens that all of these presses are sold at 1941 frozen prices, and the company was losing money on every one of the items on the lower half of the line. I now submit the financial statements which the company presented to the Office of Price Administration and will give you some of the facts of the situation.

For example, the No. A-1 $\frac{1}{4}$ press, which is the smallest one, sold to the consumer at \$220. The company was losing \$60 on it.

And on the A-1 $\frac{1}{2}$, which sold to the user at \$265, the company was losing \$44.

On No. A-1 $\frac{3}{4}$, which the company sold at \$335, it was losing \$34, and so on up to the 3 $\frac{1}{2}$ size—these are losses on every item.

Now, the company came down and filed an application for relief with the Office of Price Administration, and the Office of Price Administration agreed to relief on the two smallest items.

It agreed to relief of \$22 on the A-1 $\frac{1}{4}$ press, and to \$12 on the A-1 $\frac{1}{2}$ press. What this meant was that the producer, instead of losing \$60, only lost \$40 on a press, and in the other case, instead of losing \$44, he only lost \$32 on each press.

I have here the shop orders. The manufacturer was faced with losses, and here are the orders to his officials, saying, "We are not in a position to quote on items covered by price list Nos. 338, 339, 357, and 354. The following price lists have been withdrawn, covering Series 100, geared 100, plain and old series shears," and so on, so that these presses have almost been completely withdrawn from the market. I understand that a few are being produced just to keep the company's name before the country.

Miss SUMNER. Excuse me. Did you say what kind of plants those presses were used in?

Mr. KIESSLING. I am only talking about the smaller presses, which are used in very large quantities in small business establishments, and in metalworking establishments. They have the widest distribution. They are a form of equipment that is very widely distributed.

Miss SUMNER. In metal working plants?

Mr. KIESSLING. That is right. This is one of the low cost producers, and the committee now has the financial table, and I ask you to look at the A-3 $\frac{1}{2}$ press. That A-3 $\frac{1}{2}$ press sells at \$990, and on that press the company is losing \$28, and it asked the Office of Price Administration for relief of 10 percent, but this was denied all across the board except for the first two items. So it was also denied relief on this \$990 press, which is quite a sizable press, as you will see from the catalog.

In the meantime, however, what happens? A brand new producer comes into the market, and he produces a press which he calls his No. 6 press, and by comparing the different items on each press, we find that that press is comparable to the Niagara press of the 3 $\frac{1}{2}$ number. In other words, we compared capacity, shaft, stroke, slide, frame, bed, die space, plane press, floor space, and motors.

This new producer can price by the formula procedure. He has no established costs. He comes in and he argues that his costs should be allowed.

Mr. CRAWFORD. Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. In other words, the Niagara people have a "map" maximum average price?

Mr. KIESSLING. That is correct, it is a frozen price.

Mr. CRAWFORD. Under which they have to operate if they sell goods?

Mr. KIESSLING. That is right.

Mr. CRAWFORD. The new man has no historical background?

Mr. KIESSLING. That is right.

Mr. CRAWFORD. So he can come in and produce the same item at a much higher price and pass the load onto the consuming public?

Mr. KIESSLING. That is correct. Here is the sales literature on the other press. We know a number have been sold. The price on the machine which is exactly comparable to the \$990 item produced by the Niagara Forge Company, and for which they only wanted 10 percent relief in order to continue in production, is now sold at \$3,150, produced by the Reliance Hydraulic Press Co.

Mr. CRAWFORD. So that the consumer is paying how much more on that?

Mr. KIESSLING. Well, that is 200 percent.

Mr. CRAWFORD. Put it in dollars. Put it in language so the man in the street can understand it.

Mr. KIESSLING. The consumer paid more than \$2,000 more for a press that he could have bought for \$990.

Mr. CRAWFORD. Even a man on the farm can understand that language.

Mr. KIESSLING. The effect of this, of course, has broad sociological and social implications, because this is the kind of technique which is doing exactly what we said this morning: it is drying up the low cost segments of machinery production, and expanding the high cost and high price segments of machinery production. That is what we meant this morning when we said that price control is distorting production and warping the competitive pattern within the machinery industry.

Mr. KELLY. The Congresswoman asked a question a few minutes ago that I answered only in part. I would like permission to call on Mr. Wainwright to complete the answer to her question.

Mr. WAINWRIGHT. The question was: Have any plants actually been closed by Office of Price Administration regulations? Mr. Kelly, very properly, said that none of them had been closed, thinking, of course, of the long-term, permanent closing. I think that is probably correct. But I would like to point out to you that there are hundreds of plants which are closed now by strikes, strikes which simply cannot be settled because management has no means of knowing how much of the additional wage increase that is asked for can be passed along in selling prices. In other words, industry is stymied by the failure of the Office of Price Administration to give any assurance that a wage increase can actually be passed along by any definite percentage.

Miss SUMNER. Does the Office of Price Administration consider price relief for your industry on the basis of current costs, or are a portion of these costs included?

Mr. WAINWRIGHT. They very definitely excluded certain costs.

Mr. KIESSLING. May I amplify that?

Miss SUMNER. Yes.

Mr. KIESSLING. The regulations for relief in our field are governed by SO 142. As to costs allowed under SO 142, if you are a normal oper-

ator, and that is the most favored condition, there exists at present a fiction in the minds of a great many people. They think that Executive Order 9697 and the order issued yesterday by the Stabilization Director assures that you are going to get your current costs, and that you will get profits if you are a hardship case.

But that is not true if you really study the regulations. What happens is that even if you are a hardship case, what you get is current material and current labor costs. Your factory overhead, however, is at the 1941 ratio, or the last peacetime year, and you get general administrative and selling expenses as a percent of net sales in 1941. In other words, a very large proportion of costs in this highly complicated industry, where we must employ engineers, pattern-makers, and so forth, is in overhead, so we do not get those costs. There is no formula today that gives this industry any relief that is based on current costs, and I think that point is broadly misunderstood.

Now, of course, this enters into the Office of Price Administration determination as to whether you are a hardship case. Let us take a manufacturer, for example, whose profits are equivalent to those in his base period, or a little below. When the Office of Price Administration gets done figuring the profits according to its method, which writes out a large proportion of the cost increases, you find that that manufacturer is not entitled to relief.

There is also one other point. The only time you are entitled to relief supposedly covering most costs and possible profit is when your over-all profit position is unfavorable. But where you produce a loss line—and, as Mr. Schwanhauser pointed out this morning, a manufacturer like that might have three lines that are loss items or break-even items—you can get no relief whatever which includes a profit. The only time any relief is given which includes a profit is when the manufacturer is virtually defunct.

Miss SUMNER. Let me ask you this, Mr. Kiessling: Is it your impression that the Office of Price Administration refuses price relief to the members of your industry in spite of the strong reasons you have given, only because they want to hold the line, regardless of how much damage it does to the whole economy?

Mr. KIESSLING. I think that that is the reason for refusing decontrol, not relief.

Miss SUMNER. I meant decontrol.

Mr. KIESSLING. In other words, whatever high political strategy may be involved in the present situation is a thing on which we are not informed. But we find out that the staff members of the Office of Price Administration are coming progressively into agreement with us. We have talked with everybody we know in the machinery and equipment branch of the Office of Price Administration; we have talked with Mr. Baker, the deputy administrator for price, and he is very considerate, but we feel we have never had from the Office of Price Administration a really intelligent statement as to why decontrol action was not taken in this industry, and I want to point out in connection with your present question and a previous question, that on the second day after his appearance before this committee, Mr. Bowles laid down standards for decontrol which would ostensibly apply in our case.

In our presentation this morning we stated that we complied with all of the standards for decontrol that had ever been announced by responsible public officials. Now, about 3 weeks have elapsed since

Mr. Bowles' statement, and we still have no decontrol action with reference to machinery and equipment.

Mr. BUFFETT. Will you yield?

Miss SUMNER. Yes.

Mr. BUFFETT. For what other purpose would a manufacturer buy machinery except to either improve his goods or lower cost? That is the purpose of all machinery; is it not?

Mr. KIESSLING. I think that has been confirmed.

Mr. BUFFETT. There is no other conceivable purpose for machinery except to lower the cost of goods and increase output?

Mr. KIESSLING. That is right.

Mr. BUFFETT. Then, it ought to be the last thing that you would clamp down on, if you wanted to get production, or keep costs down; is that not right?

Mr. KIESSLING. That is right,

Mr. BUFFETT. That is all.

Miss SUMNER. You commented on the need for stimulating economic technological progress and increasing production. Is it not true that the increase in productivity during the war was entirely in the production of war munitions and there has been very little increase in productivity in needed consumer goods?

Mr. KIESSLING. That is correct. During the war we made some advances in productivity, but you will remember that when we started building airplanes for combat the number of man-hours used to produce them was perfectly terrific. That was gradually stepped down, so that we produced those airplanes with a reasonable number of man-hours.

Now, as a result of that, of course, there has come into the Government statistics the increases in productivity in this war production, and that has made cockeyed all of our Government figures on productivity. We have not increased productivity in the production of consumer goods. In fact, during the war productivity has gone down in the consumer goods industries.

Miss SUMNER. Well, does it not seem absolutely downright crazy to you that at the very time when they raise wages, they clamp down on your industry, which would enable industry to cover those increased wage costs?

Mr. KIESSLING. I would answer in the affirmative and say that we hope the committee agrees with us.

Miss SUMNER. You did not state that in your statement, did you? I mean you did not make that statement previously?

Mr. KIESSLING. Not exactly. I am answering your question that I agree.

Miss SUMNER. I want to know whether I am quoting you, because I might get up on the floor and say it and they might say, "She is just making a political statement."

Mr. KIESSLING. We made that point in the early part of the statement where we comment on the wage level and we point out that this is not only a short-time situation, but it is a long-time situation, that an increase in the wage level is sterilized completely unless you increase productivity and the only way you can do that is by more effective technology and that entails the use of vast quantities of better, more efficient and far superior equipment.

Miss SUMNER. How about some of these machines that increase productivity, and decrease costs. You go into production of it. They just cannot be produced in a few months, can they, some of them? I mean how long does it take to produce a crane, for instance?

Mr. KIESSLING. I do not believe we have any crane manufacturers in our panel, but that happens to be one of the larger cycle items. Small cranes could probably be produced in as short a time as 6 months, but the big ones might require considerably longer.

Miss SUMNER. I know in our business we have been trying to get not the smallest cranes, but the other ones, for months and months and months. It seems to me it takes a long time. Are not some of these machine tools a matter of a year or so, to produce?

Mr. KIESSLING. Correct.

Miss SUMNER. In other words, when you say you have been coming down here for a year, trying to get your price relief that would enable you to go into the production of machine tools—

Mr. KIESSLING. No. We have been trying to get decontrol, and relief where necessary.

Miss SUMNER. Yes. I understand that. Well, when they delay decontrolling you for a year, preventing your production of some of these machines that take a year or so to produce, they are setting back our economy for a matter of 2 or 3 years, then, are they not?

Mr. KIESSLING. That is essentially correct. Your point, as I gather, is—

Miss SUMNER. In other words, They are delaying the cure of inflation 2 or 3 years; is that not right?

Mr. KIESSLING. What your point is is that what we are not doing today is going to affect the economy seriously next November and December and in January the following year. That is correct, because we are long-cycle producers and the full impact of the present curtailment of production is not felt today, but it will be felt increasingly as time goes along.

Miss SUMNER. They have repeatedly told us that in any industry where demand equals supply, and where the conditions are such as you have described, that then they were going to take off the controls, or decontrol the industry. It seems to me that your industry is a perfect example, showing that they have not done that, and you have been asking for decontrol for months; is that not true?

Mr. KIESSLING. Longer than that.

Miss SUMNER. How long have you been asking for it?

Mr. KIESSLING. Since last summer. That is why I made the point at the beginning that we appreciate the kindness of the chairman in calling up our friends at the Office of Price Administration, but we just do not believe that they are going to act without the help of Congress in this case.

Mr. PATMAN. I would like to ask a question.

The CHAIRMAN. I will reiterate what they said to me any time you desire me to do so.

Mr. KIESSLING. Thank you.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. I notice this item referred to here as A-3½, as comparable to the one that the new producer was putting out.

Mr. KIESSLING. Yes.

Mr. PATMAN. You have there selling expense in 1941 as \$45 per unit, whereas in 1945 the selling expense was \$55 per unit. And the others along the same way, with an increase in selling cost. Where there is such a seller's market, do you still have to maintain your selling organization and increase the cost as you do on other items?

Mr. KIESSLING. In the machinery field, you will recall, Congressman, with selling goes service.

Mr. PATMAN. Yes.

Mr. KIESSLING. In other words, it is impossible to maintain an agency in an area without also maintaining mechanics and others to go with it.

Mr. PATMAN. Yes; that is a fine explanation.

Mr. KIESSLING. And most of these sales agents have to maintain a sales organization either of their own or through an agent, so that there is also an increase in costs on all aspects of the production and distribution picture.

Mr. PATMAN. I can see that.

Mr. KIESSLING. However, that is a very modest increase in cost, as I think you will agree.

Mr. PATMAN. Yes; I understand it is. I can see where it would be necessary in your business, whereas probably it would not be necessary in all other lines of business.

Mr. KIESSLING. Even during the war it was necessary to maintain services in connection with material that we supplied for war-production purposes.

Mr. PATMAN. Well, really, that selling expense includes something else besides just selling expense. It includes service?

Mr. KIESSLING. Yes.

Mr. PATMAN. One other question. I notice you said on this item that cost you \$919 and which you sold for \$891, you lost \$28. Now, you say that the new manufacturer who was not held down by these rules and requirements and limitations, he sold it for about \$3,000.

Mr. KIESSLING. \$3,150.

Mr. PATMAN. Then, the point that comes to my mind is this: If you were to take all controls off, would your price go to \$3,150?

Mr. KIESSLING. No; I am quite sure that what would happen in that case would be that you would unleash the production of the low priced producer. You see the low priced producer, by virtue of his low price, is also held to low prices he can pay for supplies and components.

Mr. PATMAN. And when the law of supply and demand operates, that would pull the other fellow's price down?

Mr. KIESSLING. In other words, he would increase his price by the amount of relief he requested, but then he would be able to obtain the materials which he cannot obtain because his supplies, in turn, have dried up.

The CHAIRMAN. How much of your production is standard and how much made on order?

Mr. KIESSLING. It varies widely across the field, and we might have some of these other people who are actually engaged in manufacture answer that.

Mr. KELLY. I think we might ask Mr. LeBlond to answer that question for you.

The CHAIRMAN. There is a vote on the floor and we will have to be there to vote pretty soon. Mr. LeBlond.

Mr. LEBLOND. Mr. Chairman, members of the committee, we were discussing that this noon, and in this group of allied industries, certainly better than 50 percent of the output is built after the order is placed. It is special equipment. I would like to go back to a question that you asked this morning, Mr. Chairman, about the machine tool industry's present operating capacity. We are now operating at about 25 percent of our peak. I believe you asked that question this morning.

The CHAIRMAN. Yes.

Well, gentlemen, there is a vote on the floor of the House. We will have to conclude these hearings. Anything you desire to place in the record, you are perfectly welcome to do so. We are very glad to have had you present your case before the committee, and thank you for coming.

Mr. KELLY. Thank you for your consideration, Mr. Chairman, and we may take advantage of your suggestion to add to the record under those circumstances.

The CHAIRMAN. We will be back as soon as we get through with the roll call.

(Whereupon the committee recessed during the roll call.)

The CHAIRMAN. The committee will be in order.

Mr. Owen, you may proceed. I regret that circumstances over which I have no control have required the presence of many members of the committee on the floor. I hope they will be back shortly.

STATEMENT OF H. T. OWEN, ALEXANDRIA, LA.

Mr. OWEN. Mr. Chairman, I have prepared a brief outline which presents the substance of my views, and I would be glad if at any time when it is not entirely clear, you or any member of the committee would interrupt me and ask any question that you see fit to ask.

For the past 3 years I have operated a retail dairy with purebred Jersey cattle in Alexandria, La. I milk up to about 30 cows, and cultivate around 120 acres of land.

Before I started in this dairy, I taught finance at New York University for 6 years. I hold a Ph. D. degree, with most of my work in finance and economics, and because of the nature of my experience and training, I am familiar with the practical problems of dairying, and I believe that I also have some appreciation of the problems involved in price control and inflation as a whole.

For that reason, I am interested in presenting specific data on price-control regulations as they affect the dairy industry, and I am also interested in presenting testimony on the significance of that data to the general problem of price control and inflation.

Through personal experience and correspondence with other dairy men, I have built up a file that would make it possible for me to use up at least a day in citing case after case in the dairy industry, in which the Office of Price Administration has acted arbitrarily or in violation of specific requirements of law.

From this file I have picked two concrete examples that I would like to present today.

Section 3 of the Stabilization Act provides that—

Modifications shall be made in maximum prices established for any agricultural commodity where by reason of increased labor or other costs incurred since January 1, 1941, the maximum prices so established do not reflect such increased costs.

The act also provides that in—

fixing price maximums for agricultural commodities, adequate weighting shall be given to farm labor.

In dealing with milk prices, the Office of Price Administration has failed completely in its duty to comply with these provisions of the law. Based upon a careful analysis of conditions that are current in my own area, and an analysis which includes the use of generally accepted production cost formulas as well as cost analysis of the accounting records of several producing dairy men, I find that in my area the increased cost of production since January 1941 amounts to more than \$3 per hundred pounds of milk, or over 8 cents per quart on the retail level. I am prepared to go into detail on these things and the method of calculation, if the committee so desires me to do.

The only modification that has occurred since price control became effective in my community has been the payment of a subsidy of 35 to 70 cents per hundred pounds. Compare that subsidy of 35 to 70 cents per hundred pounds of milk with an increased cost on the wholesale level of approximately \$3, and on the retail level of about 8 cents per quart.

The CHAIRMAN. Does the producer get that subsidy?

Mr. OWEN. The producer does get that subsidy; yes.

The CHAIRMAN. He gets all of it?

Mr. OWEN. He gets all of that subsidy. The latest subsidy during the winter months was 70 cents.

It is officially admitted that this subsidy is intended to cover only increases since September 1942 in the cost of dairy feed, but the law requires that all increased costs of production since January 1941 shall be covered—not just feed since September 1942.

In spite of the extreme increase in production costs, and the legal obligation imposed on the Office of Price Administration to adjust prices in line with those costs, applications for adjustment in prices, based on production cost, have been turned down with a positive refusal even to consider production costs.

As a fair example, an answer to an application for a price increase transmitted by W. B. Smith, of Patterson, La., Mr. Francis A. Weber, of the Dallas office of the Office of Price Administration, wrote as follows—and I would like to file here the affidavit which contains that statement—

We are not authorized to make such price adjustments when the basis for such adjustment is a low established ceiling price in comparison with the cost of production.

That, in the face of the specific and clear requirement of law that increased cost of production since January 1941 shall be reflected in the price.

On January 31, 1941, I and two others filed a formal protest against the maximum price regulations applying to us, based partly on the contention that these requirements of law had not been observed by the Office of Price Administration.

Now, the law requires that action be taken on such a protest within a 30-day period. The only action taken in the subsequent 30-day period, in which the Office of Price Administration is required by law to act, was a denial in which Mr. Bowles refused to consider the merits of the protest. It was only after this arbitrary action, which was clearly in violation of legal requirements, was called to the attention of various Members of Congress, that we received any agreement by the Price Administrator to consider the merits of our protest.

He did back down then to the extent of agreeing to review the problem of increased production costs as applied to wholesale milk. However, with respect to milk prices on the retail level—which is the only level that has any significance with respect to my operations and the operations of thousands of other dairy men who are producing milk and selling it direct to the consumer—I can state with positive assurance that intensive investigation reveals nothing to indicate that the Office of Price Administration ever has, or ever intends to consider the increased production costs which the law specifically obligates them to reflect in the retail ceiling price.

In view of this sort of arbitrary and unlawful abuse of authority, it is not at all surprising to me that the dairy industry, generally, has lost faith completely in the integrity of the Office of Price Administration, and is demanding complete removal of all ceilings from milk and other dairy products.

In view of the arbitrary methods used by the Office of Price Administration in fixing prices at an unjustified low level as compared with production costs, it is not at all surprising to me that butter is short, milk production declining, and that a great many dairymen have come to the conclusion that the only argument the Office of Price Administration understands is a strike.

Attempts have been made in the past to enact legislation which would force the Office of Price Administration to carry out the intention of Congress, so far as this problem is concerned, but the Office of Price Administration has boldly circumvented the law in the past, and I am extremely doubtful that the dairymen will receive proper consideration until such time as the Office of Price Administration is completely divested of its authority over milk and dairy products.

Now, just a short comment on the general problem as illustrated by the milk problem. Even Mr. Bowles has publicly conceded that it is essential to clear the decks for full speed ahead in production. If this be true, then a radical change will have to take place in the official attitude toward price control. The only realistic approach to prices, consistent with the objective of high production, is what price will stimulate maximum production.

I fully appreciate the fact that unreasonably high prices are undesirable, and that such prices do not stimulate maximum production, because the goods produced cannot be sold in sufficient volume when the prices are unreasonably high.

On the other hand, unreasonably low prices stall down production because there is no incentive to produce. If you want to achieve maximum production, it is just as important that prices that are too low be permitted to rise as it is to hold down prices that are too high.

Appreciation of this principle would necessitate a radical change in the attitude of the Office of Price Administration. A change in atti-

tude is a very difficult thing to legislate, but unless such a change can be assured, I am convinced that the Office of Price Administration will serve as a very effective factor in the stifling of production.

The only sound alternative to the discontinuance of the Office of Price Administration that I can see would be stringent restrictions on the authority of the Office of Price Administration and provisions that will fully guarantee quick and effective adjustment of prices that are out of line with production costs.

That completes my statement, gentlemen. If there are any questions, I shall be glad to answer them.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Chairman, I would like to ask the gentleman a few questions.

I keep trying to figure out why the Office of Price Administration attitude, on the particular thought you developed, with respect to recognizing these costs. I keep reading the Price Control Acts as related to that particular problem.

Now, as you have gone through these particular acts of Congress, have you found any basic position in the stabilization underlying philosophy, and in the Price Control Act, with respect to rationing and price ceilings, and as directly related to holding the line, which conflicts with this last proposition we put into law and to which you have referred?

Mr. OWEN. No. Even the Presidential orders provide that the prices shall be fixed in accordance with the limitations in the law.

Mr. CRAWFORD. Well, what I am trying to do now is to find out what goes on in the minds of the Office of Price Administration Administrators. If you were the attorney down at the Office of Price Administration who tells them what to do from a legal point of view, and you read these acts to which I have referred, namely, the price control acts and the stabilization acts, and held that basic things the Office of Price Administration must necessarily do under the law is to hold the line, rather than push price ceilings up in line with this increased cost to which you refer, you might be pretty firmly founded in your views by these statutes. Now, I am not sufficiently informed in legal procedure, and in the knowledge of law, to reach a satisfactory conclusion as to what Congress has actually told the Office of Price Administration to do with respect to this point you were discussing. But I have an idea in my mind that the instructions in the law to the Office of Price Administration are highly contradictory, and sufficiently contradictory to give the general counsel of the Office of Price Administration an out in refusing to do this thing you asked him to do. Have you run into anything that justifies your opinion along that line?

Mr. OWEN. I have not had that question raised in my negotiations with them. The attitude of the Office of Price Administration is to just avoid meeting the issue.

Mr. CRAWFORD. Well, if they do not want to raise your price ceilings to cover the increased costs, and they have provisions in the prior acts of Congress to justify such a position being taken, perhaps they are on firm ground, and we may have to go back and amend some original language in addition to the changes you refer to. Do you get my point?

Mr. OWEN. Yes, it is entirely possible that some provision of law which is apparently in conflict with the requirements of the law that

I have cited here, that there is some provision which is apparently in conflict with those provisions that I have cited.

Mr. CRAWFORD. Let me enlighten you a little bit further, because apparently we are going to have to deal with it in some manner. If we lay down the proposition that the Office of Price Administration shall hold the line with respect to 1941 and 1942 prices, and a little later on, say, without repealing that provision, that the Office of Price Administration shall advance prices in accordance with the increased costs, that appears to me to be a conflict in law. If the branch of the Office of Price Administration which is in favor of holding the line is in the majority over those who are in favor of increasing prices to cover increased costs, you will probably have the line held, especially in certain cases, and very likely milk and milk products.

Mr. OWEN. May I answer that in this way: If it was not intended that the Office of Price Administration was to observe the limitations in dealing with agricultural prices that are in the law, why did they put it in?

Mr. CRAWFORD. Well, sometimes we do some very unusual things up here on the Hill, and that is a very proper question for you to raise, why does Congress do thus and so. But we very often legislate very quickly and very hurriedly, and without the membership having full knowledge of what the legislation is for. The intent of Congress, at the moment, is expressed, but when you get into these technical things, having to do with the whole economy of the country, we could very easily get our footsteps crossed, and I am afraid that is what we have done in connection with these laws, and I hope the committee, especially the legal end of the committee, will go into that every thoroughly with the attorneys for the Office of Price Administration before we turn out this next bill, to see if we have not got all our provisions squarely in line with what we intended.

Now, if we find that it is the intent of Congress to do this thing that you are asking for, I think we should go ahead and make whatever corrections are necessary to have that done. But if we find it is the intent of Congress to do the other thing, then, I think we should admit to you and those who are in a similar position that this last item to which you have referred is somewhat window dressing and does not mean anything. And then you can put up your fight as to whether or not you can be exempt from the law.

But let me ask you about this strike matter. Is there a growing sentiment among producers of foodstuffs to think that perhaps their only remedy is to follow the same course that organized payrollees are following?

Mr. OWEN. Very definitely, a strongly growing sentiment among milk producers that no relief will be granted in the case of milk until there are strikes.

Mr. CRAWFORD. Would you say that the industry, in your particular area, is in a financial position to carry themselves through a 15- to 30-day strike?

Mr. OWEN. Not in my particular area. But there are a number of milksheds in the United States that are in a position to carry through strikes indefinitely. Because of the fact that fluid milk, all up and down the Atlantic seaboard, and across the Gulf, and up the west coast also, is very short, ranging from 20 to 50 percent short

of demand, it is easily possible, in a number of areas, to divert milk, and without a great deal of loss to producers, and continue a strike for an indefinite period.

Mr. CRAWFORD. Which milkshed are you referring to?

Mr. OWEN. I am not making any predictions now, but I will use this as an illustration. It would be quite possible, if the producers in the Washington milkshed, decided that it was wise to strike, it would be quite possible for them to pull a strike and to continue it for a period of 6 or 8 months.

Mr. CRAWFORD. It probably would not have to be continued for more than 6 weeks, because a strike is a very effective power, we find. But if they can finance themselves for 6 months, of course, that it still something else. What milkshed do you supply?

Mr. OWEN. Alexandria, La.

Mr. CRAWFORD. Would you mind telling us what the average costs are per hundred pounds of fluid milk there?

Mr. OWEN. I gave some quotations. I made a study of costs using two methods. I took generally accepted cost formulas—about half a dozen of them—and applied those cost formulas to the items of cost current in my community—feed costs, labor costs, and so on.

I also took the records of eight of the producers in the Alexandria area who produce almost half of the milk consumed in Alexandria, and I made a cost analysis from their books of account. And on the basis of the application by formula and the analysis from the actual production records, I found that the production cost is in excess of \$5 per hundred pounds on a wholesale basis, and that is approximately 20 cents per quart, on a retail basis.

Mr. CRAWFORD. Have you ever had an increase allowed you by the Office of Price Administration in that milkshed?

Mr. OWEN. When the price ceilings were first put into effect in Alexandria, the price was reduced by the Office of Price Administration, and a committee of our dairymen went to the Dallas office to protest that reduction in price. Incidentally, the reduction was in violation of the requirements of law that I have been discussing here today, and the Office of Price Administration refused to do anything about it, so this committee said:

Well, we are going to continue to sell milk at the same price we have been selling it at and if you want to do something, go ahead.

So about a month or two later the ceiling was changed to conform with the price that had been established prior to the order.

Mr. CRAWFORD. And you have continued since then?

Mr. OWEN. Aside from that; that is, aside from backing down on the reduction in price, we have had no price increase.

Mr. CRAWFORD. Do you find the general disposition among the people in your area to disregard the Office of Price Administration?

Mr. OWEN. In Alexandria—

Mr. CRAWFORD. I mean in all lines of business. I am stepping out of the milk business now for a moment.

Mr. OWEN. I would say that there is a growing tendency to disregard Office of Price Administration regulations. It has affected us very materially because there are a great deal of feed stocks that cannot be bought at ceiling prices. You could say we should report it, but if we have got to have feed, we are just up against the proposi-

tion of either paying the current market prices, which are admittedly black market prices, or not feeding our cows.

Mr. BUFFETT. In other words, you are up against an absolute physical necessity for the cows, are you not?

Mr. OWEN. That is right.

Mr. BUFFETT. And if the feed is not available at legal prices, you have to go out and buy it at whatever prices you can buy it at?

Mr. OWEN. We have either got to do that or go out of business.

Mr. BUFFETT. That condition obtains not only in your area.

Mr. OWEN. If we started the policy of trying to report the black market operations, then, those who have feed to sell would not sell it to us, so that would put us out of business, too.

Mr. BUFFETT. In other words, physical necessity is more powerful than any bureaucratic edict.

Mr. OWEN. I will give you a concrete example. The ceiling price on corn is \$1.25 in Alexandria. The present market prices are around \$1.50 to \$1.75, depending on the quality.

Mr. CRAWFORD. Roughly, what is your population in the Alexandria milkshed?

Mr. OWEN. About 30,000 people.

Mr. CRAWFORD. And you have a sufficient amount of fluid milk to supply the market?

Mr. OWEN. We are short about 40 percent.

Mr. CRAWFORD. Where does that come from?

Mr. OWEN. That is reconstituted milk. It is shipped in and reconstituted, and, incidentally, the distributor who buys the milk powder or condensed milk for reconstituting purposes is permitted to pay approximately \$1 per hundred pounds more for the milk that he ships on than he is permitted to pay local producers, in spite of the fact that the milk that is shipped in is not of the same quality as the milk that is locally produced.

The CHAIRMAN. Has there, generally, been sufficient fluid milk to supply the demand?

Mr. OWEN. There was before the war. The milk production in my town, or in my milkshed, has declined considerably during the war in spite of the fact that the population of the town was considerably increased due to close proximity of several camps.

At the beginning of the war, there were approximately 65 dairies operating and selling milk in Alexandria; today there are 30.

The CHAIRMAN. What is the base period for the price on dairy products?

Mr. OWEN. The base period? As far as I know, there is no base period established in the same way that there is in manufactured products, but the law provides several standards, and uses January 1, 1941, plus increased cost, as one of the standards.

The CHAIRMAN. Why is it that there has always been a shortage? Here I know there has always been an ample supply of fluid milk, but there has always been a shortage of butter.

Mr. OWEN. Shortage of butter is, to put it bluntly, we are drinking up the butter. The milk that would ordinarily have gone into butter production is being shipped out to make up shortages in areas like my area, where the fluid milk production is short. Milk, I understand now, is being shipped from sections that would ordinarily be

producing a great deal of butter; milk is being shipped into places like New York, Washington, New Orleans, Memphis, and other towns up and down the eastern seaboard, and through the South. They are shipping to make up the shortages that have occurred in this area that is primarily a fluid milk producing area, the milk which would have gone into butter. It is being condensed or powdered and shipped into the fluid milk areas to make up the shortage.

Mr. BUFFETT. Could I ask a question, Mr. Chairman?

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. What is this reconstituted milk?

Mr. OWEN. Well, there are two methods of reconstituting. One is from a powder and the other is from a condensed milk. The proper amount of water is added to the condensed or the powdered and cream added to it and the result is reconstituted milk.

Mr. BUFFETT. Is that sold in bottles as milk?

Mr. OWEN. Yes.

Mr. BUFFETT. In other words, when I get a bottle of milk today I may be getting a milk that has been changed to powder out in Iowa and brought back here and changed into milk again; is that possible?

Mr. OWEN. You may be. In most markets they are required to label it reconstituted milk. Whether they always do or not, I do not know.

Mr. BUFFETT. Would they be mixing some of that reconstituted milk with their fresh milk, perhaps?

Mr. OWEN. Perhaps.

Mr. BUFFETT. I have been getting some complaints at home about the milk.

Mr. OWEN. It is entirely possible that that may be the reason. I could not cite a definite instance to prove it.

Mr. BUFFETT. What percentage of this reconstituted milk is coming into your area now, what percentage of the total?

Mr. OWEN. Approximately 40 percent of the total milk consumed in Alexandria is reconstituted milk.

Mr. BUFFETT. That is a new phenomenon in the milk industry, is it not, as far as the American people are concerned?

Mr. OWEN. Quite new; yes.

The CHAIRMAN. Can you not produce dairy products in your section cheaper than they can be produced in the North? Do you not have pasturage there nearly all year round?

Mr. OWEN. We have longer pastures, but we have some disadvantages that are not present in the North. I will give you some. We have some advantages, but we have some disadvantages which I believe more than offset the advantages we have as compared to the great dairy producing sections.

In my particular area, we have a very deficient soil as far as minerals are concerned, so it is necessary to do quite a bit of soil building to build a satisfactory pasture, with proper nutrients. We have a very heavy rainfall, which means that it is difficult to cure hay, and, as a result, is more expensive to produce hay and the hay that is produced is of a lower quality than that which is grown in the dairy sections in the North.

We are also outside of the Grain Belt, so that a very large part of our feed must be shipped in. Our grain feed must be shipped in. So that our feed cost for grain is higher than it would be in a section

that grows a great deal of grain. And those factors, in my opinion, more than offset the advantage that we gain by a somewhat longer grazing season.

The CHAIRMAN. But you have a very long pasturage season, do you not?

Mr. OWEN. Yes; we have a long pasture season. But that does not mean that it is not offset by other disadvantages.

The CHAIRMAN. I often thought that the South might go into some other agricultural product than raising cotton. It might be well if they had a diversified interest.

Mr. OWEN. I think it might be possible to develop the dairying industry in the South. I do not think those possibilities are very bright under the present Office of Price Administration controls as far as milk is concerned.

The CHAIRMAN. Is your herd a purebred herd?

Mr. OWEN. All purebreds.

Mr. BUFFETT. Of the dairy feeds that are being sold, in your area now, is there must more than 50 percent of them changing hands in unorthodox fashion?

Mr. OWEN. I could not make any very accurate estimate of the percentage that is changing hands in unorthodox fashion. I would say that in some feeds practically all of the feed that changes hands does so in an unorthodox fashion.

Mr. BUFFETT. Corn, for example?

Mr. OWEN. Corn; yes.

Mr. BUFFETT. How about protein feeds?

Mr. OWEN. Protein feeds are entirely unavailable, unless you can make some black-market connection. I understand that I could buy cottonseed meal, which has a ceiling of about \$2.53, for approximately \$3.85.

Mr. BUFFETT. It is about 50 percent above the legal price, for cottonseed meal?

Mr. OWEN. Yes.

Mr. BUFFETT. Soybean meal would be about the same?

Mr. OWEN. Soybean meal is not available, either, but I presume it would be about the same.

Mr. BUFFETT. You are getting some feeds, though, where you have some protein in the basic ingredients, where the manufacturers have been making some fairly good margin of profit; is that right?

Mr. OWEN. Well, there is somewhat of a legalized black market as far as manufactured feeds are concerned, because I know of one mill where feed comes out and passes through three or four different hands before it gets to the ultimate consumer, and they have a legally permitted mark-up in each case. As far as I know, I have been informed that those various hands that it passes through are really dummies. It is just a method of providing for the extra mark-up.

Mr. BUFFETT. And in normal times that kind of transaction does not exist at all, does it?

Mr. OWEN. That is true. The increase in the cost of feed is not at all properly measured by an index of feed cost increases. We are practically forced, at the present time, into using, as the only available feed, commercially mixed dairy feeds which have declined very substantially in quality. I would prefer to mix my own feed, but I

cannot do it, because they are not available except from black market sources.

Mr. BUFFETT. The feed you buy now, have perhaps half as much protein as you would normally require, and things of that nature; is that correct?

Mr. OWEN. Somewhat less in protein than I would like, according to the label. I do not know whether the label is accurate or not. I suspect that it is not accurate.

Mr. BUFFETT. No consumer is arguing about the label now, is he? He is taking what he can get?

Mr. OWEN. That is right.

The CHAIRMAN. Have you made a definite request for any specific increase in the price of your products?

Mr. OWEN. I made a request.

The CHAIRMAN. What was it?

Mr. OWEN. No; I did not make a definite request, because the regulations were, to my mind, so obviously out of line with the requirements of law that I thought that it was entirely a reasonable request to make that they be suspended. I did request that they be suspended, or that adjustments be made to put the prices in line with the requirements of law.

In other words, my request for relief was that either they suspend those regulations, or that they bring them into line with what the law requires.

The CHAIRMAN. You are opposed to the continuation of subsidies; is that true?

Mr. OWEN. I would prefer to receive my price in the market rather than through a subsidy.

The CHAIRMAN. Do you think there ought to be any control on the price of dairy products?

Mr. OWEN. I believe that the production of dairy products will be stimulated to a much greater extent if controls are taken off altogether.

The CHAIRMAN. What effect would that have on the price?

Mr. OWEN. In some areas, I think that the price would go up substantially, and in other areas, I think there would be a relatively small increase in price.

The CHAIRMAN. Where would the prices go up? In what areas?

Mr. OWEN. Prices would go up, I believe, to the greatest extent up and down the eastern seaboard and through the South and along the West coast, because these are the areas which are shortest in their supply of fluid milk. I believe that probably increases would run from around 3 to 4 cents per quart, on the average—I am just guessing now—if the controls were taken off altogether.

The CHAIRMAN. Three or four cents a quart? What effect would that have on butter?

Mr. OWEN. It would stimulate the production of milk in these areas, and it would stimulate the production of milk throughout the country, and there would be milk available for butter.

The CHAIRMAN. What do you think would be the effect on the price of butter, if there were no controls?

Mr. OWEN. I would estimate—I am not an authority on butter, at all. My business has nothing to do with butter so I would rather not even estimate the price on butter.

The CHAIRMAN. Your operations are entirely those of producing fluid milk?

Mr. OWEN. That is correct.

The CHAIRMAN. How big a milkshed do you serve? How many people?

Mr. OWEN. Approximately 30,000.

The CHAIRMAN. Is it just confined to the town of Alexandria? Is it confined solely to the town of Alexandria?

Mr. OWEN. Alexandria and Pineville, which is across the river from Alexandria.

The CHAIRMAN. Are there any further questions?

Mr. BUFFETT. I have one question.

Are you familiar with the current production of fluid milk? Is it declining, and, if so, do you have any figures on that?

Mr. OWEN. There has been some recent decline in the production of fluid milk. I cannot give you exact figures, but I do know positively that the production of fluid milk, in recent months, has declined, as compared with the year before.

Mr. BUFFETT. Are you familiar with the decline in the number of cows giving milk in this country in the last few months?

Mr. OWEN. I cannot give you exact figures, but I know there has been a decline in the number of cows milked. There has been a decrease in the disappearance of milk cows. Last year there was approximately 25 percent disappearance, which was a record, in the number of milk cows.

According to the latest figures, there were only approximately 65 percent of the cows that were kept for milk that were milked, as against a normal of approximately 75 percent. In other words, some of the cows are being dried off sooner, in order to save feed, and less cows are being milked. Cows are probably also, to a very large extent, being turned out with calves. There is a potential, at the present time, for an increase in milk production, and an increase in butter production, which would naturally take place also if milk production were increased.

I think that we can, in just a few months, destroy a large part of that potential production if there is no relief given to the dairy industry.

Mr. BUFFETT. What is the sentiment among the producers generally about the present price structure? Are they highly hostile to it, or are they just complaining because they would like to make more money?

Mr. OWEN. They are hostile to it because they are not making any money. There are very, very few that are making any money. My production, I suppose, would fall within the top 10 percent, certainly as far as economy of production is concerned, and I will show a slight net loss for last year.

Mr. BUFFETT. Then, if this Congress does not do something about this situation, we may hold down the price of milk, but we will not have the milk, we will have the same situation we have with butter?

Mr. OWEN. You can hold down the price, but you will not have the milk. Not only that, but when you get to the point where you do not have the milk, you should remember that it takes years to correct a situation of that sort. If you hold down the price to where the numbers of dairy cows decline materially—a lot of them go to slaughter,

and so on—and they stop raising the heifers, and they breed dairy cows to get beef bulls and stop raising milk cows for that reason—if you bring this milk situation to a critical point it is going to take years to correct it, because you may be able to produce a crane in 6 months, but you cannot grow a dairy cow in 6 months. It takes you at least 2 years to reproduce a dairy cow.

Mr. BUFFET. When you report those kinds of conditions with your own operation, and we are using 40 percent perhaps of this synthetic powdered milk, we must be pretty close to the crisis on that, aren't we?

Mr. OWEN. I think we are.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. I understand that horses and cattle have been shipped abroad, under arrangements made through UNRRA. Do you know of any dairy cattle that have been shipped?

Mr. OWEN. I do not have any figures on that.

Mr. TALLE. Have you noted any unusual diseases among your herds because of the lack of proper feeds?

Mr. OWEN. Yes; I have. The local veterinarian was at my farm less than a week ago, and I had a cow that had gotten sick. He examined her, and he said that it was due to the quality of the feed, due to inferior feed. He treated her, and it is probable that the cow will be all right. But her production will probably be cut very materially for the rest of the year. That particular cow held a State class championship for production in Louisiana, and I place a value on the cow of approximately a thousand dollars. So I came very near losing a thousand dollars because of inferior quality of feed.

There have been some reports of difficulty because of the use of synthetic proteins in dairy feeds having caused quite a bit of trouble in dairy herds also.

Mr. TALLE. You have not noted any foot and mouth disease?

Mr. OWEN. I haven't had any; no. Nor do I know of any anywhere in my section.

Mr. TALLE. You have State inspection laws, do you not, for tuberculosis, and so on?

Mr. OWEN. Yes.

Mr. TALLE. What is the relationship between the price paid for the poor quality feed you get now and the price you used to pay for good feed?

Mr. OWEN. I can give you some quotations on that very quickly.

In January 1941, a 24 percent dairy feed was \$21.10. A 16-percent dairy feed, \$1.85. There is no 24-percent dairy feed available in the market now. But the 16-percent dairy feed was \$1.85 in 1941, and that was superior in quality to the same labeled dairy feed, which sold for \$3.30 in January 1946, and which, according to a quotation less than a week ago was \$3.63.

In January the price of this feed was \$3.30, and the price less than a week ago was \$3.63.

Mr. TALLE. So you would measure \$3.63 as of now?

Mr. OWEN. Yes.

Mr. TALLE. Against \$1.85 as of 1941, and the 1941 feed was good quality and what you are getting now is poor quality?

Mr. OWEN. That is correct.

The CHAIRMAN. Why is that inferior to the feed you got previously? Is it adulterated?

Mr. OWEN. The formula is changed so that the ingredients are different. And I think there is probably some adulteration, too. But it is possible to legally adulterate by using a poorer quality of ingredients.

For example, you can use a second quality of alfalfa hay in a dairy feed, grind it up and put it in a dairy feed, instead of using the first quality. The analysis on the tag will still be the same, but the quality and the feeding value will actually be much lower.

Mr. TALLE. What will happen to your industry in Alexandria if you do not get the relief you ask for?

Mr. OWEN. I think that it will disappear altogether, almost. I think that before another year goes by that we will be down to approximately 25 percent of requirements to meet the demand as compared with approximately 60 percent now.

Mr. TALLE. Your dairy units have dropped from 65 to 30; is that correct?

Mr. OWEN. That is correct.

Mr. TALLE. In other words, you are up against the choice between obeying the natural law, which we call the law of self-preservation, which is the first law of life, and the regulations imposed on you by the Office of Price Administration? Is that the choice?

Mr. OWEN. Or going out of business.

Mr. TALLE. Yes. I suppose the law of self-preservation includes that.

That is all. Thank you.

The CHAIRMAN. Are there any further questions?

There is a roll call on the floor.

Mr. RILEY. Mr. Chairman, I would like to ask one question.

The CHAIRMAN. Mr. Riley.

Mr. RILEY. About what subsidy do you get on a quart of milk, or does it vary?

Mr. OWEN. The subsidy has varied from 35 cents per hundred pounds to 70 cents per hundred pounds.

Mr. RILEY. Would you translate that into gallons?

Mr. OWEN. In gallons, it is approximately 1.5 cents a quart, or 6 cents per gallon.

Mr. RILEY. What are your objections to subsidies? I did not get your comment on that.

Mr. OWEN. I have several objections. From the standpoint of a producer?

Mr. RILEY. Yes; from the standpoint of a producer.

Mr. OWEN. The subsidy is something that I cannot place any confidence in in planning my operations. It is dependent almost entirely upon the caprice of a bureau. I am giving you my personal attitude now. As a result, I try to forget, in planning my operations and adjusting my finances, I try to forget all about the subsidies. I do not take them into account in any cost analysis that I make of my own operations, and the only place where it comes into my accounting records at all is at the end of the year when I prepare my income-tax returns.

I do not want to consider it, because I feel that it is dependent upon the caprice of a bureau. They have made advance announcements on the subsidy on several occasions and within 2 or 3 weeks another announcement would come through that would change the amount of the subsidy very materially. Now, I cannot plan my business in the face of that sort of capricious change in the amount of the subsidy.

Mr. RILEY. I thought they were set up for a definite time, so that you could plan your operations on them.

Mr. OWEN. Yes; presumably for a definite time, but they change. I do not know what the subsidy is going to be, for example, in April.

Mr. RILEY. You mean they change from month to month?

Mr. OWEN. From month to month or quarter to quarter, and they vary the period when the change occurs. In planning my business operations, I do not know at all what to depend on as far as the subsidy is concerned, for April or May. It serves as no inducement to me to produce, in other words.

Now, a higher price would serve as an inducement to produce. But the subsidy does not, because I feel it is dependent too much upon caprice rather than reason.

Mr. RILEY. Thank you. That is all.

The CHAIRMAN. The committee will adjourn to meet tomorrow morning at 10:30.

We are glad to have had the opportunity to hear you, Mr. Owen.

Mr. OWEN. Thank you.

(Whereupon, at 4:30 p. m., the committee adjourned, to reconvene at 10:30 a. m., Wednesday, March 13, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

WEDNESDAY, MARCH 13, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10:30 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

The Honorable Henry D. Larcade, Representative from Louisiana, is here and desires to read a telegram he received from Mr. Arnold Winsberg.

If there is no objection, he may read the telegram.

You may proceed, Mr. Larcade.

Mr. LARCADE. Thank you, Mr. Chairman. The telegram is as follows:

HON. HENRY D. LARCADE,

Member of Congress, House Office Building:

May I urge you to attend hearings before House Banking and Currency Committee on Wednesday, March 13, at which witnesses for the dry-goods industry will give the facts disproving Mr. Bowles' thoroughly unfair and unwarranted statement that members of our industry are "irresponsible, reckless, greedy." Thanks and kind regards.

ARNOLD WINSBERG.

Thank you, Mr. Chairman.

The CHAIRMAN. This morning we will hear from the National Retail Dry Goods Association. Dr. Nystrom is the first witness.

Dr. Nystrom, you may proceed. I suggest that you state your name and identify yourself.

STATEMENT OF DR. PAUL H. NYSTROM, PRESIDENT, LIMITED PRICE VARIETY STORES ASSOCIATION, NEW YORK CITY

Dr. NYSTROM. My name is Paul H. Nystrom. I reside in New York.

I am professor of marketing at Columbia University, and I am president of the Limited Price Variety Stores Association, a national retail trade association for the variety trade.

I am appearing here today for the Central Council of National Retail Associations, an organization made up of 18 retail trade associations, of which I happen to be, at the present time, the chairman.

The member associations of the retail council are as follows:

American National Retail Jewelers Association; Cooperative Food Distributors of America; Institute of Distribution; Limited Price Variety Stores Association; Mail Order Association of America;

National Association of Chain Drug Stores; National Association of Credit Jewelers; National Association of Food Chains; National Association of Music Merchants; National Association of Retail Clothiers and Furnishers; National Association of Shoe Chains; National Retail Dry Goods Association; National Retail Farm Equipment Association; National Retail Furniture Association; National Retail Hardware Association; National Shoe Retailers Association; Retail Credit Institute of America.

These retail associations have a combined membership with representatives in every State in the Union of about 250,000 retail stores, and account for more than 60 percent of the total retail sales in the country.

Mr. Chairman and gentlemen, the retailers of this country have a deep interest in the Office of Price Administration, and what is to be done about it. They are deeply concerned about the rising tide of inflation. Their concern is both personal and in the public interest. Because of their position as the final distributors of goods and services to consumers, they must and do bear the immediate brunt of consumer criticism for higher prices.

When the turn from inflation toward deflation comes, as it always has in the past and undoubtedly will in the future, retailers stand to lose more than any other branch of industry or trade. These evils facing retailers are inescapable.

The retail organizations represented in the central council have been advocates and supporters of price control for a long time. Representatives of these retail trades advocated and urged price control before the war began. They urged prompt and aggressive measures of price control long before the Office of Price Administration came into existence.

Several retailers appeared at the congressional hearings, back in 1941 and 1942, urging the passage of the Emergency Price Control Act. Committees of retailers thereafter met continuously with the Office of Price Administration and helped to formulate the first measure of price control, the general maximum price regulation issued in the spring of 1942.

The burdens of the Office of Price Administration have, as was to be expected, fallen heavily upon retailing. Not the least of these burdens is the number and complexity of the regulations, orders, and amendments that have been issued and which affect the retail trade. The number of such regulations and orders that affect the various trades varies widely. In a single-line business, such as a shoe store, the number of regulations that must be observed is relatively small, while in a general merchandise store handling many kinds of goods, the number of regulations affecting the store is enormous.

The variety trade, with which I am personally connected, happens to be subject to a great many orders.

On April 26, 1944, when I appeared before your committee, I mentioned the difficulty that retailers had had in keeping up with the torrent of regulations and orders coming out of the Office of Price Administration. I stated at that time that more than 800 regulations, orders, amendments, and official interpretations had come out affecting the variety trade. The Administrator, on May 15, 1941, took notice of this statement, and, according to the record, said to you, "This is simply not so."

We realize that the Office of Price Administration employs many experts, but the question of the number of regulations, orders, amendments, and official interpretations affecting any single retail trade is merely a matter of counting, and not of higher mathematics, although we made no issue of this contradiction by the Administrator; a recheck showed the number reported to us was correct.

Now, I would like to tell you how many Office of Price Administration regulations, orders, amendments, and official interpretations there were in effect as of March 1, 1946, which have affected, concerned, controlled, and have, therefore, had to have the attention of the variety trade.

First of all, there is the General Maximum Price Regulation to which there have been 66 amendments all of which have required the study and careful observance of the variety trade.

There are 15 supplementary regulations under the General Maximum Price Regulation and 390 amendments thereto affecting goods and services sold through the variety trade.

There is a Maximum Import Regulation and 9 amendments all of which are potentially of interest to the variety trade.

There are 268 numbered price regulations with 2,506 amendments covering goods and services sold through the variety trade.

There are 4 food product regulations that affect the thousands of variety stores that have soda fountains, luncheonettes and food departments, and these 4 food regulations now include 25 supplements with 97 amendments, all of which are of concern to the variety trade.

There are 3 procedural regulations with 12 amendments which variety stores as well as other retailers and business concerns must observe.

There are 39 supplementary orders with 131 amendments that directly cover goods and services sold through the variety trade.

There are three general orders with six amendments with which we must comply.

The total of these regulations, orders, amendments and interpretations is 3,576.

But in addition to these there have also been 11,848 individual orders, of which half or, more probably, two-thirds affect either the purchase costs or the selling prices, or both, of goods handled in variety stores.

Finally, the Office of Price Administration has issued and is issuing a large number of individual orders that are not even printed in the Federal Register known as letter orders. These orders authorize prices in individual cases of manufacturers, wholesalers, and retailers. Despite the fact that these orders have not been published we know that there have been hundreds, perhaps thousands, of them. The variety trade is concerned with every one of these letter orders that fixes a price for one of its members, its sources of supply, or its competitors. Our interest in these letter orders is very real indeed.

So, for the Administrator's benefit, as well as for your own, gentlemen, I would like to report now that the variety trade which was affected by a mere 800 regulations, orders, amendments, and interpretations back in April 1944, was, on March 1, 1946, affected by 3,576 general regulations, orders, amendments, and interpretations. If one may include the individual orders listed in the Federal Register, not to mention the letter orders issued to individual concerns that are

not even printed in the Federal Register, the present number of regulations, orders, amendments, and official interpretations that do concern the variety trade is in excess of 8,000, ten times the number reported to you in 1944.

I would like to repeat this statement, not only for emphasis, but also so that it may not easily be twisted. The variety trade, a single branch of retail trade, as of March 1, 1946, is affected by a total of not less than 8,000 Office of Price Administration regulations, orders, amendments, and official interpretations covering goods and services sold through our stores. Certainly the great majority of these orders were not written specifically for the variety trade. They affect all trades that carry the goods. Many of these regulations and orders affect the retail trades directly. Others were set up for manufacturers and wholesalers, covering the prices or conditions of sale of goods sold to the retail trades, of which the variety trade is a part.

Retailers, as you must know, are and must be as much concerned about regulations covering the prices at which they buy as about the prices at which or below which they must sell. Paying as well as receiving a higher than ceiling price is a violation. There have been over 8,000 regulations, orders, amendments, and official interpretations of which variety retailers were supposed to be informed if they were to keep free from violation. The failure to comply with any one of these regulations, whether from ignorance or neglect, in any technical detail, would make the retailer, whether big or little, or wherever located in any part of the country, liable to penalties.

As a result of this deluge of regulations and orders and changes in regulations and orders, there is probably not a single retailer in this country, regardless of his utmost desire to comply to the fullest degree with the Office of Price Administration, that feels assured that he is in complete compliance. In spite of their best efforts, many retailers feel that any searching investigation within their stores would reveal technical violations of one or more or many of these tidal waves of Office of Price Administration regulations.

I don't know how many thousands of regulations and orders have been issued by the Office of Price Administration covering the entire retail trade. The number must be staggering. No human being even, if he gave his entire time to their study, could possibly keep up with them. Retailers who have kept their businesses intact during the war and who are today struggling with enormous problems in keeping their businesses going simply cannot know about them all. A violation, any violation, be it remembered, may subject its owner to costly penalties, and even more importantly, to embarrassment and the break-down of reputation and customer good will, the result of many years of faithful service to customers. Clearly, the Office of Price Administration has become exceedingly top-heavy with regulations. Moreover, the procedure of decontrol now followed by the Office of Price Administration, that is, by isolated individual products, rather than by categories of goods, adds to, rather than subtracts from, the complexities and anxieties of retailers.

The retailers of this country and their trade associations have responded to the limits of their ability to every invitation received from the Office of Price Administration for information, advice, and consultation in the development of its policies and program. A very great majority of all retailers have given their utmost effort to understand and adhere to the Government's policies for the prevention and

control of inflation. Their associations have contributed unsparingly of their time, energy, and resources for the explanation to their members of the thousands of regulations, orders, and amendments that have flowed from the Office of Price Administration and to the encouragement of their members to support these measures not only in letter, but also in spirit. Most of the retail associations have at considerable cost maintained corps of experts to help their trades to keep up with and to understand what the Office of Price Administration has ordered and to comply properly. We do not hesitate to assert that the support given to the Office of Price Administration by retailers during the past 4 years has been an important factor in such success as this agency has attained. We believe that the Office of Price Administration could have done an even better job if it had availed itself more freely of the services offered and contributed by the retailers of the country.

While retailers have given their ardent support to price control as a wartime necessity, they have also exercised their rights under our Government to call attention to the mistakes made in the original Emergency Price Control Act, as well as to the mistakes in operation of the Office of Price Administration under that law as these mistakes have become evident. No one, so far as we know, not even within the agency itself, has claimed that the Office of Price Administration is perfect. No one, so far as we know, has claimed that the Emergency Price Control Act is a perfect legislative instrument. Probably no one has admitted the possibility of such mistakes more frequently than the Administrator of the Office of Price Administration. He has admitted the errors of the Office of Price Administration with disarming frankness and charm, but after all such admissions, he has regularly recommended the reenactment of the law without change, thus perpetuating both mistakes and their causes, whereas the retailers and other business interests of this country have come before you with specific recommendations for necessary and constructive amendments.

In 1944, for example, in appearances made by retailers before your committee, at the time you were reconsidering the renewal of the Emergency Price Control Act, it was urged that it be amended so as to prohibit highest price limitations within the retail trades. This proposal was opposed by the officers of the Office of Price Administration. Our recommendations fortunately met with the approval of Congress. That change in the law made it possible for a great many retailers to continue in business and to have something to sell. Had this amendment not been passed, a great many retail concerns, particularly those dealing in lower priced goods, would have been forced out of business. This was not merely a sound aid to retailing, but a provision directly favorable to the public interest. The retailers of this country wish to acknowledge their sincere appreciation for this congressional consideration.

We now come before you with further recommendations. We believe and are sure that they deserve your favorable consideration. There have been major changes in the conditions of this country since the spring of 1944. The war is over. It is 7 months since shooting ceased in Japan. Our military forces are returning rapidly to civilian life. Reconversion and the production and distribution of civilian

goods rather than the production of war goods is now the most urgent need.

The processes of reconversion are not progressing as smoothly as they should. The Office of Price Administration regulations and orders that served a useful purpose in checking the production and distribution of civilian goods when our greatest need was for war production are now an embarrassing hindrance. In spite of the 7 months that have passed since the end of the war, the shortages in many lines of consumers' goods have grown progressively worse. Many forecasts and promises made by the Office of Price Administration for the improvement of these conditions have failed to materialize. Retail stocks have in some lines reached an all-time low. Black markets are widespread. Black-market operations extend from petty increases in tips to outrageous as well as illegal prices paid for goods. There is no way of estimating the extent of the black market, but there are many competent observers who now believe that it is the biggest business in this country.

The crying need in this country is for more goods. The dangers from inflation can never be corrected except through increased production and distribution of such goods. The first responsibility of the present Government, as we see it, is to see that the obstructions to production and distribution of civilian goods, considered necessary to the war effort, be promptly removed. Industry and distribution must be given more right of way. The hold-the-line policy now in effect, accompanied by the wage cost increases already granted and many others to be granted, will never accomplish a full-production economy. We doubt that any serious-minded person even believes that it will. A prompt, realistic approach to our present problems of production and distribution of consumer goods is essential to the well-being of all of the people of this country.

We need increased production and distribution of the goods; we need this sorely, not merely to satisfy the requirements of the public, but also to reduce the hazards of further inflation. With some exceptions, prices all along the line need to be revised from 1942 levels to cover the increases in costs of production that have occurred since then. The cost-absorption principle, wherever it is applied, does harm rather than good.

When the cost-absorption policy, now energetically pursued by the Office of Price Administration, was first publically proposed, it was repeatedly asserted that it would not be widely applied; that it would be applied in only a few instances. Here are the facts so far as cost absorption has been required by the Office of Price Administration of retailers up to February 28, 1946:

Number of general price increases permitted manufacturers, 327.

Number of instances in which no cost absorption has been required of retailers, 15.

Number of instances in which retailers have been permitted to add some additional increases to their prices, but less than the increases in their purchase prices, 27.

Number of instances in which retailers have been permitted to increase their prices by dollar-and-cent amount of increases in cost to them, 42.

Number of instances in which retailers were required to sell at their former prices, that is, to absorb the entire increases in the costs of goods passed on to them, 243.

The cost-absorption principle in recent months has been applied at an accelerating rate. How much further this so-called principle of cost absorption is to be extended we in the retail trades do not know. At the rapidly increasing rate at which orders containing such provisions have been appearing, we have no alternative but that of deep concern. Certainly the application of the cost-absorption principle has gone far beyond its original proposals.

Cost absorption is doing everything that should not be done. It discourages the production of goods. It restricts the distribution of such goods. It diverts productive effort from necessary and economical goods to high-priced and luxury goods. It deters the extension of old businesses and discourages the establishment of new enterprises. It is doing all of these things now. It will most certainly continue to do so.

To repeat, the retailers of this country have the utmost concern in securing increased production and distribution of goods. It is only through such increases, coupled with sound governmental fiscal policies, that current inflationary trends can be checked. We, as retailers, wish to join with the other trades and industries of this country in the hope that we may get out of our present wartime difficulties and onto a plane of higher peacetime productivity and distribution as promptly as possible. How this may best be effected and what place or part Office of Price Administration should occupy in this program is and has been the matter of intense study by great numbers of our trades, by their trade associations and, finally, by the Central Council of National Retail Associations. The suggestions now to be offered are the result of the most careful deliberation. We believe that they present essential steps to the reestablishment of a sound, peacetime economy. These recommendations were unanimously adopted by the central council on February 5, 1946. They are as follows:

1. Considerable inflation has occurred since the outbreak of World War II, a large part of which has been concealed in quality deteriorations not revealed by the Cost of Living Index. Unless the brakes are taken off production, further inflation will occur. The production situation presents a problem of critical proportions with which Congress must deal promptly.

2. In order to provide reasonable price incentives and to stimulate production and reestablish prewar or better qualities as specific antidotes to further inflation, the Central Council of National Retail Associations recommends that Congress amend the Price Control Act as follows:

- (a) That any and all controls that stand in the way of legitimate production be promptly eliminated. This includes the maximum average price program.

- (b) That producers be granted a price sufficient to enable them to manufacture prewar quality goods at current costs with an opportunity for profit.

- (c) That the Office of Price Administration be required to adopt realistic incentive pricing programs with liberalized cut-off points to stimulate low-priced production.

- (d) That the theory that all increases needed to produce and distribute goods at current cost can be absorbed, be discarded.

3. It is the opinion of the Central Council of National Retail Associations that there are commodities where controls should be

abandoned at once in the public interest, and that if planning is directed toward the termination of controls rather than to the perpetuation of them, this objective may be attained speedily. Recognizing that price control is not an antidote for inflation, nevertheless provision for selective price controls for a limited period would be desirable provided automatic terminations, as the result of changed conditions which can be effected by reasonable regulations, as suggested herein, are required by Congress.

4. The Central Council of National Retail Associations urges Congress to accept the responsibility for determining specific production goals, the attainment of which will be followed by elimination of price controls. The standards established should make clear that when a given production figure has been reached, either on a single commodity or the production of an industry, decontrol will follow immediately.

Mr. Chairman and gentlemen of the committee, we urge your favorable consideration of these recommendations. Thank you.

The CHAIRMAN. How long do you recommend that the Price Control Stabilization Act be extended?

Dr. NYSTROM. The first suggestion we make is an amendment to eliminate the maximum average price, as the highest price line limitation was eliminated back in 1944. We think that would go far towards the stimulation of production. The maximum average price is a manufacturer's or producer's program. We are retailers. But we are interested in seeing production and goods that can be passed on to the consumers.

The CHAIRMAN. That does not answer my question. I realize that you are recommending many amendments. But how long do you think the act should be continued?

Dr. NYSTROM. Mr. Chairman, I must answer for the central council rather than for myself on this. There is a difference of opinion among the members of the central council. A good many of them feel that the Office of Price Administration has served its full purpose and should be dropped at the end of the present fiscal year. Others feel that it should go on 3 to 6 months. Others feel that it might be continued for a year, if properly amended. I am to report that we were able to get a unanimous decision upon the points mentioned in these recommendations.

The CHAIRMAN. If it is continued, and I assume it is going to be, you will have to delegate to the Administrator certain powers. Most of the matters of which you complain are administrative, it seems to me. How could you simplify the administration by legislation? You say that there are a great number of orders and amendments, and I realize that that is true. A man, of course, cannot be presumed to know all the regulations of an agency such as that. But how could you simplify it?

Dr. NYSTROM. For one thing, you could eliminate the very complex provision that now arises out of maximum average price. That one simple simplification could be carried out.

Another thing that could be done in the law, it seems to me, would be to direct the Office of Price Administration to prepare to close up its affairs instead of, as we have discovered to our dismay many of the people in the Office of Price Administration are thinking in terms of continuing, not merely for 1 year, but indefinitely. I think a

definite termination point, with the understanding that we are working toward the termination point, would produce productive results toward ending this control over our economy.

There are other suggestions that could be made that go beyond the presentation of our recommendations, Mr. Chairman. In giving you those recommendations, I am merely presenting my own personal viewpoint rather than that of the Council.

But if you wish them——

The CHAIRMAN. Are you speaking for the National Retail Dry Goods Association?

Dr. NYSTROM. Only insofar as the National Retail Dry Goods Association is a member of the central council. This central council is a sort of federation of all the national retail trade associations in the country, with but a few exceptions who have very different interests from ours and are not included.

The CHAIRMAN. Well, your organization was in favor of the establishment of price control and stabilization, was it not?

Dr. NYSTROM. We were. I personally appeared before the joint committee for the consideration of the passage of the Emergency Price Control Act, and the record will show that I urged, with all the logic that I could master, that such an act should be passed, and passed promptly. I was then the representative of a trade association with a large membership.

The CHAIRMAN. Do you not think it has served a very useful purpose, and that it has accomplished the result it was intended to accomplish?

Dr. NYSTROM. I would say that it has served a very useful purpose during the war period. It did several things during the war period. It helped to keep our prices within reasonable bounds from going up, but more than that it helped to discourage production of civilian goods. That discouragement was a very useful thing to our war effort. It concentrated the industries and efforts of the people within the industries in this country to producing the goods we needed for war. The Office of Price Administration did that indirectly and that was a very useful thing. Both of them were useful.

The CHAIRMAN. I think we all wanted it to be purely an emergency measure, to be discontinued when there was no further necessity for it. But are not the economic pressures now just as dangerous as they were during the war?

Dr. NYSTROM. Possibly they are, Mr. Chairman, but in the opinion of many of us, and we are sincerely and deeply concerned about this, the condition seems to be growing worse rather than better and we think the conditions are growing worse because of some things that stem from the Office of Price Administration.

The CHAIRMAN. Do you not think that good judgment should be used in applying decontrol? I am in favor of decontrol when the supply of goods equals the demand, and there are no longer pressures which will produce inflation. But do you not think there ought to be good judgment used in taking off these controls?

Dr. NYSTROM. Yes; there should be good judgment, but that good judgment, Mr. Chairman, is available to you or to the Office of Price Administration. Many of the seasoned, well-considered viewpoints I am sure will be presented and have already been presented to you by people from business and from industry. We think that these

are carefully considered recommendations that we are making here, which are intended to point the way to the proper sort of decontrol, all of which are worth while. And I think the Office of Price Administration could go still further, Mr. Chairman, or you could direct the Office of Price Administration, if it does not choose to do so itself, in securing the advice and counsel or even the direction of industries on the kind of decontrol, and the rate of decontrol that industries may, themselves, carry out under the supervision of the Office of Price Administration, and subject, even, to the regulation of the Office of Price Administration. But the suggestions of the rate of decontrol would come from people in the industries who are just as patriotic as anybody who is outside of the industries, and who are as anxious to see this country get back on a sound footing as anybody could be.

The CHAIRMAN. I realize that, and I realize the business people of the country are just as dependent upon a stable economy, probably more so, than any other segment of our society, but that there is a natural disposition of people who are affected by controls to ask for decontrol maybe long before decontrol should be here. Do you not think so?

Dr. NYSTROM. Not according to my observation, Mr. Chairman. It may be that the retail trades are more competitive than others. I do not know about that. But a large group of representative retailers has never, in my observation, in the many years that I have worked in there, come to any agreement on anything that was eventually and essentially not in the public interest. Now, that sounds like a very broad statement. But I mean it most sincerely. There is a great deal of competition, and no branch of the retail trade will do anything that will give much advantage to another branch of the retail trade. It just does not stand to reason. They will fight for the public interest, and let each retail trade adjust itself to the public interest.

The CHAIRMAN. You have very broad knowledge of conditions in the retail trade. Have you any opinion now as to what specific articles should be removed from control or decontrolled?

Dr. NYSTROM. I would not venture such a list at the present time, Mr. Chairman, for the reason that such a list, in my opinion, should be presented only after the most careful consideration by the representatives of the industry itself, with the regulative agency, the Office of Price Administration.

The CHAIRMAN. What method would you pursue in order to simplify these orders? How can you delegate this immense power to an agency which would exercise it, and prevent the multiplicity of orders about which you complain?

Dr. NYSTROM. The present Emergency Price Control Act provides that the Office of Price Administration must—I have forgotten just what the wording is—consult with representatives of the various trades and industries affected by the orders. It does not require the Office of Price Administration to pay any attention to, or to agree with, such advice given. The direct answer to your question is this: On decontrol, at the present time, the decontrols are coming out on specific commodities, on items selected from large categories, on items which it may be very difficult for a retailer to discover and to know whether they are a part of his business or not.

I have a long list here of a recent decontrol, dated a little earlier than March 7 by the Office of Price Administration. But among the items that are decontrolled are some that are quite important and some that are unimportant. But I do not have it by categories. They are all by specific items. The first item on the list is wooden shoes, for instance. I do not know what that means to anybody in this country. Another one is cocktail shakers, ice bowls, ice buckets, stem and footed glassware—that may become important—Christmas tree items. It looks like a long list, but it does not amount to anything.

There are some items that are important in here. Baseball equipment, except shoes; basketball equipment, except shoes; billiard equipment; boxing and wrestling equipment. Would it not be possible, Mr. Chairman, to be very sensible about this and stop the regulation of pricing where it does not mean anything, namely, on items that are not a part of the regular standard of living, that is, limit the items of control, first of all, to cost-of-living items, and then decontrol from those limitations by categories, so that a retailer may know by notice that he is now decontrolled, and he may be free from the fear that he will have somebody from the Office of Price Administration coming in tomorrow and spending tomorrow and the next day taking up his whole time going through his store and his records to see whether he is in compliance or not. Not that they always find anything. But there is a chance that they may, and the retailer—I am speaking for small retailers, because most of the retailers in my membership are small retailers—and these retailers are just worried to death about that situation. If the control were by categories, instead of by individual items, it would be very simple.

The CHAIRMAN. Mr. Brown, do you have any questions?

Mr. BROWN. Yes. I notice in your recommendation here that producers be granted a price sufficient to enable them to manufacture prewar-quality goods at current costs with an opportunity for profit. I think when you sum up all your recommendations, this is the outstanding recommendation. Now, if you would add to that, give the same treatment to the distributor we do to the producer, I think you would be satisfied?

Dr. NYSTROM. I think so.

Mr. BROWN. And I do not think there is a member of this committee who is against that language. But I think it would be very difficult to get an amendment to carry that out. But as to the objective itself, I do not believe there is a single member of this committee who would disagree with you. We might disagree about what kind of an amendment would reach the objective; but what you are interested in is the producer of goods and the distributor who sells goods, and you feel they ought to be given the same treatment.

Now, coming down to that one point, the thing we have got to thrash out is what would be the best way to reach that objective without destroying altogether price ceilings, because everybody wants to control inflation, and I know you do.

Dr. NYSTROM. Yes, sir.

Mr. BROWN. At the same time we ought to get some amendment to carry out this objective without destroying the effectiveness of the Office of Price Administration. That is an important thing. That is what we need. I wish you would work on something of that kind.

having in view this profit to which the producer and distributor are entitled, and at the same time to have some workable program to control inflation.

Dr. NYSTROM. I would like to say, first of all, that I am very much encouraged by the suggestion you have just made, if, by your suggestion, you are inviting us to submit such recommendations, we will be very glad to do so.

Mr. BROWN. I think we have a great number of amendments before this committee. But we have to thrash them out, in order to obtain an amendment that will carry out this provision without destroying the effectiveness of price control, or control of inflation. I think we ought to have something constructive. Keep in mind, now, that you want to control inflation by this amendment. Probably some of the members of the committee have some amendments along that line to submit to the committee as well. I think you should consider that.

Dr. NYSTROM. May I say that we are under a bit of embarrassment—perhaps it is sort of an inferiority feeling in the retail trade—that this proposition reads as if it were for some change affecting manufacturing and production, and I do not think that manufacturers, generally, would welcome suggestions for the methods of handling their problems without their complete participation in that. I know that retailers would not like to have manufacturers suggesting what kind of regulations should be made for them, but I will be very happy, indeed, to consult with representative manufacturing organizations and see whether such an amendment can be drawn.

Mr. BROWN. I know, but that is one of our outstanding recommendations.

Dr. NYSTROM. It is, indeed, because we believe we ought to have goods.

Mr. BROWN. You are in the field of distribution.

Dr. NYSTROM. Yes, sir.

Mr. BROWN. What is applicable to the producer is applicable to the distributor. I do not think there is any difference among the people all over the country about the objective. There is a difference as to the method in which it may be reached.

A gentleman who has just spoken to me, who is a representative of the National Retail Dry Goods Association, one of the members of the central council, says he has already formulated an amendment that is intended to do this, and will be glad, at the proper time, to present it to you.

The CHAIRMAN. Very well. It may be submitted to the committee.

Dr. NYSTROM. But I am very much encouraged.

Mr. PATMAN. I think he ought to give it to us now so it may be considered.

Miss SUMNER. He does not have to if he does not want to. We do not get Office of Price Administration amendments until the date the bill is considered.

Mr. GAMBLE. Mr. Chairman, could he submit a copy to the members of each committee?

Miss SUMNER. Let him proceed in the manner he wants to, as everybody does.

The CHAIRMAN. He may submit it as he pleases. If he wants to do it now, he may; or he may present it later, if he wishes.

Dr. NYSTROM. I would like to say we want to be as helpful to the committee as we can. But at the same time we are very anxious to have some progress made in getting out of the difficulty we are in at the present time under our present price-control system.

The CHAIRMAN. I understand you have a series of amendments to recommend. I suppose they will be submitted to the committee. Are you going to draw them as amendments or just as recommendations?

Dr. NYSTROM. These are intended as recommendations. That was what they were supposed to be at the time they were drawn up by the central council, at its meeting held here in Washington.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Professor Nystrom, on this point we are now discussing, where would you retailers be if the amendment under your recommendation 2 (d) was adopted and received no attention?

Dr. NYSTROM. No attention to (d)?

Mr. CRAWFORD. Yes; by the Congress.

Dr. NYSTROM. Well, I am perfectly sure that we would be in a very bad spot.

Mr. CRAWFORD. You certainly would be. Now, let us keep all these things in mind if we are going to do anything about this. Of course, (b) is desirable, but you are speaking for retailers, and if we clean up (b) for the manufacturers and leave you to absorb increased cost, you have no hide left, have you?

Dr. NYSTROM. That is right.

Mr. CRAWFORD. We had better keep that in mind.

Mr. BROWN. Will you yield?

Mr. CRAWFORD. I yield.

Mr. BROWN. In my question I said that I understood his recommendation was the same as to producers and distributors.

Mr. CRAWFORD. But (b) does not deal with his problem primarily.

Mr. BROWN. I know, but that is what I asked him.

Mr. CRAWFORD. I am not criticizing you in any way, because I am with you a hundred percent on your proposal, but I am for some other things also. So I do not want those other things overlooked.

Dr. NYSTROM. Thank you.

Mr. BARRY. Will the gentleman yield?

Mr. CRAWFORD. Yes.

Mr. BARRY. Referring to (d), I do not think the Office of Price Administration takes the position that all increases need to be absorbed. I know of several cases where the costs went up, in the manufacturing end, and the wholesaler was allowed an increase and so was the retailer.

Dr. NYSTROM. Well, the statistics are in my statement. May I refer you to page 6, if you have it before you, in which I stated to you that as of February 28, there had been 327 increases granted to manufacturers, but only 15 in which there was no cost absorption required of retailers, and there were 27 cases in which some parts of the cost could be passed on; 42 in which the dollars-and-cents increases could be passed on; but 243 cases out of 327, no increases allowed to the retailer at all. Entire cost absorption.

Mr. BARRY. Well, do you take the position that every time the manufacturer is given an increase, that the wholesaler and retailer should be?

Dr. NYSTROM. Does that not seem to be a reasonable matter to you? It does to me.

Mr. BARRY. I do not think so. Suppose the wholesaler or retailer are making quite a profit, and the costs go up to the manufacturer who is not getting the profit?

Dr. NYSTROM. What has profit to do with this, anyway? What kind of an economy are we in?

Mr. BARRY. Well, when we talk about price, we talk about profit, no matter how you try to distinguish it, and if the manufacturer's costs go up, is it your position that in every case the retailer's or wholesaler's would go up, too?

Dr. NYSTROM. It would be my position that if there is competition, prices will take care of themselves.

Mr. BARRY. Well, naturally, price control is an emergency situation.

Dr. NYSTROM. But we do have competition in the retail trade, very keen competition.

Mr. BARRY. You have competition, but if the wholesaler is making money and the retailer is making a lot of money—do you mean that the consumer should take all the increases that go to the manufacturer?

Dr. NYSTROM. The increases go to the consumers in the form of wages and salaries, do they not?

Mr. BARRY. Sometimes.

Dr. NYSTROM. Practically all of them. I do not think manufacturers are allowed any increases that will take care of their profits. It is increases in wage rates and salaries that are primarily responsible for these price increases in the manufacturing lines. We all know that. That is not a matter that we need to discuss.

Mr. BARRY. I still want to know if you take the position that in every case where there is an increase allowed to the manufacturer you believe the wholesaler or retailer should be allowed similar increase?

Dr. NYSTROM. May I say this—

Mr. BARRY. I will have to ask you to answer that question first.

Dr. NYSTROM. I am going to answer it. The retailers have not asked for any price increases. In my particular trade, the variety trade, we have not asked for a single price increase at any time. We have some statistics that some of our firms are making money, a large profit before taxes. Department stores are said to be making a large profit before taxes. Always before taxes. But what is our information as to whether the retailers are making profits? They are based on a few figures. Now, I will answer your question by saying that I think that when prices, under a price-control system, are increased at the manufacturing level, they should certainly be increased at all levels.

Mr. BARRY. In all cases?

Dr. NYSTROM. If there are cases in which the retailers themselves do not care to do that, they will take care of that.

Mr. BARRY. Does that always happen in a free market?

Dr. NYSTROM. No. That is exactly why I put in that last condition. Many retailers would not increase their prices.

Mr. BARRY. I do not think that the Office of Price Administration Act needs any amending to correct that situation. Now, some can be absorbed and some cannot be. That is why the act operates now. I know plenty of individual cases which have come to my attention in

the last few years. Every time a manufacturer increases his wages, or increases his prices, it does not follow that the wholesaler or retailer has to do the same thing. The free competition decides the prices.

Dr. NYSTROM. But if you please, sir, price and wage increases are not isolated. In a very short time this spread to other agencies, and in my humble opinion you cannot raise wages in one industry without affecting the wage rates in other industries, including the trade, wholesale and retail, and our wages have gone up.

Mr. BARRY. Not necessarily. Go on, Mr. Crawford. I am sorry.

Mr. CRAWFORD. Now, Professor Nystrom, you are beginning to see how our minds work up here on the committee. It is just as difficult to reach a unanimous agreement in this committee as it is in your council.

Now, let us go to (a). We have discussed (b) and (d). Let us go to (a). Suppose (b) and (d) both are adopted by the committee. Where will you be if (a) is not adopted?

Dr. NYSTROM. Well, perhaps it would not be necessary if we took care of (b) and (d).

Mr. CRAWFORD. Let us see if it would not. I have a maximum average price within which I operate, and to the extent that I operate within the maximum average price, I produce goods which the Office of Price Administration allows me to sell at cost plus a profit. But the maximum average price says I shall not produce X, Y, and Z. Do you get my point?

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. Where will we be if we do not do something about (a) with respect to those goods which are now crowded out of the picture by reason of the maximum average price?

Dr. NYSTROM. There is no doubt that we ought to get rid of maximum average price, in any case, and I assumed the moment I answered your first question that (b) and (d) would carry with it the getting rid of the maximum average price.

Mr. CRAWFORD. Having thought about it for a moment, is your assumption correct?

Dr. NYSTROM. Perhaps not. Let us be sure that we get rid of maximum average price.

Mr. CRAWFORD. All right. Let us be sure that we are right in our assumption.

Dr. NYSTROM. That is part of being right.

Mr. CRAWFORD. I am seeking information, now.

Dr. NYSTROM. Thank you.

Mr. CRAWFORD. Let us be sure that we are right in our assumption. Then, if the facts and the truth call for the elimination of maximum average price, let us get rid of maximum average price.

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. I believe that your council has given some very serious and extended thought to these four recommendations——

Dr. NYSTROM. We have, sir.

Mr. CRAWFORD. (a) to (d). And I do not want them split and separated as unnecessary until we know exactly what we are doing.

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. You people in business are going to have to help us understand these four recommendations. Now, as I see it, and, based on the desire to have goods, and to let competition determine

some of these profits—and if they are too high, then, let taxes dispose of the profits—we are going to have to make these amendments, or my guess is there will be a revolt in the retail stores of this country which will be fed into the minds of the people, and we will have a little revolution over a continuation of the Office of Price Administration in its present form.

Now, did any of your group recommend that the Office of Price Administration be continued under the present law and the present rules and regulations?

Dr. NYSTROM. Not one.

Mr. CRAWFORD. Not one?

Dr. NYSTROM. No, sir.

Mr. CRAWFORD. But on these amendments here recommended, you did agree unanimously?

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. Did your group give any thought to this particular phase of the question—I have developed this before with Mr. Bowles and Mr. Eccles and Mr. Small, and now I want to get your reaction to it. You emphasized the fear of inflation, as others emphasized it. How long does your group think we should have Office of Price Administration controls, in some form? Do you want them continued until the power of the people, as free, economic agents, with a backlog of buying power in their control, can precipitate an inflation, if they desire to do so, or do you want Office of Price Administration controls eliminated entirely when supply is in practical balance with demand?

Dr. NYSTROM. I would say that the majority of the retailers, through their representatives in the central council, believe that a certain amount of control is still necessary.

Mr. CRAWFORD. At the present time?

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. I am not arguing that question, but go ahead.

Dr. NYSTROM. Well, that answers the first part of your question.

Mr. CRAWFORD. I do not believe it does. Perhaps I did not make myself clear.

Dr. NYSTROM. Would you be so good as to repeat your question, then?

Mr. CRAWFORD. Yes. Mr. Eccles testified that our people—you and I and the other man—have a backlog of buying power of approximately \$275,000,000,000. And to the extent that that is true—and I accept his figures as a statement of fact—then, we, the people, any time we desire to turn loose, can raise inflationary havoc in this country, and we could even go so far as to upset the economic program of any particular party that may be in power at that particular time. Do you see what I mean?

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. Buying power is power when the people who control it decide to exercise it. That is one phase of it. That has to do with the inflationary problem. Then, we have a scarcity of goods, a real scarcity of goods and services which people now want and demand, and expect and are entitled to. When you fill that demand reasonably well, you, in doing so, employ millions of people at the highest wages and salaries in all our history, and it is going to produce more buying power. But at the point where you bring supply in balance with demand, the people may still have 275 billion or

300 billion dollars of backlog buying power, which they can exercise. My question is: Do you want the Office of Price Administration to continue with its powers as long as that backlog of buying power is present or do you want it discontinued when supply comes in balance with the demand?

Dr. NYSTROM. I would answer "Yes" to the latter part of your question. The discontinuance must come if we are to get the desired production in this country. The balance is at an acceptable point at which the decontrol may take place. But to begin to get that and to pass beyond that into anything like full production to take care of this enormous demand, we must get off these controls that are blocking the way.

Mr. CRAWFORD. Do you know of any way in which you can ever bring supply in balance with demand, under our economy and our institutions, so long as people are requested to produce goods and sell them below cost of production, plus a little profit?

Dr. NYSTROM. I certainly do not.

Mr. CRAWFORD. Neither do I. I think we are trying to run in two directions at the same time, and I do not believe it is possible, unless we make some amendments here. I do not know of anybody, except a few—I know a few members of your association—I am not talking about council members now—who are so sick and tired of this that they demand the hide of anyone who supports a continuation of the Office of Price Administration on any basis.

Dr. NYSTROM. That is right.

Mr. CRAWFORD. And you know a lot of them, too.

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. But that group is in the minority over the country.

Miss SUMNER. Will you yield?

Mr. CRAWFORD. First I yield to Mr. Kunkel.

Mr. KUNKEL. I just want to make the observation that the figures you cited, as I understand, include purely cash items, and do not include the available credit facilities which may provide additional buying power.

Mr. CRAWFORD. That is true. Mr. Eccles pointed out that this \$275,000,000,000 is now in the control of the people. I might have a thousand dollars of that. If I have good credit at the bank, I might be able to go to the bank and increase my \$1,000 to \$10,000 by borrowing \$9,000. That is the point you make, Mr. Kunkel?

Mr. KUNKEL. Yes.

Mr. CRAWFORD. So that is still in addition to the \$275,000,000,000.

Dr. NYSTROM. Yes, sir.

Mr. KUNKEL. I sincerely believe that the minds of our people are now being conditioned to accept this control on down through the decades, as long as we have a great excess of buying power, and I am against it. And I want to get the views of your association on it.

Miss SUMNER. The pretty thing about it is that anybody who has ever gone through a depression has only to stop and think to realize that this buying power is a Government-created thing, this tremendous demand; that, in the past, just before a depression, the supply of money has dried up overnight. If a certain psychology hits the country, the buying power stops. The reason people are buying today is because you have price control; you have prices down. If tomorrow, the Office of Price Administration were discontinued and

we said we were not going to do it, and prices did start to skyrocket, what would happen? You know. Smart people would stop buying; everybody would start putting their money in their pockets, and the prices would come down. Is that not right?

Dr. NYSTROM. That is right, and may I supplement that by saying that there has been, I think, a considerable amount of fallacious thinking based on so-called black-market prices. It is the belief on the part of some people—quite sincerely, but I think quite wrongly—that regular prices, legitimate prices, would go to black-market levels if the price controls were eliminated. I do not think that is right at all. I think the competition would immediately set in, and you would have prices raised but very little.

The CHAIRMAN. Now the chairman will call the members in order.

Mr. CRAWFORD. Referring to page 6 of your statement, the sentence which begins "Cost absorption." Will you extend that a little?

Dr. NYSTROM. You mean at the place where we say the cost-absorption principle in recent months—

Mr. CRAWFORD. No. The paragraph below.

Dr. NYSTROM (reading):

Cost absorption is doing everything that should not be done. It discourages the production of goods.

People do not make goods they cannot cover costs on. That does not mean that manufacturers are on strike, as has been said by some people. There is a big difference between "I cannot" and "I will not," and when a manufacturer ceases production, it means that he cannot. If he says he will not, it means that he cannot do so.

The second point is that it restricts the distribution of goods. How long can you expect retailers to handle goods upon which they are losing money? It is not a question of their going on strike. It is simply a question of economics. They cannot continue to handle such goods.

Then, it diverts productive effort from necessary and economical goods to high priced and luxury goods. You have seen that. The shops of all of our cities are featuring high-priced goods. I was on a street in New York the other day. I need shirts. I saw a shirt in a window across the street, and I went over there thinking, "Here is a lucky retailer who has some, and I will go in and buy them." I went over and looked in the window, and they looked pretty good. Then I looked at the price tag which the retailer had advertently or inadvertently placed on them and the price of this shirt was \$14.50. That is the change that has taken place. That is what has happened under these controls.

To continue, it deters the retention of old businesses. Retailers at this time have plans for the extension of their businesses. Small retailers, big retailers. And they are holding up, not going ahead. Similarly, I know a good many young men who would go into business. I happen to be a professor in marketing in the school of business at Columbia University. I have over 200 GI servicemen in my classes. I have discussed with them the possibilities of entering into business, because that is what many of them are thinking of doing, into the retail business. And they keep saying:

We do not know whether this is a good time. We think we will wait until the Office of Price Administration is gone before we start in business.

That is the cost-absorption idea that the Office of Price Administration is putting into effect.

Mr. CRAWFORD. Now, on page 5 of your statement, third paragraph. You are aware of the fact that a very strong effort was made last summer to extend this act to December 31?

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. Because some of us felt that changes would come in the international picture that would call for changes in the Office of Price Administration.

Dr. NYSTROM. Yes, sir.

Mr. CRAWFORD. We failed in our efforts in that respect, however. So if the present law and rules and regulations are continued for another year, what you point out there is true, that it will become more difficult for you to operate.

Dr. NYSTROM. That is my earnest belief.

Mr. CRAWFORD. That is all I have.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Dr. Nystrom, this dry-goods association, I believe, is a member of your group?

Dr. NYSTROM. That is right. The National Retail Dry Goods association; yes, sir.

Mr. PATMAN. And I believe you said awhile ago that the attorney for that group had prepared an amendment that would carry out one of your major recommendations?

Dr. NYSTROM. Yes, sir; he just told me so.

Mr. PATMAN. Would you mind reading the amendment to the committee and give the committee the benefit of your views?

Dr. NYSTROM. Mr. Patman, he has just informed me that he has sent out his copy to have additional copies made for the members of the committee, as was suggested by someone who was questioning me.

Mr. PATMAN. Then, they will be given to us?

Dr. NYSTROM. They will be given to you today. My understanding is that he is to appear after me, according to the schedule that you have prepared.

Mr. PATMAN. That will be all right. I think every member of the committee is anxious to get suggestions in the form of language. We realize that a great many mistakes have been made, and that there are many ways in which these mistakes can be prevented in the future. I think we are all in accord that it should be done. We realize, as Mr. Brown of Georgia suggested, and as the chairman suggested in his interrogation of you, that this is more of an administrative matter. It is a very difficult thing to write language into law and to tell the Administrator exactly how he shall administer that law, especially when it concerns millions and millions of prices, and any language which you have, or any member of your group has, I think this committee would welcome and would give it very careful consideration.

Mr. KUNKEL. Will you yield, Mr. Patman?

Mr. PATMAN. The chairman was not going to let us yield.

Mr. KUNKEL. I was going to ask for permission to put that in the record at this point.

Mr. PATMAN. Since he is coming on next, Mr. Kunkel, I think we had better let him present it.

Mr. KUNKEL. All right.

Mr. PATMAN. Do you agree with the National Association of Manufacturers in their national campaign to remove price controls, Dr. Nystrom?

Dr. NYSTROM. I am not sufficiently well informed as to the program of the National Association of Manufacturers to pronounce a judgment, certainly not before a distinguished committee such as this.

Mr. PATMAN. Do any of your members belong to the National Association of Manufacturers?

Dr. NYSTROM. To the best of my knowledge, no. There might be some, but I do not know of any.

Mr. PATMAN. And you do not know what their program is?

Dr. NYSTROM. I do not. I have seen several of their advertisements. I do not know whether that is their program or not.

Mr. PATMAN. Well, their advertisements which are going all over the Nation, and which seem to be a campaign pretty well thought out, state that the Office of Price Administration is interfering with production and that increased production will have a tendency to stop inflation, and it is better for the country that the Office of Price Administration be not extended at all; that we should abolish the Office of Price Administration, and not have any price controls. You are not willing to go that far, then?

Dr. NYSTROM. The first part of your statement seems to me to be in accord with what I have already expressed here this morning, as the belief of the Central Council, namely, we must have more production in order to reduce the dangers of inflation.

Mr. PATMAN. Yes. I do not think any person in the United States would take issue with you on that viewpoint.

Dr. NYSTROM. Thank you. That is a reasonable viewpoint.

Mr. PATMAN. Now, then, this language—and I hope this will apply to other groups which appear before this committee—it is easy to point out mistakes, but it is a difficult matter to make constructive suggestions as to how these mistakes can be prevented in the future, and I hope you will not only file with this committee suggested amendments to the act, which will correct the abuses that you claim, but I hope that all other organizations, as they appear before this committee, will recognize the position we are in. We want to be helpful, but we can only be helpful if we have something to work with, and you can help us most if you will suggest specific language that can be written into this law.

I notice you state here:

(C) That the Office of Price Administration be required to adopt realistic incentive pricing programs with liberalized cut-off points to stimulate low-priced production.

Well, now, Doctor, with all due respect, that is a pretty good little stump speech. But how are you going to write that into language? What kind of language are you going to use? Whenever you write language to say that you have got to be realistic, that does not mean anything. They all say they ought to be realistic. So if you will just write us a little language, now, that will carry out each one of these recommendations, it will be very helpful to us, and I, personally, will appreciate it very much. Will you try to do that, Doctor?

Dr. NYSTROM. Mr. Patman, I want to express my gratefulness to you for the suggestion, and I will go back and see about having some work done on that as soon as possible.

Mr. PATMAN. Yes, sir. That is the way in which you could be of most help. For groups to come before us and just complain and complain, and pick out cases, and tell us about them—they are not telling us anything new. We have gone through this for years. We know many mistakes are made, and we want to correct every one we can by legislation, and the only way we can correct them is to be able to write some kind of law that will be an improvement over the existing law, and the best help we can get from both groups and individuals will be in the form of suggested constructive amendments. That applies not only to you, but other groups that will appear before us.

I believe you said awhile ago that good judgment was available to the Office of Price Administration, but they have not availed themselves of it. I presume that you referred to the preparation of these rules and regulations?

Dr. NYSTROM. I think you have made the statement a little more broadly than I did. The Office of Price Administration has held conference with retailers, in accordance with the Emergency Price Control Act, but I do not think that they have held these conferences as often, and upon the difficult points, as frequently as they should have done.

Mr. PATMAN. I did not know that. Incidentally, I was the author of the amendment to create those advisory committees, not only in this particular law, but in other laws that have passed Congress. I am a strong believer in advisory groups. I think the Administrator should confer with people who are in that business, and I am sorry to learn that you are not satisfied with the consideration that has been given your group. I think that should be corrected.

Dr. NYSTROM. May I supplement that, then, by saying that of the great many orders, of which I have given you numerous here this morning, the variety trade, as such, has not had an opportunity for any presentation of its views in as many as 10 percent of these cases.

Mr. PATMAN. Oh, I understood you to say that the variety trade had not asked for any increases of price.

Dr. NYSTROM. That is correct.

Mr. PATMAN. Then, you are not talking about those?

Dr. NYSTROM. I am not talking about price increases, but about orders that have gone into effect, the administration of which might turn out to be a very hard thing, not only on us, but on other retailers as well.

Mr. PATMAN. What is your definition of a variety store, Doctor?

Dr. NYSTROM. A variety store is a general merchandise store that confines its sales to low-priced goods. It used to be confined to \$1, but the loss of resources, the loss of opportunity to buy goods for less than a dollar has been so great that most of our variety stores are now up to \$5 and even \$10, and even more than that, as its top price points. I have come to the point, Mr. Patman, where I, as the head of a variety store, do not even know what it is any more except to say that it is a general-merchandise store. Eventually, we would like to get back down to selling low-priced goods, 5, 10, 25, 50 cents, and \$1 goods.

Mr. PATMAN. And when you speak of a variety store, you refer, then, to stores like Kresge, Woolworth, Grant, and stores like that?

Dr. NYSTROM. And about 9,000 independent variety stores.

Mr. PATMAN. All through your testimony I noticed you kept speaking about variety stores. But, of course, you are speaking for these other stores which are not variety stores?

Dr. NYSTROM. That is right, but I had to draw my illustrations from the trade with which I was most acquainted.

Mr. PATMAN. Now, the American Retail Jewelers Association, they are mostly independent, are they not?

Dr. NYSTROM. Mostly, yes.

Mr. PATMAN. Cooperative Food Distributors, Institute of Distribution—who composes that?

Dr. NYSTROM. Entirely chain-store organizations.

Mr. PATMAN. The Mail Order Association of America—that is Sears, Roebuck, Montgomery Ward, and people like that?

Dr. NYSTROM. That is right; and quite a number of others.

Mr. PATMAN. That Association of Chain Drug Stores; is that Walgreen, and Peoples?

Dr. NYSTROM. I assume that to be the case. I am not so familiar with their membership.

Mr. PATMAN. The National Association of Food Chains: who do they comprise?

Dr. NYSTROM. Chain stores in the food distribution field.

Mr. PATMAN. Like A&P?

Dr. NYSTROM. I do not know whether A&P are members of that group.

Mr. PATMAN. Safeway and Kroger?

Dr. NYSTROM. Safeway and Kroger are members, but I do not think A&P are members.

Mr. PATMAN. A&P always had their own organization?

Dr. NYSTROM. That is right, and their own program, whatever that might be.

Mr. PATMAN. Generally, then, in a number here, like the National Association of Chain Drug Stores, they are included here somewhere, are they not?

Dr. NYSTROM. They are practically all independents. The large number of retailers throughout this group are independent retailers.

Mr. PATMAN. I do not mean to detract from your statement at all, but predominantly this is a chain group, is it not?

Dr. NYSTROM. No, it is not. Take the Limited Price Variety Stores Association. We have a thousand members, of which about 16 are chains. There are a few others—

Mr. PATMAN. Well, how many units do these 16 have?

Dr. NYSTROM. About 5,500, as I recall it.

Mr. PATMAN. In other words, 16 have 5,500 and 1,000 have 1 each?

Dr. NYSTROM. One of them, Woolworth, has over 2,000.

Mr. PATMAN. Well, that would make that predominately a chain, would it not, about 5 to 1?

Dr. NYSTROM. Not exactly, because each single member, from the smallest independent to the F. W. Woolworth Co., has but one vote in the affairs of our association.

Mr. PATMAN. In other words, you operate like the consumer cooperatives?

Dr. NYSTROM. On that principle.

Mr. PATMAN. In other words, Woolworth would have one vote and Joe Doakes would have one vote?

Dr. NYSTROM. That is right.

Mr. PATMAN. That is the consumer cooperatives method?

Dr. NYSTROM. That is right.

Mr. PATMAN. Have you noticed any trend toward big distributors, Dr. Nystrom, buying out their sources of supply, like the manufacturers who produce what they sell? Have you noticed any trend like that lately?

Dr. NYSTROM. I have not. I had heard that manufacturers were buying out distributors, but these are newspaper items, rather than my own knowledge.

Mr. PATMAN. Well, it was called to my attention the other day. Of course, I have known about several instances. But this was called to my attention, where the large distributors were buying textile mills in North Carolina, in order to assure their source of supply. Mr. Folger here, from North Carolina, says that is correct. You do not know about that?

Dr. NYSTROM. Speaking for the variety trade, with which I have some familiarity as to independent action, I do not know of a single case where any of our distributors have bought up a mill.

Mr. PATMAN. I know, Doctor, but you are speaking for more than the variety stores.

Dr. NYSTROM. I cannot speak beyond the facts I know.

Mr. PATMAN. I say you are speaking for these other groups?

Dr. NYSTROM. Yes, sir.

Mr. PATMAN. And you do not know about that?

Dr. NYSTROM. In the matter of recommendations it is for the entire group.

Mr. PATMAN. Anyway, you would look upon that as a very bad economic trend, would you not?

Dr. NYSTROM. Not necessarily. I do not know what the situation is. If I did, I would be quite ready to pronounce a judgment.

Mr. PATMAN. Would you not think that that would tend toward a monopoly in certain fields?

Dr. NYSTROM. Well, for one thing, I would start thinking very promptly: What is there that the Office of Price Administration is doing that is forcing them to do this thing?

Mr. PATMAN. You think it is strictly an Office of Price Administration matter?

Dr. NYSTROM. Not strictly, but let us say importantly. Did it happen before the war or did it happen before the Office of Price Administration?

Mr. PATMAN. To some extent; yes. In fact, I have had a bill for several years—you are probably familiar with that bill—that would make it unlawful for manufacturers to be in the distribution business. You are familiar with that bill, are you not?

Dr. NYSTROM. I think I remember hearing something about it.

Mr. PATMAN. I still think it would be passed, because I think it is a definite trend toward monopoly in retail distribution.

Dr. NYSTROM. May I ask: Was that not primarily for the food trades?

Mr. PATMAN. No. That is for all. I do not think it will ever be an evil in your business, because obviously you handle so many products that it would hardly be feasible or practical for you to try

to produce all your supplies. But where a store is limited in its number of items, that trend could be rather pronounced and become quite an evil. That is my opinion. I might be entirely wrong about it.

Now, if we were to take off all price control now, I am apprehensive, Doctor, that the big fellows would have a good chance of maintaining their sources of supply because they are such big purchasers, and a manufacturer would be reluctant not to accommodate his largest customers. Therefore, they would be in a position to get supplies easier than these independents, who are in the tens of thousands. And I am apprehensive that would be definitely against the interests of little business and very much in the interest of big business. What do you think about that?

Dr. NYSTROM. I have great respect for your views, Mr. Patman, and always have had. But you must remember that independents, for the most part, buy their goods from wholesalers, and wholesalers, for the most part, are large purchasers, and wholesalers are not looking out for any other channel of distribution except for independent retailers, and it is up to the wholesaler and he will certainly accept the challenge of seeing to it that his retailers are provided with plenty of goods. I happen to know quite a number of wholesalers, and I think they are very alert to the possibility of chain stores or mail-order houses getting the best of them.

Mr. PATMAN. I will admit that that weakens my argument to that extent, but the wholesalers are not as strong now as they used to be. You see, the large distributors have become stronger and the wholesalers have become weaker in proportion, and I doubt the ability of these wholesalers, alert as they might be, to take care of their smaller customers.

Dr. NYSTROM. I do not know, Mr. Patman, what evidence there is that wholesalers have become weaker. They are very powerful.

Mr. PATMAN. Well, they have become weaker in the proportion that the large distributor has become larger, because they do not patronize the wholesaler, as you know.

Dr. NYSTROM. I do not know that chain stores are getting any stronger. Their percentage of the total retail trade of this country has barely been maintained, according to estimates made by the Department of Commerce.

Mr. PATMAN. Of course, they are not getting larger in numbers, but in size?

Dr. NYSTROM. Well, I meant in sales.

Mr. PATMAN. In sales?

Dr. NYSTROM. Yes.

Mr. PATMAN. I thought they were getting larger. I have not brought myself up to date, and I will accept your figures, because I know you are fully informed.

Dr. NYSTROM. I think an examination of the Department of Commerce figures—I do not know whether this, which happens to be the last issue, contains them—but they estimate the trend of retail sales and they could give you the information. My information is that the chain stores have barely held their own at about 22 percent of the total retail trade since 1929, and it was 23 percent back in 1933.

Mr. PATMAN. Well, as more of these veterans return, and with more opportunities to go into business, do you not think that chain stores might even be reduced in number?

Dr. NYSTROM. In proportional number.

Mr. PATMAN. That is right. In other words, Dr. Nystrom, retail distribution is something that people in every local community can perform. They do not have to go to New York, Chicago, or Dallas, Tex., to get them. Somebody locally can do all the retailing that is necessary; is that right?

Dr. NYSTROM. That is right. That least they think so.

Mr. PATMAN. Well, they can do it. They might not do it in the most efficient way in the world, but they can do it. They have done it in the past. They cannot do manufacturing or a lot of other things, but for local retailing, that function can be performed by local people, and can you not see the trend, as all these veterans come back in search of opportunities, that the number of chain stores will probably decrease, because these boys will want these choice corners to do business, and the trend and the sympathetic appeal of the people will be in that direction?

Dr. NYSTROM. I think you are right.

Mr. PATMAN. For instance, awhile back there were 500 taxicab owners who came down here from Chicago. They were complaining to us—of course, Congress was the wrong place to complain about an ordinance passed in the city of Chicago—that they did not have an opportunity to engage in business. It would not surprise me if one of these days you did not have marches like that for people who have 500 stores in Chicago that are owned by a New York concern. They might object to that and come to Washington and say, "We want the opportunity in Chicago." I am not prophesying anything like that, but I can see the trend is somewhat in that direction, and I believe you agree with me.

Dr. NYSTROM. That is a possibility, but may I say about the opportunities for the independent retailer, so far as I can observe, and in the advice that I give to the many young men with whom I come in contact, I do not see anything to make it more difficult for them to go into business and to make good now than at any time I know anything about. I wish I were a young man again, and I would go into an independent retail business. The opportunities are excellent. It takes something more, though, than the mere decision to go into business. It takes training, it takes experience, it takes knowledge about what people want, and so on.

Mr. PATMAN. Do you feel that you could successfully compete with Kresge or Woolworth in the variety goods business?

Dr. NYSTROM. As a matter of fact, I have done so.

Mr. PATMAN. You mean as an individual?

Dr. NYSTROM. As an individual.

Mr. PATMAN. And you think you can do it now?

Dr. NYSTROM. And I think I can do it now.

Mr. PATMAN. And you would advise any GI that there was a wonderful opportunity there?

Dr. NYSTROM. You may be sure of it.

Mr. PATMAN. How about competing with A & P in the grocery business?

Dr. NYSTROM. I do not know so much about that.

Mr. PATMAN. You know this record out here in Danville, Ill., disclosed that 40 percent of their stores sell at a loss.

Dr. NYSTROM. Has that case been settled?

Mr. PATMAN. No. I am talking about proof, Dr. Nystrom. It is undisputed. A large percentage of their stores sell at a loss. Of course, you cannot meet that kind of competition, can you?

Dr. NYSTROM. Well, I will say to you, concerning the business that I know most about, I would rather be surrounded by chain-store competition, with their standard and more or less inflexible methods of operation, than by a great many independents who know little about their business, and who may slash without knowing what it will do to themselves, and who do irregular things.

Mr. PATMAN. And as an independent, you would feel more confident competing with Woolworth and Kresge?

Dr. NYSTROM. I know what to expect from them.

Mr. PATMAN. You feel there would be more profits there?

Dr. NYSTROM. That is right. Up to July last, I was in a business directly in competition with a Woolworth store not far away, and we built our business from 1936 down to 1945 to \$240,000, from scratch. And it was a fairly profitable business.

Mr. BARRY. Mr. Patman. Will you yield?

Mr. PATMAN. Yes.

Mr. BARRY. I notice that your 180 associations represent approximately 250,000 retail stores.

Dr. NYSTROM. Yes, sir.

Mr. BARRY. Do you have the figures on how many failures have occurred in your association since 1941?

Dr. NYSTROM. Very few, but that does not mean anything—

Mr. BARRY. Well, I mean they have survived in spite of the Office of Price Administration?

Dr. NYSTROM. Oh, well, it is not that. The failures, official failures, that go down as failures, have, for many years, been very low.

Mr. BARRY. Were the failures greater from 1941 to 1945 than they were in the 4 previous years?

Dr. NYSTROM. Officially, they were not as high in 1945 as they were in 1941, but the number was very small in both cases. What I think you are driving at is the number of people who left the business. In 1942 and in 1943 an enormous number of retailers left the retail business.

Mr. BARRY. Were those stores taken over by someone else, or were they closed up?

Dr. NYSTROM. You can go down the streets of almost any town in the United States, and you will find vacant stores standing there even yet.

Mr. BARRY. Are those Dun & Bradstreet figures?

Dr. NYSTROM. Well, I think Bradstreets have made some compilation on that, but their official figures are on actual figures in which there is financial loss. That is a different thing. That is what I referred to when I said that the failures were somewhat higher in 1941 than in 1945. Those figures do not mean anything any more.

Mr. BARRY. They do not mean anything?

Dr. NYSTROM. They do not mean much, because retailers now close up at the suggestion of their resources, their wholesalers, or others, before they get to the point of actually going through bankruptcy. The actual failure rate—the thing we call the failure rate—is really a mortality rate of retail stores. The retail stores reach a certain point, and the retailer decides, for one reason or another, that he wants to do

something else. He must go into the service, or into a war industry or what not. That trend of reduction in number of independent retailers developed into a very high point down to the end of 1943. Then it came to a standstill and it is my understanding that there has been a somewhat steady inflow of people into the independent retail trade again since the beginning of 1944. Again, that comes from the Department of Commerce.

Mr. PATMAN. I have just one more question. You stated that certain people in the Office of Price Administration are working toward the continuation. I just want to say, Dr. Nystrom, that I am not working for the continuation of the Office of Price Administration, and I do not believe there is any other member of this committee who wants it extended indefinitely. We want controls taken off just as quickly as possible. But we do not want them taken off too soon. I personally do not know of anybody in the Office of Price Administration who is trying to do that, but if you know of somebody that you specifically think is, who is vital in the organization, if you will tell the committee about it, either confidentially or in your public testimony, it will be very much appreciated, because we do not want people like that.

Dr. NYSTROM. I shall be very glad to take that subject under consideration. I have heard a good many statements, but they may have been statements made at intervals of loose thinking.

Mr. PATMAN. Now, about commercial rents. We are getting many letters, and one has to include in the extension of the Office of Price Administration the authority to place a price ceiling on commercial rents. How do you feel about that, Dr. Nystrom?

Dr. NYSTROM. That goes beyond the scope of what I may officially speak to you on in this statement.

Mr. PATMAN. I mean, speaking for yourself, what do you think about that? Do you think that there is such an evil there that we should attempt to correct it by legislation, I mean giving authority to the Administrator?

Dr. NYSTROM. There is no doubt about the fact that most businessmen who rent their premises, and that means probably more than half of them, would like to have their rents kept down, because that is a human impulse, to feel that any price which they pay should be kept down, whereas they would have the prices they receive opened up to whatever they may be able to do with them. That probably is true for rents, so, representing the retail trade, I should suppose that a good many of those who rent premises are fearful of increasing rents.

I do not know very much about rents and rentals. That is beyond my field.

Mr. PATMAN. It has not reached the point where it has become an evil such as to be brought to your attention?

Dr. NYSTROM. Yes; it has been brought to my attention, but I do not know what the situation is as to either commercial or domestic housing. We are not getting very many houses built in this country, commercial or of any kind.

Mr. PATMAN. Well, we have had more building started last month than at any time since the war.

Dr. NYSTROM. Yes; but it is a very small dribble.

Mr. PATMAN. It is not a very small dribble according to the National Housing Administration.

Dr. NYSTROM. Many people will build houses for themselves at whatever the cost may be. But commercial building is a different matter.

Mr. PATMAN. Well, I think commercial building should wait until housing has been satisfied, where there is a real shortage. I believe you will agree with that. We should not have nonessential buildings constructed while there is a shortage of housing. As you said awhile ago, there are vacant stores in every town. There is no real shortage of commercial buildings. They might not be in the right spot for certain people, but there is no real shortage of commercial buildings. That is right, is it not?

Dr. NYSTROM. That is true for the retail trade. I do not know about others.

Mr. PATMAN. Therefore, if any group is going to have to wait awhile, do you not think that they should wait, rather than have the fellows wait who do not have homes?

Dr. NYSTROM. Mr. Patman, the representatives of the retail trade here today, I am sure, would agree with you.

Mr. PATMAN. I am sure they would; yes.

That is all, Mr. Chairman.

Dr. NYSTROM. But may I say that I do not think you are going to get any housing in a big way unless you do have commercial building, with one exception, and that is with Government money.

The CHAIRMAN. The committee will adjourn to meet at 2:30.

(Whereupon, at 12:30 p. m., the committee adjourned; to reconvene at 2:30 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

The first witness this afternoon, I understand, is Mr. Robert A. Seidel of the National Retail Dry Goods Association.

Mr. Seidel, we will hear you now. Please state your name and whom you represent, for the record.

STATEMENT OF ROBERT A. SEIDEL, VICE PRESIDENT AND COMPTROLLER OF W. T. GRANT CO., DIRECTOR OF NATIONAL RETAIL DRY GOODS ASSOCIATION

Mr. SEIDEL. My name is Robert A. Seidel. I am vice president and comptroller of the W. T. Grant Co. I am also a director of the National Retail Dry Goods Association, and I am appearing at the request of the National Retail Dry Goods Association to represent them in these hearings.

In addition to that, our firm is also members of the Limited Price Variety Stores Association, for which association Dr. Nystrom testified this morning, and of the American Retail Federation.

Retailers have been severely handicapped throughout the war and currently by a series of Office of Price Administration actions that have caused line after line of low-priced goods to disappear from the market, and have forced drastic deterioration, as well as increases in prices, in those lines that have remained.

Every single one of the Office of Price Administration's important regulations have worked in reverse, and the end result has been a

forced cheapening of quality and disappearance of goods which has compelled consumers to purchase in price ranges very much higher than those in which they would normally buy.

The strict application of Office of Price Administration policy—and this includes their current policy as well as the one they followed in the past—has been a major impediment to production. Manufacturers are compelled to discontinue prewar quality goods which they were skilled in making in great volume, and to go into production of new lines in which they are not so experienced. They have been forced to develop wholly new items, as a subterfuge, to obtain price relief, whereas in most cases the new items are not the equal of the prewar item in either quality or utility.

It is perfectly clear that Office of Price Administration actions are literally throttling our industrial activity throughout the country, and it seems inexcusable that now, 7 months after the termination of hostilities, the shortage of consumer essentials should be more acute than it was at any time during the war.

I would now like to give you some figures on that. I would like to take lines of merchandise that we, in our company, handle, and give you our stock position as of January 1 right straight through, on important consumer needs.

Mr. CRAWFORD. Mr. Chairman, I wonder if we could be looking at copy of the statement while Mr. Seidel's testimony is being read.

Mr. SEIDEL. I do not have a copy of the statement, except a 3-page thing here.

Mr. CRAWFORD. Well, I do not know why the Office of Price Administration should have this distributed right now to distract our attention

Miss SUMNER. Did the Office of Price Administration distribute this?

Mr. SEIDEL. Yes; and I can talk to that before I finish.

Mr. CRAWFORD. All right.

Mr. SEIDEL. Let us start with a line like domestics. Domestics are outing flannels, sheetings, sheets, goods of that kind, and I would like to read to you the January 1 inventory of our company on these lines from 1942 right up to date.

As of January 1942, we had \$1,498,000 worth; in 1943, \$1,242,000 worth; in 1944, \$781,000 worth; in 1945, \$509,000 worth; in 1946, \$283,000 worth.

Mr. MONRONEY. Mr. Chairman, at that point in the record, will Mr. Seidel also furnish the sales of those items?

Mr. SEIDEL. I will be glad to furnish that.

Mr. MONRONEY. I think, to get the true picture, we will also need the sales of those items as well as inventory, because the more rapidly the line is moving, you can still reach the same volume and still not have any inventory if the stuff is selling as fast as it hits the shelves.

Mr. SEIDEL. I can assure you we are not getting our volume. Our company had an increase in sales last year of 2 percent, but we did not get our increased sales to sell our customers what they needed in the way of low-priced apparel. We got it by selling high-priced novelties. And the fact that we have an increase in sale of high-priced novelties will never be a valid excuse for not having a broad-cloth shirt or a low-priced dress.

Mr. MONRONEY. I think it would be well to accompany those figures with the sales of that same group.

Mr. SEIDEL. I will be glad to furnish that for you, sir. I will have to mail it to you.

Now, in domestics, as of January, this year, our inventory is 18 percent of what it was in January of 1942, and it is 55 percent of what it was last year.

We will take hosiery next. In 1942, \$3,178,000 worth; in 1943 \$2,863,000 worth; in 1944, \$2,454,000 worth; in 1945, \$1,652,000 worth; in 1946, \$644,000 worth.

Twenty percent of the 1942 inventory; 38 percent of what it was last year.

Mr. MONRONEY. Will you accompany that with your sales, too?

Mr. SEIDEL. Yes, sir.

Underwear: 1942, \$1,973,000; 1943, \$1,841,000; 1944, \$1,050,000; 1945, \$323,000; 1946, \$141,000.

We have on hand right now 7 percent of what we had in January of 1942, and 43 percent of what we had a year ago.

I think the underwear situation is the unholy mess that the Office of Price Administration has.

Curtains and materials—that is materials for making curtains: 1942, \$2,146,000; 1943, \$1,794,000; 1944, \$1,526,000; 1945, \$856,000; 1946, \$756,000.

Our inventory now is 35.2 percent of what it was in 1942, and 88 percent of what it was a year ago in that department.

Yard goods, for selling over the counter, cotton cloth that people use to sew: 1942, \$2,000,000; 1943, \$2,253,000; 1944, \$1,381,000; 1945, \$642,000; 1946, \$275,000.

Inventory at the present time is 13 percent of our 1942 inventory, and 42 percent of our inventory 1 year ago.

Lingerie, women's: 1942, \$1,927,000; 1943, \$1,460,000; 1944, \$2,098,000; 1945, \$1,493,000; 1946, \$724,000.

Percent of January, 1942, 37 percent; and of January, 1945, 48 percent.

And on these lines on which we would normally do approximately half of our business, we have in combined total 20 percent of the inventory we had as of the first of 1942, and 51 percent of the inventory we had 12 months ago.

Now, you have heard a lot about holding the line. And we, in the retail business, know that last year consumers spent 84 percent more than they did before the war, and for it they received about the same amount of goods as they did before the war, and that figure comes very much closer to the actual increase in price than any Bureau of Labor Statistics index. You have to keep in mind, when you look at the index figures, that they do not take into consideration quality deterioration, or production of goods, or availability of goods to consumers, or the black market deals that are becoming more and more prevalent, or the cost of subsidies.

I would now like to take three or four items, and put into the record the real increase, counting quality deterioration and all the rest, and I would like to start with a man's shirt.

The item selected is a combed, mercerized broadcloth shirt, with a thread count of 144 threads to the inch one way, to 76 the other way.

In March of 1942, these shirts cost \$12.80 per dozen. We made a

thorough check of the New York market, and we found a shipment of those shirts that was made by one of the large producers in November 1945. We know of no one who has shipped any of them since, and these were shipped at \$21 per dozen. That is an actual increase in price of 64 percent—that is, the shirts were shipped at a 64 percent higher selling price, but that does not mean that that is all the price increase. While the cloth in the shirt was identical—that is, the thread count of the cloth was identical—the shirt was far from being identical.

First of all, the tail was shorter, and the yardage per dozen was a yard and a half less.

Second, the collar was inferior. Back in 1942 we had standardized collar linings in shirts. They were very finely knitted cloth used in linings. Now manufacturers use anything they can get in the lining of a collar.

It used to be that the collar was fused. It is no longer fused.

It used to have ocean pearl buttons.

The laundering was formerly far superior, the packaging was superior. We have computed, as best we can, the amount of deterioration on that shirt, and it is approximately 15 percent.

Now, if you combine the increase in price of 64 percent with a deterioration in quality of 15 percent, you get a real increase in the price of that shirt of 92 percent. That is the actual increase in the price of that shirt from 1942 to date.

Let us take a boy's shirt.

Miss SUMNER. If New York is the only place you can get them, for an Illinois person, you would almost have to add the carfare to New York to make up the price of the shirt, would you not?

Mr. SEIDEL. Well, Miss Sumner, we cannot buy them in New York at all. We have sent shoppers—and we did this just a month or so ago—to go all the way from Fourteenth Street through to Fifty-ninth and did not find a stock of broadcloth shirts in the place. Nothing but high-priced rayon shirts, made out of new cloth developed during the war, and they are new items on which they can get favorable ceilings. We definitely cannot get what we need in the way of shirts.

A boy's shirt—and for this we used an item of 80 by 80 cotton printed goods—a very widely used material for boys' shirts before the war, and in February 1942, a shirt made of this cloth sanforized, sold for \$7.75 per dozen.

In January of 1946, a shirt made not of 80-square material, which is not available, but of the wartime replacement for that material, 68 by 64 cloth, that shirt sold for \$11.75 per dozen, which is an increase in price of 52 percent.

Now, the cost price of the 68 by 64 cloth is about 16 percent less than the cost of 80-square cloth. In addition to that, there are the same deteriorations in the buttons, in the collar, in the laundering, in the packaging, that you have in the case of a man's shirt.

Combining the 52-percent increase with the 20-percent deterioration in quality—that is, the deterioration is greater here, because the cloth is not as good—we have an actual over-all increase of 90 percent in the case of a boy's shirt.

Let us take a cotton dress. We selected a popular cloth of 1942, 68 by 72 percale, and in 1942 dresses made of this cloth sold at \$12.10 per dozen. The January 1946 price of the same dress was \$24 per

dozen. Now, we come to the deterioration in quality of the dress.

In 1946 the dress has a 1-inch hem instead of approximately two and a half. It has one pocket. It has a single collar, and a single belt.

The 1942 dress had two pockets, the collar was double faced throughout; so was the belt.

The 1946 dress is what you might term a utility style. It is not well-styled, while in 1942 the same manufacturers were really doing a styling job on dresses.

Now, the actual increase in the price of that dress from 1942 to 1946 is 98 percent. The deterioration in quality of the dress is 20 percent. And combining the two—that is, for every \$1.98 you spend, you get 80 cents worth of goods—we have a combined real increase in the cost of that dress, of 147 percent.

One more. A girl's dress. In 1942, it was made of 80 by 80 material, and the dress sold for \$10 a dozen.

In 1946, made of the new wartime substitute cloth, 68 by 72 counts per inch, the price is \$15.75 per dozen.

The 1946 dress, in this case, contained two yards per dozen less goods than the 1942 dress. The hems were cut from 3 inches to 2 inches; there was no cuff on the sleeves, no double-faced collar or belt; one pocket instead of two; and the fabric used was a cent a yard cheaper.

On that item, you have an increase in dollar cost of 58 percent and a deterioration in the quality of the garment of 25 percent, for a combined increase of 111 percent.

I put that into the record to show that it is ridiculous to assume that the line has been held. I think it is also ridiculous to assume that prices will not seek somewhere near a real level, regardless of what we have in the way of Office of Price Administration.

Mr. GAMBLE. The line has been a little bit more than bent in those instances?

Mr. SEIDEL. Yes, sir; I think the 147-percent increase here is what Mr. Bowles calls a bulge. It is quite a bulge.

I think I would now like to start talking about the maximum average price plan, about which you have undoubtedly heard a great deal. Briefly, the maximum average price plan means that a manufacturer today must produce his goods at the same average price that his goods had during the year 1943. From 1943 to date, all manufacturers have had increases in material costs and labor costs, and as a consequence, they are unable to produce under the MAP plan, as it is commonly called.

I would like to use as a first example, chenille robes. The Office of Price Administration has just notified the chenille-robe industry that from now on out they will have to produce subject to the maximum average price plan. This means, in the case of four of the largest producers, that their chenille robes must average \$2.25 each. The cheapest chenille robe that any of these people can produce today costs them \$3.25, and as a consequence, they have gone out of the production of chenille robes.

Now, all of the chenille robe people are going to make bedspreads instead, because bedspreads are not subject to the maximum average price program. During the month of January, we sent our buyer down South and contacted 27 producers of chenille robes. ... Of the 27,

we found only 2 that could deliver any robes at all, and both of those told us that they were discontinuing production because it was impossible to produce under the maximum average price plan.

We did find one gentleman who was willing to sell us 12,000 robes, provided we paid him \$7 each, in cash.

We have got to get rid of the maximum average price plan, and we certainly can get no robes under it now. And that, of course, applies to thousands of other items.

I have here some Mexican piece goods. I brought this down to show you gentlemen the lengths to which we have to go these days to take care of our customers.

Last June we had a meeting in New York of our field staffs, district managers, store managers, and so on, and we found that there was hardly any outsize dresses in anybody's store anywhere in the country, that is, dresses for large sized women. They were practically nonexistent. We had not been able to purchase them in any quantities at all, and in checking into it we found the reason was quite obvious. It takes about 30 yards of goods to make a dozen dresses of regular size, but it takes from 40 to 42 yards to make outsize dresses. Manufacturers will not produce out-size dresses unless they have a price advantage over the price they get for regular size dresses, and, of course, the Office of Price Administration has not given them any, and as a result out-size dresses are practically nonexistent.

We found plenty of manufacturing facilities, but no yardage domestically. The only thing that we could do was to go outside the United States to get yard goods for the out-size dresses. So we made a purchase of 1,200,000 yards. We bought 800,000 yards of this material in Mexico, and we bought 400,000 yards of it in Brazil. We had to, of course, pay over the ceiling price. But that is legal. They have no ceiling price.

The top raw piece of goods you see there is the gray goods, and the printed piece is the piece of goods after we had it finished in this country.

I would say that goods in the gray is worth about 15 cents a yard. But we pay the Mexicans 0.31754912—we bought it in meters, and—approximately 32 cents. We freighted it in here. When we got it in, we did not think it was as good as we thought it would be; there were a lot of flaws in it, and we spent a little more money finishing it than we expected to. It cost us 6½ cents a yard to fix it.

Then, we had more shrinkage than we thought we would have. The total adjusted price of those yard goods was 41.7 cents. That was our cost. Then we took it to the Office of Price Administration for a ceiling price, so we could resell it to a manufacturer to make the odd-sized dresses, and they approved a price of 25.25 cents, which was all right. I do not think they approved too high a price, because I do not think the goods are worth that much.

We took a loss on this one transaction of \$197,063.38. That was about twice as much loss as we expected to take when we went into this deal. But by doing that, we were enabled to sell 240,000 outsize women's dresses, 135,000 dresses for 7- to 14-year-olds, where the same problem exists; that is, the manufacturer having his choice would prefer to make dresses for a 1- to 6-year-old child than one for a 7 to 14 because it takes less material, and unless he can get a price advantage, he will not go to larger sizes.

Then, we produced 180,000 aprons out of that same batch of goods.

We sold those dresses—here is a sample of the dress—at \$2.98 and took quite a licking on them, up until the point where the Office of Price Administration put in their present ticketing regulation and cut our price to \$2.08, which was a little more loss.

We would, of course, much rather pay an increased price to Americans than to have to go outside the country and pay out all this money to get goods.

I would now like to put some data into the record on underwear. I would like to give a list of numbers—underwear is very scarce now. I gave you the figures a short time ago—and I would like to give you a list of numbers and in each case the cost to the mill, and the Office of Price Administration ceiling price.

The first item, the cost to the mill is \$4.13, and the Office of Price Administration ceiling price is \$3.75. And, of course, they will not ship.

The second item, a balbriggan garment, the mill cost is \$6.60. The ceiling price is \$6.12½.

Mr. PATMAN. Mr. Chairman, I think it would be interesting if we had the names of the people on this, because, from what you say, there has apparently been an injustice done.

Mr. SEIDEL. These figures that I am reading to you, sir, are from the four biggest producers in the country, of underwear.

Mr. PATMAN. Would you put their names in the record?

Mr. SEIDEL. No.

Mr. PATMAN. Well, how can you expect us to get that corrected unless you agree to give us the information? You see, just to say something, without identifying it, does not mean anything.

Mr. SEIDEL. I would think it would mean quite a lot.

Mr. THOM. We cannot check the accuracy of it, either.

Miss SUMNER. Tell him why you do not want to put the names in.

Mr. SEIDEL. As far as these producers are concerned, I think the names are in the Senate record.

Mr. PATMAN. Well, if they are, why not put them in here?

Miss SUMNER. Tell him your objection to it.

Mr. PATMAN. I do not want anybody to reveal any secrets. I am not asking that. I never did ask for that. But where you make a complaint about a price being unfair, I think it is equally unfair not to give the information that would enable a correction to be made, because this committee would really go after the Office of Price Administration on anything that was as you say it is there. Apparently it is a great injustice.

Mr. SEIDEL. Would this committee move in on the Office of Price Administration if I show this committee what the Office of Price Administration did with some of the names we put in?

The CHAIRMAN. Is there anything confidential in your information?

Mr. SEIDEL. No.

The CHAIRMAN. Is it generally known to the trade?

Mr. SEIDEL. I think that the Office of Price Administration would have no difficulty whatsoever in finding out who the four largest mills that produce underwear are.

Mr. PATMAN. Well, you say they are in the Senate hearings.

Mr. SEIDEL. I would rather have the underwear people give their

own names rather than for me to give the underwear people's names.

Mr. BUFFETT. Tell us why.

Miss SUMNER. Yes, tell us what happens, to your knowledge, if you do. I see that you hesitate to.

Mr. BUFFETT. We would like to know.

Mr. SEIDEL. The average manufacturer, of course, fears reprisal on the part of the Office of Price Administration, if his name is used in these things.

Mr. PATMAN. What kind of reprisals?

Mr. SEIDEL. Refusal to grant price consideration. I want to give a very definite example of that thing, and I want to do it right after I get through with these prices of underwear.

Mr. PATMAN. Well, I do think, personally, you should put the names of the people in, so that we would know how to deal with it.

¶ The CHAIRMAN. Do you think that any manufacturer would hesitate to bring his complaint to the Office of Price Administration if it was obvious that an injustice was done to him? They would not hesitate to complain, would they?

Mr. SEIDEL. There are thousands of manufacturers that do not dare come down here with their story for fear of what the Office of Price Administration would do to them, if they came to you with their story—thousands and thousands of them.

Mr. PATMAN. I think you are entirely wrong there, because if the Office of Price Administration were to do something in the way of punishing them because of that, it would be so obvious, and the Office of Price Administration would be so vulnerable—

Miss SUMNER. How would it be obvious if nobody would tell?

Mr. SEIDEL. All right, sir, let me tell you a story.

The Climax Hosiery Mills is located in Athens, Ga. Their name was used in prior hearings. They are in Congressman Brown's territory.

Mr. BROWN. I will say right here, there is no better man in the United States than Mr. Dudley, former mayor of the city of Athens, a very fair-minded citizen.

Mr. SEIDEL. That is right, sir.

We have been purchasing hosiery from the Climax Mill for more than 25 years. We have always used a substantial part of their output.

Early in 1942 the military took over the total production of Climax, and the reason for it is that they have equipment that is particularly desirable for Army use. All of the Climax machines are what they call split-foot machines. They can make a pair of hose and change the yarn that is used in the foot. So they can turn out a pair of hose, making the leg of one kind of yarn; and if they want a soft yarn for the sole of the foot, they can use a soft yarn; if they want it treble strength, they can do that. They can do anything with a split-foot machine.

From 1942 to August of 1945, Climax produced entirely for the Army, and in August of 1945 his contracts were cut back—that is, his Army contracts were discontinued.

Mr. Dudley read the Office of Price Administration regulations and thought he understood what they meant. He inferred, from the regulations, that he could make application to the Office of Price Administration to produce the very same hose this year that he produced in 1942. He thought the regulation said that.

He filed his application, and at the same time, went into a full production of the very same split-foot number that he made in February of 1942, 240-needle mercerized hose, a very fine utility hose, and low priced.

He filled out all of the forms, computed his costs, submitted them to the Atlanta office of the Office of Price Administration. In the course of 2 months, he had produced 16,000 dozen pair of hose. He had heard nothing from the Office of Price Administration, and he decided he had better go to Atlanta. He went down there and found, much to his surprise, that there is no provision in any of the Office of Price Administration regulations to give him an increase in price. He could qualify for an increase only if two things were true:

1. If he happened to make less than \$200,000 a year, which he does not, he is a larger producer than that.

2. He could get an increase if he had been operating in the red, which he had not. He had been making goods for the Army on a cost-plus basis.

The Office of Price Administration office in Atlanta suggested, for some reason, that he come to New York and talk to the people he supplied hosiery to. Maybe they could join with him in a request to the Office of Price Administration and they might find a way out. So he came to New York, and we understood there was no way, under the Office of Price Administration regulations, of getting him a price increase but nevertheless I, personally, called the head of the hosiery pricing at the Empire State in New York, and asked him if he would permit us to give this man his current costs, and to sell the hose at the same price we sold it for in March of 1942. That is, would he permit us to take the entire squeeze to relieve that man of this production—bale him out, so to speak, because he had served us satisfactorily for more than 25 years. But no, that could not be permitted, and if we did it, it would be a treble-damage violation and they would sue us.

Mr. WOLCOTT. Mr. Chairman, I do not quite understand why he could not get an increase in price.

Mr. SEIDEL. Because of the hold-the-line practice of the Office of Price Administration, sir.

Mr. PATMAN. Identify the man you talked to at the Empire State.

Mr. SEIDEL. He is the head of the hosiery in the Office of Price Administration in the Empire State. I do not know his name.

Mr. WOLCOTT. I understood you to say the Office of Price Administration could not give him an increase in prices.

Mr. SEIDEL. They could not permit it.

Mr. WOLCOTT. Why could they not?

Mr. SEIDEL. They could not permit it under Office of Price Administration policies.

Mr. WOLCOTT. The Office of Price Administration said they could not do it under their own policies?

Mr. SEIDEL. That is right.

Mr. WOLCOTT. There is nothing in the language of the law that prohibits it?

Mr. SEIDEL. There is absolutely nothing in the Stabilization Act to prohibit that.

Mr. WOLCOTT. They refused to amend their policy in this particular case?

Mr. SEIDEL. That is right.

Mr. BROWN. Let me supplement your statement right there. Of course, I know the facts. He came in to see me. I called the Office of Price Administration and he went down there and talked to some fellow. I do not think he got satisfaction. I think he went to New York. But I called Mr. Bowles' attention to this in Senator Bankhead's office. I heard no more about it. But I want to repeat, this man is one of the finest characters I have ever known. He started in business a long time ago without anything. He is a wealthy man now. He has the respect of everybody. I know facts he states about this case are true.

Mr. SEIDEL. Let me go ahead with this. I said to this man at Empire State, "Certainly there is some way out. A regulation of this kind just cannot stand." We want prewar quality goods. We have here a manufacturer who has done exactly what everybody in the country would like every manufacturer to do, go back into full production as soon as possible, of prewar quality goods.

Mr. BROWN. Will you pardon me right there? I want to be fair to Mr. Bowles. Mr. Bowles did not know anything about it when I talked to him. He made a note of it. I do not know whether he looked into it or not, but he told me he was going to look into it. He knew nothing about it at that time, however.

Mr. SEIDEL. Well, I will tell you the result of it before I get through.

The man in Empire State said, "You know as well as I do there is only one out for this man. Let him start making a new number. Make a new number and apply for a price on that." I said, "Of course, we do not want a new number. We would like this same hose we had before, which was excellent. Who can I call in Washington?" And he gave me the man's name in charge of hosiery in Washington, and his name was Boner, B-o-n-e-r.

Miss SUMNER. They all are.

Mr. SEIDEL. I called Mr. Boner on the telephone, and I got the same answer. He assured me there was no possible way of Office of Price Administration granting this man an increase in price, that he would have to sell his hose at the March 1942 price of \$2.27½ a dozen, and in 1945 the cost was \$2.47 a dozen, 19½ cents more than the price at which they told him he would have to sell his hose.

Mr. Boner also suggested that he make a little used nylon in the heels and toes and call it a new number, and apply for a price. Maybe then he could get one. And he again assured me there was no way of bailing him out on the 19,000 dozen he had. He would have to sell those at less than cost.

I then called the Deputy Administrator for price, Mr. Nye. I did not get him, but I got his head attorney, Mr. Ailes. He said, "This seems like a rotten shame. Let me have some time, and I will work on it." He took 2 days' time, and called back. He said, "They are all right. There is no way in which we can give him relief. But I will tell you what we will do. If you will write us an amendment to our hosiery regulation, we will put that in, an amendment to cover split-foot hose"—the type that man made—"and perhaps we can give him relief if we put in such an amendment."

So I sent Mr. Ailes a proposed amendment to the hosiery order that would cover this case. I sent that to him some time last October or November. But nothing happened. Nothing has happened since.

This case was first brought out publicly before the Smith committee down here. Some of the magazines picked it up. It got a lot of publicity. And it irritated the Office of Price Administration. and, as a result, they have been unwilling to do anything for this man.

Now, I would like to show you—and I would like to put into the record—laboratory tests on all the similar hose that we could buy, similar to this man's hose. Here they are. The top hose on that right-hand card was made by the Climax Mills in Athens. All of the rest of these hose are coded. We deliberately, when we purchased these hose, removed the price tickets, and we sent them to the Hatch Textile Research Laboratory, so they could make an unbiased analysis of every pair of hose, and I want to put into the record a separate analysis for each pair of hose, and then a summary analysis which they made, which shows clearly that the best of all these hose is the hose produced by Mr. Dudley in Athens.

(The document above referred to is as follows:)

HATCH TEXTILE RESEARCH

TEXTILE TECHNOLOGISTS

New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 28, 1946.

Laboratory No. 11944-13.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 10 pair men's cotton socks.

Identified as code A, B, C, D, E, F, G, H, I, K.

Instructions: Hosiery abrasion test for wearability.

LABORATORY REPORT

Hosiery abrasion test: Tests for resistance to abrasive wear at toe cap and heel were made by mounting the samples over a metal surface and causing them to oscillate mechanically back and forth in contact with a wearing surface of special hosiery abrasive fabric held under an initial tension of 9 pounds. We list below the number of single strokes necessary to wear holes in the toe caps and heels of submitted socks.

Code	Toe	Heel	Total	Code	Toe	Heel	Total
A.....	2,775	2,670	5,445	F.....	8,432	6,905	15,337
B.....	3,533	4,665	8,198	G.....	4,437	4,128	8,565
C.....	5,110	3,513	8,623	H.....	1,830	2,402	4,232
D.....	4,175	3,925	8,100	J.....	3,455	3,084	6,539
E.....	2,407	2,657	5,064	K.....	13,615	13,802	27,417

Remarks: The above test results indicate that codes A, E, and H show poor resistance to abrasion in both toe and heel areas since they do not meet our minimum standard of 3,000 single strokes.

Rating:	Total rubs to hole
Best, code K.....	27,417
Second best, code F.....	15,337
Third best, code C.....	8,623
Fourth best, code G.....	8,565
Fifth best, code B.....	8,198
Sixth best, code D.....	8,100
Seventh best, code J.....	6,539
Eighth best, code A.....	5,445
Ninth best, code E.....	5,064
Tenth best, code H.....	4,232

HATCH TEXTILE RESEARCH,
HERBERT H. HATCH, Director.

Mr. CRAWFORD. That is shown on your chart as code K?

Mr. SEIDEL. Yes.

Mr. CRAWFORD. State those code numbers for the record.

Mr. SEIDEL. Code K, they refused to give him a price of 22½ cents. If they did, that hose would sell for 35 cents or less at retail, per pair.

Mr. BROWN. What would it retail at?

Mr. SEIDEL. 35 cents a pair, sir, or thereabouts. Maybe 34. It would be retailed in accordance with Office of Price Administration pricing chart.

Now, the second best of all these hose is called code F. The Office of Price Administration has approved a cost for this man of 29 cents, although they refused him 22½. The second best pair has 29 cents.

Code B, the third best pair, has 28.7 cents.

Code G, the fourth best pair, is about a tie with this one for third. It has a cost price of 42.3 cents. Almost twice the price they refused to give him.

Code J, a cost price of 19 cents, but very much lower in test.

Code C, a cost price of 17½.

Code E, a cost price of 24½ cents, and a retail price of 39 cents.

Code D, a cost of 17½ cents, and a retail price of 29 cents.

Code H, 15½, and a retail price of 25 cents.

Code A, which was the poorest of the lot, a cost of 19.6 cents, and a retail price of 33 cents.

Now, I would like to read the result of the abrasion test which shows how many rubs it would take to rub a hole in these various socks.

Mr. GAMBLE. Mr. Seidel, do you want to put the retail prices of those others in the record?

Miss SUMNER. You did not get them for B, G, F, and C.

Mr. SEIDEL. All right. Code F, the retail price is 55 cents.

Code B, retail price, 50 cents; code G, retail price, 75 cents; code J, retail price, 29 cents. Did I give the rest?

Miss SUMNER. C.

Mr. SEIDEL. C is retailed at 29 cents.

Now, I want to read this series of figures which shows how many rubs on an abrasion machine it takes to make a hole in each pair of these socks, and I will start from the bottom.

The CHAIRMAN. Are those socks made entirely of cotton?

Mr. SEIDEL. Yes, sir; all cotton, and they are all similar. They are all mercerized yarn.

The tenth sock there, it took 4,232 rubs to make a hole; the ninth one, 5,064 rubs; the eighth one, 5,445 rubs; the seventh one, 6,539 rubs; the sixth one, 8,100 rubs; the fifth one, 8,198 rubs; the fourth one, 8,565 rubs; the third one, 8,623 rubs; the second one, 15,337 rubs.

The Climax hose took 27,417 rubs to make a hole.

There was only one anywhere near it, and that was No. 2, which is code F, which took 15,000. But all the rest were well below 10,000, and the Climax hose took 27,000.

Mr. PATMAN. About these rubs, you mean like a person walking, every time a step is taken, that would be a rub?

Mr. SEIDEL. Yes, they have a machine that simulates that.

Mr. PATMAN. Well, even the best ones there would not last you many miles, would they?

Mr. SEIDEL. Oh, yes. Of course, the rubs show the superiority of the split foot construction at the Athens mill.

Mr. PATMAN. It was what: 25,000?

Mr. SEIDEL. 27,417, to be exact.

Now, I would like to put all of these tests in the record. There is one on every pair there, and they are all signed by the Hatch laboratory, or the director of it.

(The document above referred to is as follows:)

HATCH TEXTILE RESEARCH
 TEXTILE TECHNOLOGISTS
 New York 10, N. Y.

CERTIFICATE OF EXAMINATION

MARCH 6, 1946.

Laboratory No. 11944-15.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 10 pairs men's cotton socks.

Identified as: Code A, B, C, D, E, F, G, H, J, K,

Instructions: Rating according to construction and wearability.

LABORATORY REPORT

Rating: The over-all ratings of the 10 pairs of hose tested are shown below. These ratings are based on construction, material, and wearability. Maximum number of points obtainable is 20.

Code	Rank	Points scored	Cost	Retail
K.....	Best	20	<i>Cents</i> 22.5	<i>Cents</i> 35
F.....	2	18	29.0	55
B.....	3	12	28.7	50
G.....	3	12	42.3	75
J.....	4	11	19.0	28
C.....	4	11	17.5	29
E.....	5	10	24.4	39
D.....	6	6	17.5	29
H.....	7	5	15.5	25
A.....	7	5	19.6	33

¹ We are informed that code K is not in production as OPA has not approved cost and retail.

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH
 TEXTILE TECHNOLOGISTS
 New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-1.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair socks (cotton).

Identified as: Code A, 33 cents retail, 19.6 cents cost.

Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	200
Wales, per inch, average, in boot.....	26.6
Courses, per inch, average, in boot.....	27.3
Loops, per square inch, average, in boot.....	726.1

Material tests:

Welt, 1 thread 46/2, twist per inch, 12-14 turns.
 Boot, 1 thread 46/2, twist per inch, 12-14 turns.
 Heel, 1 thread 32/2, twist per inch, 12-14 turns.
 Sole, 1 thread 32/2, twist per inch, 12-14 turns.
 Toe, 1 thread 32/2, twist per inch, 12-14 turns.

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 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH
 TEXTILE TECHNOLOGISTS
 New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-2.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair cotton socks.

Identified as: Code B, 50 cents retail, 28.7 cents cost.

Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	220
Wales, per inch, average, in boot.....	31.1
Courses, per inch, average in boot.....	32.0
Loops, per square inch, average, in boot.....	995.2

Material tests:

Welt, 1 thread 36/2, twist per inch 12-14 turns.
 Boot, 1 thread 36/2, twist per inch 12-14 turns.
 Heel, 2 thread 56/2, twist per inch 22-24 turns.
 Sole, 1 thread 36/2, twist per inch 12-21 turns.
 Toe, 2 thread 56/2, twist per inch 22-24 turns.
 Toe tip, 1 thread 56/5, twist per inch 4-5 turns on ply.¹

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

¹ Consists of: 2 strands doubled, making 4-ply, and 1 strand single red yarn, 1 ply, total, 5 plies.

HATCH TEXTILE RESEARCH
 TEXTILE TECHNOLOGISTS
 New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-3.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair cotton socks.

Identified as: Code C, 29 cents retail, 17.5 cents cost.

Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	220
Wales, per inch, average in boot.....	29.0
Courses, per inch, average in boot.....	28.5
Loops, per square inch, average in boot.....	826.5

Material tests:

Welt, 1 thread 36/2, twist per inch 12-14 turns.
 Boot, 1 thread 36/2, twist per inch 12-14 turns.
 Heel, 2 threads 42/2, twist per inch 14-16 turns.
 Sole, 1 thread 36/2, twist per inch 12-14 turns.
 Toe, 2 threads 42/2, twist per inch 14-16 turns.

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH
TEXTILE TECHNOLOGISTS
New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-4.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair cotton socks.

Identified as: Code D, 29 cents retail, 17.5 cents cost.

Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	176
Wales, per inch, average, in boot.....	23.5
Courses, per inch, average, in boot.....	24.5
Loops, per square inch, average, in boot.....	575.7

Material tests:

Welt, 1 thread, 22/2, twist per inch 10-12 turns.

Boot, 1 thread 32/2, twist per inch 16-18 turns.

Heel, 1 thread 22/2, twist per inch 8-10 turns.

Sole, 1 thread 32/2, twist per inch 16-18 turns.

Toe, 1 thread 22/2, twist per inch 8-10 turns.

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HERBERT H. HATCH, *Director*.

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New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-5.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair cotton socks, garter top.

Identified as: Code E, 39-cent retail, 24.4-cent cost.

Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	240
Wales, per inch, average in boot.....	31.1
Courses, per inch, average in boot.....	34.0
Loops, per square inch, average in boot.....	1057.4

Material tests:

Welt (none).

Boot, 1 thread 48/2, twist per inch 16-18 turns.

High heel, 2-thread 48/2, twist per inch 16-18 turns.

High heel reinforcement, 1-thread 76's (single).

Heel, 1-thread 36/2, twist per inch 12-14 turns.

Sole, 1-thread 48/2, twist per inch 16-18 turns.

After toe, 1-thread 36/2, twist per inch 12-14 turns.

Toe, 1-thread 36/2, twist per inch 12-14 turns.

HATCH TEXTILE RESEARCH,
HERBERT H. HATCH, *Director*.

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 New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-6.
 Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.
 Material submitted: 1 pair cotton socks.
 Identified as: Code F, 55 cents retail, 29 cents cost.
 Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles in boot.....	240
Wales, per inch, average in boot.....	31.8
Courses, per inch, average in boot.....	32.0
Loops, per square inch, average in boot.....	1,017.6

Material tests:
 Welt, 2 thread 36/2, twist per inch 12-14 turns.
 Boot, 1 thread 58/2, twist per inch 16-18 turns.
 High heel, 1 thread 36/2, twist per inch 12-14 turns.
 Heel, 2 thread 40s (single).
 Sole, 1 thread 20s (single).
 After toe, 1 thread 20s (single).
 Toe tip, 2 thread 58s (single).

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH
 TEXTILE TECHNOLOGISTS
 New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-7.
 Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.
 Material submitted: 1 pair cotton socks.
 Identified as: Code G, 75 cents retail, 42.3 cents cost.
 Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	240
Wales, per inch, average in boot.....	28.6
Courses, per inch, average in boot.....	33.6
Loops, per square inch, average in boot.....	960.9

Material tests:
 Welt, 1 thread 36/2, twist per inch 12-14 turns.
 Boot, 1 thread 48/2, twist per inch 14-16 turns.
 High heel, 2 thread 48/2, twist per inch 14-16 turns.
 and 1 thread 52s (single).
 Heel, 1 thread 36/2, twist per inch 12-14 turns.
 Sole, 1 thread 36/2, twist per inch 12-14 turns.
 Toe, 1 thread 36/2, twist per inch 12-14 turns.

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH

TEXTILE TECHNOLOGISTS

New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-8.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair cotton socks.

Identified as: Code H, 25 cents retail, 15.5 cents cost.

Instructions: Analysis.

LABORATORY REPORT

Construction tests:

Number of needles, in boot.....	220
Wales, per inch, average in boot.....	29.8
Courses, per inch, average in boot.....	30.5
Loops, per square inch, average in boot.....	908.9

Material tests:

Welt, 1 thread 40/2, twist per inch 12-14 turns.
 Boot, 1 thread 40/2, twist per inch 12-14 turns.
 Heel, 1 thread 40/2, twist per inch 12-14 turns.
 Sole, 1 thread 40/2, twist per inch 12-14 turns.
 Toe, 1 thread 40/2, twist per inch 12-14 turns.

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH

TEXTILE TECHNOLOGISTS

New York 10, N. Y.

CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-9.

Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.

Material submitted: 1 pair cotton socks.

Identified as: Code J, 29 cents retail, 19 cents cost.

Instructions: Analysis.

LABORATORY REPORT

Construction Tests:

Number of needles, in boot.....	240
Wales, per inch, average in boot.....	32.6
Courses, per inch, average in boot.....	34.6
Loops, per square inch, average in boot.....	1, 127.9

Material tests:

Welt, 1 thread 34/2, twist per inch 12-14 turns.
 Boot, 1 thread 54/2, twist per inch 14-16 turns.
 High heel, 1 thread 34/2, twist per inch 12-14 turns.
 Heel, 2 threads 54/2, twist per inch 14-16 turns.
 Sole, 1 thread 34/2, twist per inch 12-14 turns.
 After toe, 1 thread 34/2, twist per inch 12-14 turns.
 Toe, 2 threads 54/2, twist per inch 14-16 turns.

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director*.

HATCH TEXTILE RESEARCH
 TEXTILE TECHNOLOGISTS
 New York 10, N. Y.
 CERTIFICATE OF EXAMINATION

FEBRUARY 25, 1946.

Laboratory No. 11944-10.
 Client: W. T. Grant Co., 1441 Broadway, New York, N. Y.
 Material submitted: 1 pair cotton socks.
 Identified as: Code K, 35 cents retail, 22.5 cents cost.
 Instructions: Analysis.

LABORATORY REPORT

Construction tests:	
Number of needles, in boot.....	240
Wales, per inch, average in boot.....	35.0
Courses, per inch, average in boot.....	37.3
Loops, per square inch, average in boot.....	1, 285.5
Material tests:	
Welt, 1 thread 34/2, twist per inch 12-14.	
Boot, 1 thread 46/2, twist per inch 14-16.	
High heel, 1 thread 34/2, twist per inch 12-14.	
Heel, 2 threads 54/2, twist per inch 14-16 (1 thread).	
And 210 denier, 34 fil. nylon (1 thread).	
Sole, 1 thread 34/2, twist per inch 12-14.	
Toe, 2 threads 54/2, twist per inch 14-16 (1 thread).	
And 210 denier, 34 fil. nylon (1 thread).	

HATCH TEXTILE RESEARCH,
 HERBERT H. HATCH, *Director.*

Mr. SEIDEL. Now, Mr. Dudley went down to the Office of Price Administration; he has been going down there continuously, in Atlanta, in Washington, everywhere else, to try to get a price. It seems obvious, after looking at these goods, that Mr. Dudley should get his 22½ cents. We cannot find any hosiery anywhere anything like that for that money. And consumers need it and need it badly.

And what do you suppose Mr. Dudley was told the week before last in the Office of Price Administration by Mr. Boner? He said: Mr. Dudley, we will have a third world war before I give you anything in the way of a price concession.

Mr. GAMBLE. That was a "boner."

Mr. SEIDEL. That was a "boner." But that, gentlemen, is what happened.

Mr. GAMBLE. Well, maybe it was not. That all depends on what the Congress is going to do about it.

Mr. SEIDEL. That is why I am hesitant to give manufacturers' names. I know both of the Dudleys. They have been to my office three times this year. They do not know what to do in Athens, Ga., today. Shall they go ahead and produce hose that they cannot sell? Right now they are making this hosiery, they are keeping their mill in operation, and they are storing it in a public warehouse. They cannot sell a pair. We need the hosiery. We have empty hosiery counters. We cannot buy the hosiery. We cannot pay the price. It is illegal for us to pay Mr. Dudley any more than \$2.27½ and Mr. Dudley knows of no way of making it for less than \$2.47.

Here is some data on Dudley's cost: 36 2-ply yard, which is one of his big yarns, in 1941, was 47 cents, and now it is 89 cents—that is his cost.

Mr. BUFFETT. Mr. Chairman, may I ask a question right there?

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. In the meantime if a buyer wants hosiery, he either has to buy shoddy or fly-by-night or "shyster" merchandise?

Mr. SEIDEL. That is right, sir.

His second most important yarn, 68 2's, that used to cost 61 cents. His cost now is \$1.15.

His hourly labor right in Athens was 37½ cents in 1941. That is the time on which they based his ceiling price. Now it is up to 55 cents an hour.

He used to pay knitters 25 cents a dozen, and the cost on that now is 30 cents. He used to pay loopers—a looper is the person who closes a toe of a sock by looping, a hand operation—he used to pay them 10½ cents a dozen; now the cost is 13 cents.

He used to pay borders \$3.25 a hundred and now he has to pay \$3.70.

His mechanics used to be 85 cents an hour and now they are a dollar an hour.

I do not think there is any question but what the figures Mr. Dudley has given me are accurate in every respect. I do not think there is any question but what every single statement he has made to the Office of Price Administration is accurate in every respect, and there is no way under present Office of Price Administration policies of granting Mr. Dudley an increase.

Mr. PATMAN. Mr. Chairman, I think Mr. Boner ought to be called. Evidently the gentleman has other cases, and this is just typical; is that right?

Mr. SEIDEL. That is right, sir.

Mr. PATMAN. I think we ought to have the clerk call him over the telephone and ask him to come up here.

The CHAIRMAN. I think the Office of Price Administration will be here to hear it.

Mr. SEIDEL. The Office of Price Administration is here.

Mr. PATMAN. Mr. Levitis, are you in a position to testify?

Miss SUMNER. Are we going to interrupt these retailers to hear the Office of Price Administration? I think these gentlemen have a right to be heard.

Mr. CRAWFORD. This time is assigned, as I understand the Chairman's ruling, to the opposition, and I am going to protest the opposition's testimony being interrupted.

The CHAIRMAN. They are going along with their testimony in orderly fashion, but when we started these hearings, one of the things I asked was that the Office of Price Administration officials should be here to hear these complaints. They ought to be here.

Miss SUMNER. Nobody has any objection to their being here.

The CHAIRMAN. I do not think Mr. Boner ought to be on the stand now, but he ought to be here to hear these complaints. If these complaints are not true in every respect, he will have a chance to answer them, and if they are true in every respect, he ought to immediately correct them. I want Mr. Boner here.

Mr. PATMAN. His chief is here, I understand, so that is all right.

The CHAIRMAN. All right. Go ahead.

Mr. SEIDEL. I think you will find that the Office of Price Administration—

Mr. PATMAN. I think it would be interesting to have the story of the one case before it is completed.

The CHAIRMAN. Let him finish his story.

Mr. PATMAN. Is Mr. Dudley here?

Mr. SEIDEL. I do not know, Congressman.

Mr. PATMAN. You are quoting him. I think it would be nice if he were here.

Mr. SEIDEL. I think Mr. Dudley would be very glad to come up here, if you want him up here.

Mr. PATMAN. You are making the days, you know.

Miss SUMNER. Did you not say that all of this except your last statement about World War III intervening before he would give relief—did you not say that all that has been publicized in previous hearings and in the newspapers?

Mr. SEIDEL. Sure, it has. This story is very well known to the Office of Price Administration from top to bottom, including Mr. Bowles, right straight through. Every single one of them know this. Because I have told it and told it publicly.

The CHAIRMAN. You may proceed.

Mr. SEIDEL. Now, I would like to go ahead and put the rest of that underwear data in and I would like not to put those names in, but if you wish to do so, you may ask the underwear institute, and they will be glad to give you the names of those mills.

Mr. PATMAN. It is not for the committee to investigate. It is up to the witnesses to put them in.

Mr. WOLCOTT. Mr. Chairman, that is why we are sitting here, to investigate.

Mr. PATMAN. We are not supposed to take some information that a witness brings to us and go out and call other witnesses.

Mr. SEIDEL. Why do you not put me under oath and then there will be no question about it.

The CHAIRMAN. I think the witness ought to give the sources of his information.

Mr. SEIDEL. I will give you sources of plenty of information before I get through, sir. I just do not like to give you the names of these mills.

Miss SUMNER. If he wants to stand on his statement, there is no law against it. He has the right to say what he wants to. If you do not want to believe it, do not believe it. Personally, I believe it.

Mr. SEIDEL. If there is any question at all about whether I am telling the truth here, I think I ought to be put under oath.

Mr. PATMAN. If we did, your testimony would be excluded, because you are testifying to what Mr. Dudley told you. You could not even testify to that.

Mr. SEIDEL. Oh, yes; I could take an oath.

Mr. PATMAN. No; that would be only hearsay.

The CHAIRMAN. Let the witness go on. Proceed.

Mr. SEIDEL. Let me make it very clear. Two of these conversations with the Office of Price Administration were between me and the Office of Price Administration. I was the one who was told directly by Mr. Boner:

If your man makes a new number, let him mix a little nylon in the heels and toes. There is no hearsay about that.

The CHAIRMAN. You may proceed.

Mr. SEIDEL. Lightweight union suits: The mill's cost is \$9.68 and the Office of Price Administration approved selling price is \$8.70. So they will not ship.

Shoulder button unions: The mill cost is \$3.51, and the Office of Price Administration price is \$3.43.

The CHAIRMAN. Does that refer to any specific mill or is that a general situation?

Mr. SEIDEL. That is one of the mills; yes, sir. You see, I took here the four largest producers of underwear and took the important numbers out of their line that we cannot get. Maybe I ought to say that we run 500 stores and we went through the whole fall season without a union suit in our stores. About the middle of December we got a part of our fourth quarter allotment. Right now, we are able to get winter underwear in small quantities, and there is no pricing provision for spring underwear. You can find out, if you check into the underwear situation, that the Office of Price Administration has been in complete possession for more than 2 years, to straighten this thing out, and they have done exactly nothing about it.

Underwear is a mess, just a plain mess. You cannot buy it; we cannot buy it. There just is nothing.

Mr. TALLE. In fact, it is obsolete.

Mr. WOLCOTT. Mr. Chairman, may I ask the witness some questions?

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I presume the Office of Price Administration might say that these four largest producers were high-cost producers and were above average in their costs. Could you give us an explanation as to whether that is so or not?

Mr. SEIDEL. These four producers, sir—that was the reason for taking them—are the lowest cost producers in the United States.

Mr. WOLCOTT. It would seem that they would be if they are the largest.

Mr. SEIDEL. They are the lowest cost producers in the United States and these are their costs.

Mr. THOM. Are they manufacturing underwear now?

Mr. SEIDEL. Yes, sir.

Mr. THOM. Are they shipping it?

Mr. SEIDEL. No, sir.

Mr. THOM. How much of it have they got stored, do you know?

Mr. SEIDEL. I do not know, and I say they are not shipping. They are shipping some underwear, but they are not shipping anything like what they ought to be shipping, and they are not manufacturing the numbers that they ought to be manufacturing. A manufacturer these days is put in the position where his production is necessarily diverted to a line that he can make a profit on. Now, if the Office of Price Administration, in pricing a lot of underwear, has a disparity in setting prices and gives a favorable price to one number as against another, you find production diverted toward the number on which the manufacturer can make money. And the consumer suffers. We do not get what the consumers ought to have.

The CHAIRMAN. Does Mr. Dudley, that you spoke of, manufacture any socks now?

Mr. SEIDEL. Mr. Dudley, the last I knew, was still making the same mercerized hose that I described to you here and storing them, and we are very anxious to have them, very anxious to have them. We need them in all our stores. And Mr. Dudley wants to sell them to us.

Mr. GAMBLE. Your gripe against the Office of Price Administration is to get something to sell in your stores; is that right?

Mr. SEIDEL. That is right.

Mr. KUNKEL. Did you say you offered to absorb the costs on that?

Mr. SEIDEL. We had offered to completely absorb the increased costs. We offered to sell it for 29 cents. But the Office of Price Administration refused that and told us we could not pay him the increased cost.

Now, in fairness, I can see why the Office of Price Administration would say that, but I would think that in a case as bad as the Climax Hosiery Mill, they would have policies that would be flexible enough to let us do something about it.

Mr. WOLCOTT. Why do you think that the Office of Price Administration is justified in saying that to you, in refusing to let you absorb the costs?

Mr. SEIDEL. Well, they would probably take the position that if we let large stores pay more than ceiling price for goods, and swallow the difference in their margins, it would work a hardship on small retailers across the country. I think that would be a fair reason why they should not do it.

The CHAIRMAN. How big is the organization you represent, Mr. Seidel?

Mr. SEIDEL. Well, last year, sir, our sales were \$180,000,000.

Mr. WOLCOTT. Where are your stores located?

Mr. SEIDEL. All over the country, except for the Northwest. We have none in the Pacific Northwest, but we are in almost all other parts of the country.

Mr. WOLCOTT. How many stores have you?

Mr. SEIDEL. Five hundred, sir.

I have a few more of these underwear numbers. An athletic shirt. The mill cost is \$2.73 and the Office of Price Administration allows a ceiling of \$2.62½.

Woven shorts, knitted shorts, the mill cost is \$3.88, the Office of Price Administration ceiling is \$3.40.

Another number in athletic shirts: Mill cost, \$2.99; Office of Price Administration ceiling, \$2.40.

The CHAIRMAN. Where do you get that mill cost?

Mr. SEIDEL. That is the actual cost of producing these goods, of that mill.

The CHAIRMAN. They are the figures of the mill?

Mr. SEIDEL. They are the figures of the mill, the actual cost of producing those goods.

Mr. BUFFETT. They are accepted by the Federal Income Tax Department, too, are they not?

Mr. SEIDEL. Of course, they are.

Unionsuits. Mill cost, \$5.14; Office of Price Administration ceiling \$4.25.

Here is a good American garment. You can probably determine the manufacturer of that one because the label is on it. It is a Durene undershirt. The ceiling price on that is \$4.75.

Mr. CRAWFORD. Per what?

Mr. SEIDEL. Per dozen. And that is less than the cost of production. The retail price of that garment is in the vicinity of 50 cents.

It might vary from 45 to 55 cents, depending upon the type of store in which you purchased it.

That producer could manufacture those garments today if his ceiling price was approximately \$4.50 a dozen instead of \$3.75. But he is unable to get any increase over the \$3.75. So he is not producing the shirts, and I would say that the last time we bought a Durene undershirt was more than 2½ years ago. The last time we bought an undershirt made of Durene yarn is more than 2½ years ago.

Now, I would like to have you look at a couple of Mexican undershirts. These are sold at retail for \$2, and the approved ceiling price of those, approved specifically by the Office of Price Administration, is in the vicinity of \$14 a dozen. An American manufacturer cannot get an increase from \$3.75 to \$4.50, but they approve a ceiling price on an imported undershirt of approximately four times as much. And you can compare the garments. Our American garment is worth more than either one of these Mexican garments, but they sell to consumers at \$2 at retail. And ours would sell at 50 to 55 cents, including the increase.

The white garment has been washed and shrunk, as you will see.

Mr. CRAWFORD. Mr. Chairman, may I ask the witness a question there?

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Seidel, was the price of this American-made garment which sells for from 45 to 55 cents—is that the price that is carried in the cost-of-living index?

Mr. SEIDEL. Well, I cannot tell about that particular garment, but I think so. I think in the cost-of-living index you would find an undershirt even lower priced than that. The Bureau of Labor Statistics selects a limited list of items that they use as a cross section to measure the movement of price. And they would have an undershirt on their list, and they would have a pair of cotton hose on their list, and so on. Their index just simply fails to take into consideration deterioration in quality or goods that disappear from the market or any of those things.

Miss SUMNER. Well, now, when they get a white shirt on their list, if it is not available, what do they do with the list with respect to that shirt?

Mr. SEIDEL. If the particular shirt that is on their list is not available, I think they blank the thing. If that happens too many times, I think they attempt to select an item that is available. But usually the descriptions on the Bureau of Labor Statistics Index—I do not want to be finding fault with them, because I have very high regard for some of those people, who are attempting to do the job—but no statistical index could measure the quality deterioration or the black market or the subsidy. None of it. They would attempt to substitute an item if it disappeared completely.

Mr. BUFFETT. How do they determine whether a thing is available?

Mr. SEIDEL. They make a shopping survey. I think about a year and a half ago they checked hosiery in New York, and they sent around and bought 12 pairs of socks and they bought them from 8 or 10 different stores in New York, maybe 12 different stores. When they got all through buying these 12 pairs of socks, and the 12 pairs of socks were all bought under a very general description "solid color, mercerized hose, in the 25 to 50 cents category," that is very general.

You can get a pretty good pair of such hose or a pretty bad one. There is no such thing as determining the exact quality of what they come out with and, much to their surprise, after buying a dozen or so pair of hose, we find out, by reading their reports, that the increased cost of hosiery has moved up—I do not remember the figures, but let us say 3.92 percent, in the last 6 months. A thing that nobody could determine by buying six pairs of hose, especially if you did not test them and did not know what you were buying.

I would like to use another item as an example. We are getting into spring now. Let us look at sun suits.

Mr. THOM. Just let me ask you about the underwear prices. Did you have any relations with the Office of Price Administration with regard to those prices, application for an increase?

Mr. SEIDEL. No, sir.

Mr. THOM. You do not know whether an application was made for an increase?

Mr. SEIDEL. Oh, yes; every one of these mills have made consistent applications for price increases on underwear. The latest thing that has happened in the case of lightweight underwear is, I think, that on December 11, the whole industry was promised that a new pricing order on lightweight underwear would be coming right out and they would surely have it by January 1, and they did not get it during January, they did not get it during February, and they have not got it yet.

Mr. THOM. Who is the man in charge of pricing of underwear?

Mr. SEIDEL. In the Office of Price Administration?

Mr. THOM. Yes.

Mr. SEIDEL. I am sure I do not know, sir. I do not know his name.

We have a manufacturer in Greenville, S. C., and we have been buying sun suits from him for more than 15 years, and our purchases alone per year are more than 600,000 garments average. Now, he is frozen at a price of \$2.91 a dozen, or 24 cents each. He needs a price of \$3.15 a dozen, or 26 cents each. He needs an increase from 24 cents a garment to 26 cents a garment.

And again, there is no way in which the Office of Price Administration can grant this man an increase. He is over \$200,000 in volume, and he is not in the red. He has applied to Columbia, he has applied to Atlanta, and he has applied to Washington. He tells me that his materials, which he puts into sun suits today, cost very nearly double what they cost in 1942. His labor used to cost him 35 cents, and now it is 65 cents.

Just last week a jobber in St. Louis came into New York with 5,000 of this man's garments that he wanted to sell us for \$5.25. We contacted our source on the telephone and he had never sold any to this St. Louis jobber. The garments would have been a pretty fair buy even at \$5.25. We cannot buy sun suits at anything like this value, and I would like to put his last letter to the Office of Price Administration in the record, and I do not mind giving this manufacturer's name; he, himself, has given them his name: Stone Manufacturing Co., Greenville, S. C. He says in his letter:

The girls in the Office of Price Administration office almost fainted when they saw how much better our Stones Wear values were in every instance than those being offered by our competitors, regardless of price.

And the letter goes on for two pages, with the last page saying:

We have tried to make ourselves as clear as possible, as this is a vital issue with us. In fact, we are going to be put out of business by such Office of Price Administration policies unless they are corrected and corrected without further stalling or delays on the part of the Office of Price Administration.

I would like to put his letter in the record.

The CHAIRMAN. It may be put in the record.

(The document above referred to is as follows:)

STONE MANUFACTURING Co.,
Greenville, S. C., March 8, 1946.

OFFICE OF PRICE ADMINISTRATION,
Atlanta Regional Office, Atlanta 3, Ga.

(Attention: Mr. Edwin M. Pearce, Jr., regional price attorney.)

GENTLEMEN: On November 8, 1945, you referred us to the South Carolina OPA Columbia district office in applying for an adjustment of price ceilings on garments that we manufacture.

As suggested by you, we took this up with Columbia, making a special trip to the OPA office there. We showed them many samples of the lowest-priced sun suits we were able to purchase, being offered by our competitors, and all of these ranged in retail price from 90 cents to \$2 per garment. We then showed them our sun suits which retail for 37 cents each. The girls in the office almost fainted when they saw how much better our Stones Wear values were in every instance than those being offered by our competitors—regardless of price.

Mr. Harris, the OPA specialist in charge, then instructed us to see Mr. Tom Temple, who was the OPA official in charge of granting increases. Mr. Temple was so impressed without sun suits that the following week he made a special trip to Greenville and we gave him as many facts relative to costs as we could. We explained that we were selling our numbers at \$3 per dozen less 3 percent terms in March 1942. We explained further that at that time we were operating on materials that cost approximately one-half of what such materials would cost us today. We explained still further that our labor costs then were figured on the basis of 35 cents per hour whereas today our rates are based on 65 cents per hour.

Since 1942 we have reequipped our factories with the very latest and highest-speed machinery and are using methods much more modern than we were then. In spite of this, our net profit from 1942 through 1945 inclusive is only approximately one-half of what it was prior to the war.

We requested that our price of sun suits that we are manufacturing now be raised from \$3 to \$3.25 and \$3.50 per dozen less 3 percent terms. We also requested that our ceiling be raised to \$4.50 to allow us to use printed materials and trim our numbers better.

Hearing nothing from Mr. Temple for several weeks on February 5 we wrote him and later telephoned him. In this telephone conversation he advised that our application for a higher ceiling price had been denied and that the Atlanta office was the one that made the denial.

Because our prices on sun suits as well as other Stones Wear items we manufacture are so ridiculously low we have taken this matter up with our United States Senators as well as with Mr. Seidel, vice president of the W. T. Grant Co. in New York. We wish to appear before the United States Senate investigating committee, investigating the activities and operations of the entire OPA but have been advised that we need a formal denial of our application in order to make our presentation complete. We wrote the Columbia OPA office several times for such a formal letter. It was then that Mr. Temple called on us and advised that such a letter would be mailed us from your Atlanta office the first part of last week. Ten days have elapsed and no such letter has been received from you.

We tried to reach you by telephone today and were advised that neither you nor your secretary were in the office and you would not return before Monday. We respectfully request, Mr. Pearce, that you write us today giving the reasons for the denial of our application as well as stating that our request for such a price increase had been denied.

We have tried to make ourselves as clear as possible as this is a vital issue with us. In fact, we are going to be put out of business by such OPA policies unless they are corrected and corrected without further stalling or delays on the part of OPA.

We shall appreciate and expect your answer by Tuesday, March 12.

Thanking you, we are
Yours very truly,

STONE MANUFACTURING Co.
EUGENE E. STONE III.

Mr. CRAWFORD. You said their prices were frozen at what?

Mr. SEIDEL. \$2.91 a dozen.

Mr. CRAWFORD. When you say "frozen," you mean under their maximum average price; is that right?

Mr. SEIDEL. No. This is not the maximum average price. Maximum average price, in itself, does not set the price.

Mr. CRAWFORD. That is the reason I asked you to bring that out.

Mr. SEIDEL. No. This is the price that they allow him to charge for that.

Mr. CRAWFORD. Under what kind of a regulation?

Mr. SEIDEL. I am not sure of the number of the regulation that does cover the sun suit, sir.

Mr. CRAWFORD. It may be a special rule?

Mr. SEIDEL. Yes, but it will be easy to determine; the Office of Price Administration will know.

Mr. PATMAN. Mr. Chairman, I have a question.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. I know that purchasing agents for the chains make as good a deal as they can with the manufacturers. It is natural that they would. I do not blame them for it at all, but sometimes they drive pretty hard bargains. Now, since it is a seller's market, and they can sell everything they make, anyway, do you not think that some of these manufacturers ought to be taking the opportunity to diversify their customers a little more and not be under the control of a few buyers and for that reason might not be so anxious to do some of these things you would want them to do?

Mr. SEIDEL. I think, Congressman, there is something to that. That certainly is not the case in the case of this manufacturer, however. He is not selling his goods to other people at a higher price, and, of course, the manufacturer, if he is complying with the Office of Price Administration regulations, can sell his goods at a higher price.

Mr. PATMAN. That is right.

Mr. SEIDEL. For instance, your Athens Hosiery Mill, he cannot sell those goods to anybody else nor at any more than \$2.27½ he must charge us.

Mr. PATMAN. He would not be any better off that way, then, to deal with other customers?

Mr. SEIDEL. No; he would not. There are some instances where the Office of Price Administration has set prices for purchases of a class, and where they permit a manufacturer to charge a higher price from a jobber than he could get to sell to a distributor direct, and in some of those cases you will find goods being diverted into jobbing channels that would not otherwise be in those channels.

I can cite an example. There is a company making metalware in Baltimore which we used to buy from right along. They got to the point where their ceiling price was unprofitable but their jobbing price was not. So they wrote us a letter and said:

We are sorry, we cannot sell you direct any more, because we would lose money on our ceiling price to a purchaser of your class, but we are making all of our shipments to our jobbers, and we are issuing a letter to all of our jobbers to resell them to you, if you want them. But you will have to pay the jobbing price for them instead of the price you paid us before.

There is just another way around the ceiling price.

We are penalized in that we have to pay a jobbing price to get the thing, and we have to pay it or do without.

The CHAIRMAN. What was the difference in the price between the jobber and your price?

Mr. SEIDEL. The difference was approximately 15 to 17 percent, sir.

Mr. RILEY. Mr. Chairman.

The CHAIRMAN. Mr. Riley.

Mr. RILEY. What price, Mr. Seidel, did Stone ask for the article you referred to?

Mr. SEIDEL. \$3.15, sir. An increase of 24 cents a dozen, or 2 cents a garment.

Here is a pair of what are presumed to be women's pajamas. The name in the neck band is "Hickory." They are made in New York, or they are sold in New York, at any rate, at an approved ceiling price of \$30 a dozen.

Here is a pair of women's balbriggan pajamas, and you can easily see the difference, and this man is not allowed to ship these at \$24 a dozen, because it is above his maximum average price plan. He cannot ship the good ones, but this man can ship all he pleases at \$30.

We did have another number made by this man, which is a tuck-stitched pajama, but it disappeared from our exhibit over here yesterday. Evidently there is a shortage of these now. You can see the difference in those two garments. One is much more highly styled than the other.

Here is the same thing in children's, here is the good manufacturer's children's pajamas. You will notice the child's garment that is made here is about the same as the other one in size. Also \$30 a dozen. Here is the good one, \$22.50. You can see the difference in the neck treatment. This has a collar—this one has a crew neck—a button down here, a placket in here, trimmed in here, a belt around it, and I think you will find that the cut is much bigger, he has a nicer cuff, and so on. I will pass those around.

The CHAIRMAN. What variety of goods do you sell in your stores, Mr. Seidel? What is the general scope of merchandise handled in your stores?

Mr. SEIDEL. We sell practically everything in our stores, sir.

The CHAIRMAN. Do you sell hardware?

Mr. SEIDEL. Yes, sir; we sell hardware. I have some hardware examples that I would like to show you before I get through.

Mr. BUFFETT. Mr. Chairman.

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. Mr. Seidel, if this situation continues very long, a great many New Yorkers will be able to buy mills down South very cheap, will they not?

Mr. SEIDEL. Well, that question came up this morning and had I been asked the question, I would have said that it is a very serious thing. Congressman Patman, I am talking about the question you asked this morning, and which Mr. Buffett just raised again.

Mr. PATMAN. What is that?

Mr. SEIDEL. He said that a great many mills could be bought cheap if this situation continues. You will remember you asked that question this morning when you raised the subject of integration.

Mr. PATMAN. That is right.

Mr. SEIDEL. Had I answered your question this morning, I would have agreed with you that that is one of the most serious situations with which we are faced today in this country. You cannot bring out a law against it, but it is going to absolutely ruin hundreds of small people if you allow this thing to continue.

Mr. PATMAN. Our tax laws encourage that, too. For instance, a concern that is making one of these articles, the socks, for instance, if they make a lot of money, they have to pay a lot of it out in taxes. Whereas if they can get a real good price for their manufacturing plants, they will only have to pay a maximum of 25-percent capital-gains tax. That is another inducement for them to sell.

Mr. SEIDEL. That is right, but the biggest inducement is this one: You have a man who used to manufacture gray goods, for instance. That is his business. He gets to a point where he cannot make any money by making gray goods under the gray-goods ceiling, so he acquires a converter. Then, he starts making finished goods instead of gray goods, because the combined price of the mill goods, plus the converter goods, gives him a profit.

Then he goes along for a while and his labor keeps going up and his material keeps going up, and he finds the second ceiling not too profitable, so he acquires a dress-manufacturing establishment. Then you have a man who originally produced the only gray goods who has now gone all the way through and is producing women's dresses.

Mr. PATMAN. Do you look with favor upon separating manufacturing from distribution, Mr. Seidel?

Mr. SEIDEL. Well, personally, I believe it should be; I do not think that a distributor knows how to run a manufacturing establishment. In our business, we do not believe in acquiring factories. We do not do it.

Mr. BROWN. May I ask the witness a question at that point?

Mr. PATMAN. I am glad to know that. We are going to have a hearing on that bill very shortly.

Mr. SEIDEL. Do not misunderstand me; I say, and I started by saying, that you cannot pass that kind of a law and you know it. Everybody knows it.

Mr. BROWN. I was not here when Congressman Patman asked you about these mills.

Mr. PATMAN. The Congress can do it, though.

Mr. SEIDEL. And if we go to court about it, it will not hold up for 2 minutes, and you all know that.

Mr. PATMAN. Well, we have the Supreme Court over here, you know, half of the lawyers are always wrong; you may be on the wrong side.

Mr. SEIDEL. Well, that may be.

Mr. BROWN. I would like to question you further about these mills. I know that many mills are being sold to northern capitalists. I know of one in particular that was sold in my district a few weeks ago. I wonder why all these mills are being sold to people away from home, who are coming down to run them? I would like to know what it means. Our people are a little up in the air about it, and are getting a little uneasy. Why is that done?

Mr. FOLGER. A man I know in the manufacturing business told me that a great many of them are being sold outright and a great many leased for a term of years. Do you know anything about that?

Mr. SEIDEL. Yes, sir; it is happening in every conceivable kind of way.

Mr. FOLGER. They cannot run them, so they lease them. I do not care whether they are people from the North, the South, the East or the West, or some other country.

Mr. SEIDEL. That is right. Last week I had breakfast with a man who I think is the third largest manufacturer of cotton dresses in the country, and he told me this: Currently, his production is 40 percent of normal, but half of the production is not his own. Half of it is production that he is doing under contract for someone else.

In other words, he is really on only 20 percent normal production, plus the other 20 percent on a contracting basis. He has just been approached by a combine which said to him: "We will put you up in 100 percent production tomorrow if you will make a stock split with us so that we have a half interest in your dress factory." And this man said: "I just do not know what to do."

Miss SUMNER. Did they explain how they could get the deal with the Office of Price Administration through?

Mr. BUFFETT. Just like Mr. Kaiser.

Mr. SEIDEL. Well, if you ever want pricing right in this country, you have got to correct it at the mills first.

Miss SUMNER. I mean, the outfit that was going to take over the stock, did they say how they were going to get around the Office of Price Administration?

Mr. SEIDEL. The reason that brings this sort of thing about, Miss Sumner, is that the mill pricing is wrong, so yard goods are not being produced in the type which ought to be, and in the quantity in which they ought to be, and a great deal of substandard material is being produced and distributed in various ways. It is all wrong. There is nobody in the Office of Price Administration smart enough to take care of that mill problem. I can tell you that. Any mill man knows it.

They set ceiling prices on gray goods; they think they are somewhere near right. The associate counsel of the Office of Price Administration, last November, said to me:

If you look at our gray-goods price on the item you have in your exhibit, I think you will find we are somewhere pretty near on that, because I have checked it and I think it is.

So I got hold of a mill man, and I had him take the two pieces of cloth and show me specifically what the disparity was, and while the pricing, on the face of it, looked fairly good, and looked as if one piece of cloth was priced about 15 percent higher than the other—somewhere near right—when you got the products time, the loom time, the labor, the material, and everything else added into it, you

found that there was a disparity between the two pieces of between 45 and 50 percent.

And there is nobody in the Office of Price Administration smart enough to find that out. If you were running a mill, you would be working for a board of directors which would say to you:

You have a loom here, and it is your job to get from that loom the biggest dollar return you can get.

They would tell you to figure all constructions that you could make on that loom, and in each case, what the labor cost would be, how much loom time would be involved, and how much cotton would be consumed.

Then you would subtract that from the ceiling price which you were allowed to charge, and determine which of these materials would give you the best return. When you got all through doing that, you would find out that you could make the most money on a piece of this substandard wartime substitute goods, and you would not dream of making a good 80-square print or a good piece of broadcloth.

Until somebody straightens that mess out, we are never going to have shirts. We are never going to have the right kind of shirts, because we will not have the right kind of cloth to make them with.

Mr. CRAWFORD. Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. With respect to the sales of these mills, is it not a fact the Office of Price Administration can so issue rules and regulations with respect to costs, and selling prices at the mill, on yarns and yardage goods, and with respect to selling costs and prices at the factory, on underwear, shirts, et cetera, in such a way as to promote these integrated financial deals involving transfers of capital goods to which you referred?

Mr. SEIDEL. There is no question about it, sir.

Mr. CRAWFORD. Now let me ask you another question: To your knowledge, do you know, based that is upon your own knowledge, whether or not that is the net result of what the Office of Price Administration is doing?

Mr. SEIDEL. I will answer that in this way: We have not bought a mill yet. We have been offered mills; we have been offered interests of various kinds; we have been offered chances to obtain supplies by making investments in mills. So far, we have steered completely clear of that kind of business. I think we should. We may be forced to a point where we can get goods in no other way.

It was not until last fall that we would dream of going to Mexico and paying an extra \$197,000 just to get material for dresses.

Mr. CRAWFORD. Now, if I have the power, the influence, and the contact to bring about the issuance of such rules and regulations, the net and result of which is that to which we have referred, how does that differ from a Government agency conferring proprietary rights on certain groups of individuals?

Mr. SEIDEL. It does not differ in the slightest iota. If you have that control, you can completely control a country.

Mr. CRAWFORD. If a bureau has the power to issue such edicts, through rules made by the individual, and not set out by the Congress except in the basic law, then the individual bureau man has the power to confer proprietary rights on individuals?

Mr. SEIDEL. Yes, sir; he surely has.

Miss SUMNER. Should you not go further than that? Whenever you have the power of price increase or price decrease, that is below cost, you have the power to make or break a man. And the subsidy is the same thing, is that not right? And to go further than that, those two powers are the powers with which Hitler subdued German industry.

Mr. SEIDEL. You see, price control was a wartime emergency measure, and it certainly has no place in a peacetime civilian economy, and price control is nothing more or less than production control.

Price control, if it is successful—that is if we are successful in controlling prices at the unrealistic levels that the Office of Price Administration sets—then we know that we impede production and reduce employment.

Miss SUMNER. And confiscate property.

Mr. SEIDEL. There is no question about that.

The CHAIRMAN. Do you advocate the lifting of all price controls?

Mr. SEIDEL. Not quite; no, sir. I would rather wait until I finish to tell you what I do advocate. I think that a great many of them have got to go, however.

Let us look at some of these heaters.

Mr. PATMAN. How many items do you sell, Mr. Seidel?

Mr. SEIDEL. I would have to guess; maybe 7,000, six or seven thousand different items.

Mr. PATMAN. How many items do you have like this in your store, out of six or seven thousand?

Mr. SEIDEL. Like what?

Mr. PATMAN. I mean, that look as though they are flagrant violations of the intent of Congress in the administration of the Price Control Act.

Mr. SEIDEL. If you ask me what percentage of our goods is being sold at the price at which it was sold in 1942, I will tell you; not over 5 percent.

Mr. PATMAN. Not over 5 percent?

Mr. SEIDEL. 95 percent of the merchandise is considerably higher in price than it was in 1942.

Mr. PATMAN. But what percentage of your items would you lose money on, such as you are obviously losing on these items you have mentioned?

Mr. SEIDEL. I am not talking about losing money. We did not lose any money.

Mr. PATMAN. Well, where the manufacturer is losing money, then. Or where production is impeded.

Mr. SEIDEL. Where we cannot get production?

Mr. PATMAN. Yes, such as in the hosiery case. How many items are there like that out of your six or seven thousand?

Mr. SEIDEL. I would say three-quarters of the textile items. On these heaters and things, the percentage is higher than that.

Mr. PATMAN. How many of the textile items are there among the six or seven thousand handled?

Mr. SEIDEL. I cannot tell you that. The figure of six or seven thousand is a guess. Let me say this, and maybe it will clear it up: This condition is widespread, very widespread. You can mention almost any line you want to. I have a list, right here, of all the important items we handle for spring, and I have the quantities we

need for the first 6 months of this year, and what we have on hand and in sight. I can give you that itemized list, item by item, line by line.

The CHAIRMAN. How long before actual delivery are contracts for textiles made?

Mr. SEIDEL. It varies a great deal according to the line, sir. Right now it is very difficult to make any contract before delivery. You are lucky to get anything.

The CHAIRMAN. In normal times, what would you say it is?

Mr. SEIDEL. In normal times it would vary according to the item. For instance, in the case of a sheet, it would not have to be very far in advance of delivery, but in the case of a shirt it would, because you have tailoring involved. The answer to that would not get you anywhere, because it varies too much.

The CHAIRMAN. Does your organization contract for the entire output of any mills?

Mr. SEIDEL. Of any mills?

The CHAIRMAN. Yes.

Mr. SEIDEL. No. Let me cover these heaters for a moment.

Here is an exhibit of a good General Electric heater against a very bad heater. This is one of the exhibits that the Office of Price Administration called phony propaganda.

Mr. THOM. Is it included in this pamphlet entitled "NRDG a Horror Exhibit"?

Mr. SEIDEL. No.

Mr. THOM. Did you have anything to do with this exhibit?

Mr. SEIDEL. Oh, yes, I know all about the exhibit.

Mr. THOM. Is this your exhibit, also?

Mr. SEIDEL. That is an exhibit of the National Retail Dry Goods Association.

Mr. THOM. Did you arrange it?

Mr. SEIDEL. Our association arranged it.

Mr. THOM. I mean, did you have anything to do with it?

Mr. SEIDEL. Oh, yes, I had something to do with it. I did not arrange it, however.

Mr. THOM. Did you make the statements and collect the statements that were made in this pamphlet?

Mr. SEIDEL. I made many of the statements, and I will be very glad to take that pamphlet which you have there limb from limb before we get through, and I am starting to do it right now. That is why I would just like your attention for a minute.

When the Office of Price Administration first looked at this, they said: "That is a piece of junk that they bought in the black market. We have nobody in our business who would approve a price on that at the same level as the General Electric heater."

But so there will be no question about it, let us put it in the record. Here is the order, signed by Chester Bowles, dated August 27, 1945, which approved the price that this heater is labeled with, namely \$3.65 for six or more, \$5.90 retail to the consumer.

Here is a photograph of the order which was published in the Federal Register on Thursday, August 30, 1945. I would like to put that in the record, so there will be no question about the authenticity of the item.

The CHAIRMAN. It may be inserted in the record.

(The following insert is from the Federal Register, Thursday, August 30, 1945:)

[MPR 188, Order 4327]

SUN-RAY APPLIANCE CO.

APPROVAL OF MAXIMUM PRICES

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to § 1499.158 of Maximum Price Regulation No. 188; *It is ordered:*

(a) This order establishes maximum prices for sales and deliveries of certain articles manufactured by the Sun-Ray Appliance Company, 277 Broadway, New York 7, N. Y.

(1) For all sales and deliveries to the following classes of purchasers by the sellers indicated below, the maximum prices are those set forth below:

Article	Model	Maximum prices for sales by any seller to—			
		Wholesale-salers (jobbers)	Retailers (6 units or more)	Retailers (less than 6 units)	Consumers
Single burner hot plate, aluminum, 1 heat, cord and plug.	None.....	<i>Each</i> \$1.97	<i>Each</i> \$2.33	<i>Each</i> \$2.51	<i>Each</i> \$3.75
Electric space heater, black crackle crackle finish, cord and plug.	1000 watt.....	3.09	3.65	3.93	5.90

These maximum prices are for the articles described in the manufacturer's applications dated July 24, 1945, and August 8, 1945. They include the Federal Excise Tax.

(2) For sales by the manufacturer, the maximum prices apply to all sales and deliveries since Maximum Price Regulation No. 188 became applicable to those sales and deliveries. These prices are f. o. b. factory and are subject to a cash discount of 2% for payment within 10 days, net 30 days.

(3) For sales by persons other than the manufacturer, the maximum prices apply to all sales and deliveries after the effective date of this order. Those prices are subject to each seller's customary terms and conditions of sale on sales of similar articles.

(4) If the manufacturer wishes to make sales and deliveries to any other class of purchaser or on other terms and conditions of sale, he must apply to the Office of Price Administration, Washington, D. C., under the Fourth Pricing Method, § 1499.158 of Maximum Price Regulation No. 188, for the establishment of maximum prices for those sales, and no sales or deliveries may be made until maximum prices have been authorized by the Office of Price Administration.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. That tag or label shall contain either of the following statements with the correct order number, model number, and retail ceiling price filled in:

Order No. 4327

Model No. -----

OPA Retail Ceiling Price—\$-----

Federal Excise Tax Included

Do Not Detach or Obliterate

or

Sun-Ray Appliance Company

277 Broadway

New York 7, New York

Model No. -----

OPA Retail Ceiling Price—\$-----

Federal Excise Tax Included

Do Not Detach or Obliterate

(c) At the time of, or prior to, the first invoice to each purchaser for resale, the seller shall notify the purchaser in writing of the maximum prices and conditions

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established by this order for sales by the purchaser. This notice may be given in any convenient form.

(d) This order may be revoked or amended by the Price Administrator at any time.

(e) This order shall become effective on the 28th day of August 1945.

Issued this 27th day of August 1945.

CHESTER BOWLES,
Administrator.

[F. R. Doc. 45-16012; Filed, Aug. 27, 1945; 4:46 p. m.]

Mr. SEIDEL. Next, I would like to put into the record the order that gave General Electric the same price that this man was given. This order was dated November 29 of last year, several months after they approved a price of \$3.65 on this one, they approved a price for General Electric of \$3.68.

Now, after we showed our first exhibit, and they saw the disparity there—by the way, I would like to place the second order, Federal Register of December 1, signed by Mr. Bowles, dated December 29, 1945, in the record so that there will be no question about that.

The CHAIRMAN. It may be inserted.

(The following insert is from the Federal Register, Saturday, December 1, 1945:)

[MPR 188, Order 4723]

GENERAL ELECTRIC Co.

APPROVAL OF MAXIMUM PRICES

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to §1499.157 of Maximum Price Regulation No. 188 and section 6.4 of Second Revised Supplementary Regulation No. 14; *It is ordered:*

(a) This order establishes maximum prices for sales and deliveries of electric heating pads and heaters manufactured by General Electric Company, 1285 Boston Avenue, Bridgeport 2, Connecticut.

(1) For all sales and deliveries to the following classes of purchasers by the sellers indicated below, the maximum prices are those set forth below:

Article	Model No.	Maximum prices for sales by any seller to—			
		Wholesalers (jobbers)	Retailers (6 or more units)	Retailers (less than 6 units)	Consumers
		<i>Each</i>	<i>Each</i>	<i>Each</i>	<i>Each</i>
Electric heating pad.....	PS5A3.....	\$2.73	\$3.22	\$3.47	\$5.20
	PS5A1.....	2.48	2.93	3.16	4.73
Electric heater.....	PH2A1.....	3.10	3.68	3.96	5.95

These maximum prices are for the articles described in the manufacturer's application dated October 26, 1945. These prices include the Federal Excise Tax.

(2) For sales by the manufacturer, these maximum prices apply to all sales and deliveries after the effective date of this order. These prices are f. o. b. factory and subject to a cash discount of 2% for payment within 10 days, net 30 days. The prices for sales by persons other than the manufacturer are subject to each seller's customary terms and conditions of sale of similar articles.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. That tag or

label shall contain either of the following statements with the correct order number, model number and retail prices properly filled in:

Order No. 4723
 Model No. -----
 OPA Retail Ceiling Price \$-----
 Federal Excise Tax Included
 Do Not Detach or Obliterate

or

General Electric Company
 1285 Boston Avenue
 Bridgeport 2, Connecticut
 Model No. -----
 OPA Retail Ceiling Price \$-----
 Federal Excise Tax Included
 Do Not Detach or Obliterate

(c) At the time of, or prior to, the first invoice to each purchaser for resale at wholesale, the manufacturer shall notify the purchaser in writing of the maximum prices and conditions established by this order for sales by the purchaser. This notice may be given in any convenient form.

(d) This order may be revoked or amended by the Price Administrator at any time.

(e) This order shall become effective on the 29th day of November 1945.
 Issued this 29th day of November 1945.

CHESTER BOWLES,
Administrator.

[F. R. Doc. 45-21543; Filed, Nov. 29, 1945; 4:36 p. m.]

Mr. CRAWFORD. You are not making your record clear; where you say "this thing," or "this item," please call it by its name, so that the record shows what it is.

Mr. SEIDEL. Very well.

Mr. THOM. Do we understand now that the General Electric price is satisfactory, and that it has been cleared up?

Mr. SEIDEL. I do not think it is quite satisfactory, but it has been straightened out to a certain extent. However, let me continue and I will tell you the whole story.

After our last exhibit, they increased the General Electric price to \$4.92 for this good bowl heater, and they increased the price to consumers to \$7.95. That is an order in the Federal Register of January 4, signed by James G. Rogers, the Acting Administrator, dated January 2, 1946, and I would like to place that in the record.

The CHAIRMAN. That may be done.

(The following is an insert from Federal Register, Friday, Jan. 4, 1946.)

[MPR 188, Rev. Order 4723]

GENERAL ELECTRIC CO.

APPROVAL OF MAXIMUM PRICES

Order No. 4723 under Maximum Price Regulation No. 1§§ is amended and revised to read as follows:

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to §§ 1499.157 and 1499.159e of Maximum Price Regulation No. 188 and section 6.4 of Second Revised Supplementary Regulation No. 14; *It is ordered:*

(a) This revised order establishes maximum prices for certain sales and deliveries of two electric heating pads and one electric heater manufactured by General Electric Company, 1285 Boston Avenue, Bridgeport 2, Connecticut, as follows:

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For all sales and deliveries to the following classes of purchasers by all sellers, the maximum prices are those set forth below:

Article	Model No.	Maximum prices for sales to—			
		Whole-salers (distributors)	Retailers		Consumers
			6 or more	Less than 6	
Electric heating pad.....	PS5A3.....	<i>Each</i> \$2.73	<i>Each</i> \$3.22	<i>Each</i> \$3.47	<i>Each</i> \$5.20
Electric heater.....	PS5A1.....	2.48	2.93	3.15	4.73
	PH2A1.....	4.16	4.92	5.30	7.95

These maximum prices are for the articles described in the manufacturer's application dated October 26, 1945. They include the Federal excise tax and are subject to each seller's customary terms, discounts, allowances and other price differentials on sales of similar articles to each class purchaser.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. That tag or label shall contain either of the following statements with the correct order number, model number and retail prices properly filled in:

Model No. -----
 OPA Retail Ceiling Price -----
 Federal Excise Tax Included -----
 Do Not Detach or Obliterate

or

General Electric Company
 1285 Boston Avenue
 Bridgeport 2, Connecticut
 OPA Retailing Ceiling Price \$-----
 Federal Excise Tax Included -----
 Do Not Detach or Obliterate

(c) At the time of, or prior to, the first invoice to each purchaser for resale at wholesale, the manufacturer shall notify the purchaser in writing of the maximum prices and conditions established by this order for sales by the purchaser. This notice may be given in any convenient form.

(d) Adjusted maximum prices for sales by the manufacturer and by distributors to dealers shall be determined in accordance with the provision of Order No. 6 under \$1499.159 (e) of Maximum Price Regulation No. 188.

(e) This revised order may be revoked or amended by the Price Administrator at any time.

(f) This revised order shall become effective on the 2d day of January 1946.
 Issued this 2d day of January 1946.

JAMES G. ROGERS, Jr.,
Acting Administrator.

[F. R. Doc. 46-90; Filed, Jan. 2, 1946; 5:00 p. m.]

Mr. SEIDEL. Now, here is the next best heater that the General Electric Co. make, and that is called the General Electric's Arizona heater. They have a ceiling price on that of \$5.66, and a price to the consumer of \$8.59.

Now they are in the very peculiar situation of having a price on this heater of \$7.95, and another price on the second best of \$8.59. And of course there is nobody in the room that would not give more than 64 cents more to get this one as against the other. There is no comparison in the heater, in its utility, or in any part of it.

Mr. FOLGER. In the life of it?

Mr. SEIDEL. No. Now let us take the second one. That is made by a newcomer, the Jamaica Machine Co., of Boston, and they get a

price, on August 28, 1945, of \$9.69 as against General Electric's \$5.66, and the price to the consumer, preticketed, now, with an Office of Price Administration preticketed selling price, of \$15.67.

Mr. GAMBLE. As against \$8.59?

Mr. SEIDEL. Yes, for this heater. Both of these will throw the same amount of heat.

Miss SUMNER. What do you mean by "preticketed"?

Mr. SEIDEL. The Office of Price Administration requires, on any item on which they issue a special pricing order, that the consumers' price would be put on to the item by the manufacturer, so that there would be no question in the consumer's mind but what she is buying the goods produced under an Office of Price Administration pricing authorization at a special price.

When you preticket an item—

Mr. CRAWFORD. At that point, what is the psychological reason for doing that?

Mr. SEIDEL. Maybe they do not trust the retailer.

Mr. CRAWFORD. No. The nonsagacious customer buys something which that customer thinks is sanctified by the Office of Price Administration, not realizing the skin game that is illustrated by that point.

Mr. SEIDEL. That is right. When a consumer buys an item like this, and it has a Government label on it, \$15.67, I think the consumer has the right to expect that it should be worth something like \$15.67, and of course it is not.

Mr. BROWN. Of course, that man cannot stay in business if his cost is \$9.69 as against the other man's \$5.66. He would not be in business very long, would he?

Mr. SEIDEL. I would like to point out that the General Electric Co. cannot make this one for \$5.66.

Mr. BROWN. That is what you have stated as its cost, is it not?

Mr. GAMBLE. That is the Office of Price Administration ceiling.

Mr. SEIDEL. Yes; but General Electric has told me that this heater is produced at quite a loss right now.

Mr. MONRONEY. Have they ever asked for price relief?

Mr. SEIDEL. Yes; I think they have.

Mr. MONRONEY. On what date?

Mr. SEIDEL. I do not know.

Mr. MONRONEY. Do you not think that is rather important, with respect to these exhibits?

Mr. SEIDEL. No, and I will tell you why; I am not even sure that General Electric has as yet completed the application for price relief on this item, and I am not at all sure that they can. Before you can fill out the form, you have to know what you are going to have to pay to the man who supplies you with the parts that go into it, and you cannot get that information. He hasn't got his price release. So the whole thing is log-jammed. A man is making an iron, let us say; he has to buy a gray casting; he has to buy an element; before he can file for price relief on the iron, he has to know what his cost of castings will be. And the man who makes castings cannot tell him that.

Mr. BROWN. I think this is very important; you have one of those heaters made at a cost of \$5.66; you admit that both heaters throw off the same heat, and you have another heater at a cost of \$9.69; does it cost more to make the other one than it does to make the one of \$5.66? We are trying to get production, you know.

Mr. SEIDEL. I think it does, because I think this man is not experienced in making heaters, and therefore he would be a much higher cost producer than General Electric.

Mr. MONRONEY. Would you not like to get his production as well?

Mr. SEIDEL. No.

Mr. MONRONEY. You do not want the market to have it?

Mr. SEIDEL. In this particular case, I would not think of it; as a matter of fact, these heaters, where they have been tried, are currently being sold at 25 percent less than the ceiling price and they are not even selling at that.

Mr. BROWN. Is this man making more profit than General Electric?

Mr. SEIDEL. I can buy you any number of this type of heater for 25 percent less than the price.

Miss SUMNER. Do you mean they are no good?

Mr. SEIDEL. No; they are overpriced. I would not say that heater is no good; it has nothing like the style that the General Electric heater has, and I am sure everybody would agree that you would rather have the element that General Electric would put into an electrical product than the element that a machine company would put into that product.

Miss SUMNER. You said a while ago that the situation would be different if you were in the red, or if you did not have a volume of \$200,000. Does General Electric come under that rule, that you have to be in the red or you have to have a volume of \$200,000?

Mr. SEIDEL. No; this is under their reconversion order and General Electric could fill out an application, but at the present time unless General Electric gets a price approval they automatically have to make their goods at their 1941, fall, cost, plus 8 percent. Now nobody can produce goods at the 1941 cost plus 8 percent, with the subsequent increase in material and labor costs that we have had. They just cannot do it.

Mr. THOM. We are a little confused here now; we understood the burden of your argument to be that the Office of Price Administration was illiberal in its pricing arrangements. Now you say the prices are too high.

Mr. SEIDEL. I did not say they were illiberal in all cases. In every example we have in this exhibit, and in the other exhibit, we show you a wide disparity between the prices they grant. This price should be nothing like \$15.67; this price should be nothing like \$3.65; it should be \$1.25. The people down here pricing goods have not the slightest conception of how to price.

Mr. THOM. That applies to everything, does it not?

Mr. SEIDEL. Pretty generally; yes, sir.

Mr. MONRONEY. By your argument, then, if you did not give the little manufacturer who is starting up without the know-how an incentive price so that he can get into production, how is he going to learn, some day, to make a heater like those which you have exhibited, and which General Electric makes?

Mr. SEIDEL. Maybe so, but at the same time, sir, you have got to give the big producer price enough to let him get into production.

Mr. MONRONEY. Do you know whether it is price that is holding back those heaters? Can you speak for General Electric, or are they busy making electric refrigerators or something in which they are much more interested and in which they are getting their share of the market?

Mr. SEIDEL. This part of General Electric does not make refrigerators. They make the electric appliances, irons, heaters, and so on.

Mr. THOM. Are they not out on strike?

Mr. SEIDEL. A lot of them are on strike; yes.

Mr. THOM. General Electric is all shut down, is it not?

Mr. SEIDEL. I do not know whether all of it is; I think they are.

Mr. BROWN. I would like to know whether those people are making money now on that particular heater.

Mr. SEIDEL. On this particular heater, General Electric does not make money, I will assure you of that, and I will also tell you that they told me as recently as the day before yesterday that they could not tell me the actual cost of production on that heater today.

Mr. MONRONEY. They have not applied for price relief, have they?

Mr. SEIDEL. They have gotten it, on this.

Mr. MONRONEY. Well, maybe they will be happy to make that and wait until a later date, until the market gets more competitive before they make their No. 2 item.

Mr. SEIDEL. I just told you, they would like to make this, and they have not price enough to make it. Further, if I were General Electric, I doubt if I would apply, because when you apply for relief you give the Office of Price Administration the right to regulate your production by price line. I doubt if I would have any part of that. Why should we give the Office of Price Administration any such right? Why should that be a consideration for granting the price relief?

A great many manufacturers have not filed for that very reason, and they may be one of them. Although they did get a price on this one, and they must have filed in order to get it.

Mr. CRAWFORD. Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Seidel, is not the burden of your argument directed to the point that the Office of Price Administration, through its pricing policy of refusing to grant 25 cents or 50 cents, or a dollar, increase in price per unit, keep that unit of quality out of production and away from the consumer, when they might buy it, for instance, at \$8.59, and the Office of Price Administration proceedings otherwise to put in business, through approval of the price of the manufacturer to the retailer, an article no better which sells to the retailer for \$15.67?

Mr. SEIDEL. Yes, sir.

Mr. CRAWFORD. And you are asking that that burden be removed from the consumers of the United States?

Mr. SEIDEL. I am.

Mr. CRAWFORD. Let me ask you another question: Do you take the position that we are not here considering a question of regulating profits, but that we are following the preaching of all administration officials to get production back into the hands of the people so as to meet this inflation danger?

Mr. SEIDEL. That is of course quite right, yes, sir.

Mr. CRAWFORD. That is the burden of your argument?

Mr. SEIDEL. Yes, sir.

Mr. PATMAN. And too, are you not arguing for a unit price, or a profit on each unit, both to the manufacturer and to the distributor?

Mr. SEIDEL. Why, of course.

Mr. PATMAN. On each item?

Mr. SEIDEL. Of course.

Mr. PATMAN. Then you never did make a profit on all the items in your store; did you?

Mr. SEIDEL. I am not arguing for a profit on each item in the retail store.

Mr. PATMAN. I thought you were.

Mr. SEIDEL. You never heard me say anything that would imply that. I have not even mentioned it.

Mr. PATMAN. I am trying to find out what you are saying.

Mr. SEIDEL. Oh, no.

Miss SUMNER. He has been telling us that he went to Mexico and took a loss.

Mr. SEIDEL. When a customer comes into a store and buys a spool of thread for 5 cents, it probably cost us 17 cents to wait on her; we do not want to sell our bed for a quarter, however.

Mr. PATMAN. That is an exceptional case.

Mr. SEIDEL. Well, it is one of them.

Mr. PATMAN. We never consider an exception to be the general rule. If you take 7,000 items in your store, and say that there are 10 or 15 or 20 of them which are clear out of line—and which they should not be and I agree that they should not be—does that justify upsetting the whole program?

Mr. SEIDEL. I am not even talking about the retail store. All I am talking about is giving a man who makes goods sufficient price so that he will make goods so that we will have something to sell. I do not care if we sell at a loss.

Mr. PATMAN. If they are so interested in this thing, why are you here? General Electric are pretty big people themselves. Why are they not here insisting on this?

Mr. SEIDEL. We are here because we think it is in the public interest to be. We are here to explain to you why we cannot give our customers what they ought to have.

Mr. WOLCOTT. I understand that Mr. Wilson, president of General Electric, will be here Friday.

Mr. PATMAN. That is fine.

Mr. SEIDEL. Congressman, we can give you a much broader picture than one manufacturer could; we buy all kinds of items.

Mr. PATMAN. Are you for the extension of the Office of Price Administration with amendments?

Mr. SEIDEL. Yes, but not in anything like its present form.

Mr. PATMAN. Now I am just as sincere about this as I can be; I want to know what the amendments are; I want to see them; if we can improve this law with amendments, I am for the amendments.

Mr. SEIDEL. All right. I would like to go through with these examples, though, and document these cases.

Mr. MONRONEY. There is one question I would like to ask you; how many members does the National Retail Dry Goods Association have?

Mr. SEIDEL. Approximately 7,000.

Mr. MONRONEY. Is it not true that a letter went out to those 7,000 members, asking them to pick out examples such as this in the market, and supply the National Retail Dry Goods Association with this information?

Mr. SEIDEL. Yes, I think that letter did go out.

Mr. MONRONEY. Do you not think, as a merchandiser—and I know you have ridden the buyer's desk a lot longer than I have—but when you are looking for disparities between prices, with the little manufacturer trying to get established and the larger manufacturer already established, either in a free market or in an Office of Price Administration market, that you are going to have a wide disparity between the values that are offered?

Mr. SEIDEL. Of course.

Mr. MONRONEY. Are not these examples that you have shown in your exhibit in the House Office Building, and that you show here today, an example of that disparity that has always existed in merchandising, and which I hope always will, because it is a part of our system?

Mr. SEIDEL. Well, now, wait a minute; the thing we have shown has never existed in our merchandising; if it cost General Electric \$8 to make this heater—

Mr. PATMAN. Are you sure it does?

Mr. BROWN. Mr. Monroney has the witness.

Mr. SEIDEL. I will give you their exact cost; this is \$5.66; but take any figure you want to; take \$7; I am fairly sure the cost is at least \$7. Never before the Office of Price Administration came along was General Electric in the position where they could not produce this for \$7 if it cost them \$7. And if we did not want to pay \$7 and Westinghouse could beat them, they would put out something cheaper. But we are not talking about that. I do not care what they do about that.

Mr. MONRONEY. You told me awhile ago, though, that this extravagantly priced heater had to be marked down 25 percent; somewhere down in this merchandising line there is some competition in low-priced heaters that is helping to drive that price down, even under the Office of Price Administration ceiling, and if you can keep the manufacturers in a strong profit position, willing to maintain their name in the market, and making good value merchandise, it will probably react very advantageously to General Electric to sell those heaters at as near their cost as they can.

Mr. SEIDEL. But why should not General Electric get their cost? Why should General Electric be asked to sell this at less than cost? Does that make sense?

Mr. MONRONEY. I am asking you if they have ever applied for price relief. The Office of Price Administration cannot just pick them out of the blue—

Mr. SEIDEL. The Office of Price Administration is the one who decided that they could make them at 1941 prices plus 8 percent. There is not a person sitting here who does not know that things have gone up more than 8 percent since 1941.

Mr. MONRONEY. My understanding was that General Electric told the Office of Price Administration that they would bring back their lines at the 1942 prices until this recent labor strike, which will probably cause a scaling up of their prices. I think that was General Electric's policy.

Mr. SEIDEL. Almost overnight, there was a statement in the press, right across the country, by the head of General Electric, pointing out how that could not possibly be done on individual items. The very next day. You are quoting one press report, which was completely denied the next day.

General Electric, and I will tell you here and now, cannot produce this heater for \$5.66, and I see no reason why they should be asked to produce it at less than cost. If they are, the chances are that their production will be diverted to items on which they can recover their costs. General Electric is no different from anyone else; in which case we will not have this heater, and it will leave the market free for people producing heaters like this one.

Mr. MONRONEY. But the Office of Price Administration cannot reach up into the blue and say: "You made no application for price relief, and so we are going to give it to you."

Mr. SEIDEL. Why not? The Office of Price Administration could issue a regulation saying that every one of these appliance manufacturers could have 1941 cost plus a realistic percentage increase over that. Any item they wanted to.

Mr. THOM. What do you mean by realistic?

Mr. SEIDEL. One that was somewhere near——

Mr. THOM. How much?

Mr. SEIDEL. Somewhere around 25 percent. Something that is somewhere near what the actual increase has been.

I would like to be sure to get in the record the pricing order on this heater.

Mr. PATMAN. What you know about it, I am perfectly willing to accept; I know you are honest and truthful about it; but you do not know what that heater cost. You do not know whether it cost General Electric \$5.66 or \$4.66 or \$6.66.

Mr. SEIDEL. That is not quite so. I know it cannot be produced for this price.

Mr. PATMAN. You are not the manufacturer.

Mr. SEIDEL. But I know that General Electric is not in a position to determine, to the penny, what their costs are, but they are somewhere near \$7.

Mr. PATMAN. Well, you say that; what does General Electric say?

Mr. SEIDEL. That is what General Electric said to me, sir. That is where I get my information, from talking with General Electric. And I spend a good deal of time with them. It is somewhere near \$7, but they cannot figure their costs.

Mr. BROWN. Are they driven out of making that particular type of heater and into making something else now, or are they still making that particular type?

Mr. SEIDEL. I do not know how many they are making. They are making some of them, but I know that if you try to find one in the market, you cannot.

Now let me put this in the record: In the city of New Haven, where I was 2 weeks ago, there were three heaters of this kind, the General Electric, and several hundreds of the other.

Miss SUMNER. Before you leave it, it has been repeatedly said that it was the little man who was making this high-priced article. My observation is that it has been some large New York outfit buying up little factories and mills and whatnot. Is it your information that these people who are given the high prices are all small, new operators?

Mr. SEIDEL. No; it is not. Every kind of person is getting bad pricing.

Mr. CRAWFORD. Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Suppose it was the small dealer; is the Office of Price Administration designed for the purpose of promoting industry and putting people into business, and passing the cost on to the consumer as illustrated by those two heaters? If that is the concept of the Office of Price Administration, we should know about it.

Mr. SEIDEL. You see, the Office of Price Administration does all sorts of things that you all know they have no right to do. They have their MAP plan, which we keep on talking about; nobody has a right to go into a Federal court and challenge the MAP plan. That thing is not legal. There is not a word in the Stabilization Act that gives them the right to have the MAP plan.

Mr. WOLCOTT. Let us correct that. If it is not legal, it can be tested in the courts.

Mr. SEIDEL. Where?

Mr. WOLCOTT. In the Emergency Court of Appeals.

Mr. SEIDEL. Who would want to go to that court?

Mr. PATMAN. You do not question that test?

Mr. SEIDEL. I certainly do.

Mr. PATMAN. They are regular judges, appointed for life.

The CHAIRMAN. Mr. Wolcott has the witness at this time.

Mr. WOLCOTT. I do not think you should make that statement, because under the law, if it is an illegal regulation, it can be reviewed in the regularly established courts, through the Office of Price Administration Emergency Court of Appeals. And if they are not satisfied with that decision, they can take it to the United States Supreme Court.

Mr. SEIDEL. Who would hear it?

Mr. WOLCOTT. Now wait a minute; you are making a pretty good case, do not spoil it by making these statements.

Mr. SEIDEL. A year and a half ago, when we were in the courts before the Office of Price Administration—we were there for a year and a half or so——

Mr. THOM. Who is "we"?

Mr. SEIDEL. The Grant Co. We won our case in the courts.

Mr. WOLCOTT. Well then, you got redress, did you not?

Mr. SEIDEL. That is right. But we hung there by a fingernail, in the regular courts; we had the records of the Emergency Court of Appeals searched, and at that time, in about 1½ years' operation, no taxpayer had won a single case in the Emergency Court of Appeals.

Mr. WOLCOTT. Well, you could have taken it to the Supreme Court. Where did you get your final decision?

Mr. SEIDEL. In the district court of New York.

Mr. WOLCOTT. Did they not appeal it?

Mr. SEIDEL. No; we got a 32-page decision against the Office of Price Administration in the Federal district court, and the Office of Price Administration decided not to appeal it.

Mr. WOLCOTT. On this MAP regulation, there is no reason under the sun, as I understand the law, why you should not have a review of that by the Emergency Court of Appeals, and then, if you desire, take that to the Supreme Court, because the law specifically says that they would have to give preference to these cases.

Mr. SEIDEL. If it were done, it would have to be done by some manufacturer. But if the law were such as to permit the man going

into the regularly constituted Federal court, and appealing the MAP regulation there, I think that would be better.

Mr. WOLCOTT. I have criticized the Office of Price Administration, and I have defended the Office of Price Administration on occasion. I think one of the worst things that could happen to us would be to give the district courts jurisdiction over the legality of these regulations; you would have economic chaos, chaos in distribution of goods and in the manufacture of goods.

Mr. SEIDEL. Let me say this: We are in the courts in Denver right now; what do you suppose we are in the courts for? Because we insist that we can sell fried shrimp for more money than we sold an oyster stew for some week in 1943. The Office of Price Administration is already trying to shift us into the Emergency Court of Appeals. We do not want to be in there. We would like to have a regular Federal court decide the case.

Mr. THOM. That is the law.

Mr. SEIDEL. The law?

Mr. THOM. Yes.

Mr. SEIDEL. That we cannot charge more for fried shrimp than for an oyster stew?

The CHAIRMAN. Order, please; Mr. Wolcott has the witness.

Mr. SEIDEL. Our attorney would like to make a statement in connection with one of your comments.

Mr. FISCHBACH. My name is Hyman G. Fischbach, and I am general counsel for the National Retail Dry Goods Association. I practice law. The National Retail Dry Goods Association is simply one of my clients.

Mr. Wolcott's question to Mr. Seidel with regard to administrative review presents a very serious question and I think you gentlemen, as legislators, are very, very much concerned with it, just as business in general is concerned with it.

Now certainly, during the period of hostilities, you gentlemen in your wisdom decided that there should be one court, and you provided for a method of administrative review of the action taken by the Price Administrator under the Emergency Price Control Act, and there was no quarrel whatsoever with the wisdom that you exercised as Members of Congress in making that provision.

But times have changed; hostilities are over; the time has come when the courts of the United States generally ought to be restored to the jurisdiction that they have historically enjoyed.

Mr. WOLCOTT. Well, Mr. Fischbach, we were arguing here whether they had a right to go into the courts now, and review the question of validity. What we do in peacetime and what we have done in wartime are a matter of policy.

Mr. FISCHBACH. I will grant you that, sir.

Mr. WOLCOTT. Let us get to the point.

Mr. FISCHBACH. As to the MAP?

Mr. WOLCOTT. As a lawyer, do you contend that you could not get the MAP heard in the Emergency Court of Appeals if it was your contention that it was unconstitutional?

Mr. FISCHBACH. There is no such contention; if you were my client, however, and you were up against the MAP, I would have to advise you that you had to live under MAP all the time. If you went through an administrative review in the Price Administrator's

Office, you would have to file a protest before the Board of Review; then you would apply for an opportunity to have a hearing, and as a matter of practice, it is usually denied there. And instead of a hearing you would be told to file a petition, told to file your evidence in written form. After that—

Mr. WOLCOTT. Are you in court now?

Mr. FISCHBACH. No, you are not in court; you are in the Office of Price Administration; and all this time that you are in the Office of Price Administration, you have got to continue your business under MAP notwithstanding that by the time the case actually gets to the Emergency Court of Appeals you may be out of business, and I might be out of a client.

Mr. WOLCOTT. Well, the Office of Price Administration Act provides that you can make application to the Emergency Court of Appeals for a mandamus order to compel them to act, and if they do not act within a certain number of days, the matter is automatically before the Emergency Court of Appeals. You know the law.

Mr. FISCHBACH. That is true, but there is this—

Mr. WOLCOTT. Whether they are doing it or not, that is the law, and if they are doing something that is not in accordance to the law, then you can take it to the United States Supreme Court and get there quicker through the Emergency Court of Appeals than you would if you took it through the district courts.

Mr. FISCHBACH. Yes, but if you had a perfectly obvious case, the Federal judge in your district court would have no hesitancy whatever in enjoining the OPA.

Mr. WOLCOTT. I think you are weakening your case, if you contend that the court is invalid. Otherwise, you are making out a pretty good case.

Mr. FISCHBACH. Well, I do not think so.

Mr. PATMAN. Mr. Fischbach, you are the attorney who wrote that amendment, are you not?

Mr. FISCHBACH. Yes; I am.

Mr. PATMAN. Do you have the amendment now?

Mr. FISCHBACH. I have.

Mr. PATMAN. Suppose you let us see it.

Mr. FISCHBACH. I should like very much to have Mr. Seidel proceed with his presentation, and at the proper time I would like to offer the amendment to every member of the committee.

The CHAIRMAN. That will be all right.

Mr. MONRONEY. Before we leave this court matter, I would like Mr. Seidel to amplify the statement he made a moment ago that no taxpayer has ever won a case in the Emergency Court of Appeals.

Mr. SEIDEL. I qualified that by saying that that search of the records was made something like a year and a half ago. It was made by our attorney.

Mr. MONRONEY. As I understand it, just about everybody in this country pays some taxes; I think you had better redefine taxpayer.

Mr. SEIDEL. Does the FHA pay taxes? They won one case in the Emergency Court of Appeals. As far as I know, the FHA pays no taxes.

Miss SUMNER. When was the search made?

Mr. SEIDEL. I cannot be sure of the date.

Mr. PATMAN. But you say your company won the case?

Mr. SEIDEL. Not in the Emergency Court of Appeals.

Mr. PATMAN. Well, it went through the Emergency Court of Appeals, did it not?

Mr. SEIDEL. It did not; it was not appealed to the Emergency Court; they tried their best to get us in there; we put up 14 defenses before the regular court in New York, we challenged the constitutionality of the act itself and of every regulation they have ever issued, under the act, and the court only threw out 12 out of the 14 and left us in there on the other 2, so we carried our case on with the Office of Price Administration for a year and a half or so in the New York courts, and finally got a 32-page Federal decision out of the court in the southern district of New York. And the Office of Price Administration chose not to appeal it.

Mr. WOLCOTT. Mr. Seidel, you had that case in the district court for a year and a half; had you gone to the Emergency Court of Appeals, it would have to have been disposed of in the United States Supreme Court in less time.

Mr. SEIDEL. But we would have lost it, sir. A number of other companies lost similar cases.

The CHAIRMAN. I think we had better proceed.

Mr. PATMAN. I do not think you can question the integrity of the court.

The CHAIRMAN. Let us proceed.

Mr. SEIDEL. Let us take electric irons now.

Mr. HAYS. Mr. Chairman, while Mr. Seidel is arranging his exhibit, I would like to ask that when referring these irons he tries to identify them. Otherwise the record will not mean anything to us.

Mr. SEIDEL. I am trying to do that.

Mr. MONRONEY. I think if you refer to X company, that will help us.

Mr. SEIDEL. Very well, I will try to do that.

The CHAIRMAN. Proceed, Mr. Seidel.

Mr. SEIDEL. Prewar, the average production of electric irons in the country was about 5,000,000 units, and that holds true of years like 1936, 1937, 1938, 1939, or a combination of all four of those years. About 5,000,000 were made per year. And of the 5,000,000, about half—2,500,000—were sold to consumers at less than \$3, and the other half at prices over \$3.

The Office of Price Administration, about a year and 3 or 4 months ago, issued their iron order, which permitted the production of goods by any manufacturer at his fall, 1941, or spring, 1942, price. And at that time, or shortly after that time, I pointed out to the Office of Price Administration that that order would mean that the only irons that would be produced under it would be those that had high profits in their base period, and it would mean that only high-priced irons would be available, and no low-priced irons.

I have a letter that I wrote to Mr. Brownlee, and it is dated February 15, of last year, pointing that problem out to him very clearly, giving him the production of irons, and so on, and what we thought ought to be given people in the way of price increases in order that consumers would have low-priced irons. I would like to point out that in March of 1942, the fastest selling electric iron that we had in our business sold for \$2.29. Since reconversion has started and irons have again appeared on the market, the lowest priced one that we can sell is \$6.50.

Our fastest selling one used to be \$2.29, and the one we can sell now, sells for \$6.50, unless we want to buy some of the inferior ones.

Mr. THOM. That is another instance where prices have not been held down, is that not right?

Mr. SEIDEL. Well, you have completely knocked out of production—

Mr. THOM. Well now, answer that question; that is another case where the Office of Price Administration has gone wild on prices and put them too high, is that not right?

Mr. SEIDEL. Yes; that is right.

Mr. THOM. All right.

Mr. SEIDEL. They have put some too high, and they have not given the low-priced iron producer sufficient price to cover his cost, so that he is not making irons.

Now I would like to first put in the record—

Mr. THOM. Will you name the company that is not making irons?

Mr. SEIDEL. Yes, sir; I will. Will you let me go along in sequence so that I do not get confused? I have not gotten into these yet.

This is the Nelson Machinery Co., of Cleveland, Ohio. But I would rather go on in the proper sequence, so that this will be understandable to every one.

The CHAIRMAN. You may proceed in your own way.

Mr. SEIDEL. I would first like to put into the record my letter to Mr. Brownlee on the subject of irons, together with their reply to me in which they said:

We agree with a lot you said but we think this is a War Production problem rather than one of ours.

The CHAIRMAN. That letter may be inserted in the record.

(The letters referred to are as follows:)

FEBRUARY 15, 1945.

Mr. JAMES F. BROWNLEE,
Deputy Administrator, Office of Price Administration,
Washington, D. C.

DEAR MR. BROWNLEE: You will recall that during our discussion last week, the question of reconversion goods was raised, and there was some discussion of the action that had recently been taken on the pricing of electric irons.

The point was made that these irons would be returned to production at costs prevailing in March of 1942. While this is unquestionably true of some electric irons, I am quite sure that you will find that the over-all result is that only those irons with relatively higher-profit margins will be produced, and that the prices at which electric irons are available to consumers will be considerably higher than the average price which consumers formerly paid for irons.

In any event, I felt that I might be helpful in forwarding the following information, and I hope that you can use it to advantage.

First, I would like to make the point that the figures used are approximates and estimates. They are a combination of source-production data, data published by the Bureau of Domestic Commerce, and information contained in trade publications. The figures are sufficiently good to be usable.

During the 3 years prior to price control (1939 through 1941), the sales of all electric irons were approximately as follows:

	Estimated	
	Units	Value
Automatic type (retail prices \$4 to \$10)	7,800,000	\$39,200,000
Nonautomatic type (retail prices \$1 to \$4)	7,900,000	18,400,000
Total	15,700,000	57,600,000
Annual average	5,233,333	11,520,000

You will note that approximately half of these irons were of the automatic type and the average retail price was approximately \$5.03. The remaining half were of the nonautomatic type, and the average retail price of these irons was approximately \$2.33.

As your representative pointed out, the industry experienced price increases in late 1941 and early 1942 which raised March 1942 prices somewhat above this figure. After checking all data available on this point, we would say that it is our best estimate that the prevailing average price in March 1942 for automatic-type irons was approximately \$5.75, and the average price for irons of the non-automatic type approximately \$2.60.

Both of these figures may be slightly on the high side because the national figures include irons made for commercial use which ordinarily are sold at much higher prices than irons for domestic use. Our largest volume during this particular period on nonautomatic irons was probably obtained at a retail selling price of \$2.29.

It seems to us that the reconversion authorizations should have provided for approximately half of the irons to be in a low-price nonautomatic group. If it were possible to do this at March 1942 prices, the result would be approximately as follows:

1,000,000, at \$5.75.....	\$5, 750, 000
1,000,000, at \$2.60.....	2, 600, 000
Total.....	8, 350, 000

As nearly as we can tell after reviewing the authorized quantities and cost prices the indicated retail prices of the new irons will average approximately \$7.50.

2,000,000, at \$7.50.....	\$15, 000, 000
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We realize that it probably would not be possible to restore production of the low-priced irons at costs which prevailed in March 1942, but we do believe that it would have been possible to set up a program which would achieve approximately the following results:

1,000,000 automatic irons, at \$7.50.....	\$7, 500, 000
1,000,000 nonautomatic irons, at \$3.....	3, 000, 000
Total.....	10, 500, 000

Such a program would mean that the total selling prices paid by consumers would be approximately 25 percent more than they would have paid in March 1942 whereas the present program will mean that consumers will pay 80 percent more than they paid in March 1942.

Of course, because of increases in costs, manufacturers of the low-priced non-automatic irons are not able to produce these irons at March 1942 costs, and allowing them such an increase would probably mean a departure from your cost-absorption policy. However, it would seem to me that unless your program calls for making exceptions in instances of this kind, industry will be without incentive to produce anything except higher-priced items with 1942 profit margins sufficiently high so as to permit absorption of the subsequent labor and material cost increases, with the result that the consumers in the medium- and low-income groups will be forced to purchase merchandise in price ranges much higher than those in which they would normally buy.

To be more specific, one of our fastest selling electric irons in March 1942 was purchased at a cost price of \$1.37½. We don't know what this manufacturer would need in the way of costs to produce this item today. Probably the figure would be between \$1.75 and \$2, but shouldn't provision be made for bringing merchandise of this type back on the market? As indicated above, half of all the irons in the country were of the nonautomatic type, ranging in selling price from \$1 to \$4. Our lowest priced iron is now \$6.50.

The problem indicated here, it seems to me, obtains in some degree in every type of consumer goods, and unless corrective action is taken promptly, it seems reasonable to assume that more and more low-priced goods will disappear from the markets.

After you have had an opportunity to review this data, I would appreciate it if you could give me your reaction to it.

With kindest regards,
Sincerely yours,

W. T. GRANT Co.,
R. A. SEIDEL,
Vice President and Comptroller.

Attachment B

OFFICE OF PRICE ADMINISTRATION,
Washington 25, D. C., March 13, 1945.

Mr. R. A. SEIDEL,
Vice President and Comptroller, W. T. Grant Co.,
New York, N. Y.

DEAR MR. SEIDEL: Mr. Brownlee has referred to me your letter of February 15 regarding electric irons. I am grateful for the figures you have furnished which supplement in some respects the figures we have previously seen in Electrical Merchandising.

I believe there is no disagreement between us as to the desirability of restoring low-priced lines to production. In the case of electric irons, which had been entirely cut off, a specific production program was developed by the War Production Board. The decisions as to the firms and the models to be authorized rested with that office. Because we recognized the need for price relief applicable to the low-priced models, an adjustment provision authorizing such relief was issued. I enclose a copy for your information. Under its terms the prices of three manufacturers have been adjusted; but you are quite right in pointing out that the bulk of the volume authorized lies in models in the medium- and higher-priced categories.

I believe it would be appropriate for you to bring your views to the attention of the War Production Board and the Office of Civilian Requirements.

Sincerely,

HARVEY C. MANSFIELD,
Price Executive, Durable Goods Price Branch.

Mr. SEIDEL. The Nelson Machinery Co. applied to the Office of Price Administration for a price, and applied repeatedly. They held them to a price of \$1.20, which they claim is less than their cost of production. They claim that they needed \$1.55. And, incidentally, both of these prices include Federal excise tax, which is 10 percent; if they were allowed the \$1.55, they would have \$1.45 net.

He said that he can make this iron for \$1.41, plus the 14 cents excess tax, or \$1.55, but he cannot do so for \$1.20. As a consequence, he has made none.

Now this other iron——

Mr. MONRONEY. What else does he make, before you leave that point?

Mr. SEIDEL. He makes other numbers in irons, appliances, and so on. I think he has made no irons whatsoever since the iron-pricing order came out.

Mr. MONRONEY. He does make other appliances, however? The plant is not down?

Mr. SEIDEL. No; it is not down; he is making something.

This is the iron that was shown in the exhibit, and when that was shown, Mr. Bowles and several of the other people from the Office of Price Administration said they had never given this man a price on this iron. The head of the Consumer Advisory Council of the Office of Price Administration said: "We will have that fellow in jail in 6 weeks." I think he said 6 weeks. He said: "We are going to prosecute him for fraud."

The first thing I would like to do is to put into the record the pricing order on that iron, signed by Mr. Bowles, and this order is dated January 21, 1945, and it is published in the Federal Register of April 17.

The CHAIRMAN. It may be inserted.
(The order referred to is as follows:)

PART 1499—COMMODITIES AND SERVICES

[SR 14J, Amdt. 3]

ELECTRIC IRONS

A statement of the considerations involved in the issuance of this amendment, issued simultaneously herewith, has been filed with the Division of the Federal Register.

Supplementary Regulation 14J is amended in the following respect:

The following is added to the list of company names, model numbers, descriptions and retail ceiling prices at the end of section 2.3 (a) (1).

	<i>Each</i>
Bayshore Specialties Company, Brightwater, Long Island, New York, A-1, Non-automatic, 660 watts-----	\$5. 50
Bersted Manufacturing Company, Fostoria, Ohio, #507, Non-automatic, 550 watts-----	3. 40
Dejur Electric Works, New York City, #A-1, Non-automatic, 3 heat----	12. 55
Industrial Tool & Die Works, Incorporated, Minneapolis, Minn.: #9, Non-automatic, wood handle, 675 watts-----	5. 00
#11, Non-automatic, plastic handle, 675 watts-----	5. 60
#10, Automatic, wood handle, 1,000 watts-----	7. 95
#12, Automatic, plastic handle, 1,000 watts-----	8. 95
Nelson Machine & Manufacturing Company, Cleveland, Ohio, #138, Non-automatic, 550 watts, without cord-----	2. 29
Stern-Brown, Incorporated, Long Island City, New York, #13-S, Non-automatic, 600 watts: Without cord set-----	3. 73
With cord set-----	4. 41

All prices include cord set unless otherwise specified.

This amendment shall become effective on the 21st day of April 1945.

Issued this 16th day of April 1945.

CHESTER BOWLES, *Administrator.*

[F. R. Doc. 45-6048; Filed, Apr. 16, 1945; 11:08 a. m.]

Mr. MONRONEY. Can you supply Mr. Bowles with the manufacturer's name?

Mr. SEIDEL. Yes, sir, and incidentally, on our refusal to give names, I went through 4 days of hearings before the Smith committee, and counted the names given, and we gave 65 manufacturers' names.

Now, we did not give names of little people, that we thought the Office of Price Administration could move in on, and really do something to them. I gave plenty of names; I gave the names wherever I thought it was advisable to give them. But I assure you of this, that every statement I have ever made down here is completely factual, and every other committee takes its testimony under oath—at least every committee before which I have appeared.

Mr. WOLCOTT. Do you know the name of the manufacturer of the iron?

Mr. SEIDEL. Mr. Bowles knew full well what this man's name was, because I gave it to him at the original hearing.

Then they say, "This man came to the Office of Price Administration and produced another sample, and we approved a price based on another iron very much better than this, and we are going to prosecute him for fraud." They said, "We had these tested in New York, and four out of six failed in the test."

The Office of Price Administration sent their enforcement agents to my office asking that we furnish them with a laboratory's report on this iron; because I didn't want to be involved in their prosecution of the man.

But in talking with their agents in New York, I said, "I understand you are going to prosecute him for fraud." They said, "Yes, that is what the Washington people tell us."

I said, "What did he do that was fraudulent?"

They said, "As near as we can tell, nothing, and we do not know why the people in Washington do not admit their mistakes instead of sending us out on a wild goose chase. We cannot find anything fraudulent about this man."

Incidentally, he is still selling these irons, and this iron is made strictly in accord with the pricing order.

Mr. MONRONEY. An iron which fails on a test as much as 60 percent would not be a very good electric iron, would it?

Mr. SIEDEL. I do not know, sir, but it is an iron approved by the Office of Price Administration, although they have refused to give prices to the people who really know how to make low-priced irons, and there are eight or nine big firms.

Mr. MONRONEY. At the time that man's application was approved, undoubtedly the Office of Price Administration was assured he would make an iron of certain quality and standards.

Mr. SIEDEL. This is made in accordance with the sample that we got from the Office of Price Administration, and the Smith committee went so far as to subpoena the Office of Price Administration's sample, lay it out on the table and take this iron apart and match up piece by piece, to be absolutely certain that there was no difference between the iron that he submitted to them as a sample and the iron that the man produced.

Mr. FOLGER. Mr. Chairman.

Mr. BROWN. Mr. Folger.

Mr. FOLGER. Did you put in the record the regulation that related to that iron?

Mr. SEIDEL. Yes, sir, I put it in.

Mr. FOLGER. Would you read that much of it?

Mr. SEIDEL. I had better do so, in order to make the record clear. This is the pricing order described as "Part 1499, commodities and services, SR14-J, amendment 3" and in the list of companies named is the Bayshore Specialties Co., of Brightwater, Long Island, N. Y., and the iron is "A-10 nonautomatic, 660 watts, retail price, \$5.50."

Mr. FOLGER. That is all. Thank you.

Mr. SEIDEL. Now, to show that that situation is not isolated, and that the Bayshore is not the only one in that position—and incidentally there are a half dozen—we sent to Michigan for this one, and the pricing order on that is "Order No. 3897, issued to the Michigan Electrical Laboratories," and it sets up a selling price to retailers, in lots of six or more of \$3.28, and a price to consumers of \$5.30. That order is dated June 1, and is signed by Chester Bowles, as Administrator, and it appeared in the Federal Register of Tuesday, June 5, and here is a photostatic copy of it for the record. This iron incidentally is labeled with another name, but it is produced under that order because the preticketing tags so indicate, and it is called a Du-Mul, and underneath that a Duke-Muller Product, \$5.30. And it is no better than could be made for \$1.55 by anyone or eight or nine big producers.

I would like to insert that in the record.

Mr. BROWN. It may be inserted.

EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942 629

(The following insert is from the Federal Register, Tuesday, June 5, 1945:)

[MPR 188, Order 3897]

MICHIGAN ELECTRICAL LABORATORIES

APPROVAL OF MAXIMUM PRICES

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to § 1499.158 of Maximum Price Regulation No. 188; *It is ordered:*

(a) This order establishes maximum prices for sales and deliveries of certain articles manufactured by the Michigan Electrical Laboratories, Post Office Box 655, Benton Harbor, Mich.

(1) For all sales and deliveries to the following classes of purchasers by the sellers indicated below, the maximum prices are those set forth below:

Article	Model	Maximum prices for sales by—					
		Manufacturer to—			Sellers other than manufacturer to—		
		Wholesale	Retailer		Retailer		User
			6 Lot	Less than 6	6 Lot	Less than 6	
6 pound nonautomatic iron.....	#100	<i>Each</i> \$2.78	<i>Each</i> \$3.28	<i>Each</i> \$3.53	<i>Each</i> \$3.28	<i>Each</i> \$3.53	<i>Each</i> \$5.30

These maximum prices are for the articles described in the manufacturer's application dated April 21, 1945.

(2) For sales by the manufacturer, the maximum prices apply to all sales and deliveries since Maximum Price Regulation No. 188 became applicable to those sales and deliveries. These prices are subject to a cash discount of 2% for payment within 10 days, net 30 days. They include Federal Excise Tax.

(3) For sales by persons other than the manufacturer, the maximum prices apply to all sales and deliveries after the effective date of this order. Those prices are subject to each seller's customary terms and conditions of sale on sales of similar articles.

(4) If the manufacturer wishes to make sales and deliveries to any other class of purchaser or on other terms and conditions of sale, he must apply to the Office of Price Administration, Washington, D. C., under the Fourth Pricing Method, § 1499.158 of Maximum Price Regulation No. 188, for the establishment of maximum prices for those sales, and no sales or deliveries may be made until maximum prices have been authorized by the Office of Price Administration.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. This tag or label shall contain either of the following statements:

Either
Order No.-----
Model No. 100
OPA Retail Ceiling Price—\$5.30
Federal Excise Tax Included
Do Not Detach

or

Michigan Electrical Laboratories
Post Office Box 655
Benton Harbor, Michigan
Model No. 100
OPA Retail Ceiling Price—\$3.50
Federal Excise Tax Included
Do Not Detach

(c) At the time of, or prior to, the first invoice to each purchaser for resale, the seller shall notify the purchaser in writing of the maximum prices and conditions

established by this order for sales by the purchaser. This notice may be given in any convenient form.

(d) This order shall become effective on the 2d day of June 1945.

Issued this 1st day of June 1945.

CHESTER BOWLES,
Administrator.

[F. R. Doc. 45-9536; Filed, June 1, 1945; 12:37 p. m.]

Mr. THOM. Now let me read you from this Horror Exhibit pamphlet issued by the Office of Price Administration.

We gave the manufacturer of the good electric iron, the Nelson Manufacturing Co. of Cleveland, Ohio, a 40-percent price increase in January 1945.

Is that correct?

Mr. SEIDEL. I do not know. That is what it says there. You are reading that.

Mr. THOM. Yes. "It did not go back into production on that iron. However, the firm is producing 25,000 irons a month for which it gets \$1.57 and the consumer pays \$2.70." Is that correct?

Mr. SEIDEL. I do not believe so.

Mr. THOM. Well now, what is wrong with it?

Mr. SEIDEL. The 25,000 per month; if it is anything, it is very recent.

Mr. THOM. Well, is it true or not true?

Mr. SEIDEL. I think it is not true. It may be that they will produce this new iron at 25,000 a month. Let me tell you this, we have been buying that company's irons for 25 years, and we have not one yet of that new type except for the sample that was sent to us; and let me tell you about the sample. They would not give a price of \$1.55 for this iron, but for the new iron, on which there is a little bit of a gadget on the top that serves no purpose at all—it is some sort of a heat indicator, but does not indicate heat, and it just moves—they have given for that a price of \$1.57, I think you said.

Mr. THOM. Yes.

Mr. SEIDEL. And the retail price is \$2.70. It is the same thing as this new number all over again; why should he have to change his iron construction and put that thing out to get a price?

Mr. THOM. As a matter of fact, you cannot deny that that company is putting out 25,000 irons a month at \$1.57 of your own knowledge?

Mr. SEIDEL. Well, I could call them on the telephone in short order.

Mr. THOM. Well, we want to know. We do not want any guesses here.

Mr. SEIDEL. Let us leave it this way: I will tell you exactly what they are putting out by contacting the company after the hearings are over.

Mr. THOM. All right; they also say here: "The new manufacturer, Bayshore Electric Co., of Bayshore, Long Island, was given the \$3 price on a slightly different iron than that shown in their display, but the \$3 price was too high." Do you have that there?

Mr. SEIDEL. The iron is \$3.40 for six or more, not \$3. It is \$3.40, and I just put the photostatic copy of the order in the record.

Mr. FISCHBACH. With the permission of the chairman, and in direct reply to Mr. Thom's question, the Smith committee's report, which was filed October 22, 1945, contained the following statement which I know to be factually correct. By the way I conducted the investigation, and this statement that I am about to read—

Mr. PATMAN. What do you mean, you conducted the investigation?

Mr. FISCHBACH. I was general counsel for the Smith committee at that time.

Mr. PATMAN. And you were also representing the association, the National Retail Dry Goods Association?

Mr. FISCHBACH. I do not know why, Mr. Patman, you have made that observation, because there was nothing in my statement that would indicate it; I was then general counsel for the Smith committee. I concluded my duties as such, and when I returned to the practice of law, one of my clients became the National Retail Dry Goods Association.

Mr. PATMAN. You have not represented them all the time, then?

Mr. FISCHBACH. I certainly have not.

Mr. PATMAN. In other words, you are not familiar with this procedure; you have not been representing them very long?

Mr. FISCHBACH. That is correct, sir, I have not been practicing law but since the first of the year; prior to that I was overseas; I had to quit my practice of law in 1943. But in answer to the Congressman's question, these facts with regard to the Nelson Manufacturing Co. were brought out:

The Nelson Machinery & Manufacturing Co. of Cleveland, Ohio, received an allocation of steel from the War Production Board to produce 58,000 electric irons in 1944. It applied to the Office of Price Administration on May 17, 1944, for a price of \$1.55 to the jobbing trade. If this had been granted, the electric iron would have retailed for not more than \$3. The Office of Price Administration did not act until January 18, 1945. It then authorized the price of \$1.20, which was less than the Nelson Machinery & Manufacturing Co.'s cost of manufacture. As a result, the irons were not produced—

Now going on—

However, a new manufacturer, the Bayshore Electric Co. of New York, was authorized a retail price of \$5.50 for an electric iron—

and so forth.

Mr. THOM. That is old history, though, is it not? That was corrected. I am talking about things as they are now.

Mr. FISCHBACH. It was correct at that time, sir; and I believe you will find the price order proves that.

Mr. THOM. Let us write that off; that has been disposed of.

Mr. BROWN. You may proceed.

Mr. SEIDEL. Nelson Electric Co. has not been disposed of, sir. The Nelson Electric Co.'s pricing structure is not satisfactory at the minute, and I know because they are a major supplier of goods to us. They are having an untold amount of difficulty with their price ceilings.

Mr. THOM. Have they made any application for relief?

Mr. SEIDEL. They have made repeated applications over the last year and a half, sir. Yes, sir, they have. This thing you read to me shows that they have been granted one price on one iron. It is a new number. We never before carried an iron of that kind. They developed a new number and got a price on their new number, which consumers can buy for \$2.80 or something of that kind.

Mr. THOM. \$2.70.

Mr. SEIDEL. Yes; \$2.70.

Mr. BROWN. Proceed, Mr. Seidel.

Mr. SEIDEL. This white iron which you see here is made of glass; I do not know very much about it. It has a retail ceiling price of \$5.49, and the wattage of it is 300. The ordinary electric iron is

550, 600, and so on. This man has a pricing order, and I would like to put that in the record, because I do not think the iron is any better value than the rest of them.

Mr. BROWN. It may be placed in the record.

(The following insert is from Federal Register, Saturday September 22, 1945:)

[MPR 188, Order 4435]

DETROIT APPLIANCE MFG. CO.

APPROVAL OF MAXIMUM PRICES

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to § 1499.158 of Maximum Price Regulation No. 188; *It is ordered:*

(a) This order establishes maximum prices for sales and deliveries of certain articles manufactured by the Detroit Appliance Manufacturing Company, Division of Buckland & Van Wald, 219 W. Larned Street, Detroit 26, Mich.

(1) For all sales and deliveries to the following classes of purchasers by the sellers indicated below, the maximum prices are those set forth below:

Article	Model No.	Maximum prices for sales by any seller to—			
		Wholesale (jobbers)	Retailers (6 units or more)	Retailers (less than 6 units)	Consumers
Glass iron nonautomatic.....	BT5	Each \$2.88	Each \$3.40	Each \$3.66	Each \$5.49

These maximum prices are for the articles described in the manufacturer's application dated July 7, 1945.

(2) For sales by the manufacturer, the maximum prices apply to all sales and deliveries since Maximum Price Regulation No. 188 became applicable to those sales and deliveries. These prices include the Federal Excise Tax. They are f. o. b. factory and subject to a cash discount of 2% for payment within 10 days, net 30 days.

(3) For sales by persons other than the manufacturer, the maximum prices apply to all sales and deliveries after the effective date of this order. Those prices are subject to each seller's customary terms and conditions of sale on sales of similar articles.

(4) If the manufacturer wishes to make sales and deliveries to any other class of purchaser or on other terms and conditions of sale, he must apply to the Office of Price Administration, Washington, D. C., under the Fourth Pricing Method § 1499.158 of Maximum Price Regulation No. 188, for the establishment of maximum prices for those sales, and no sales or deliveries may be made until maximum prices have been authorized by the Office of Price Administration.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. That tag or label shall contain either of the following statements with the correct order number, model number, and retail prices properly filled in:

Order No. 4435
Model No.
OPA Retail Ceiling Price—\$.
Federal Excise Tax Included
Do Not Detach or Obliterate

or

Detroit Appliance Manufacturing Co.
Division of Buckland & Van Wald
219 W. Larned Street
Detroit 26, Michigan
Model No.
OPA Retail Ceiling Price—\$.
Federal Excise Tax Included
Do Not Detach or Obliterate

(c) At the time of, or prior to, the first invoice to each purchaser for resale at wholesale, the manufacturer shall notify the purchaser in writing of the maximum prices and conditions established by this order for sales by the purchaser. This notice may be given in any convenient form.

(d) This order may be revoked or amended by the Price Administrator at any time.

(e) This order shall become effective on the 20th day of September 1945.
 Issued this 19th day of September 1945.

CHESTER BOWLES,
Administrator.

[F. R. Doc. 45-17565; Filed, Sept. 19, 1945; 4:24 p. m.]

Mr. GAMBLE. What is the name of the iron?

Mr. SEIDEL. The Detroit Appliance Manufacturing Co.

Mr. BROWN. I do not think it is necessary to read that order.

Mr. SEIDEL. Very well, sir.

Now, here is a good electric iron, a good high-priced electric iron. The price of that is \$3.41. It is made by the Connecticut Appliance Co., in Winsted, Conn. That company has been in the iron business for 25 years. They are in no position to file an application with the Office of Price Administration for an increase in price, and they are held to a price of 1941 cost plus 8 percent. They cannot produce this iron for that, and again, I cannot tell you exactly how much increase they need in this price to produce this iron, but the iron is not now being produced.

This iron is of 1,000-watt capacity as against 660. It has everything, a streamlined handle, a cord that is fixed, an underwriter's label on the cord, a solid rubber plug, an indicator on the top, showing the heat to be applied to the various types of garments. This is a real iron, and the Office of Price Administration pricing is 1 cent different for this iron from what it is for either of these other irons.

Miss SUMNER. The cheap, inferior ones?

Mr. SEIDEL. Yes, this man is allowed 1 cent more than that one to make an iron.

Now we know this man; we would like to buy his products; he cannot make it for this price, however.

Mr. THOM. Does he make other items?

Mr. SEIDEL. He cannot make any irons.

Mr. THOM. What is he making?

Mr. SEIDEL. He is making some toasters. He has filed a lot of applications on things that he could get the information on. He has just gotten a pricing order on toasters that gives him \$1.55½ or so for the price, but his productive capacity—he is now at 5 percent of his productive capacity up there in Winsted. It is just criminal.

Mr. PATMAN. You mean on irons?

Mr. SEIDEL. No.

Mr. PATMAN. What percentage of his production is on toasters?

Mr. SEIDEL. No, he is on a 5 percent of total factory production. He is 95 percent idle. This man is 95 percent idle, or this company, the Connecticut Appliance Co. And it is all due to the price situation. He cannot fill out this S. O. 119. He just cannot do it. He cannot get the information he needs to fill out the form, because there are some suppliers he deals with who cannot give him the information.

Mr. BUFFETT. The biggest problem you have in your stores is in durable goods of this exact type, is it not?

Mr. SEIDEL. Yes, sir. We have similar problems in all the textiles, too.

Mr. THOM. I confess I do not understand that statement, that he cannot fill out his application because he cannot get the information. You cannot raise the question of price unless you make an application and give the information, can you?

Mr. SEIDEL. All right, sir; in here we have a gray casting; one of the first things on the form, which they will want to know is: "How much do you pay for your gray castings?"

Mr. THOM. Well, is that not a proper question?

Mr. SEIDEL. Yes, but let me finish.

Mr. THOM. All right.

Mr. SEIDEL. So you write the man who makes the gray castings, and you say to him: "How much am I going to pay you for gray castings?"

He says to you: "I cannot tell you because the Office of Price Administration has not told me."

Mr. THOM. Did the gray castings man make application for price or is it held up on account of strikes, or what?

Mr. SEIDEL. I do not know who the gray castings man is.

Mr. THOM. Well, let us find out. You must complete your case.

Mr. SEIDEL. It could not be more complete.

Mr. THOM. You do not have the information. We would like to know why the gray castings man does not give the information.

Mr. BUFFETT. Because he was waiting for price relief, and he got it yesterday in the amount of 4 percent.

Mr. THOM. All right, that will enable the——

Mr. BUFFETT. Maybe.

Mr. SEIDEL. How do you know it will?

Mr. THOM. It will give him the price on gray castings.

Mr. SEIDEL. Not unless the man who makes gray castings can produce them for a 4 percent increase. If he cannot, it will not.

Mr. THOM. Well, that is a question of procedure.

Mr. SEIDEL. It is not a question of procedure at all; there is no procedure to it.

Mr. THOM. The trouble with you is you want the Office of Price Administration to fix prices without any information on which to fix them.

Mr. SEIDEL. No.

Mr. THOM. That is plain in this case.

Mr. SEIDEL. The trouble with the Office of Price Administration is that they do not know how to set these prices, and as soon as we get somebody setting iron prices who knows how to set iron prices, we will get production of irons.

Mr. BROWN. You may proceed, Mr. Seidel.

Mr. MONRONEY. Mr. Seidel, before we leave the irons, are General Electric, Westinghouse, getting into production?

Mr. SEIDEL. They are producing irons at retail in the vicinity of \$8 or \$9, but none of them are producing the low line they used to. I mean it used to be that they would have irons from \$3.95 on up.

Now, the manufacturers that, prewar, accounted for 85 percent of all of the lawn-mower production in the country, are not now producing and shipping lawn mowers.

Mr. BUFFETT. Will you say that over again?

Mr. SEIDEL. The people who before the war made 85 percent of all the lawn mowers in this country are not now producing or shipping lawn mowers.

Mr. MONRONEY. Who are they?

Mr. BUFFETT. Mr. Bowles said last June 4 that we must in no event stand in the way of production. Do you think that perhaps that has been carried out?

Mr. SEIDEL. Well, sir, Mr. Bowles, I think is a major impediment to production. I have said so over and over again.

Miss SUMNER. "Bottleneck" Bowles.

Mr. SEIDEL. But to get back to the question, these lawn mowers are made by the largest manufacturers of lawn mowers in the country, that is the F. & N. Lawn Mower Co., whose headquarters are in Richmond, Ind. The headquarters of the lawn-mower industry in fact are in Richmond, Ind. There are four or five of the largest producers right in that one town, and in and around the State they account for well over half of all the lawn-mower production.

The reason for their failure to produce is that the Office of Price Administration has allowed an increase to the lawn-mower industry of 17 percent. This particular company, the F. & N. Lawn Mower Co.——

Mr. BROWN. Excuse me a moment, Mr. Seidel; Mr. Fischbach would like to make a statement.

Mr. FISCHBACH. Mr. Chairman, I have the amendment I had promised you earlier today.

Mr. BROWN. Very well, it may be inserted in the record at this point.

(The amendment referred to is as follows:)

LAW OFFICE OF HYMAN I. FISCHBACH,
New York.

GENERAL COUNSEL,
National Retail Dry Goods Association:

CONGRESSIONAL DECLARATION OF NATIONAL POLICY

In extending the Price Control Act, Congress is urged to establish the following national policy for the transitional period:

"That it is hereby declared to be the policy of the United States to speed the return to a free economy under which competition will regulate prices, that the obtaining of maximum production in industry is the paramount need of the transitional period and is more important than maintaining existing price levels."

TRANSITIONAL PRICE CONTROL

A better administrative job could be done by OPA if it were to concentrate on essential needs only. Congress is therefore urged in extending the Price Control Act to adopt the following:

"That no price heretofore established for any commodity or service which does not directly and materially affect the cost of living shall be maintained under the authority of this act or the Stabilization Act of 1942, as amended. The Price Administrator, the Civilian Production Administration, the Secretary of Commerce, and the Secretary of Agriculture, shall, by concurrent action, determine the commodities and services which directly and materially affect the cost of living, and on and after the effective date of this section, the price of no other commodity or service shall be subject to control."

MAXIMUM AVERAGE PRICE REGULATION

This regulation, although manifestly beyond the legal authority of the Price Administrator and wholly without support under the provisions of the price control law, as it presently exists, because it is a production regulation rather than

a price regulation, has proved to be a serious impediment to maximum production and has caused serious distortions in distribution, as well as deterioration in quality of urgently needed consumer goods.

In extending the Price Control Act, Congress is urged to adopt the following:

"No regulation or order shall be promulgated or enforced under the authority of this act or the Stabilization Act of 1942, as amended, which directly or indirectly requires or compels a producer of a commodity to conform during any period to a pattern of production or sales of such commodity by price range or unit classification based on any period."

PRICING FORMULA FOR MAXIMUM PRODUCTION

If any credence is to be given the universal complaint that price formulas heretofore conceived, promulgated, and administered, have proved to be impediments to the maximization of production and have resulted in the distortion of distribution, it would appear to be reasonable to restore the function of pricing in the transitional period to industry subject to governmental supervisory regulation.

The NRGDA exhibit and the testimony before the Banking and Currency Committee should clearly demonstrate how inept important price action has been taken by personnel in OPA. In extending the Price Control Act, Congress is urged to adopt the following:

"The price which shall be applicable to any commodity or service subject to control under the authority of this act shall be established by persons engaged in the production and distribution of such commodities and in the rendition of such service, and shall not exceed the levels necessary to afford prewar margins above current costs. The Price Administrator shall have authority to require that prices so established shall be suitably reported in the manner and at the times which may be necessary for the proper administration of this act."

DECONTROL STANDARDS

The recommendation that, in extending price control, Congress limit the field of control in the transitional period to commodities and services which directly and materially affect the cost of living constitutes a sound and effective decontrol standard in and of itself. In addition, it is urged that Congress in extending the Price Control Act adopt the following:

"Whenever it shall be made to appear by appropriate petition submitted to the Price Administrator by or on behalf of an industry advisory committee that the production of any commodity of such industry or that the facilities for the rendition of any service performed by such industry which commodity or service is subject to control under the provisions of this act shall have attained a level commensurate with demand, price controls then in effect shall be suspended."

JUDICIAL REVIEW

It is urged that the jurisdiction of the district courts of the United States to hear and determine matters raised by persons affected by price control in the transitional period be established in the manner provided in section 3 of House Joint Resolution 314 and Senate Joint Resolution 118.

In addition, it is urged that the District Court for the District of Columbia be invested with jurisdiction to require the performance of any act in connection with the pricing or decontrolling of any commodity in accordance with the standards herein mentioned by the issuance of an appropriate writ of mandamus.

It is also urged that the district courts of the United States be invested with jurisdiction to entertain actions for declaratory judgments with respect to orders and regulations issued by the Price Administrator in the transitional period.

Respectfully submitted.

H. I. FISCHBACH.

MARCH 13, 1946.

Mr. BROWN. Go ahead, Mr. Seidel.

Mr. SEIDEL. This company has had an increase in the cost of gray castings of 35 percent. They have had an increase in the cost of malleable castings of 45 percent; they have had an increase in their cost of labor of 50 percent; and they simply cannot produce for the price they are allowed.

On January 31, they sent a letter to all of their customers and pointed out where the Office of Price Administration's order of October 10 is unworkable and went on to point out what the cost increases are, and went on to point out that—

newcomers in our industry, and those factories which have changed ownership and which are now considered by the Office of Price Administration as new manufacturers, are permitted to establish their price based on present-day costs and can calculate their selling prices accordingly. This is most unfair.

Another penalty against the old-time producer is that provision in the order which requires them to furnish a complete assortment of lawn mowers, including low end numbers, and in the same proportion as pre-war. The newcomers in the industry, also those factories which have changed ownerships and are now considered by the Office of Price Administration as newcomers, are not penalized in this respect. They are permitted to offer higher priced numbers only, without restriction on quantity, which is also most unfair.

And it goes on and on, and encourages people to bring this to the attention of their Congressmen, and so I would like to put their letter in the record.

Mr. BROWN. That may be placed in the record.

(The letter referred to follows.)

THE F. & N. LAWN MOWER Co.,
Richmond, Ind., U. S. A., January 31, 1946.

To Our Customers:

GENTLEMEN: On October 10, 1945, the Office of Price Administration issued order No. 3 under Maximum Pricing Regulation No. 188 covering the manufacture and distribution of hand lawn mowers.

The order is unworkable. It allows the manufacturer a mark-up of only 17 percent over 1941 prices, while the component parts of a mower and labor are now so much more costly. Gray-iron castings are 35 percent higher, and malleable-iron castings are 45 percent higher than they were in 1941, and these higher prices have the approval of OPA. Other parts such as handles and rollers and certain steel items are higher in price than in 1941. Nothing costs less. Labor costs are 50 percent higher.

As an old-time producer of lawn mowers, we are penalized by OPA who have determined our "increase factor" based on prewar operations. The newcomers in our industry and those factories which have changed ownership and which are now considered by OPA as new manufacturers are permitted to establish prices based on present-day costs, and can calculate their selling prices accordingly. This is most unfair.

Another penalty against the old-time producers is that provision in the order which requires them to furnish a complete assortment of mowers, including low-end numbers, and in the same proportion as prewar. The newcomers in the industry, also those factories which have changed ownership and are now considered by OPA as newcomers are not penalized in this respect. They are permitted to offer higher priced numbers only without restrictions on quantity. This also is most unfair.

The order provides a ceiling price for the chain store and mail-order houses of 150 percent of the manufacturers' ceiling price, while the ceiling price for the independent dealer is 170 percent. Such favoritism granted to chain stores and mail-order houses in pricing mowers for resale to the consumer is wrong. Such a policy would eventually drive the hardware dealer out of business.

Again the order provides for the price tagging of mowers with the exception of those furnished to mail-order houses and chain stores with no provision for the freight cost. How can the manufacturer put a ceiling price tag on a lawn mower with the same price for resale in Richmond, Ind., as in California or Texas? The hardware jobber or retailer cannot absorb this freight cost when the retailers' percentage of profit as directed by OPA is only 27 percent on his selling price, and the jobbers profit is 19.4 percent. It costs the hardware jobber and the hardware retailer more than is allowed to them in the way of profit to do business.

OPA regulations and restrictions have greatly hindered the reconversion of our industry. We have discussed this matter with other manufacturers representing at least 85 percent of the hand-lawn-mower industry, and they view the matter exactly as we do. They cannot and will not produce on the basis of order No. 3 above-mentioned as directed by OPA, and the result will be that very few

hand lawn mowers will go on the market until the order is properly corrected or eliminated. The manufacturer cannot produce at a loss, and is not satisfied with the terms of the order as above set forth.

We were advised 6 weeks ago that an amendment to the order would be issued by OPA pertaining only to freight cost. To date the amendment to the order has not been issued, and such an amendment will not eliminate the other objections to the order enumerated above.

Lawn mowers are nonessential so far as actual living costs are concerned and OPA should immediately remove all controls and restrictions. Manufacturers could then go quickly into full production, and competition would keep prices in line. No manufacturer who expects to remain in business would entertain the thought of an extra profit for a temporary period of time. All that we want to do is go back to work, give full employment, supply the pent-up demand for lawn mowers, and make a living profit.

Our Representative in Congress and our two Senators from Indiana are fully informed regarding the predicament in which our industry is placed by OPA. They are sympathetic, and are trying to help us. We now solicit your help in presenting this matter to your congressional Representative and to the two Senators from your State in an effort to secure assistance from them. Further, it would be appreciated if you will present the matter to any organizations to which you belong, and to those whom you think could help us in any way. Our interests are mutual, and whatever assistance you may be able to give us to get lawn mowers on the market will be sincerely appreciated.

Respectfully yours,

THE F. & N. LAWN MOWER CO.

Mr. BUFFETT. The net effect of that policy of the Office of Price Administration has been to destroy the manufacturer of lawn mowers in order to open the field to new people who are coming in and who have the right connections in Washington to go ahead and make lawn mowers.

Mr. SEIDEL. Yes, sir; and I would like to point out that neither one of the big mail-order houses—Sears, Roebuck or Montgomery Ward—have lawn mowers in their current catalogs.

The only lawn mowers that are available today are very high-priced new numbers, ordinarily made of materials like aluminum, magnesium, and some steel.

Mr. SMITH. Running up to \$30 or \$31?

Mr. SEIDEL. Yes, sir. Now on the case of this lawn mower right here, the 1941 price of the lawn mower was \$7.35; the Office of Price Administration price, which was permitted last October, is \$8.60, and the manufacturer needs \$9.14.

Now it would be much better to give him the 59-cents increase and get him into production than to give the higher price to a new man.

The second lawn mower, the 1941 price was \$5.75; the approved price now is \$6.73, and he needs \$7.76 to make this lawn mower. He is not now producing.

Now, this high-priced number, in 1941, was \$10; the OPA price approval now is \$11.70; he needs \$12.50.

Mr. GAMBLE. And there is no production there either?

Mr. SEIDEL. No production. These are all by the same manufacturer, the largest one in the country. And here is his letter showing that there is not any production.

Mr. GAMBLE. When you say production zero on your exhibit, you mean he is not in production at all?

Mr. SEIDEL. That is right.

Mr. MONRONEY. You said if he got these needed prices, he could start up production immediately and get volume production?

Mr. SEIDEL. That is right.

Miss SUMNER. Did I understand you to say that if, for instance, I have a lawn-mower machine-manufacturing business, I cannot get a price increase to cover my business, and if I sell out to a new man who takes my business over, and manufactures the same product, do I understand you to say that he could get a higher ceiling?

Mr. SEIDEL. Miss Sumner, you do not even have to sell out. Here is how it works: Let us say that I would form a brand new company, and I would call it Lawnmowers, Inc. Let us say that there was not anything like that.

I will say to you: "If you will make your company part of Lawnmowers, Inc., I will give you stock in Lawnmowers, Inc.; then Lawnmowers, Inc., will go into the Office of Price Administration for a price and Lawnmowers, Inc., has never produced a mower, and they will get a price and you will make the lawn mower for Lawnmowers, Inc., and you will have the higher price."

Mr. GAMBLE. Which is the same lawn mower that she produced in her factory before she joined you, is that it?

Mr. SEIDEL. That is right. Just subterfuge, and again a thing that might result in small business being swallowed up by big business.

Mr. GAMBLE. Mr. Seidel, in other words, in that merger that you just spoke of, the lady would make the same or more than she made under her own name, than she now makes on the lawn mowers, but would get a higher price?

Mr. SEIDEL. That is right; she might change the name.

I would suggest, if you are interested, that you might check into the number of mergers that there have been, and the number of people that are now making them. Anybody at all can do that. It is not our duty, I do not think, to come to you and to give you all these names, of who is merged with whom, and when and why, but the woods are full of it. You can pick up Standard's Statistics, or Moody's and look up the records. The committee can easily find it, and the Office of Price Administration can find it. I do not have to give them any names; they know. They have permitted it.

Mr. THOM. I wanted to ask you whether these castings in the lawn mowers are not subject to the wage increase that has just been promulgated.

Mr. SEIDEL. I do not know, sir.

Mr. THOM. Well, you ought to know about it.

Mr. SEIDEL. What wage increase?

Mr. THOM. There has been a wage increase to iron workers.

Mr. SEIDEL. Which one?

Mr. THOM. Gray castings, and so forth, and a new price on them.

Mr. SEIDEL. Are you talking about the United States Steel Co.'s wage increase?

Mr. THOM. I am talking about castings. Such as are used there.

Mr. SEIDEL. I do not know of any blanket wage increase to everybody in the country that makes the castings.

Mr. GAMBLE. What Mr. Thom was talking about was a price increase, not in wages, but in price of castings.

Mr. THOM. That is right; that would affect the price of the lawn mower.

Mr. SEIDEL. Yes; it cost these people to buy gray castings 35 percent more now than it did in 1941.

Mr. THOM. Has there been a recent increase?

Mr. SEIDEL. Yes; yesterday there was a 4-percent increase in gray castings.

Mr. THOM. Have they made an application for an increase on the basis of that?

Mr. SEIDEL. Well, that happened yesterday.

Mr. THOM. Well?

Mr. SEIDEL. These people have had an application, as their letter will show. I could read this letter in its entirety, if you wish.

Mr. BROWN. Just give the date of it.

Mr. SEIDEL. January 31, 1945.

Mr. BROWN. All right. Miss Sumner?

Miss SUMNER. Let him proceed.

Mr. PATMAN. Mr. Chairman, may I ask if we are going to have another witness this afternoon?

Mr. BROWN. No. Proceed, Mr. Seidel.

Mr. SEIDEL. I would like to strike something I said a few minutes ago, when you were questioning me on the Connecticut Appliance Co., Mr. Monroney.

Mr. MONRONEY. Very well.

Mr. SEIDEL. I said that they had been granted a price on an electric toaster, on their application, and that is not true. They have not gotten that price on their application, but it still is the price permitted them under the general toaster pricing order, that is 1941 plus 8 percent. But they are now producing this toaster at 1941 price plus 8 percent, and so far as I know they can produce this item at the 1941 price plus 8 percent, even though they cannot produce the iron.

Mr. MONRONEY. Is that 8 percent completely absorbed in retail stores?

Mr. SEIDEL. Yes; it is. However, when they issue a special pricing order, as they did on these irons, there is generally no absorption in the retail stores.

This is a toaster of the Connecticut Appliance Co. which they produce at \$1.55½ and which sells at retail at \$2.85.

Here is another example of the disparity in toaster prices: This is produced by the Lexington Machine & Development Co. of Clifton, N. J. So far as I know, never before in this business—and they have a pricing order which gives them a cost of \$3.92 and a retail price of \$5.88. I do not think anybody would question the fact that this toaster is the equivalent of that or thereabout; but still his price is \$1.55½, and theirs is \$3.92.

(The following is an insert from Federal Register, Friday, October 26, 1945.)

[MPR 188, Order 4614]

LEXINGTON MACHINERY & DEVELOPMENT CO.

APPROVAL OF MAXIMUM PRICES

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to § 1499.157 of Maximum Price Regulation and section 6.4 of Second Revised Supplementary Regulation No. 14; *It is ordered:*

(a) This order establishes maximum prices for sales and deliveries of electric toasters manufactured by the Lexington Machinery & Development Company, 619 Lexington Avenue, Clifton, N. J.

(1) For all sales and deliveries of the electric toaster to the following classes of purchasers by the sellers indicated below, the maximum prices are those set forth below:

Article	Model	Maximum prices for sales by any seller to—				
		Distrib- utor	Whole- saler (jobber)	Retailer (6 units or more)	Retailer (less than 6 units)	Con- sumer
Chrome plated electric toaster, 2 spring doors	12	<i>Each</i> \$2.83	<i>Each</i> \$3.08	<i>Each</i> \$3.64	<i>Each</i> \$3.92	<i>Each</i> \$5.88

These maximum prices are for the article described in the manufacturer's application dated September 20, 1945. They include the Federal Excise Tax.

(2) For sales by the manufacturer, these maximum prices apply to all sales and deliveries after the effective date of this order. The manufacturer's prices are f. o. b. factory and are subject to a cash discount of 2% for payment within 10 days, net 30 days. The prices for sales by persons other than the manufacturer are subject to each seller's customary terms and conditions of sale on sales of similar articles.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. That tag or label shall contain the following statement with the correct retail ceiling price filled in:

Order No. 4614
Model No. 12
OPA Retail Ceiling Price \$5.88
Federal Excise Tax Included
Do Not Detach or Obliterate

or

Lexington Machinery & Development Co.
619 Lexington Avenue
Clifton, New Jersey
Model No. 12
OPA Retail Ceiling Price \$5.88
Federal Excise Tax Included
Do Not Detach or Obliterate

(c) At the time of, or prior to, the first invoice to each purchase for resale at wholesale, the manufacturer shall notify the purchaser in writing of the maximum prices and conditions established by this order for sales by the purchaser. This notice may be given in any convenient form.

Now here is a toaster that is not now in production, but was produced before the war at a cost of 65 cents. I bring that down to show the type of goods that people can make for low cost, if they are given freedom of operation.

Now, the pricing order of cost in 1941 plus 8 percent, you see, would give him 70 cents, or 70 and a fraction cents now. He cannot make that at the 70 and a fraction cents; it would cost somewhere around 95 cents to make it today.

Mr. MONRONEY. Does he have anything else in the line?

Mr. SEIDEL. He has a complete line on this type of thing. This man is almost out of production. He is going at only 5 percent of capacity. This is one of the most reliable primarily low-end people in the business. Almost all his products are low-end products.

Mr. MONRONEY. Who are they?

Mr. SEIDEL. Connecticut Appliance Co.

I point this out to show that an over-all increase, like cost in 1941 plus 8 percent, might work out for one thing but will not necessarily work out for everything. Some item might have to have cost plus 8 percent, something else cost plus 25 percent.

In this case, if he got 95 cents he would be cost plus 50 percent, or close to it.

Mr. BUFFETT. The man who was working on a narrow margin in 1941 is hooked under this formula, and the fellow who had a good margin is better off?

Mr. SEIDEL. The absorption theory always hits hardest the man who was in the lowest bracket. He had the narrowest margin, and he is less able to absorb.

Miss SUMNER. In other words, the thing that the workingman and the man with a smaller income had used, is that right?

Mr. SEIDEL. That is right, the lowest priced goods have suffered worse under the cost-absorption theory, and under all these various automatic freezes.

Mr. GAMBLE. If they keep on long enough, they will be in the red, and then they can get a price.

Mr. SEIDEL. That is right; sir.

Miss SUMNER. They do not get a price.

Mr. SEIDEL. If they go in the red and stay there for a period of time, they can come in and apply for a price on the basis that they are in the red.

Miss SUMNER. That does not mean they will get it.

Mr. MONRONEY. You do not say, though, that the percentage of profit for the Connecticut Co. on the 65-cent iron is comparable to their peacetime profit on the next grade output?

Mr. SEIDEL. Oh, no; I do not think.

Mr. MONRONEY. They had a narrow margin always on the 65-cent article, if any margin; is that right?

Mr. SEIDEL. That is right. Now, if they had a price that gave them a narrow margin on this product, they would be making it.

Mr. MONRONEY. A historic narrow margin?

Mr. SEIDEL. That is right. I am not encouraging too much increase, I am not encouraging complete break-throughs in permitting of prices.

Mr. SMITH. In other words, the policy adopted here by the Office of Price Administration is directed to destroy the purchasing power of the poor people; is that not right?

Mr. SEIDEL. Yes, sir; it is.

Mr. SMITH. Why, of course it is.

Mr. SEIDEL. Now I would like to put into the record the pricing order on this toaster, so that nobody will say that it is not perfectly legitimate.

Mr. MONRONEY. Very well.

Before you leave the 65 cents toaster, I would like to ask you one question. If, as was sometimes customary in those gala days, when people were trying to stimulate sales, if the man had no profit margin at all, in the 65 cents toaster, he oftentimes still produced that 65 cents toaster at a loss, as a loss leader, did he not?

Mr. SEIDEL. Yes; I think there was some of that. However, the cases where anybody ever produced anything at a loss at the manufacturing level were few and far between.

Mr. MONRONEY. But what I mean is, not probably at an absolute loss, or at absolute cost, but oftentimes he forgot about his administrative or overhead cost.

Mr. SEIDEL. It was customary in the manufacturing industry to take much lower margins on the botton of the line than at the top of the line. I will go along with that.

Mr. MONRONEY. Yes.

Mr. SEIDEL. But very few goods were ever produced at less than actual cost.

On page 6 of this pamphlet, Horrow exhibit, where it speaks about "The truth about children's scooters," in this Office of Price Administration booklet—I have not had this booklet until this afternoon, and I did not see it until you got it here so I have not had a chance to go over all of it—but I happen to have with me a photostat which I want to put in the record, on this statement made on page 6.

The book says:

Hamilton Steel Products Co. of Chicago made the big sturdy scooter, which cannot afford full production at that price and is making only 20 percent of its capacity. This manufacturer made 250,000 of these scooters in 1945, and is in full production. He has not even taken the 14 percent price increase granted manufacturers of metal toys.

Now, let me read you his letter to us. This is dated last December. This just said he had not taken it. I will start with paragraph 2, because the rest is not applicable.

The increase in price will be 14 percent, as was authorized by Office of Price Administration on November 2. The new prices are, scooter, \$2.19.

He took his full 14 percent, and here is the letter to prove it. Now, where this statement came from, I do not know. As far as full production is concerned, I do not know who made that statement, because we got, in our business, half of our scooters last fall, because Hamilton was cleaning up some Navy contracts. I have correspondence that I remember very well saying:

If you would like the rest of your fall shipments this spring we will be glad to ship them, but we will have to do it at the new price.

He took the price increases as this letter will show, on December 14, and this statement is just simply not true.

I will leave this letter for the record.

Mr. MONRONEY. Very well.

(The letter above mentioned is as follows:)

HAMILTON STEEL PRODUCTS, INC.,
Chicago 36, Ill., December 14, 1945.

GENTLEMEN: We appreciate your considerate letter of the 12th instant and have arranged for the balance of the shipments to your stores between the 15th of January and the 1st of February.

The increase in prices will be 14 percent, as authorized by the OPA directive dated November 2, 1945. The new prices will be:

	<i>Old price</i>
No. 91 wheelbarrow, \$11.43 dozen.....	\$10. 03
No. 641 scooter, \$13.01 dozen.....	11. 41
No. 1141 scooter, \$2.19 each.....	1. 92

Hope you received the samples in time for your meeting. Now, if you want to place an additional order for spring of 1946 deliveries, we will allocate to you the amount of your order that you placed for the fall delivery, and make you deliveries in the second quarter—April, May, and June.

It may be later in the spring that we can increase this allotment, if you so desire. Regards and a Merry Christmas.

Yours very truly,

HAMILTON STEEL PRODUCTS, INC.,
L. H. CRAWFORD, *Sales Manager.*

Mr. MONRONEY. Are not toys decontrolled now?

Mr. SEIDEL. Toys other than wheel goods.

Mr. MONRONEY. I see.

Mr. SEIDEL. I might put that Ohio Window Glass case in there too. I just happened to notice this one, so I might as well put it in the record.

It is on page 27 of the booklet, and reads:

Truth: Manufacturer A was the Ohio Window Glass Co. of Cleveland. The firm tells us it never has applied for a price increase. It is out of production because it cannot obtain a fabricated part it needs. Price is not an impediment

That is what it says in the Office of Price Administration's booklet. Here is my letter from the Ohio Window Glass, dated October 29, 1945.

(The following is the letter:)

OHIO WINDOW GLASS CO.,
Cleveland 14, Ohio, October 29, 1945.

GENTLEMEN: Due to increased costs of material and labor we have been forced to apply to the OPA for new prices on the merchandise we manufacture, and from all indications we will be granted an increase of approximately 6 percent.

We are asking you at this time if it would be satisfactory to apply this increase on all shipments made to your store after the effective date. We are asking this to eliminate any unnecessary delays in shipment after the change has been approved.

We have endeavored to maintain our previous prices but find this is impossible to operate at a profit, therefore we had to take this step and hope you will accept it as a measure that is unavoidable under present conditions.

Hoping to hear from you at an early date, we are,

Very truly yours,

OHIO WINDOW GLASS CO.
A. G. GARVIS.

Mr. SMITH. That was before this statement was made, sir? This letter was written October 29?

Mr. SEIDEL. This letter was written October 29. He says:

Due to increased costs of material and labor we have been forced to apply to the Office of Price Administration for new prices on the merchandise we manufacture and from all indications we will be granted an increase of approximately 6 percent.

We are asking you at this time, if it will be satisfactory, to apply this increase on all the shipments made to your stores after the effective date.

We are asking this to eliminate any unnecessary delays in shipment after the change has been approved.

Now, nothing could be clearer than that this man has a pricing problem. But still this booklet says: "Price is not an impediment."

Mr. MONRONEY. Was the same medicine chest that was compared with that in your recent exhibit, was that from a manufacturer or a jobber?

Mr. SEIDEL. The second one? It is probably from a jobber, but what point is there to that?

Mr. MONRONEY. There is quite a lot of difference between a jobber's price and a manufacturer's price.

Mr. SEIDEL. No, I think that when you set a price on a particular piece of goods, it does not make much difference who sells the goods. It makes no difference whatsoever to you as a consumer. If you buy a piece of goods at a price, what difference does it make who sold it to you?

Mr. MONRONEY. But in the Price Control Act, one of the fundamental things that this committee tried to do this committee tried to

preserve the historic relationships in business. We tried to prevent ruling out the jobber or anybody else.

Mr. SEIDEL. As a matter of fact, the pricing in this case was away too high for any reasonable jobber's price. I think the Office of Price Administration would concede that in a moment. It was very near to retail price.

Mr. MONRONEY. That might be, but still there is quite a difference. I am sure all the way through your exhibits you do not compare manufacturer's price on one and jobber's price on the other.

Mr. SEIDEL. That is right, we do not try to. We have attempted to have this just as factual as we could have it.

Mr. MONRONEY. In this case the comparison of the jobber's price was not completely in line with the general over-all comparison.

Mr. SEIDEL. Excepting that I think you will find that the second medicine cabinet was sold entirely through jobbers.

Mr. MONRONEY. The jobber still has to have some profit for his operation. He is not going to work for charity.

Mr. SEIDEL. But if you are interested in the consumer, of course, you would get the big man back in on the low one.

Mr. MONRONEY. We are not only interested in the big man; we are also interested in the marginal production. We want to get it all.

Mr. SEIDEL. That is right.

Mr. MONRONEY. I think if we can get it all, the marginal producer will sooner or later have to come down to the big producer's price.

Mr. SEIDEL. Yes. Well, I do not think that that is very important, nor do I think, throughout this exhibit, that the inferior article, based by the high cost man, is the important thing. The important thing is our inability to get the production we ought to get from the skilled manufacturer, and the quality that we ought to get from the skilled manufacturer. That, I think, is the important thing.

Mr. MONRONEY. As a matter of fact, and being absolutely fair with the committee and with yourself, these exceptionally high priced items that have been shown here, and undoubtedly there will be mistakes in pricing in your own store—I know there are a great many mistakes in pricing in mine—in almost every line of business you get a wide variation, without any price control at all, in the items. They are never on the same value standard, but the production that you claim is too low priced represents the vast volume of the Nation's production. These other exhibits that are too high priced represents the marginal few.

Mr. SEIDEL. No; that ought to be true but it is not. Let me give you a specific example. Take the largest manufacturer in the United States of work socks. The largest manufacturer of work socks in the United States, I talked with him in December; he had been 9½ months attempting to get a price increase. His plant is in Chicago, and I will not name him because I see no point in doing it.

Mr. GAMBLE. Mr. Chairman, that is a roll call; what are we going to do?

Mr. MONRONEY. We will be through very shortly, I believe.

Mr. SEIDEL. This man's capacity is 5,000,000 dozen pairs a year, which is a large part of our work stock production and needs. He could not get a price increase. He put 60 percent of his machinery in grease. He got a price on a new number of which he produced 1,000,000 dozen, instead of 5,000,000 dozen. He makes more money

on 1,000,000 dozen of the new number than he ever made prewar on the 5,000,000 dozen work socks. But the consumer is shy 60,000,000 pairs of work sokes, 5,000,000 dozen.

It is a large part of the big people who are out. The Utica Knitting Mills, the Standard Knitting Mills, the Appalachian Mills, they are all stymied.

Mr. MONRONEY. You are making exactly the point I tried to make.

Mr. SEIDEL. Well, maybe I did not understand you.

Mr. MONRONEY. That the low priced goods you have shown here represents the big volume of the Nation's production.

Mr. SEIDEL. It should, but it does not.

Miss SUMNER. But you do not understand, Mr. Monroney. His point is that the big volume has gone out of production. Is that not your point?

Mr. SEIDEL. That is my point.

Miss SUMNER. And it is the little fellow that you are breaking your neck to protect with the high price who has not got much production.

Mr. MONRONEY. That is what I tried to say. On the basis of the display you would think that 50 percent of this merchandise was held away down, and the other 50 percent was away up. As a matter of fact, and as a matter of percentage, 90 percent is held away down, and 10 percent goes away up.

Mr. SEIDEL. Which makes it that much more serious.

Miss SUMNER. But you do not understand. The point he is making here is that where they are low, the people are just out of production. They are not producing.

Mr. MONRONEY. I am trying to evaluate the quantity of goods in the market as shown by this display, and I believe, by your own statement, Mr. Seidel, the major producers are the ones who are held down.

Mr. SEIDEL. That is right.

Mr. MONRONEY. And the minor producers are away up. Would you say the percent of the minor merchandise that is over-priced is about 10 percent of the production of these lines?

Mr. SEIDEL. I would say that point you make, makes this situation that much more serious. If the man who produces the great quantity of goods is forced out, it is much more serious, than the fact that some little man is given too high a price.

Mr. MONRONEY. That is exactly the point I am trying to make, that the overpricing of the 10 percent is not of itself a great danger or a great crime that the Office of Price Administration has committed. The crime that you are talking about is the fact that the major producers have not been given this 10 or 12 or 15 percent increase to get their volume production going.

Mr. SEIDEL. That is exactly right.

Mr. MONRONEY. I merely wanted to get the purpose of the display in the record.

Mr. SEIDEL. That is it.

Miss SUMNER. But the point that escapes Mr. Monroney is that when you have knocked out, say, General Electric, and leave this little man in with his high price, he comes in and gets General Electric's business and as soon as General Electric clears out of the picture, at a higher price, he moves in, naturally.

Mr. SEIDEL. That is right.

Miss SUMNER. If you knew what a 3-year old child knows about business, you would know that, Mr. Monroney.

Mr. MONRONEY. I am not worrying too much about General Electric losing its business, because I think they will be able to take care of themselves.

Mr. SEIDEL. Except that I think you had better worry about the 130-million-odd people who cannot buy low-priced irons except because of the fact that the low-end producers are not producing them.

Mr. MONRONEY. That is right. That is an important thing.

Miss SUMNER. I think we should worry about property rights in this country. This used to be a country where people who earned their property and had it, had a right to keep it and did not have the Government come in to confiscate it. You should be worrying about that, too.

Mr. MONRONEY. The point I am still trying to make is, which I am afraid you do not gather, the fact that the relief he is asking for is on the 90 percent of the production, and he is not too much concerned about the fact that the 10 percent, as shown by this display, have over-priced goods and are a threat to inflation, is that not right?

Miss SUMNER. He is concerned about not getting the amount of production that we ought to have at the low price.

Mr. SEIDEL. I did not quite hear your question.

Mr. MONRONEY. Well, you may proceed. Miss Sumner and I will continue the argument at a later date. Do you have anything else?

Mr. SEIDEL. I have quite a bit more.

Mr. MONRONEY. Well, we will have to adjourn to come back later when the next roll-call bell goes.

Mr. SEIDEL. All right. Now, let us take up doorknobs. Door-knobs are not much of an item, but they are going to be important in the building program.

The Gateway Manufacturing Co. of Los Angeles decided last May to make doorknobs. It took them 3 weeks to fill the forms out to send to the Office of Price Administration in order to get a price of doorknobs, which was June 15.

On July 15, they heard nothing from the Office of Price Administration, so they wired to Washington, and they got a reply saying that the Washington office was unable to determine the jurisdiction.

Then, early in August, after some more wiring, they got a wire back saying: "Send photographs of your doorknobs."

So they did. They heard nothing and in September they wired and said: "Production is stopped and the workers are laid off."

And the reply came back from the Washington office: "Expect a decision next week."

Then on September 20, having heard nothing they wired Washington again. On September 27, a week later, having had no answer to their wire, they went to the regional office in Los Angeles and asked the regional office if they would wire Washington, which they did. On October 3, Washington sent back an answer permitting them to sell doorknobs at exactly their cost of production.

They appealed that on the 4th of October, and on the 12th of October, the appeal was denied, and on the 13th of October they decided there was no use trying to make doorknobs, so there will not be any doorknobs from them.

Mr. MONRONEY. Do they make anything else?

Mr. SEIDEL. I do not know.

Mr. MONRONEY. There goes the second roll-call bell; I am afraid we will have to answer that roll call. We will take a recess for about 30 minutes and will return later.

Mr. SEIDEL. Very well, sir; I will wait.

(At the direction of the chairman, the committee adjourned until 10 a. m., the following day, Thursday, March 13, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

THURSDAY, MARCH 14, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10 a. m., Brent Spence (chairman) presiding.

The CHAIRMAN. The committee will be in order.

Mr. Seidel, you may continue. We will give you a half hour this morning so that you may complete your testimony, because we have a strict schedule and if we break into it we will not be able to conclude in the allotted time.

Mr. SEIDEL. Yes, sir.

STATEMENT OF ROBERT A. SEIDEL—Resumed

Yesterday I missed putting one exhibit into the record. It was a pricing order on the large heater that sold for \$15.67.

Mr. PATMAN. Mr. Seidel, have you put the names of the people in the record on all of these?

Mr. SEIDEL. Yes, sir.

Mr. PATMAN. That is fine. I do not think it would be right otherwise, because there is no way to check up on them, and the only thing that the Office of Price Administration could do, at the worst, if they violated the law, to punish them, and you would not object to that.

Mr. SEIDEL. No, except what we want the Office of Price Administration to do is to correct the major part of the problem.

Mr. PATMAN. That is what we want to do. We want to make sure that the correction is made.

The CHAIRMAN. Mr. Seidel has exercised his constitutional right to protest. If he thinks he is aggrieved, he has a right to protest.

Mr. BROWN. But I do not think Mr. Patman meant to say that he should be prosecuted.

Mr. KUNKEL. You meant prosecuted under the law, did you not, Mr. Patman?

Mr. PATMAN. Oh, yes. I am not asking for the information for that purpose at all.

The CHAIRMAN. Proceed, Mr. Seidel.

Mr. SEIDEL. Let me make a statement to clear that up. The man who made that bad iron on Long Island is a man who just got out of the service. He had not been in the iron business before. If you talked to him, you would find he is not a black marketeer.

Mr. PATMAN. I am not accusing anybody of that. I am just saying "at the worst."

Mr. SEIDEL. I understand, but the Office of Price Administration said in the case of this man, "We will have him in jail in 4 weeks." Then they found they had no cause to put him in jail. We do not like these people threatened.

Mr. PATMAN. With tens of thousands of employees, you will find a little loose talk among them.

Mr. SEIDEL. Except these are heads of departments of that agency.

The CHAIRMAN. You had better proceed, Mr. Seidel, with your statement. You will have to limit yourself, because we have a schedule here.

Mr. SEIDEL. I understand, and if I am not interrupted, I can finish.

The CHAIRMAN. Very well. Proceed.

Mr. SEIDEL. The name of this company is the Jamaica Machine Co., and I would like to place this order in the record.

The CHAIRMAN. It may be inserted in the record.

(The document above referred to is as follows:)

[MPR 188, Order 4345]

JAMAICA MACHINE CO.

APPROVAL OF MAXIMUM PRICES

For the reasons set forth in an opinion issued simultaneously herewith and filed with the Division of the Federal Register, and pursuant to § 1499.158 of Maximum Price Regulation No. 188, *It is ordered:*

(a) This order establishes maximum prices for sales and deliveries of certain articles manufactured by the Jamaica Machine Company, 899 Boylston Avenue, Boston 15, Mass.

(1) For all sales and deliveries to the following classes of purchasers by the sellers indicated below, the maximum prices are those set forth below:

Article	Model	Maximum prices for sales by any seller to—			
		Wholesale (jobber)	Retailer (6 units or more)	Retailer (less than 6 units)	Consumer
Electric heater.....	Aratherm.....	Each \$7.92	Each \$9.69	Each \$10.44	Each \$15.67

These maximum prices are for the article described in the manufacturer's application dated July 18, 1945. They include the Federal Excise Tax.

(2) For sales by the manufacturer, the maximum prices apply to all sales and deliveries since Maximum Price Regulation No. 188 became applicable to those sales and deliveries. These prices are f. o. b. factory and are subject to a cash discount of 2% for payment within 10 days, net 30 days.

(3) For sales by persons other than the manufacturer, the maximum prices apply to all sales and deliveries after the effective date of this order. Those prices are subject to each seller's customary terms and conditions of sale on sales of similar articles.

(4) If the manufacturer wishes to make sales and deliveries to any other class of purchaser or on other terms and conditions of sale, he must apply to the Office of Price Administration, Washington, D. C., under the Fourth Pricing Method, § 1499.158 of Maximum Price Regulation No. 188, for the establishment of maximum prices for those sales, and no sales or deliveries may be made until maximum prices have been authorized by the Office of Price Administrator.

(b) The manufacturer shall attach a tag or label to every article for which a maximum price for sales to consumers is established by this order. That tag

or label shall contain either of the following statements with the correct order number filled in:

Order No. 4345
Model No. Aratherm
OPA Retail Ceiling Price—\$15.67
Federal Excise Tax Included
Do Not Detach or Obliterate

or

Jamaica Machine Company
899 Boylston Avenue
Boston 15, Massachusetts
Model No. Aratherm
OPA Retail Ceiling Price—\$15.67
Federal Excise Tax Included
Do not Detach or Obliterate

(c) At the time of, or prior to, the first invoice to each purchaser for resale, the seller shall notify the purchaser in writing of the maximum prices and conditions established by this order for sales by the purchaser. This notice may be given in any convenient form.

(d) This order may be revoked or amended by the Price Administrator at any time.

(e) This order shall become effective on the 29th day of August 1945.

Issued this 28th day of August 1945.

CHESTER BOWLES,
Administrator.

[F. R. Doc. 45-16139; Filed, Aug. 28, 1945; 3:46 p. m.]

Mr. SEIDEL. Now, I would like to show you two flannelette pajamas. The first one is made by one of the larger manufacturers in the industry, and he has a price of \$12 allowed him. To make this garment he needs \$13.37, and he cannot get it.

This other manufacturer—and, incidentally, I can tell you the name of that man, although I do not know as it is important because there are only four or five of them—that particular garment was made by the Puritan Mills. But he and another gentleman make 40 percent of all the flannelette in the country and they are not now able to produce and ship their goods because of maximum average price, first, and, second, because of price regulations.

Here is a garment made by another manufacturer who is allowed a price of \$24 in regular sizes. Now, in outsizes, the good one is allowed \$13, and the bad one \$26, and the good one, in outsizes, needs an increase in price to \$14.53.

The second of those flannelette manufacturers has on hand, right now, \$125,000 worth of flannelette that we need very badly and they cannot ship because it is against the law to ship it. He has a maximum average price of \$11.45. He needs \$13.50, and he is holding \$125,000 worth of goods.

Mr. SMITH. Mr. Seidel, these are of the same quality?

Mr. SEIDEL. The cloth in those two are identical, but the quality of the manufacture is far superior in one than in the other. The neck treatment is better; the stitching is better; it has the right kind of front treatment. The inferior garment is made by a man who certainly has had no prior experience in making men's wear. He is probably a women's wear manufacturer of some kind who has the wrong equipment and has done a poor job of making the garment, and still it was sold at twice the price.

Mr. SMITH. \$26 as against \$13?

Mr. SEIDEL. That is right.

Here are wash suits, and the biggest problem this manufacturer has is the maximum average price plan. He has a maximum average price of \$10.17, and that is because the average of the shipments he made during 1943, in the first quarter, averaged \$10.17.

Since 1943, he has had increases in his material costs; he has to pay perhaps 40 to 45 percent more for materials; his labor costs are up about 35 percent; and he is unable to produce goods at the price at which he produced them in 1943. All of these are very well made garments. Every one of them has pockets in the trousers. The pockets are self-lined. They have nice styling; they are made of good materials; and he has on hand four thousand dozens of these right now—48,000 garments that could be shipped today. Every one of these garments is on Mr. Bowles' low-priced apparel program. Mr. Bowles devises a low-priced apparel program, he puts out preticketing regulations, and here are garments that are made in accordance with his low-price program, preticketed to sell to the consumer at \$1.40 but it is illegal for the man who made them to ship because they are above his maximum average price plan. Now, he cannot produce a wash suit today for \$10.17, and that is his maximum average price.

The reason that is his maximum average price is that in 1943 he was making some wash suits at \$8, and some at \$10, and some at \$12, and his average was \$10.17. Now he is held to that average, and he cannot ship the garments. In addition to the 48,000 garments that are sitting there now waiting for shipment he has 18,000, or more than 200,000 garments, in various processes of completion in his plant and does not know at all how he can ever ship them.

At the same time that goes on, we have this garment which is being sold at \$1.50. This man is now allowed 92 cents. The maximum average price stops him. This one is shipping this at a cost of \$1.50. It is permitted to be sold at retail at \$2.89. It is not nearly as good as those.

The second one is sold at \$1.56 and is allowed to be sold at retail at \$2.95.

Here are a couple of blue ones that are practically identical, made by the same manufacturer and these are also on the low-priced goods program. This garment has a cost price of \$1.26½ preticketed to sell to the consumer at \$1.90, but again it cannot be shipped because of the \$10.17 maximum average price, and the other one which is practically identical has a cost price of \$1.80. This one, \$1.62½; this one, \$1.80, and this one cannot be shipped because of maximum average price, and this one is being shipped and sold at \$2.65 retail.

Here are three more of his line at \$1.62½, which would be preticketed at \$1.90.

Mr. SMITH. What do you mean "his line"?

Mr. SEIDEL. The good manufacturer. And this garment is permitted to be sold at \$1.72. These are \$1.62½ and this one \$1.72, and the selling price permitted on the poor garment is \$2.98. You can examine these, and you will find the poor ones are not well made, no pockets, not as well styled, not as good cloth.

In our first exhibit we made a showing of shorts, and explained that it was practically impossible for retailers to buy low-priced shorts, that the market was flooded with high-priced shorts. We showed some examples in our exhibit.

The Office of Price Administration very viciously attacked that exhibit because we had in it a short made by the Union Underwear Co., Fruit of the Loom manufacturers, and in the pamphlet they sent you, they said, "The Office of Price Administration discovered this was made by Jack Goldfarb of New York City." It was not very hard to discover it because I presented it myself and the Fruit of the Loom label was on the outside, and it was discussed in open committee. That is a Fruit of the Loom garment, made by Union Underwear, of course.

We had not claimed that he was completely out of production, but we do know that low-priced shorts are practically nonexistent, and that is the main point of our exhibit. In a signed article in Collier's, Mr. Bowles says that Union Underwear is making 500,000 39-cent shorts a week and that is simply not true. The manufacturer is making only a fraction of his production at 39 cents. He is an A-1 manufacturer. He was the No. 1 manufacturer for the military. A very large percentage of his production today is going to the Navy.

In the pamphlet you got yesterday, Horror Exhibit, Mr. Bowles said he is making 62,500 pairs per week. In Collier's he said 500,000 pairs. Now he says 62,500 pairs. I do not know what the production of Union Underwear is on Fruit of the Loom 39-cent shorts, but I do know that the manufacturer does not want to disclose what his production is on that branded item, because he has a franchise and he does not like people to know how many he makes of it. But he did tell me that if he were to produce in accordance with Mr. Bowles' Collier's article, he would be broke.

In order that the survey would be completely unbiased, we asked the New York Journal-American to furnish a man. They got one of their writers, a financial reporter named Mr. Talbot, who is just out of the university, and we furnished him the funds and told him to go all over New York and buy all the shorts he could. Let us see what he got.

Here is the first one. He bought that for \$2.20. We took all the tags and labels off these, and then we got the man we consider to be the best short buyer in New York and asked him to examine these garments and say what he thought they were worth. This one, for which we paid \$2.20, he said was impossible to judge the value of, because it was not made of cloth that he was familiar with, or made in a manner in which shorts are ordinarily made. He said, though, he would not buy it for his buying office. We paid \$2.20 for that.

The second one, we paid \$1.65 for. Again he says he does not think that he would buy that short. It has tie sides, and it is made of a 96 by 48 twill.

The next one we paid \$3.25 for, and this is a very well-made short. It is made of balloon cloth. The buyer estimates that the cost of that should be \$1.50, which would mean that the \$3.25 selling price is entirely too high.

The next one we paid \$1 for, and this is made of handkerchief cloth. Not a suitable material.

The next one we paid 90 cents for and it is made of 80 by 60 broad-cloth and the price of that should be about \$5.50 a dozen. It is not a bad short, but it is overpriced.

The next one we paid \$2.15 for, and that is a basket style, made of printed name silk.

The next one we paid \$1.75 for, and it is made of printed oxford cloth and the buyer says it should be sold for about \$7.50, which would mean it ought to retail for less than \$1.

The last one we bought in the basement of one of the department stores, and we paid 65 cents for it. It is entirely unsuitable, and I think a complete waste of materials.

I would like to throw one more item in. An unusual one. Why would we have price control on soda fountains? This came to my attention last week because we have to buy soda fountains. We are planning a great deal of enlargement in the next 12 months, and we have need for approximately 30 of them. We went to buy our first soda fountain and found the manufacturer could not sell because of the ceiling price.

It is a little difficult to see how giving a manufacturer of the soda fountain the right price for his goods is going to have any effect at all on the consumer. But in our business alone we need 30 of them next year. The cost of those things is about \$10,000 each. If we cannot buy soda fountains, somebody is not going to be able to make soda fountains, and there will be \$300,000 worth of something missing in our company alone.

I would now like to read the amendments we talked about.

Before I do that, there is one more item on the underwear. On page 4, where I was talking about the shorts, the Office of Price Administration, in this bulletin, say, "The producer of the poor-quality shorts was the B. W. Emblem Co., of New York." That is wrong. Those shorts were made by the Valley Mills in Siluria, Ala., and I do not know where the Office of Price Administration got this information, but there is no truth to it.

While we are speaking of this booklet, it is so full of misstatements from one end to the other that I would like to have permission to have our people in New York go through it and take it apart, word for word, and send down to you gentlemen the truth about everything that is in here. May I do that?

The CHAIRMAN. You may do that.

Mr. PATMAN. They did not have the names of the people?

Mr. SEIDEL. They did not have the name of that man; no.

Mr. PATMAN. I mean you did not furnish that, did you?

Mr. SEIDEL. No.

Mr. PATMAN. And, naturally, you would expect them to make some mistakes?

Mr. SEIDEL. Well, you see the point of the exhibit, Congressman, was not the man who made the \$7.55 short. The point of the whole thing was we did not have shorts in low-priced ranges because they were not allowing price enough to the good manufacturers of low-priced shorts. That is the whole point. Running this little fellow out of business, who has too high a price, is not going to help at all, and a good many of those people could probably stay in business and maybe, as one of your members suggested yesterday, if they were allowed to stay in at high prices, they might learn how to make the goods at low prices.

Mr. KUNKEL. May that be put in the record, that pamphlet?

The CHAIRMAN. That may be put in the record.
 (The pamphlet above referred to is as follows:)

NRDGA "HORROR EXHIBIT"

Presented to the House Banking and Currency Committee, March 1946, Office of Price Administration, Paul A. Porter, Administrator

The "horror exhibit" of the National Retail Dry Goods Association was shown in both the Senate and House Office Buildings and was exploited before the Smith committee of the House and before the Senate Small Business Committee.

The exhibit was riddled with misinformation, as we intend to prove.

The NRDGA exhibit showed goods in contrast.

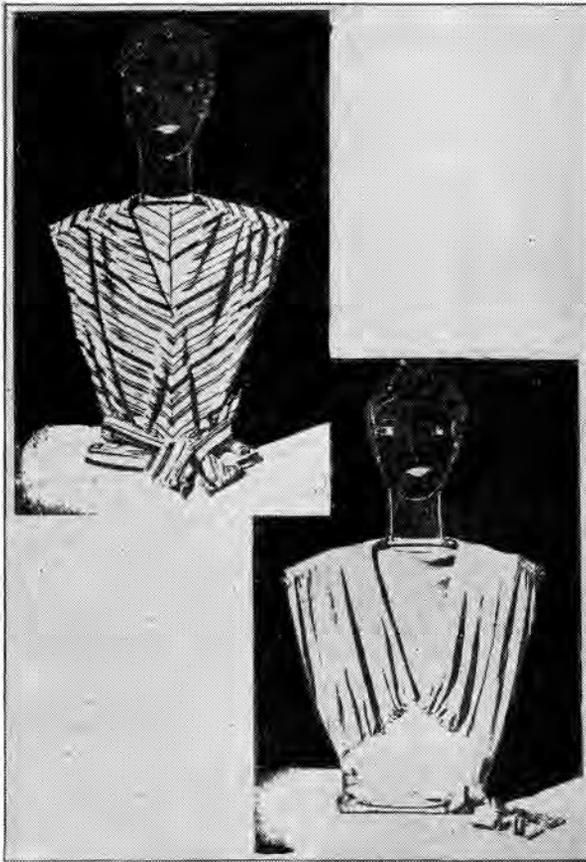
First was good-quality merchandise, which it was claimed no longer could be produced by established manufacturers because OPA prices made their production unprofitable.

Second, was shoddy merchandise made by new manufacturers and sold at much higher prices, supposedly approved by OPA.

The exhibit in no case gave the names of manufacturers, and although OPA asked for them repeatedly they never were supplied direct.

OPA, however, has succeeded in discovering the names of six manufacturers. NRDGA finally provided the names of nine manufacturers and three jobbers to the Senate Small Business Committee.

The facts shown hereafter are based upon these cases.



NRDGA exhibit said—

“For example:

“Men’s wear.—The OPA expects an established manufacturer to market fine printed, sanforized cloth shorts at \$3.55 a dozen. A second manufacturer is allowed to market shorts made of 80 by 60 broadcloth for \$3.50 a dozen. But third manufacturer is permitted to market shorts made of white sheeting of the type commonly used in chenille bedspreads, and to charge \$7.35 a dozen for them. “—the consumer suffers!”

Now let’s see what is the truth.

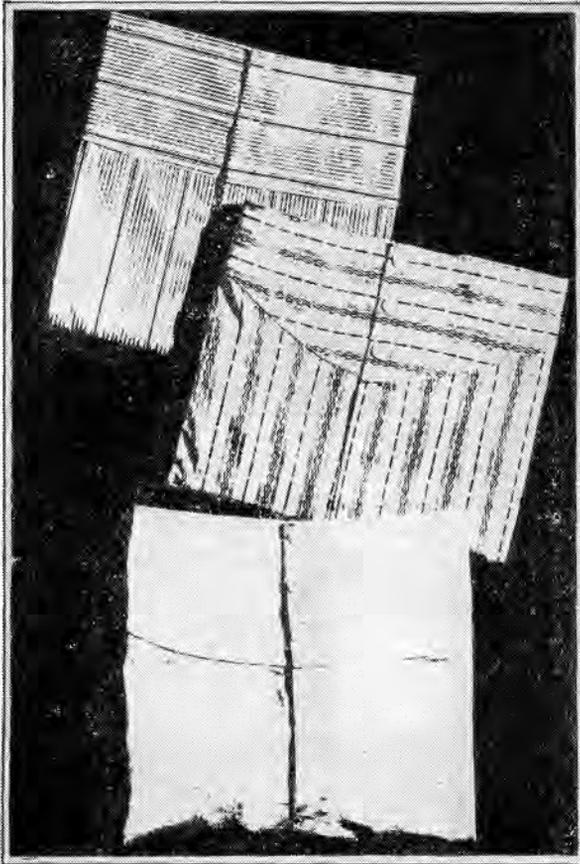
THE TRUTH ABOUT MEN’S SHORTS

Producer of “Fine printed sanforized shorts” was Jack Goldfarb, of New York City (OPA discovered).

He is making one quarter million shorts a week. One fourth of his production is made to retail at 39 cents. He is making more units than before the war. He is selling at 1942 prices. His low-priced shorts are below his ceiling price.

Producer of broadcloth shorts “at \$3.50 a dozen” was the Utica Knitting Co. (NRDGA revealed). Firm’s ceiling on shorts formerly selling for \$3.25 was \$3.74 in November. In January 1946 firm got \$3.96 price. Has been continuously in production on shorts. Dropped one line for a style change.

Producer of poor-quality shorts was the B. W. Emblem Co., of New York. Two calls found firm closed with watchman on guard. Owner reported in Florida; his home address unknown. Firm not registered in county clerk’s office. OPA never gave firm a price.



NRDGA exhibit said—

“For example:

“*Wheeled toys.*—The scooter in the foreground is made of scrap material. Its manufacturer is permitted a ceiling of \$3.75 on his product.

“The big, sturdy scooter in the background, with good rubber tires, brake, and stand, is limited to a ceiling of \$1.92 by OPA.

“Its manufacturer cannot afford full production at that price. He is making only 20 percent of his capacity.”

Well, what is the truth about these scooters?

THE TRUTH ABOUT CHILDREN'S SCOOTERS

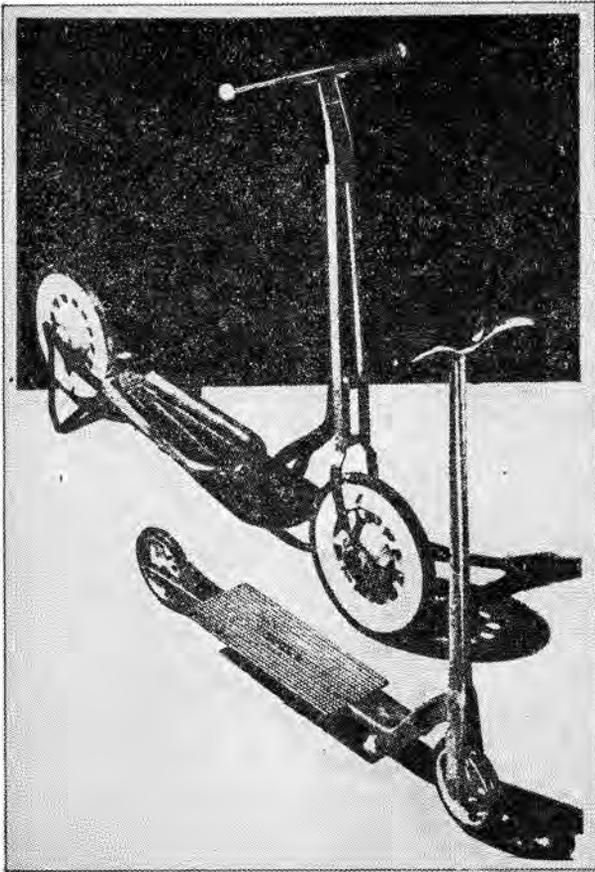
Schoell Metal Craft, of Miami, Fla., made the aluminum scrap metal scooter.

The price was given for the 1944 Christmas season only, when priorities kept the big, sturdy scooter off the market and the next cheapest scooter on the market was made of wood and sold at \$10.

Hamilton Steel Products Co., of Chicago, made the big sturdy scooter which “cannot afford full production at that price” and who “is making only 20 percent of his capacity.”

This manufacturer made 250,000 of these scooters in 1945 and is in full production. He has not even taken the 14 percent price increase granted manufacturers of metal toys.

NRDGA exhibit said—



"For example:

"*Women's wear.*—Manufacturer A is an established producer of "topper" blouses with a quality reputation. He makes a well-finished blouse with taped seams, a shaped front, and a one-piece sash as shown at the left. It carries an OPA ceiling of \$2.50, but the manufacturer is caught with a maximum average price of \$1.37.

So the OPA permits him to make only a limited number of these blouses—not nearly enough to meet the demand.

But manufacturer B is a newcomer. He has been in business for only 6 months and is allowed \$12 for poor finish, pinked seams, a pieced belt and chain-stitched edging. Manufacturer B wouldn't have a chance in the market if manufacturer A were allowed to meet his demands.

Meanwhile—

—the consumer suffers!"

THE TRUTH ABOUT WOMEN'S "TOPPER" BLOUSES

The "Topper" blouse was a new type of garment; a cross between a "Dickie" and a blouse.

OPA ruled it to be a blouse and subject to a blouse MAP, when it covered the upper part of the body and could be worn without a jacket.

NRDGA assumed it was subject to "Dickie" MAP's; but it didn't always correctly state firms' "Dickie" MAP's.

THE TRUTH ABOUT WOMEN'S "TOPPER" BLOUSES

Engel, Bauer & Co., of New York City, is manufacturer A.

Firm tells us the garment displayed was a "poncho with cap sleeves." OPA holds this to be a blouse. Firm never has applied for a MAP on blouses. Had it done so it would have received a MAP of at least \$1.87 gross per garment. The firms Dickie MAP is \$1.56 not \$1.37.

Jennifer, of New York City, is manufacturer B.

OPA has entered enforcement action against this firm for violation. Claimed damages total \$54,186. The price stated never was approved by OPA.

MORE ABOUT WOMEN'S "TOPPER" BLOUSES

NRDGA said of Paula Fashions, of New York City:

"The white topper blouse is manufactured by 5A.

"Cost is \$1.87½; approximate retail selling price \$3. Note excellent detail and trimming with one-piece sash.

"5A is not permitted to manufacture garment in quantities needed for his customers because his MAP average under OPA regulations is \$0.90."

Truth.—Paula Fashions garment displayed in the exhibit was a blouse. However, firm never has applied for a MAP for blouses. Had it done so its MAP would be at least \$1.87 gross per garment, compared with NRDGA claimed MAP of 90 cents.

MORE ABOUT WOMEN'S "TOPPER" BLOUSES

NRDGA said of Oppenheim & Baruch, of New York City, manufacturers "6A":

"Print 'Topper' blouse is manufactured by '6A,' one of the important manufacturers in the blouse industry.

Cost is \$2.50. Approximate retail selling price is \$4. Note intricate design, details, and buttons. '6A' is not permitted to manufacture garment in quantities needed for his customers because his MAP average under OPA regulations is \$1.87."

Truth.—The firm states that the garment displayed was a "Dickie," not a "Topper" blouse, as NRDGA claimed. Eighty-three percent of all "Dickies" have a price below \$1.87—this firm's "Dickie" MAP average.

MORE ABOUT WOMEN'S "TOPPER" BLOUSES

NRDGA said about Jennifer, manufacturer previously called B, now called manufacturer C.

"*Newcomer gets very special privileges.*—The green 'Topper' blouse made by C a newcomer who appeared on the market approximately 6 months ago. Blouse is no better than the other. Finish is poor. Note pinked seams, pieced sash, and chain-stitched edging.

"OPA permits this newcomer to sell blouse at a cost of \$12, almost five times the legitimate manufacturer's cost for a comparable product. OPA permits retailer to sell garment to consumers at \$17.98."

Truth.—If NRDGA means that OPA, with its limited enforcement staff, did not catch up with this violator in 6 months, it is right.

What "privileges" Jennifers enjoys will be revealed when the damage suit for \$54,186 is settled.

MORE ABOUT WOMEN'S "TOPPER" BLOUSES

NRDGA said about Baar & Beards, of New York City:

"Blue Topper blouse manufactured by AA, one of the important manufacturers in the blouse industry. Cost is \$1.87½; appropriate retail selling price is \$3. Note excellent finish throughout.

"AA is not permitted to manufacture garment in quantities needed for his customers because his average under OPA regulations is \$1.08."

Truth.—Firm states that garment displayed is not a "Topper" blouse. Had garment been a blouse, MAP would have been at least \$1.87 gross per unit. Firm, said to be "one of the important manufacturers in the blouse industry," tells us it makes no blouses.

MORE ABOUT WOMEN'S "TOPPER" BLOUSES

NRDGA said about I. Kraines, of New York:

"The red sequin decorated 'Topper' blouse is manufactured by AAA, one of the important manufacturers in the blouse industry.

"Cost is \$6.75. Approximate retail selling price, \$10. Note double stitching of sequins and excellent finish throughout.

"AAA is not permitted to manufacture garment in quantities needed for his customers because his MAP average under OPA regulations is \$4.08."

Truth.—The firm's MAP on rayon blouses is \$7.12 net, each—\$4.08 is its "Dickie" MAP.

"HARDSHIP" (?) UNDER MAP

OPA is barred from revealing figures showing the volume of business done by individual firms.

However, four of the "long-established" manufacturing firms shown in the NRDGA exhibit as makers of "Topper" blouses and claimed to have trouble producing under MAP, reported to us these figures covering production in the "Dickies, Halters, Gimpes, Vestees," category:

	Units
Second half, 1943 production.....	42, 810
Second half, 1945 production.....	50, 630

Three firms finished 1945 with a substantial credit under MAP—proving that MAP was no hindrance to production. The fourth firm had a deficit of just 57 cents.

INFANTS' 3-PIECE SETS (1)

NRDGA claims:

"*Manufacturer A.*—Three-piece; saque, hood, and moccasins; white, blue trim. Packed one to a box, the better-made, prettily detailed three-piece set is allowed a ceiling of \$30 per dozen by OPA. The wholesaler has been in business 50 years."

"*Manufacturer B.*—Three-piece; saque, hood, and moccasins; pink, white trim. "Unboxed, the less attractive pink set, which should certainly be cheaper to produce, gets the same ceiling from OPA—\$30 per dozen. This wholesaler profits because he is new in the field."

INFANTS' 3-PIECE SETS (2)

The Truth.—Van Wagenen-Sager, of Syracuse, N. Y., called manufacturer A, is a jobber.

He is selling all the 3-piece sets he can get from home workers who make them for him. Volume limitation is their ability to get yarn.

Dennison Bros., of New York City, is manufacturer B.

OPA never approved Dennison Bros. prices. Investigation shows extensive violations. Enforcement action is contemplated.

INFANT'S SACQUES (1)

NRDGA claims:

"An established wholesaler has a 1942 ceiling of \$15.75 on the pink sacque. It isn't profitable, but this wholesaler has an even sadder story to tell. In 1942 he had a line of \$9X sacques. He can't carry it any longer. His newcomer competitors carry it, however, at an approved OPA ceiling of \$22.50. This 150 percent more than OPA thinks the established wholesaler is entitled to."

"A newcomer has a ceiling of \$18 on the white sacque. A glance shows that it should cost less to produce than the pink sacque. Newcomers like this are doing all right—but the consumer suffers. For another example, take the case of an infant's three-piece set, which an established wholesaler no longer can handle at the ceiling of \$18. Newcomers now sell it at \$42."

INFANTS' SACQUES (2)

The truth.—Van Wagenen-Sager, of Syracuse, N. Y., is this time correctly called a wholesaler.

This firm is selling the pink sacque at \$15.75, it tells us, with a "normal profit."

The firm bought the \$9 per dozen sacques from home workers for \$6. An outsider came in and paid \$11 for them. It is reported to be selling them for \$22.50, obviously an illegal price which OPA is investigating.

Dennison Bros. again is the "newcomer."

Newcomers do "all right" when they sell at illegal prices without OPA approval until the law catches up with them.

That, and the fact that OPA has far too few investigators, is all this case proves.

INFANTS' MOCCASINS (1)

NRDGA claims:

"Old-established manufacturer.—On the white and blue moccasins OPA allows to a wholesaler of 50 years' experience a ceiling price of \$6 per dozen."

"Newcomer manufacturer.—On the all-blue moccasins, untrimmed, unstuffed, packed in bulk, OPA hands out to a newcomer an approved ceiling price of \$9 per dozen."

INFANTS' MOCCASINS (2)

The truth.—Van Wagenen-Sager, of Syracuse, N. Y., is now called "old established manufacturer."

This firm is selling all the infants' moccasins it can get from home workers at \$6 per dozen.

E. S. Wagner, of New York City, made the \$9 per dozen moccasins.

OPA never approved such a price. On the contrary, on January 25, 1946, a judgment was secured against this firm for violations. Penalties were \$4,533.

The first installment of \$1,511 was paid into the United States Treasury on February 5, 1946.

CHILDREN'S MOCCASINS (1)

NRDGA claim: "Why should there be a difference of \$2.75 per dozen in the ceiling prices of these two pairs of moccasins? The answer is easy. One distributor has been in business 50 years, so he is held to an unprofitable price of \$3.75. The other, a newcomer, is eligible for in-line pricing. So he gets a ceiling of \$6.50. Is there any sense in it?"

MANUFACTURER A

Salmon pink white trim (fine wool)

MANUFACTURER B

Deep pink white trim (coarse wool)

CHILDREN'S MOCCASINS

Van Wagenen-Sager, of Syracuse, N. Y., is again called a "manufacturer." This firm is selling and will continue to sell the moccasin displayed for next 6 months at \$3.75. It is a chain-store item; not on comparable price basis with other moccasins. Margin is narrow.

Babyknit, of New York City, is the "newcomer." It jobbed this item.

The firm established a selling price of \$6.50 a dozen by comparison with prices of Newport Knit. Ninety percent of Babyknit styles are embroidered. Price apparently was correctly established.

Note.—Disguised in the NRDGA exhibit but now discovered through revelation of names is the fact that Van Wagenen-Sager, who sold the moccasins at

\$3.75, also sold moccasins at \$6 a dozen. Actually the firm's infant moccasin prices run up to \$8.25 a dozen.

OPA's MAP regulation, in effect since June 1, 1945, has prevented new firms without previous experience from entering the business of making practically all apparel and apparel accessories, save at low-end prices.

All claims that OPA gives newcomers advantages in this field are obviously misrepresentations.

ELECTRIC IRONS

NRDGA claim.—Claim was made that OPA gave price of \$3 to new firms while holding old manufacturer to a price which did not permit production.

Truth.—We gave the manufacturer of the "good" electric iron, Nelson Manufacturing Co., of Cleveland, Ohio, a 40 percent price increase in January 1945. It did not lead it to go back into production on that iron. However, firm is producing 25,000 irons a month, for which it gets \$1.57 and consumer pays \$2.70.

The new manufacturer, Bayshore Electric Co., of Bayshore, Long Island, N. Y., was given the \$3 price on a slightly different iron than that shown in display; but the \$3 price was too high—an OPA error.

CHILDREN'S BLOCKS

NRDGA claim.—"Established manufacturer A has an OPA ceiling of 29 cents for a box of 24 play blocks. He can't produce it at this ceiling. He needs a ceiling of 38 cents. OPA says, 'No.'"

"Newcomer, manufacturer B, has an OPA ceiling of 88 cents for a box of 16. Does it make sense to pay 2½ times as much for 16 blocks as for 24? OPA says, 'Yes.'"

Truth.—Manufacturer A was the Embossing Co. of Albany, N. Y. Firm told us it never had applied for a price increase. It has been out of production since 1942 on these blocks because he could not obtain ponderosa pine. It made dominos and checkers at 1942 ceilings. Since January 28, 1946, blocks and most other toys have been decontrolled.

Manufacturer B: Name not revealed by NRDGA. Why?

MEDICINE CABINETS

NRDGA claim.—"OPA restricts established manufacturer A to a ceiling price of \$1.47 for a medicine cabinet with mirror. He needs an increase of 22 cents. OPA says, 'No.'"

"OPA allowed manufacturer B to sell a smaller cabinet with smaller mirror at a ceiling of \$2.15. That is 46 percent more than established manufacturer is allowed."

Truth.—Manufacturer A was the Ohio Windowglass Co., of Cleveland. Firm tells us it never has applied for a price increase. It is out of production because it cannot obtain a fabricated part it needs. Price is not an impediment.

Manufacturer B is not a manufacturer at all, but a jobber. The validity of his jobber price has not been determined.

From this review it is clear that NRDGA collected and displayed good-quality merchandise which someone told it was off the market because of OPA price regulations.

It didn't check to see if this actually was the case.

It also collected samples of shoddy merchandise selling at high prices, which it assumed had OPA approval.

It didn't check to see if the prices actually were approved.

No doubt unintentionally but through gross carelessness NRDGA misrepresented the facts to Congress and the public.

We think it owes Congress and OPA a frank and public apology.

LOW-END PRODUCTION INCENTIVE ORDERS

OPA has issued a long series of price increases applying especially to low-end goods designed to encourage their production.

These cover cotton textiles, work clothing, low-priced clothing, furniture, radios, various kinds of building materials, certain household supplies and foods.

Many of these orders have been issued since the NRDGA exhibit first was displayed. No mention was made in the exhibit however, of any of these orders.

That low-priced goods have tended to disappear from the stores no one questions.

That this disappearance is because OPA prices have made production of low-end goods unprofitable, NRDGA has not and cannot prove.

Because black marketeers are selling at higher prices than legal prices is no proof.

In an inflationary market low-priced, low-profit items always tend to disappear unless the Government stops it.

OPA's MAP order is stopping it.

It is protecting the public.

NRDGA wants it removed.

NRDGA CONCLUDES ITS BOOKLET WITH THIS STATEMENT

"Every customer knows the truth of the statements contained in this booklet." Obviously, if this is the case the public knows a great deal that isn't true.

Mr. SEIDEL. Now, we have written a series of amendments that I think cover very fully all of the proposals that Dr. Nystrom made before I started. Incidentally I, generally, endorse everything that he had to say. I think his proposed remedies were good. I think we have to go a little further than he did, however. But we have written these up in legal language, and I would like to read them, and you can see what you think of them.

First—

That it is hereby declared to be the policy of the United States to speed the return to a free economy under which competition will regulate prices, that the obtaining of maximum production in industry is the paramount need of the transitional period, and is more important than maintaining existing price levels.

That is a general over-all statement.

Now, the first amendment we propose is one to limit the activities of the Office of Price Administration so that they will be controlling fewer things and can do a better job on what they are controlling. Let me read what we have prepared on that.

That no price heretofore established for any commodity or service which does not directly and materially affect the cost of living shall be maintained under the authority of this act or the Stabilization Act of 1942 as amended. The Price Administrator, the Civilian Production Administrator, the Secretary of Commerce, and the Secretary of Agriculture, shall, by concurrent action, determine the commodities and services which directly and materially affect the cost of living, and on and after the effective date of this section, the price of no other commodity or service shall be subject to control.

Mr. THOM. Does the soda fountain contribute materially to the cost of living?

Mr. SEIDEL. I would say definitely not.

Mr. THOM. It contains ice cream?

Mr. SEIDEL. That is right, but the price you would pay, Congressman, for an ice cream soda, would not vary one iota, whether we paid \$8,000 or \$12,000 for the soda fountain. We would have to sell you an ice cream soda at the same price that the drug store next door sold it to you, even though we had to pay more money for our soda fountain. So the contribution to the cost of living is zero. Is that not correct?

Mr. THOM. Well, I am not sure about that. I think your definition is pretty loose when it comes to classifying to what contributes materially to the cost of living. I think you are going to get into a lot of legal trouble.

The CHAIRMAN. Proceed with your amendments, Mr. Seidel.

Mr. SEIDEL. Third—and this is on the maximum average price regulation, and it is prefaced by some comments that I would like to have in the record.

This regulation, although manifestly beyond the legal authority of the Price Administrator and wholly without support under the provision of the price control law, as it presently exists, because it is a production regulation rather than a price regulation, has proved to be a serious impediment to maximum production and has caused serious distortions in distributions, as well as deterioration in quality of urgently needed consumer goods, and in extending the act we urge that you adopt this amendment:

No regulation or order shall be promulgated or enforced under the authority of this act, or the Stabilization Act of 1942, as amended, which directly or indirectly requires or compels a producer of a commodity to conform during any period to a pattern of production or sales of such commodity by price range or unit classification based on any period.

That would completely wipe out the maximum average price regulation, and any and all types of regulation which the Office of Price Administration has which control production or impede it.

The next one, I think, is the most important of all.

If any credence is to be given to the universal complaint that price formulas heretofore conceived promulgated and administered have proved to be impediments to the maximization of production and have resulted in the distortion of distribution, it would appear to be reasonable to restore the function of pricing in the transitional period to industry, subject to governmental supervision.

I think that the exhibit we have shown you and the testimony before the committee clearly demonstrate how inept important price action has been taken by the personnel of the Office of Price Administration, and here is what we urge [reading]:

The price which shall be applicable to any commodity or service subject to control under the authority of this act, shall be established by persons engaged in the production and distribution of such commodities, and in the rendition of such service, and shall not exceed the levels necessary to afford prewar margins above current costs. The Price Administrator shall have authority to require that prices so established shall be suitably reported in the manner and at the time which may be necessary for the proper administration of this act.

That gives industry the job of pricing, not the Office of Price Administration. The Office of Price Administration has the job of reviewing the pricing job done by industry, and correcting it if it is not right, and it gives industry the right, in setting its prices, to adhere to historic prewar margins.

I think it is perfectly ridiculous, for example, for anybody in the Office of Price Administration to tell Ford how to price an automobile. But if Ford sets a price on an automobile and sets it too high, I think it is perfectly reasonable for the Office of Price Administration to negotiate it down. The same goes for all of us.

The next one is on the subject of decontrol. And we simply have to have a decontrol regulation. There has been no serious attempt to take price controls off anything. [Reading:]

¶ Whenever it shall be made to appear, by appropriate petition submitted to the Price Administrator, by or on behalf of an industry advisory committee, that the production of any commodity of such industry, or that the facilities for the rendition of any service performed by such industry, which commodity or service is subject to control under the provisions of this act, have attained a level commensurate with demand, price controls then in effect shall be suspended.

Frankly, I think that that amendment could be improved. The theory that you can lift controls when supply equals demand does not

work on all items. I would cite, for example, a wooden chopping bowl. There are no wooden chopping bowls now. As long as we have price control, there will be no wooden chopping bowls. Nobody is going to make them. Nowadays they take them and paint a cactus plant on it and give you a knife and fork and sell it as a salad bowl or put something in the center and give it to you to crack nuts on. We would like to get back in the chopping bowl business, and it is going to mean quite a price increase for that man. I do not think we will be back into production of a lot of these plain, ordinary things until we get Office of Price Administration controls completely off of them. I think you have to take them off a great deal of that merchandise on which they are not at all necessary.

On the subject of judicial review, I would like to put this into the record [reading]:

It is urged that the jurisdiction of the district courts of the United States to hear and determine matters raised by persons affected by price control in the transitional period be established in the manner provided in section 3 of H. J. Res. 304 and S. J. Res. 118. In addition it is urged that the District Court for the District of Columbia be invested with jurisdiction to require the performance of any act, in accordance with the pricing or decontrolling of any commodity in accordance with the standards herein mentioned by the issuance of an appropriate writ of mandamus.

It is also urged that the district courts of the United States be invested with jurisdiction to entertain actions for declaratory judgment with respect to orders and regulations issued by the Price Administrator in the transitional period.

I think it is very important that the committee definitely limit any controls at all that are carried after June 30. Not to do so, I am sure, would be a serious mistake, and would mean that industry would continue to be hamstrung.

The CHAIRMAN. Have you completed your statement, Mr. Seidel?

Mr. SEIDEL. Yes, sir.

The CHAIRMAN. We are very glad to have had your testimony here. I hope all of these things will be investigated and the injustices, of course, corrected.

I think it is your privilege to appear here and state what you think are injustices. I have no doubt that many of them have occurred and I hope they will be corrected.

Now, Mr. McCargo is an independent dealer in Richmond, and he would like to be heard. Our schedule is a little out of order because we had two other groups appearing here today, but I told Mr. McCargo he could have a half hour to state his case.

Mr. McCargo.

Mr. McCargo, will you state your name and residence and identify yourself?

**STATEMENT OF WADE McCARGO, PART OWNER AND MANAGER,
H. V. BALDWIN & CO., RICHMOND, VA.**

Mr. McCARGO. My name is Wade G. McCargo. I am part owner and manager of H. V. Baldwin & Co., a neighborhood department store in Richmond, Va.

I am a member of the National Retail Dry Goods Association, a member of their board of directors, representing small merchants, and I am here partially for myself and partially at the invitation of the National Retail Dry Goods Association.

Gentlemen, I am one of the little fellows who is getting hit in this argument. You have had some statistics presented to you for the last 2 days, telling you the trouble that the larger retail organizations are having in obtaining supplies for their customers. Their troubles are small compared with those of the little retailer.

We do not have the charts to show you, and we could not show you the samples, because we do not have the merchandise.

The CHAIRMAN. You will have no difficulty telling us your troubles, though, will you?

Mr. McCARGO. But our troubles are real. The nice merchandise that Mr. Seidel has been showing you just makes my mouth water, because, as a smaller retailer, we have been almost entirely shut out from these larger lines. They, naturally, are selling to the largest stores because we did not buy from them during the prewar days.

The CHAIRMAN. What line of goods do you carry?

Mr. McCARGO. We carry a general line. We are a neighborhood department store, carrying men's clothing—at least, we used to—shirts, furnishings of all descriptions, piece goods, ready-to-wear, some little occasional furniture and electrical goods, and gift items. We have a three-store neighborhood department store.

My own personal convictions are that if an enemy agent had been sent to our country to sabotage our production and snarl our reconversion, he could not have accomplished a more effective job than the Office of Price Administration has done through its unrealistic and unfair pricing policies.

You have heard of the person, I am sure, who is successful in growing plants, and they say of that person, "He has a green thumb." The Office of Price Administration has had exactly the opposite effect upon our economy. Their hand is black, and everything they touch dies. Every time they take hold of a line to do something about it, the supply disappears in the legitimate sources and springs up in the black market.

Every act of the Office of Price Administration in the past years has created further shortages, and the condition has grown steadily worse since the end of the war. We are today in the worst condition, in our store, for essential civilian supplies—the things people need to wear—than we were in the very midst of hostilities. Seven months after victory we are still in Office of Price Administration defeat.

In our store, like most others I know, we are suffering from the blight of the Office of Price Administration. We are without men's suits, shirts, pajamas, and work clothing of all kinds. Our customers who want work clothing, and our farming trade, are wearing patched things because they cannot get, and we cannot furnish them with, working clothing.

Our women customers are clamoring for hosiery and we are not able to supply them. We have no sheets, pillow cases, towels, and very little yard goods, and that is inadequate. It is not the kind of yard goods that people need.

We have very little underwear for men, practically no handkerchiefs. Our socks are grossly overpriced. The regular goods we have always been able to get, it is absolutely impossible to secure. We have an inadequate stock of gloves, men's hats, women's underwear, and children's clothing.

From the cradle to the grave, Office of Price Administration shortages are affecting our customers. We are out of diapers most of the time and last week I had to turn one of our very best customers away who wanted a white shirt to shroud his father with, and we did not have it to furnish him.

Quality of merchandise that are having to handle has deteriorated to such an extent that, frankly, gentlemen, I am ashamed of the things that are on our counters today. Our boys, returning from the armed forces daily, find our clothing cases empty, and they are bitterly disappointed, and blame us because we are the last persons they reach.

This condition has been caused, in my opinion, largely by the stupid pricing policies of the Office of Price Administration, and their unworkable maximum average price regulation.

Office of Price Administration regulations have killed our supply of men's clothing, and we are receiving letters from clothing manufacturers like this one of which I will quote part.

We are sorry we have no suits to ship you, but present conditions are not conducive to the manufacture of men's clothing.

I talked with this manufacturer later and he said he was afraid to tell us the true facts in a letter because, as he said, "If I said the Office of Price Administration is to blame, they would be on my neck by tomorrow morning."

I am in New York at least once each month trying to buy merchandise. I talked with many manufacturers about this condition. The story is the same from all of them: The regulations are making it so they cannot manufacture clothing, and still stay in business.

In our store we have received only 12 men's 3-piece woolen suits since November 1, 1945. We usually carry a stock of about 300 to 350 suits, and today we have not one single 3-piece suit in our store. We have a few men's tropical worsted suits, very light weight, summer suits, and our boys from the armed forces are having to come in, and, in order to take off their uniforms, they have having to wear these summer suits with an overcoat on top of them.

The Office of Price Administration's recent clothing order, if it is ever understood—I have been unable to get a copy of it so far, but I understand that the original writing of it required 82 typewritten pages, and I imagine that in the dim and distant future, when some manufacturer is able to hire enough economists and lawyers to understand its meaning, that it might help some manufacturers to get us some goods. But in the meantime, gentlemen, our customers are without clothing.

This thing is being heralded as a great benefactor to the men's-clothing business. But I want you to remember, gentlemen, that the men who snarled this thing, the men who got this clothing business into such a mess, are the men who claim to be attempting to correct it. If I were going to be operated on, I would want to be operated on by my friend, and not by my worst enemy. And, as far as production is concerned in this country, I consider the Office of Price Administration one of the greatest enemies of production.

Men's dress shirts are almost nonexistent, because of Office of Price Administration bungling. It has upset our entire orderly method of distribution. Mills that formerly made millions of yards of broadcloth for men's shirts now are making heavier and inferior cloth

because their ceiling makes it impossible to make broadcloth without either no profit or at a definite loss.

Mr. Chester Bowles can show his charts and claim to have held the line on our shirts so that the price is now \$1.90 instead of \$2.25 in 1942, although, gentlemen, they are costing me exactly the same as they did in 1942, but the only shirts we can buy are sport shirts, and these sell at \$2.95 to \$5, and they are not what our customers want.

In our little store we have received just 36 white Arrow shirts since November 1945. We have on record over 1,000 men who have asked us to please let them have one shirt, when we can get it.

Charts are good propaganda, gentlemen, and they look good when they are shown in Office of Price Administration offices around the country, and to you gentlemen, but it is hard to use one in place of a shirt for a veteran returning from the war.

Mr. Bowles points to sales figures and claims that our production is larger, and that merchants' profits are astronomical. I am not here complaining about our sales volume or profits. But I am not furnishing my customers the essential clothing and furnishings they want and need.

Let us take, for example, one department. We have a department in our store which used to carry women's hosiery, gloves, and bags—handbags. In that department, we have no hosiery most of the time, and very few gloves, but our sales on higher-priced handbags, scarves, artificial flowers with which women decorate their suits, and roasted nuts have made it so that we are doing a larger volume and making more profit in this department, but, gentlemen, it is very hard for me to answer a woman, when she wants to know how she is going to use a bunch of flowers or a box of nuts instead of a pair of stockings.

Chester paints charts, and my customers are having to paint their legs for stockings. You might ask how the Office of Price Administration is to blame for this. I want to read you part of a letter from one of our suppliers. I am going to try to keep his name a secret because he asked me to.

We get approximately one-fifth of our nylon hose—we hope to get one-fifth of our nylon hose—from this firm, one of our very old and reliable firms. They make a good many of the lines they sell, but they job most of their hosiery, so they sent us a notice during January to the effect that they were very sorry that they would be unable to furnish us any nylon hose.

So I wrote and asked the sales manager if he would please, in confidence, tell me why we could not get nylon hose from them. We had bought from them in the past. And I have this letter [reading]:

In answer to your letter of February 22, I am herewith giving you the facts relating to the nylon situation with us.

Several years back, our company sold its interest in a certain knitting mill, which left us in a position such that we were not manufacturing hosiery of our own make, and they had to go out in the open market and buy merchandise made to its own specifications. This, naturally, put us in the class of a jobber. We did not shout from the housetops that we were jobbing our hosiery. Our customers knew, generally, that we had disposed of our holdings in this mill, and whatever hosiery we were offering them must have been made by someone other than ourselves. Our competitors, to our own knowledge, made much capital of the fact that we were no longer making hosiery and that we were a jobber and consequently why should retailers be buying hosiery from jobbers when they could buy direct from a manufacturer.

This situation has existed ever since September in 1942, when we bought a few full-fashioned machines. However, 90 percent of our full-fashioned hosiery was still purchased-hosiery and sold on a jobbing basis.

When MPR 339—that is, the rayon order—was put into effect, the necessary qualifications to qualify as a wholesaler could not be made by us. Consequently, necessitating a visit to Washington, and discussion with the Office of Price Administration officials, who were convinced we were legitimate wholesalers. They wrote an amendment to MPR 339, making it possible for us to sell our rayon stockings as wholesale distributors. When the nylon regulation, MPR 602, was written, this amendment was left out. Again we went to Washington and explained our position and were asked to fill out many forms and furnish much information, which we did.

After all this data was all presented to the Office of Price Administration, they insisted that we must have more objective proof that we were wholesalers before they would grant us a license to sell nylon stockings. This objective proof was such that we could not furnish it, in that it specified that we must have our stationery and our advertisements declare us jobbers of hosiery. Consequently we are forced to advise our customers, as per the letter sent you on February 13, inasmuch as we have been refused a license by the Office of Price Administration, we are not in a position to serve our customers any further.

While Chester holds the line, our customers are holding the bag.

One of our sources of supply of cotton piece goods notified us that they would not be able to ship us any more goods. This firm says that they have a large stock on hand at the present time of cotton piece goods, but the Office of Price Administration has given the mills notice in advance that makes it so they cannot ship these goods except either at an actual loss or, at best, with absolutely no profit.

If he ships his goods before the Office of Price Administration lets him know about it, he is likely to have a loss. But they do not promise him anything but a break-even, because the regulation reads that he may sell this merchandise that is billed to him at a higher price, and may apply for relief, but he can only apply for a price that would be equal to his 1944 expenses of doing business, and no provision is made for the man to make a profit.

Many converters have been waiting since last September to get this situation straightened out, and the supply is getting worse daily.

A converter of drapery and curtain fabrics has ceased to supply us because Office of Price Administration regulations make it impossible for him to make a profit. This man makes drapery fabrics up into ready-made draperies now, and my customers must pay for a manufactured product they prefer to make in their own home according to their own specifications.

Again, my sales are not suffering by my customers not getting what they want, but the customers' needs are suffering and they are paying more for the goods they get.

By the way, gentlemen, within two blocks of this converter's business, I can go and buy inferior drapery fabrics and curtain materials at from two to three times this man's ceiling prices. On one item he has shut off his supply entirely, which is the cotton marquisette. That man's price is sealed or frozen or has a ceiling of about 16½ cents. He said he could manufacture without any trouble at all at 17¼ cents, but the Office of Price Administration says that is inflation; therefore, the man stops making the goods.

On Broadway, just two blocks from that man's place, there are loads of marquisette at from 35 to 50 cents a yard, supposedly wholesale.

Again, we hold the line, but our supply is choked off. Gentlemen, it does not do much good to show Arrow shirts up on a chart at \$1.90

when there are no Arrow shirts to be had? You are holding a non-existent line with merchandise that is not available.

In order to stay in business under existing regulations, many mills have started converting and finishing their fabrics themselves. This is known in the market as vertical handling of merchandise. This means many of our converters, from whom we purchased piece goods in the past years, have been bypassed because these mills are now selling to the very large chain organizations, and mail-order houses, and the small retailer gets less and less goods for his customers.

Now, I am not blaming the mills for this. I am not blaming the chain stores for this. The blame rests at the door of the Office of Price Administration, because they have so terribly disrupted the distributing policy of our country that the only way these mills can exist and make a profit is to run their business in the way that is most economical for them.

Miss SUMNER. Would you explain further why it is more economical for them to sell to chains?

Mr. McCARGO. Well, the mill, Miss Sumner, used to make gray goods, and then they would sell that to various converters who, in turn, finished that goods and printed it, and then put it up in 30-yard pieces. It was then shipped out to their smaller retailers, and larger retailers, too, for that matter, throughout the country.

Now, a mill buys a finishing plant, and buys a printing plant. He runs his materials through, he does not have to fold them, he does not have to pay too much attention to the styling, the designing of the patterns; therefore, he ships this out in three or four hundred yard pieces, folded, either to the manufacturers or to the larger sources, and he does not have the trouble of taking all these steps in getting rid of his goods.

Miss SUMNER. I see.

Mr. SMITH. You do not mean to hold the Office of Price Administration responsible for these acts, do you?

Mr. McCARGO. Yes, sir.

Mr. SMITH. Well, now, what about Congress?

Mr. McCARGO. We are asking Congress to help us.

Mr. SMITH. Is not Congress responsible for this?

Mr. McCARGO. My personal opinion, sir, is that Congress is not responsible. I do not believe Congress knows what is going on. I do not believe it. And I do not believe it, sir, because you are not coming in contact with these people like we are.

You see, I have sat with them, as a small retailer, on their advisory committees, and the only thing we get when we come up and sit with them is a finished product. And when you complain that the things they are getting ready to do are entirely wrong and harmful, they say, "We are very sorry, but this is all ready for the printers. It is too late now." I am talking about the Office of Price Administration.

Mr. SMITH. You have faith, though, that you can get this information over to Congress?

Mr. McCARGO. I hope so. May I give you just one illustration of the kind of bungling we are having to put up with in the smaller retail stores?

Not very long ago, around the 15th of January, I was called as a representative of small retailing to meet with one of the underwear

divisions of the Office of Price Administration. It was on the knit-underwear regulation.

They told us that day that we were under a regulation that was practically in effect that day, which tore our various percentage mark-ups all to pieces. To begin with, it took women's fancy underwear and put it in the same mark-up category as men's red-flannel underwear. Or certainly men's cotton-knit underwear. All in the same category, the same mark-up.

We told them that that was wrong; we told them that it was not fair, and they just smiled and said, "Gentlemen, this is all ready, and it is too late now to change it."

I went home and for that one act of the Office of Price Administration, it was necessary that we go through every single piece of underwear in our store, men's, women's, and children's, and remark that underwear. We had to get the underwear out, get the number from it, go back and get the invoice out, and mark it, and figure the 36.1 mark-up on it, and if we were over, we had to mark it down, which we did in many cases; if we were all right, we left it as it was.

Last week I received a notice from the Office of Price Administration that, as of February 25, that regulation had been changed. And I was forced then to go back, get all my invoices out again, get all my underwear and pile it out again, and remark it. They put us back under 580, which is the regulation that gives you your historic mark-up—which is the only sensible regulation the Office of Price Administration has ever written—they put our rayon underwear back under that, and then they took our cotton-knit underwear and put us under a regulation that reduced our mark-ups still further. And, in addition to that, they went out and hooked in some outing flannel by the yard and put it under that same regulation.

That will give you an idea. That is just one. Regulations come so thick and fast that every now and then you find that 30 days previously I was supposed to do something and I did not know about it. And now I am in violation because I have not done it, and I hotfoot it around the store and try to get that done, but by the time that is done, that regulation is out of date, and another one is on the way.

I repeat, gentlemen, if you had sent an enemy alien over here to snarl things up and get them into one grand mess, he could not have done a more effective job.

Mr. SMITH. You need not try to convince me.

Mr. McCARGO. We started taking orders for porch awnings, porch and window awnings. Our customers have been unable to buy them for about 2 years. One firm notified us that they were going to be able to furnish awnings for us, so we ran an ad, and started taking orders.

Shortly after starting, we received this notice:

Shortage of awning material has become so acute that no orders can be accepted until further notice.

Upon writing for the facts, I discovered that the black hand of the Office of Price Administration had shocked another victim.

I will read you a letter dated March 9:

It is with regret that we had to send you that letter regarding the inability to make awnings as rapidly as we had anticipated before VJ-day. The Office of

Price Administration and the mills do not seem to get together on any semblance of order as far as price is concerned.

Gentlemen, you are called upon to renew the Price Control Act for another year. Our situation has gotten into such a mess, due to the wrong administration of this act, that I believe we must have some form of price control for a limited time on a limited number of items that are absolutely essential cost of living items.

However, if the present methods, and the present people, are allowed to continue to work, the need for controls will increase instead of diminish. We need stern instruction from Congress that will do away with all this Office of Price Administration bungling, and permit American free enterprise to again work to supply our needs.

May I say something about free enterprise? I am not afraid of chain-store competition. I went to work, when I was 12 years old, for \$2 a week. I got my education by going to night school, and today I own a substantial interest in this business, doing a little less than \$400,000 a year, and I have done it in the face of the very stiffest competition.

I am not afraid of the big chain. I am not afraid of the big department stores doing their millions of dollars a year of business. I have found them to be very friendly to the man who wants to do the right thing. And what we need today is a restoration of American free enterprise that will enable our veterans who have fought, and many of them bled and died, for this American liberty, to come back and find it, instead of finding a condition such as many have found and who have talked to me. They said, "Until the Office of Price Administration goes out of the picture, I do not believe I want to go into business."

We are asking that Congress do away with all this Office of Price Administration bungling, and permit American free enterprise to again work to supply our needs. Production, gentlemen, is the answer to the inflation we have today. When we get production, competition will make all controls unnecessary.

And may I just pay my respects to this booklet of the Office of Price Administration, the "NRDGA 'Horror Exhibit,'" as an American citizen and taxpayer, I think this is wrong, and the Office of Price Administration is using the American taxpayers' money to perpetuate itself in office, to the point where they are even going down into our public schools and selling our little children, who know nothing about the situation, but blindly selling them the idea that the Office of Price Administration is the savior of the people.

Thank you, gentlemen.

The CHAIRMAN. We have three other groups that were set down for hearing today, and our schedule is off, so I am going to call our next witness.

We are getting behind schedule, and I think we ought to forego questioning. I do not think it is right to other people to keep them here when we have invited them to testify at a certain time. You say you have a question, Mr. Monroney?

Mr. MONRONEY. I will not ask it unless the other members are allowed to question, too.

The CHAIRMAN. Well, the wool growers are here, and the wool producers are here this afternoon, and I think we ought to hear them.

Thank you very much, Mr. McCargo.

672 EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942

Mr. SMITH. May I, Mr. Chairman, insert in the record at this point a letter that I have which bears upon the subject of propagandizing schools?

The CHAIRMAN. If there is no objection, it will be inserted.
(The document above referred to is as follows:)

NORTHERN CALIFORNIA DISTRICT OFFICE
OFFICE OF PRICE ADMINISTRATION
1355 MARKET ST., ROOM 305, SAN FRANCISCO 3
MEMORANDUM

To: High school principals and teachers.
From: William F. Elliot, district information executive.
By: Cyndiey C. Ewart, information penal officer.
Subject: Quiz on price control.

In an attempt to determine the average student's knowledge of price control and its effect, we are asking the cooperation of the principals and teachers in making a survey.

You will find attached a list of six questions with a space provided for the number of children participating, the number who answer "yes", and the number who answer "no". After the survey has been completed in each classroom, the principal shall take a total for the entire school, and mail it to Cyndiey C. Ewart, OPA northern California district office, Room 305, 1355 Market Street, San Francisco 3, Calif.

While the survey is being conducted we feel that it would be advantageous to conduct a discussion in the classroom to clarify each point.

Name of school:

	Students interviewed	Yes	No
1. Was there price control after World War I.....			
2. Did you know that there were more than 100,000 stores (wholesale and retail) forced out of business by the depression that followed World War I.....			
3. Did you know there were more than 11,000,000 men unemployed during the depression after World War I?.....			
4. If all price control were discontinued now as it was after World War I, do you believe we could avoid another depression?.....			
5. Do you believe that price control has been helpful to your future?.....			
6. Do you think price control should continue until the manufacturers are able to supply adequate goods to meet demand?.....			

NOTE.—Use this form for classroom totals. Principals may use the same questionnaire for school totals to be returned to the OPA northern California district office, 1355 Market Street, room 305, San Francisco 3, Calif.)

Number of commercial failures

Year	Monthly average	Yearly total	Average	Percent
1913.....	1,336	16,032	} 18,363	100
1914.....	1,523	18,276		
1915.....	1,846	22,152		
1916.....	1,416	16,992		
1917.....	1,155	13,860		
1918.....	832	9,984		
1919.....	538	6,456	} 20,684	113
1920.....	740	8,880		
1921.....	1,638	19,656		
1922.....	1,973	23,676		
1923.....	1,560	18,720		
1924.....	1,718	20,616		
1925.....	1,768	21,216	} 22,920	125
1926.....	1,814	21,768		
1927.....	1,929	23,148		
1928.....	1,987	23,844		
1929.....	1,909	22,908		
1930.....	2,196	26,352		
1931.....	2,357	28,284	} 28,820	157
1932.....	2,652	31,824		

Number of commercial failures—Continued

NEW BASIS

Year	Monthly average	Yearly total	Average	Percent
1933	1,655	¹ 19,860		
1934	1,008	12,096	11,316	62
1935	1,020	12,240		
1936	801	9,612		
1937	791	9,492		
1938	1,070	12,840		
1939	1,231	14,772		
1940	1,135	13,620		
1941	987	11,844		
Average 1929 to 1937, inclusive			19,185	104

¹ On old basis, 20,307; yearly difference, 2½ percent.

Yearly totals include all commercial failures in mining, manufacturing, construction and commercial services as well as in retail and wholesale trade, giving much wider coverage than specified in the OPA questionnaire. The figures are taken from the 1942 supplement of the Survey of Current Business published by the United States Department of Commerce, Bureau of Foreign and Domestic Commerce, and were originally compiled by Dun & Bradstreet, Inc.

Little relationship can be shown between the number of commercial failures and the economic health of the Nation. A high yearly total is characteristic of both boom and early depression years, and a low yearly total is characteristic of both late depression and wartime prosperity years.

The post-World War I depression average of commercial failures in 1921, 1922, and 1933 was only 13 percent higher than the average of four prewar years, and was actually about the same amount lower than during the boom era of 1926, 1927, and 1928.

Though the onset of great depression was marked by a rise in commercial failures the entire depression span from 1930 to 1937, inclusive, averaged only 4 percent above the 1913-16 average.

When the OPA questionnaire gives a figure of 100,000 failures in wholesale and retail trade during an unspecified period following World War I, it infers a falsehood by the uncritical statement of a single large number with no given basis for comparison or evaluation. Even with a thorough analysis of the statistics, it is impossible to ascertain which 100,000 they have selected.

The CHAIRMAN. We will take Mr. Besse now, president of the Wool Manufacturers Association.

Mr. Besse, state your name, connection, residence, and generally identify yourself.

STATEMENT OF ARTHUR BESSE, PRESIDENT, NATIONAL ASSOCIATION OF WOOL MANUFACTURERS

Mr. BESSE. My name is Arthur Besse. I am with the National Association of Wool Manufacturers, a neighbor of Mr. Gamble's out in Westchester County.

Mr. GAMBLE. Where do you live, sir?

Mr. BESSE. Westchester County.

Mr. GAMBLE. Where in Westchester County?

Mr. BESSE. Scarsdale. I am appearing on behalf of the American Wool Textile Industry. The functions of that industry include the processing of wool, as it comes from the sheep's back, into woolen and worsted yarns and apparel cloths. The industry processes substantially all of the material used in men's outer clothing and a goodly percentage of the cloths used in outer apparel for woemn. The industry also produces blankets, automobile upholstery, interlinings and a few industrial cloths.

The National Association of Wool Manufacturers includes within its membership mills operating approximately 85 percent of all of the machinery in the industry. The few nonmember mills are, I believe, in agreement with the association's attitude on price control.

Like most other businesses, our industry has found working with the Office of Price Administration an almost hopeless task. Confusion, delay, inertia, indecision and an almost complete lack of knowledge of industrial problems have not only exasperated industry but have retarded and dislocated production of needed goods.

One fundamental difficulty has been that the Office of Price Administration has tried to regulate business but failed to include businessmen on its staff. A nonbusiness organization was Mr. Henderson's idea. Mr. Bowles relaxed the rules somewhat but the few businessmen—and they are very few—who joined the agency, battered their heads against a phalanx of lawyers and pseudo-economists for a few months and went home discouraged.

We furnished a few of them, but they did not last very long.

The Office of Price Administration has attempted to engender confidence in its future by candidly admitting it has made mistakes in the past. Unfortunately, it never seems to occur to the agency that it is currently making mistakes. There is no basis for assuming that the Office of Price Administration will change its point of view or improve its administration or its personnel. Statements made as to future intentions will not be accepted except at a very considerable discount by anyone who is familiar with the Office of Price Administration's record in the past. The point of this criticism is not to add another brickbat to those being thrown at the Office of Price Administration but to convince you of the necessity of limiting and defining the powers of the Office of Price Administration so as to prevent a continuance of those policies and practices which are hampering the return to full production and employment.

Based on the situation in our industry we are asking that you amend the bill by incorporating three changes which I wish to present in some detail for your consideration. These are:

1. A definite prohibition of any so-called maximum average price programs.
2. A provision requiring the Office of Price Administration to relate price ceilings to increases in costs since a base period rather than basing them on projected profits.
3. A provision that the Office of Price Administration must include in every price regulation an adjustment clause that will permit producers to apply for increases on unprofitable individual items without regard to their over-all profit position.

Each of these changes requires explanation.

1. The maximum average price programs:

The maximum average price programs direct manufacturers to produce and deliver a number of products in proportions such that the average price of all products sold will bear a predetermined relationship to the average of the same products delivered in a stated previous period. In some cases—and the wool textile industry is one of them—the orders specify a lower average price than that prevailing in the base period. This has the effect of a directive to turn out goods at certain prices rather than fixing prices on the goods which

would normally be produced. This is not price control; it is product control.

I fail to find anything in the language of the act or in the record of the hearing to suggest that Congress intended to give authority to the Office of Price Administration to dictate what goods are to be produced as distinguished from establishing prices for goods that are produced. Congress considered this maximum average price program in June 1945 and failed to act, I realize that, but it may be said that Congress had at that time little or no knowledge of what was involved in these maximum average price programs since they did not become effective until after that date.

I assume that the members of this committee understand how these maximum average programs work but it will only take a moment to make it clear by a hypothetical illustration.

A certain mill, in 1944, which was the base period for most mills, we will say, delivered:

	<i>Per yard</i>
5,000 pieces of woolsens.....	\$2. 00
5,000 pieces of woolsens.....	2. 50
5,000 pieces of woolsens.....	3. 00

Since they delivered the same quantity at each price the weighted average price would be \$2.50. Under the wool textile maximum average price program the mill in 1946 must hit an average price 4 percent lower than its \$2.50 average in 1944. This would necessitate an average of 10 cents less than the base period or \$2.40. In order to achieve such an average the mill can deliver all of its products in cheaper grades—each 10 cents cheaper than the fabric delivered in the base period. But the medium and better fabrics, in most cases, are standard numbers, and the mill, having built up a reputation on them, does not want to depreciate their quality. Accordingly, adjustment is generally sought on the cheapest fabric. But if this cheapest fabric has to bear the full brunt of the roll-back, the reduction there has to be three times as great, or 30 cents a yard. Hence, in order to maintain the quality of the \$2.50 and \$3 fabrics and meet maximum average price requirements the mill has to drop the \$2 fabric and substitute a cheaper one at \$1.70. This satisfies nobody, neither the mills, the garment manufacturers, the retailer, the public, nor the Office of Price Administration.

This is but one of the many distortions caused by these maximum average price programs. The wool textile industry has opposed such a program ever since it was first suggested. From the beginning we have insisted that it would not work, that it would interfere with production, would drastically change the type of fabrics produced, would result in a lowering of quality of the fabrics offered and would cause a shortage of the denser and heavier weight fabrics such as are used for men's suits and overcoats.

Spokesmen for our industry endeavored in every possible way to convince the Office of Price Administration that the program was a mistake. The Industry Advisory Committee was, and is, unanimously against such a program. Mr. Bowles insisted that certain changes that he made in the regulations after they were originally issued would operate to make a shift from the heavier men's wear to the lighter women's wear fabrics unlikely. It was our publicly expressed opinion that Mr. Bowles would be proved wrong. He was.

In the fourth quarter of 1945, the production of men's wear and women's wear wool fabrics was approximately equal, the figures as compiled by our association being:

	<i>Yards</i>
Men's apparel fabrics.....	45, 929, 000
Women's apparel fabrics.....	45, 060, 000

The historic ratio between the production of men's wear and women's wear fabrics as shown by the figures of the Bureau of the Census and of the National Association of Wool Manufacturers is 62 percent men's and 38 percent women's. If this proportion had prevailed in the fourth quarter of 1945, the figures would have been:

	<i>Yards</i>
Men's fabrics.....	56, 413, 000
Women's fabrics.....	34, 576, 000

Had this historic ratio been achieved in the last quarter of 1945 there would have been 10,484,000 yards more of men's wear fabrics produced than were actually turned out. This 10,484,000 yards would be sufficient for the manufacture of 3,300,000 men's 3-piece suits or their equivalent.

Figures recently released by the Bureau of the Census give a somewhat lower production for men's wear and a higher production for women's wear than the figures of the association. On the basis of the Census figures the lost men's fabric would be sufficient for 3,900,000 suits.

In our opinion the maximum average price program was almost solely responsible for the fact that this yardage was not available. The program continues to have an unfortunate effect on current operations. The Office of Price Administration after repeated urging on our part and on the part of the Civilian Production Administration, has belatedly issued a complicated amendment to the wool maximum average price which is designed to give some relief to the producers of men's wear worsted fabrics and thus to stimulate production of these goods.

Not only is this relief grudgingly given but the Office of Price Administration seeks to explain that it was not needed. The Office of Price Administration, in its so-called Statement of Considerations, attributes the shortage of men's suits to the following factors:

1. The unprecedented demand due to demobilization.
2. Heavy military procurement in the first 9 months of 1945.
3. Reconversion time lag between initiating production of fabrics and retail distribution of men's suits.
4. A shortage of linings.
5. Shortage of labor.

These factors have considerably delayed the production of men's suits but none of them accounts for the shift from heavier men's wear fabrics to lighter women's wear fabrics to which I have already referred and which was due largely to the wool maximum average price program.

The Office of Price Administration, in issuing this last amendment, to give some relief on men's worsted fabrics, says that "the acuteness of the situation warrants whatever action may have a tendency to remedy it." The thing that would have the greatest tendency to increase production of the type of fabrics most urgently needed is the rescinding of the maximum average price program in its entirety.

The Office of Price Administration, by its several amendments has in effect been saying "the maximum average price program restricts production in this field or in that field so we are amending it in such a way that it will not reduce production in those particular fields." Wherever it has not been so altered it still restricts production. To put it another way, the only fields in which the maximum average price program works properly are those fields where relief has been given so that in effect the program does not operate at all.

Here are some examples of what the program has done in this industry:

1. One fabric manufacturer had to delay for 4 weeks the shipment of 250,000 yards of low priced apparel fabric because he inadvertently exceeded his maximum average price in the fourth quarter of 1945 by an aggregate of only \$750.

2. A number of fabric manufacturers held back—

They did not have to but they held back goods in December because they did not want to incur what was called a surcharge because if you incur a surcharge for two consecutive quarters then you have to roll back the price of your goods.

Substantial yardages of goods were held back in December because they could not ship during that month without exceeding their maximum average price. They are now finding themselves in a similar position at the end of the first quarter of 1946.

3. Mills normally producing heavy overcoating fabrics have turned instead to the manufacture of lighter weight topcoatings or suitings.

4. Mills usually weaving standard men's wear suitings weighing 13 ounces or more have been making instead tropical worsteds which are suitable for wear only during the summer months. Returning servicemen have been buying these tropical suits in the middle of winter because nothing else was available.

5. Mills equipped to manufacture both men's wear and women's wear have shifted a much larger percentage of their production to lighter weight fabrics suitable for women's apparel but not for men's.

6. Many mills are making cheaper fabrics, which are used with reluctance by the apparel manufacturers because they will give poorer service. The public is demanding and is willing to pay for fabrics of standard quality if they can be found. Mr. Bowles' agency used to advertise the importance of quality but his maximum average price programs emphasize price only and put a premium on inferior merchandise.

I have a few samples to which I would like to call your attention.

The one numbered 2 you will find on the left, a standard men's suiting, which is the backbone of the men's suit business. The ceiling price is \$2.95. This particular concern has a maximum average price of \$2.75 so they have to make something cheaper to balance it. They make the tropical worsted on the right at \$2.40. It is an excellent piece of goods, makes a very nice suit, but is awfully cold in December to say nothing of March.

MISS SUMNER. Does not the Office of Price Administration have any rules about quality or standards?

MR. BESSE. No rules at all in the wool textile industry, and very few in the apparel industry. It is done on the comparative basis.

Samples 3 and 4 more or less have to be considered together. The

standard fabric of this mill is the fabric at the left. On 3, it is a 13½-ounce wool suiting at \$1.85; and on 4, a 13-ounce suiting at \$2.25.

Their maximum average price is \$1.85. So there again they have to make some cheaper fabrics. They make, on 3-A, a fabric which weighs 14 ounces, and is \$1.27½. I call it a piece of junk.

On Number 4, they make what is called a "buffalo plaid" shirting, which weighs 11½ ounces, and for those who want to wear it, is a good fabric, but it does not make a suit.

Number 5 shows what has happened to our overcoats. On the left is a sample of an extremely satisfactory, long-wearing men's overcoating fabric at \$4.25. This mill has an average maximum price of \$2.60. They usually make a thousand pieces of that overcoating, which would be equivalent, for the fabric, for approximately 20,000 to 25,000 overcoats according to the stock. They are not making a single yard of overcoating this year.

Mr. GAMBLE. Why is there such a great disparity between \$2.60 and \$4.25? That does not make sense.

Mr. BESSE. You cannot take these samples on a mathematical basis. This mill, like practically all other mills makes a variety of fabrics, and they will have prices all the way from perhaps \$2 up to \$5, if you include both suits and overcoats. I am giving you only two illustrations that are due to the maximum average price, which makes it impossible for them to make the higher-priced fabric.

Mr. GAMBLE. It is the average then between the two figures, which you gave.

Mr. BESSE. The average is the average as figured by the Office of Price Administration.

Mr. GAMBLE. Yes.

Mr. BESSE. That is right. It is the average of all their fabrics, not just these two.

Mr. GAMBLE. I understand.

Mr. BESSE. And this particular mill is not making any of the overcoating, and they are increasing correspondingly on the suiting, which again is an excellent fabric but does not do a man much good if he does not have an overcoat.

On No. 7, you have an illustration of the dropping of quality and also of weight. The overcoat on the left, you may be interested to know, is a knitted overcoating and not a woven overcoating. That weighs 30 ounces, it has been dropped, and the mill instead is making an equivalent amount of fabric weighing 18 ounces, at \$1.90.

In other words, that would be a topcoat material instead of an overcoat material.

Sample 11: You have two examples of women's wear, and apparently we have not said much about women's wear, but the shortage is less acute in the women's wear field but the deterioration of quality is no less extraordinary. This particular sample on the left would be made in some quantity—as much as 40,000 yards. It has been dropped entirely, and equivalent yardage of the light weight sample on the right has taken its place.

No. 12: Those again shift from an overcoating fabric, weighing 28 to 30 ounces, to an equivalent amount of a suiting which weighs 12½ to 13 ounces.

No. 13 shows you an overcoat which in this case has been replaced by a sport coat fabric. I might add that there is no secrecy about

these samples. If Mr. Bowles has any curiosity, we will be very glad to tell him where they came from.

Mr. GAMBLE. Those are samples of different manufacturers; are they not?

Mr. BESSE. That is right.

Mr. GAMBLE. That is why your average price line varies?

Mr. BESSE. That is right.

Mr. MONRONEY. The average prices each manufacturer has is his own historic average price?

Mr. BESSE. That is right, one manufacturer might have more average prices if he has divided his goods into different categories.

Mr. BROWN. Will you look at No. 13. On 13-A you have a price of \$1.82 and a maximum average price of \$2.09. Suppose you buy 5,000 yards of each, do you mean you have to sell each one at \$1.82?

Mr. BESSE. No; I tried to explain to you, if we showed the line of this mill, there might be 50 samples there, and I could give you a whole tabulation showing that they dropped so much of this one, so much of that one, and so on, and increased on the other hand.

Mr. BROWN. I know but suppose you are buying 5,000 yards of each. What do you have to pay for it?

Mr. BESSE. I am sorry I did not hear you.

Mr. BROWN. Suppose you are buying 5,000 yards each of sample 13 and sample 13-A. The maximum average price is \$2.09; what do you sell it at?

Mr. BESSE. The price is given, the price of 13 is \$3.17½ that is the Office of Price Administration price. The price of 13-A is \$1.82½.

Mr. BROWN. That is what you sell it at; is it not?

Mr. BESSE. That is the Office of Price Administration price.

Mr. BROWN. I know. But what do you mean by the fact that the maximum average price is \$2.09?

Mr. BESSE. The maximum average price is made up of the listing of all the deliveries made in a base period, in this case 1944. You take and put down all the yardage you delivered and all the money you get for that yardage, divide the money by the number of yards and it comes out to \$2.09. Another mill might come out to \$2.05. That is that particular mill's maximum average price.

The CHAIRMAN. Are all the prices based on 1944 as a base period?

Mr. BESSE. Mills did have originally two options. Either of taking 1944 less 4 percent, or taking 1941 without any deduction at all. The majority have taken 1944, because the production in 1941 was not as representative.

Miss SUMNER. I do not understand. If I had a mill and I were selling 5,000 in the base period, which would be 1943, say, is that the base period?

Mr. BESSE. No, 1944.

Miss SUMNER. 1944, and it just happened that in 1944 I was selling some particularly expensive material, so about 4,000 yards of it was in my more expensive material. When making up the average price, they add up all the yardage I sold, the expensive plus the cheap, and strike an average from that, and that is my price, so that all I have to do to beat it legally is to sell all cheap material this year? Is that right?

Mr. BESSE. That is your maximum average price. Every fabric you sell has a specific price on the fabric. But you must sell them in

proportions such that you come out with an average equivalent to the average that you had in 1944, less 4 percent.

Miss SUMNER. In other words, being illegally, without any criticism from Office of Price Administration, sell so much cheap goods this year, and so little expensive goods, that I can come out with exactly the same average and still I am perfectly correct? Is that right?

Mr. BESSE. That is correct.

Mr. BARRY. It is all right to come out lower than that; is it not?

Mr. BESSE. Yes.

Mr. GAMBLE. To go back to Mr. Brown's question, Mr. Besse, you could sell item 13 at \$3.17½, although your maximum average price is \$2.09?

Mr. BESSE. Providing you sell some cheaper goods to offset it; that is correct.

Mr. GAMBLE. Provided you sell not an equivalent amount but a greater amount of cheaper goods to bring your average price for that period down to \$2.09?

Mr. BESSE. That is right.

Miss SUMNER. If my understanding is correct, and you say that it is, then they are not holding the line with regard to a particular kind of goods at all, are they?

Mr. BESSE. Well, I think what you have overlooked is the fact that there are two restrictions here:

One is a specific ceiling price, figured by formula on each fabric, whether you deliver it or not. Every fabric that you make has a certain ceiling price which can be figured according to a very complicated formula.

You figure those prices, and those are your ceiling prices. You cannot sell any of the goods at over those prices. But we will suppose you get the ceiling price of all of those goods. You then have to get your customers to buy those goods in such proportions that you come out to your maximum average price or lower.

Mr. BROWN. Now let me get back to my question. Suppose you do not sell anything except 13 and 13-A. Does that mean that you have got to sell as much of 13-A as you sell of 13? Suppose you are just putting out those two products?

Mr. BESSE. If this is all you make you would have to make almost three times as much of the 13-A as you made of the 13, because you must sell them in such proportions that when you divide the money you get by the yards you come out to \$2.09.

Mr. BARRY. On that point, Mr. Besse, suppose you lift this maximum price line and take into account the tremendous amount of purchasing power available; would not the result be that the manufacturer would make all high-priced goods?

Mr. BESSE. That depends a little on the public. There is a tendency to trade up.

Mr. BARRY. Well there is enough money among the public today to buy whatever they can get; they want good quality?

Mr. BESSE. That is correct, and that is something that I do not think has really been considered. We are all worrying because the public has so much purchasing power. We are doing our best to keep them from spending that money, and it still remains as a possible purchasing power. Why not let them buy a little better goods if they want to?

Mr. BARRY. At the same time there is a large segment of the public, such as civil-service employees and people with fixed incomes who have not saved any money, who have not had any salary increases during the war. Take New York City, for example, the civil-service employees amount to almost 200,000, and they have had a 15-percent increase, while the cost of living has risen about 33 percent. Now, those people would not have any materials to buy at all would they?

Mr. BESSE. Well, of course, that is not true, there is a great deal of equipment and there are a great many mills who cannot make high-priced goods.

The industry is set up and designed to make the kind of fabrics that are used by the public.

Mr. BARRY. You are not speaking for the people who can make cheap goods then are you; is that it?

Mr. BESSE. Oh, yes; I am speaking for the people who make cheap goods. We have many of them who can only make cheap goods, and they still make cheap goods and are going to continue to make them because they cannot make anything else.

Mr. BARRY. They would not be affected by the maximum average price would they?

Mr. BESSE. It affects each individual, because it is based on his own deliveries, and when you take 4 percent off that, it is just the same as a man who may have a maximum average price at \$1.82. He is exactly in the same kind of a strait-jacket as the man who may have a maximum price of \$4.50. With respect to his own trade he is handicapped, he has his price ceilings, and superimposed on top of that he must achieve the maximum average price on his deliveries.

Mr. BARRY. These people who are affected, like 13 and 13-A, where the price is \$3.17 for one and \$1.82 for the other, do you mean to say that if this maximum average price were eliminated, that the manufacturer would not make the high-priced cloth, which he can sell with ease, and not make any cheap cloth at all?

Mr. BESSE. He would make them both.

Mr. BARRY. Then he would have to increase the price somewhere; would he not? He is making both now.

Mr. BESSE. I am not talking at the moment about any increase in price. I am only talking about a change in the average of his deliveries. The price is set on both of these fabrics. At the moment he is unable to make any of the overcoating fabric on the left.

Mr. BARRY. When you say a change in the average of his deliveries you mean a change in the amount of either the low price or high price deliveries?

Mr. BESSE. That is right. The proportion.

Mr. BARRY. My reaction would be that the deliveries would increase on the high-priced cloth and diminish on the low-priced cloth.

Mr. BESSE. They probably would. If you have No. 3 before you—

The CHAIRMAN. Let me ask you, the maximum average price is based upon the price of each individual producer; is it not?

Mr. BESSE. That is right.

The CHAIRMAN. How much does that vary?

Mr. BESSE. It depends upon what the individual producer was delivering in the base period.

The CHAIRMAN. I know, but I mean the practical effect of that.

Can you give us some instances as to how much the price would vary, say, for the identical article, made by two different producers? Is there a very great difference in the price?

Mr. BESSE. That has nothing to do with the maximum average price whatever.

The CHAIRMAN. It has not?

Mr. BESSE. No; each producer has his own price ceiling.

The CHAIRMAN. Well, his price ceiling is based upon the maximum average price; is it not?

Mr. BESSE. No; it has nothing to do with the maximum average price.

Mr. BROWN. It looks to me as though the main thing is the Office of Price Administration is telling the public what kind of goods they shall wear.

Mr. BESSE. That is correct.

Mr. MONRONEY. Are they not, in fact, saying that if the mill shipped so much expensive goods in 1944, that they should keep on with the same supply that the trade found profitable to buy in 1944. Office of Price Administration does not tell them what they have to buy?

Mr. BESSE. Well, they tell them at what price they have to buy it.

Mr. MONRONEY. But I am talking about the maximum average price. That is the industry's demand in 1944 from the mill, it was what the mill chose to make and they are merely trying to keep the same proportion of cheap-, medium-, and good-priced stuff flowing into the market.

Mr. BESSE. 1944 was not a normal year in the industry. Civilian production was way down. We were working in very large measure for the Government.

I can illustrate what I want to show you if you will turn to sample No. 3. There is a mill that makes several styles of a high-priced fabric. They were making a large amount of material for the Government. They brought out this cheap fabric, 3-A, at \$1.27½. To equal that average price. They sold it to two very cheap producers. Or, I should not say that. They sold it to producers of very inexpensive suits.

VJ-day came along and their contracts on Government fabrics were canceled. They had to go out and sell some more of this \$1.27½ material.

Mr. MONRONEY. Their Government shipments did not count, did they?

Mr. BESSE. No; but because they stopped working for the Government, they had additional capacity for civilian production. They had worked this out on the basis of having half or more of their factory working for the Government. When the Government orders were canceled, they then went out to get additional business from civilians, and they had to increase the yardage of this \$1.27½ fabric. They went to these two large producers and they said, "We have bought from you more of that fabric than we ever used in a normal civilian year. We do not want any more, we want a better fabric."

Now, this mill is making practically nothing higher than \$2.25. All of their production goes into the so-called low clothing program, and I think, personally, with the present wages in the clothing industry, it is too bad to spend clothing labor on a piece of goods like that 3-A.

Mr. MONRONEY. They could make it, though, at \$1.80?

Mr. BESSE. If they made everything at one price, they could make it at \$1.85, that is correct.

Mr. MONRONEY. And drop their \$2.25 grade?

Mr. BESSE. That is right.

Mr. MONRONEY. What is his profit position in the \$1.85? Would he be able to keep his mill running on that basis?

Mr. BESSE. Probably.

Mr. MONRONEY. I think you hit a very important point there, that when the mill loses its Government contracts, it has additional capacity. It throws your maximum average price out of gear.

Mr. BESSE. That is right.

Mr. MONRONEY. Would the solution to this thing—I know everything here is against maximum average price, but I am trying to see if there is another solution—would a solution be to require the two or three basic cheap lines to be manufactured in the same quantity rather than in the same percentage, so that you could take the ceiling off of the better stuff and he could make all of that that he wants, if he furnishes to public consumption the same number of units that he had in the base period?

Mr. BESSE. I think it is completely impractical to straitjacket an industry of that kind. I want to say this: Wool textile mills ordinarily do not make any material for stock and then sell it. They will get out samples and produce a line, which is then distributed among their customers—that is, the clothing manufacturers—who, in turn, will take orders at retail.

Then the goods are made on order. Now, everyone along that chain, the clothing manufacturer and the retailer, have a certain idea of the kind of merchandise they want to acquire for the next season. You cannot necessarily say, "I will sell you so many yards of this providing you buy so many yards of that." They select what they want, and the demand is definitely for a better fabric.

Mr. MONRONEY. Yes; but, of course, we have very much of an interest above and beyond what the retailer has. The retailer, naturally, would like to sell all \$60 or \$80 suits. He would only have one sale and one delivery on an \$80 suit. He has to make about three deliveries on a \$22.50 suit, but we are interested also in keeping on the market, for the fellow who has to buy that \$22.50 suit, some supply of those goods, and I do not know how in the world you are going to get it unless you have some way to influence the producers and the manufacturers to furnish to the civilians who cannot buy those expensive lines, this cheaper merchandise.

Mr. BESSE. There is no doubt, as far as our industry is concerned, that those goods will be made. Mills are equipped to make certain types of goods, and, except to a very limited extent, they do not get out of that groove. They have no equipment, they have not the styling, they have not the distribution to get very far away from the particular kind of goods that they are accustomed to make.

Mr. MONRONEY. Is that not just a little bit contrary to the National Retail Dry Goods Association's exhibits of seven and eight dollar shorts that have been going on here for 2 days, that the manufacturers want to grade up, and the retailers want to grade up, regardless of what the customer wants?

The CHAIRMAN. Will you tell me just what the effect of the maximum average price is? How it operates?

Mr. BESSE. Well, I tried to tell you, and let me tell you again.

The CHAIRMAN. What is it? Is it a limitation on production? Is that the way it operates?

Mr. BESSE. It limits the kind of goods you can make.

The CHAIRMAN. How does it limit them?

Mr. BESSE. It limits the type of goods because it requires you to hit an average price, which means you must produce some cheaper goods in order to hit that.

Now, the easiest way to achieve that lower average is to discontinue the manufacture of what I call the denser type fabrics, and the heavier weight fabrics, which are used primarily for men's wear.

Mr. SUNDSTROM. Mr. Besse, is it not true that the Office of Price Administration has given the mills some relief under the wool maximum average price?

Mr. BESSE. Yes; they have.

Mr. SUNDSTROM. What is the extent of that relief?

Mr. BESSE. They have given relief. It is always a little too late and too little, but they have given some relief on the 4 percent roll-back as respects certain kinds of goods, notably sky cloths, Meltons, and mackinaws, and they have recently given some relief, on men's 13-ounce worsted suits, because they were not being made.

Mr. SUNDSTROM. Did your group indicate to the Office of Price Administration that the maximum average price would interfere with the production of heavier and better fabrics?

Mr. BESSE. We have been doing that constantly. The first written recommendation, I think, was in July 1945. We kept it up until fall and finally came to the conclusion that we could not convince them that there was going to be a shortage of men's apparel fabrics until we had our figures.

Mr. BROWN. Will you answer one question for me? It has been very difficult to find low-cost garments throughout the country. That is an undisputed fact. Now, why is that?

Mr. BESSE. Well, my personal experience has been that there is no greater shortage of one price than another. I do not think there is any greater shortage of so-called low-cost clothing than there is of medium-cost clothing.

Mr. BROWN. Why is it that work shirts and work clothes, things of that kind, are just not available?

Mr. BESSE. We do not have anything to do with that, but I assume it is analogous to our industry where you now have an unfortunate price ceiling on one article, so you drop it. That was one point I was coming to later. We have done the same thing. We cannot get relief on a specific item, so we just drop it and make something else on which we do not need relief.

Mr. BROWN. Last year we had the Bankhead-Brown amendment up. My contention is that it costs just as much to make cheap garments as it does to make high-priced garments. The manufacturers like to make higher-priced garments because they can get more money out of them. I think at that time, with the ceilings they had, some mills made too much money and the effect of the amendment was to take off such high ceilings so as to force these fellows to make cheap garments.

Mr. BESSE. Of course, I am not qualified to illustrate the situation of the cotton mill. I understand that in some respects it is analogous to ours.

Mr. BROWN. Of course, they were given parity. In some goods they were given entirely too much. On others they were below parity.

Mr. BESSE. Now, if I can go on to a few other points, I have said that in my judgment this dislocation of our production is due to the maximum average price program.

Mr. GABLE. And it is production, not price?

Mr. BESSE. That is right. The price does affect us, but that is another subject that I would like to cover later.

Mr. GAMBLE. Yes; I just wanted to keep the two separate.

Mr. BESSE. The Office of Price Administration itself admits this by giving partial exemptions from maximum average price regulations from time to time—but too little and too late. Mr. Bowles still seeks to avoid responsibility for these dislocations and for the resulting shortages. Only last Saturday, March 9, in a broadcast he attributed the scarcity of "clothing" to the low wages paid in the cloth mills. "Clothing," in the trade, means outer garments, generally of wool, so I assume Mr. Bowles was talking about the mills in the wool textile industry. If he was, his shot was not well aimed. The present average wage in the mills of the wool textile industry is approximately \$1 an hour; the minimum, in all but a few cases, 75 cents. During 1945 before recent wage increases, employees in the industry averaged to earn better than 87 cents an hour.

Employment in the industry has increased from 134,000 in August 1945, to approximately 160,000 at the present. Mills in some areas are turning away applicants, though it is true that shortages exist elsewhere. These shortages, however, are due to local labor conditions and not to inadequate wages. And, I am sure this statement will surprise you, there is no present shortage of wool fabrics. I do not think you have heard that from anyone else. The spongers in New York, who accept goods for customers, who examine them, shrink them and prepare them for manufacturer, several of them this week have given notice that they could not accept any goods until further notice, until they had processed the accumulation that they have gotten.

I talked last evening with a prominent clothing manufacturer who makes a substantial amount of low-priced clothing. He makes nothing else. He said that of the different bottlenecks, the most serious was labor. They had lost labor, and American young people are not inclined to go into the needle trades. And they are not being supplied by immigration. That is the worst bottleneck.

His next bottleneck is the shortage of silesia, pocket lining, and so forth. The third bottleneck is the shortage of rayon linings for the inside of a suit. At the moment, he says he has cloth enough for 2 or 3 weeks cutting, and many shops have goods already cut 4, 5, and 6 weeks ahead of the machines, which they have not help enough to process.

MISS SUMNER. How much, if any, expansion has there been in your industry during the war? In other words, have you had a plant expansion? Some have had 2, 3, 4, and 500 percent.

Mr. BESSE. We have had no plant expansion at all. We ran some additional shifts. At the peak of military demand we were approxi-

mately working three shifts for Government and two shifts for civilian needs, but we increased our working force and did not increase the number of machines. We worked them longer hours and additional shifts.

The current shortage of men's suits is unfortunately going to be followed by an even more serious shortage of overcoats next winter. We have told the Office of Price Administration that unless action is taken immediately, there will be practically no men's heavy overcoats next winter. The Office of Price Administration is skeptical; it has not enough information; it believes we are unduly concerned; there are other problems to be handled, and so forth. We have offered to get whatever information the Office of Price Administration wants, but the agency does not move.

Meanwhile, the mills, because of the restrictions of the maximum average price program, are planning the production of lighter weight fabrics and it will soon be too late to correct the situation in time to increase the production of heavy goods for use next fall. The last communication from the Office of Price Administration on this subject states that the agency is not inclined to remove overcoating fabrics from the maximum average price because, in that case, the mills may make higher priced fabrics than formerly.

Mr. THOM. That is true.

Mr. BESSE. So that unless Congress prevents such programs, the maximum average price will be retained and there will be little or no heavy-weight overcoating fabric at any price.

Now, then, as to basing ceiling prices on increases in cost rather than on expected profits.

In my opinion, the theory of price control as applied to postwar production needs reexamination. Witnesses appearing in support of the extension of this act without amendments speak in terms of skyrocketing prices, explosive inflationary forces, a stampede of price rises, dangerous pressure in the boiler, and so forth. It is evident that none of them are thinking of a transition period but merely in terms of continuing to sit on the safety valve which will just serve to increase the pressure in the boiler. A wise engineer would let some of the pressure escape.

Unfortunately, the new price-wage policy does not contemplate a transition to a free economic system, but, rather, a clamping down of the safety valve by tying prices to profits in the base period. This is exactly what Mr. Bowles has denied he was doing these past 3 years, presumably because he thought that prices should not be tied to profits. The principle is wrong, but even if it were not, the period selected would have a devastating effect and completely destroy any incentive to expand production. Our industry, for example, lost money in both 1937 and 1938. On the basis of Office of Price Administration figures we would be entitled to 1.8 percent profit on net worth after taxes. On the basis of complete Treasury figures for 1936-39 the industry under this formula would be entitled to some \$6,000,000 profit on a gross business of \$1,000,000,000—equivalent to six-tenths of 1 percent of sales.

It will never be possible to get increased production and eliminate price control unless we break away from the profit base and use a cost-plus formula, the purpose of which is to stimulate production and prevent runaway or excessively high prices, leaving most prices

to seek their own economic level. High prices do not make inflation; inflation causes high prices. Inflation, whatever its extent, is the result of Government policy in other sectors; not the result of a failure of price control. It manifestly is not possible, in view of other Government policies, to avoid some price increases, but the function of the Office of Price Administration in the year ahead should be to see that those increases do not get out of hand and become excessive or unbalanced as between one group and other groups. The hold-the-line policy should, in view of the tremendous amount of money provided by the extravagant spending of the Government on top of the capitalized deficit of the war, give way to an endeavor solely to keep prices from inordinate and unreasonable increases.

Production is the crying need and increased production can be achieved only if the rewards to labor and to capital provide the needed incentive. A policy which seeks to limit profits to the level of 1936-1939, or any level, for that matter, will not stimulate production; it will have the reverse effect. Let industry make an adequate profit and it will make goods. Labor can be satisfied only if production of consumer goods is increased. One reason labor is dissatisfied is because many goods can be obtained if at all only in the black market. Black markets cannot flourish if production reaches high levels. Take the shackles off and let everybody get back to work.

My concrete suggestion is to extend, for a limited time, the power to control prices, but to limit such control to prices which threaten to get out of line and rise unduly. Many prices should rise and must rise or the goods just will not be available. Some other prices not only will not increase; they will probably decrease. The Office of Price Administration should be instructed to see that no prices rise to any greater extent than costs have risen since a designated base period, say 1941. This is what the report of the House Committee on Postwar Economic Policy and Planning calls the cost-plus formula. It can be simply stated as allowing a price increase as compared with 1941, or some other period, if you prefer, not greater in amount than the increase in costs since that same period. This is not runaway inflation, or skyrocketing prices, or exploding price levels; it is merely a common-sense transition which is calculated to increase production and bring back into the market certain unprofitable items that are not now available.

To counter the argument that this would remove all restraint on labor and result in renewed demands for unlimited wage advances, it is only necessary to say that the labor leaders have long since abandoned the cost-of-living index as a guide. Their demands are keyed rather to their ideas of what the traffic will bear. These demands are not likely to be reduced because of what happens to the cost-of-living index.

The Office of Price Administration cannot keep wages down by trying to keep prices and profits artificially low. There are only two effective brakes on wages: one is the force of competition between industries, and the other is the public's willingness to buy at prices necessary to keep workers employed in producing goods to sell at certain prices. The sooner we remove artificial controls and let prices and wages reach equilibrium at that point, the better for the economy of this country. We will never dispense with price control unless we are willing to take the first steps now.

My proposal of holding prices, when necessary, to a level not greater than that which reflects actual cost increases to date is such a step, and is a step which avoids all the terrible consequences envisaged by those who have urged upon you a continuance of this act without amendments.

Mr. THOM. Is that charge of the Office of Price Administration correct?

Mr. BESSE. To an extent, it is correct; yes, sir. But the alternative is to have no overcoats at any price, and that is what we are running into. I should say that I have had a subsequent letter from Mr. Porter who says that the matter is under consideration. And I have in the exhibit a copy of a telegram from Mr. Porter, put there not with any reason of criticizing Mr. Porter who has just come on the job, but it illustrates the efforts we have made to call the Office of Price Administration's attention to the seriousness of the situation.

Mr. TALLE. In the event that you do get action on that within 6 months, will you let me know?

Mr. BESSE. I shall make a note of it, sir.

Mr. GAMBLE. In answer to Mr. Thom's question, is it not obvious that if you are going to make the heavier weights, you have got to get more money for them?

Mr. BESSE. That is correct.

Mr. GAMBLE. And if you are going to have overcoats, the winter overcoat is going to cost more than the spring overcoat?

Mr. BESSE. I might also add that Mr. Wilson, representing the wool growers, is here. It would use more of the domestic wool which the Government is holding in quite substantial quantities. If we make the heavier overcoats, it will help use up the surplus of wool.

Mr. MONRONEY. A very simple amendment to the maximum average price on overcoating fabrics up to certain yardages would still permit the production of overcoating material.

Mr. BESSE. That is what we have been after, but until Mr. Porter's advent—well, I am not sure whether it is Mr. Porter's advent in the agency or the curious coincidence that at the moment this committee is considering whether or not you will extend the act—but there seems to be a little more attention paid to our suggestion that something should be done about overcoats.

Mr. GAMBLE. That comes every year, sir, at about this time.

Mr. BESSE. We feel that the only possibility of getting the industry back on the production of standard fabrics, and so forth, is to remove the authority of the Office of Price Administration to enforce this maximum average price.

If you write into the act a prohibition against those programs, there still remains a price ceiling on every single yard we make. It has no effect whatever on the price ceilings. Those will remain.

Mr. MONRONEY. But what suggestion would you make so that we can continue getting some of the low-end production into the market?

Mr. BESSE. Congress cannot do anything about it.

Mr. MONRONEY. We are just going to have to trust business to do it?

Mr. BESSE. We can work with the Office of Price Administration, and would be glad to work with the Office of Price Administration. I am going over there tomorrow, as a member of a task group, to try to work out certain problems. I would be much more hopeful as

to our ability to work out those programs if you gentlemen are minded to restrict the authority which they have.

Mr. MONRONEY. But if we take away the one means that we have to channel low-cost fabrics into the market without putting anything in its place, you are going to leave the Congress and the Government in a pretty bad spot when all the cheap stuff disappears. Now, if your industry is strong enough and has enough self-discipline and enough public responsibility to say to the Office of Price Administration, "We will continue to get you low-priced merchandise for the market," then I think Congress might have some assurance that once maximum average price might be prohibited, we could still serve the consumers of this country with low-end goods.

Mr. TALLE. Mr. Besse, is it not true that the market for low-priced goods is so great that no industry will overlook them?

Mr. BESSE. No industry, nor any individual, will get away from its own particular niche. It is exactly the same as it is with Mr. Ford, General Motors, and the Chrysler Corp. They are all making a cheap car. No one of those three would give up their position in that cheap-car field for an immediate advantage. And neither will we.

Mr. TALLE. That is right.

Mr. BESSE. We are going to continue to make inexpensive fabrics of the type that the individual mills always have made and are going to continue to make. They would like to make somewhat better goods and it is better for the public to have the better goods to the extent to which we can make them. That does not mean substituting a \$5 piece of goods for one of \$2. It means perhaps adding a few cents to the \$2 piece of goods and making a more desirable and a longer-wearing fabric.

Miss SUMNER. Personally, I cannot see why the Office of Price Administration considers itself such a guardian of the cheap-clothing field. When industry was left free, you never were lacking in cheap clothing. Since the Office of Price Administration has come into the picture, we have shortages and a workingman is lucky if he has a shirt on his back. I do not see how they can consider themselves as guardians of low-priced clothing.

Mr. BESSE. That is right.

Mr. SMITH. Suppose the industry were given a base period other than that of 1944, one, say, prior to the institution of price control, and you were allowed to sell goods in the same quantities as you sold then, taking into consideration quality.

Mr. BESSE. Such a policy, in my opinion, is entirely impractical. You put individual producers in a strait-jacket when he cannot comply with the Office of Price Administration's idea of what we are to make and also comply with our customers' idea. They are not the same.

Mr. SMITH. You mean the present policy.

Mr. BESSE. I think any policy.

Mr. SMITH. You think that whole thing should be eliminated and left entirely to the industry.

Mr. BESSE. Absolutely.

Mr. BROWN. Mr. Witness, I am afraid I will not be able to remain here longer and I would like to ask you four questions. I have read your statement. In your statement you agree that the 1936-39 basis of profit would mean that your industry would be allowed a 6 million

dollar profit. Among how many owners in the industry would that 6 million dollars have to be divided?

Mr. BESSE. I hate to get into that. You are getting ahead of my statement, which is very brief, but there are approximately 500 firms in the industry.

Mr. BROWN. The next question is: What has been the principal element of increased cost which your industry has incurred since your price regulation was issued?

Mr. BESSE. The price regulation was based on prices obtaining in March 1942. The increase since that time would vary substantially according to the kind of goods, but it might average around 10 to 15 cents a yard, on an average piece of goods. It would be more on some descriptions, of course.

Mr. BROWN. How much per yard would these increases amount to?

Mr. BESSE. Around 15 cents as an average, I think.

Mr. BROWN. How much would that increase the cost of the fabric needed for a man's suit?

Mr. BESSE. They figure approximately $3\frac{1}{8}$ yards for a man's suit. That would be an increase of about 50 cents on the fabric.

Mr. BROWN. Pardon me for asking these questions now, but I promised to ask them.

Mr. BESSE. I would like, if I can——

The CHAIRMAN. Mr. Besse, what proportion of domestic wool do you use?

Mr. BESSE. That is a very difficult question. Before the war we used all the domestic wool and supplemented our needs by importing whatever we needed from abroad, and the amount varied quite considerably from year to year, according to the relationship between our demand for fabric and the production of wool here.

During the war the Government has taken over the domestic wool clip and it has been used largely for military purposes. Until recently the price was substantially higher than the price of foreign wool with the duty paid, so that we naturally were using, for civilian apparel, mostly foreign wool. Recently the Government has reduced its prices of domestic wool so that it is now moving into consumption at a fairly satisfactory rate. In an ordinary season it is very difficult to generalize, and I have never been able to find out what an ordinary season was, but some of the historic figures would suggest that we imported around 27 percent of the total that we used. It makes a little difference how you figure it, but somewhere between a quarter and a third in most years.

The CHAIRMAN. These samples seem to be very excellent material as far as I can see. I would like to know how our domestic woolens compare with imported woolens. Many people seem to give preference to imported woolens. Is there any reason why American workmen and American techniques cannot make a better wool than any other country in the world?

Mr. BESSE. None. And I think the foreigners who are honest about it will tell you that we make as fine goods in this country as are made anywhere. There is this difficulty: that most of our mills are perhaps a little more interested in the volume market, and a comparatively small number of mills can cater to the very high-class trade which insists on fine stocks. There is a certain limitation. There is no limitation on quality, and we can show you goods made in this country that are fully equal to those made abroad.

I presented samples to the House Ways and Means Committee some years ago, and most of them selected the American fabrics.

The CHAIRMAN. Will you complete your statement?

Mr. BESSE. Yes, sir.

I would like to put in, because it is in the exhibit to which you may not get, the particular wording which I suggest to make these maximum average price programs impossible. "Provided that no regulation or order may be issued or continued in effect beyond June 30, which requires any person to produce, sell, or deliver commodities in such a manner that the price of the items produced, sold, or delivered, or of any specified or named group or percentage thereof, will be equal to, less than, or bear any fixed relation to the average price of items delivered in any previous period of any average price otherwise named, specified, or calculated." I am not a lawyer, but I think that would prevent a maximum average price program.

Now, I would like, if you will permit me, to read the wording of a part of section 2 (a) which would accomplish this particular objective.

Whenever, in the judgment of the Price Administrator, the price of a commodity has risen or threatens to rise above the price existing in 1941, to an extent greater than the increase in the cost of producing the same or a comparable commodity has risen since that same date, he may, by regulation or order, establish such maximum prices as, in his judgment, will provide that such prices shall not exceed the 1941 price of the same or a similar item by an amount greater than the increase in production cost since that same period.

I have one other item to suggest that you include in the bill, and that is a mandatory adjustment clause.

In the principal price-ceiling regulation for the wool-textile industry—and this is true of many other regulations—the Office of Price Administration provides that no application for relief in the form of higher prices may be considered unless the applicant is operating at an over-all loss. The result of this policy is that manufacturers drop the production of items which become unprofitable. This very unrealistic attitude on the part of the Office of Price Administration has resulted in the virtual disappearance from the market of many badly needed items. It would not be contributing to runaway inflation to increase a manufacturer's price on an item which cannot be produced except at a loss. It is not common sense to refuse to grant relief unless the manufacturer is operating at a net over-all loss.

This is another instance of a policy which stems from the concept of profit control. It has no place in a plan to prevent runaway prices while stimulating production in a transition period. The situation can be corrected by providing that there be placed in every price order a relief clause that permits price adjustments item by item, based on the production cost of each item rather than on the over-all results of a particular manufacturer.

The wording I am suggesting there is this:

Every price regulation issued pursuant to this act shall contain a hardship provision which will permit the granting of relief as respects the ceiling price of an item which cannot be produced at a reasonable profit without requiring a producer to show that his over-all activities are conducted at a loss.

It should be noted that this proposal does not commit the Office of Price Administration to give relief. It only prevents the Office of Price Administration from tying its own hands, as the easiest method of appearing sympathetic, but refusing to heed applications which otherwise might receive consideration.

Those three suggested amendments will be found in exhibit D, which is written out merely as a means of allowing you to turn quickly to that and see exactly what we are proposing.

I am not going into the exhibits, as such, unless you wish to do so, but I would like to have them included in the record.

The CHAIRMAN. They will be included in the record.

(The document above referred to is as follows:)

WOOL TEXTILE INDUSTRY

EXHIBIT A

EXAMPLES OF OPA INEFFICIENCY, DELAY AND INDECISION

1. Sales to Government agencies

On November 5, 1943, we addressed to the OPA a request for an official interpretation of Maximum Price Regulation 157 (Sales of Wool Textiles to Government Agencies).

It took until December 13, 1943 (5 weeks) for the OPA to reply to that letter. In the reply I was asked to come to Washington for a conference inasmuch as I had discussed the regulation with the three OPA officials who framed it but were no longer with the agency.

I had a conference on the matter at the OPA offices on January 11, 1944, with several alleged lawyers. A ruling was verbally promised within 30 days.

At various times subsequent to January 1944, I asked for the ruling. Up to VJ-day in August 1945, the OPA had not been able to decide what its own regulation meant.

Our request was for a ruling as to whether certain fabrics sold to the Government were subject to price control or not. We never found out.

2. Pricing of automobile upholstery cloths

The sale of automobile upholstery cloths was put under MPR 39 on December 28, 1943, without any notification to the manufacturers of such material. The object of that regulation was to allow the sale of unneeded fabric by automobile manufacturers, not to control its sale to them.

When the question of the price of such cloths to be manufactured for 1945 models arose, a meeting was held in New York on September 12, 1944, and was attended by manufacturers of such fabrics and an OPA official in charge of MPR 39.

A report and recommendation of the group was sent to the OPA on September 13, 1944.

The OPA did nothing but consider the matter until January 27, 1945 (over 4 months later) when, after much prodding, it sent out a questionnaire asking for detailed data on the cost of producing automobile upholstery fabrics.

Innumerable attempts were made by letter, phone and by personal visits to the OPA in Washington to get action. On May 4, 1945, Mr. Ney of the OPA wrote that "some progress was being made" and added "we share with you a feeling of the importance and the necessity for speed in handling this question." We could not but wonder how the dictionary which the OPA uses defines the word "speed."

Another meeting of manufacturers of auto fabrics was finally held in Washington on May 11.

A new schedule and questionnaire was devised and sent to the mills on May 17.

Being unable to reach a decision, the OPA, on July 27, 1945, gave the mills authority to sell subject to adjustment of price at such time as the OPA might make up its mind as to what the prices should be.

Pleading with OPA officials for action proved of little help.

The order was finally issued September 10, 1945, 1 year after we formally asked for a price ceiling for automobile cloths to be sold by the manufacturer thereof.

3. *Knitted fabrics.*

Knitted wool fabrics were left under the general maximum price regulation because the OPA stated that it did not have enough information on costs to include them under the regulation (MPR 163) which applied to woven wool fabrics.

We suggested that the OPA secure such additional cost data as it felt was required and offered the services of our association in that connection.

On October 23, 1942, a meeting was held in New York, attended by knitters of wool fabrics and OPA representatives. The OPA asked the manufacturers to submit very complicated and detailed data. The data were complete early in November. In January 1943, I wrote inquiring as to the status of the matter. On January 15, 1943, we were told that after 2 months' study of the data, the OPA still felt it did not have enough information. Actually, the agency had too much information and apparently couldn't digest it.

On April 7, 1943, a formal petition, signed by every known manufacturer of knitted wool fabrics asking that the production of such fabrics be placed under MPR-163 along with woven fabrics, was sent to the OPA.

Apparently, the OPA is still stewing in its own data. No action has yet been taken on a request made in 1943, a request for action made by all the manufacturers of knitted wool fabrics.

4. *Industry advisory committee*

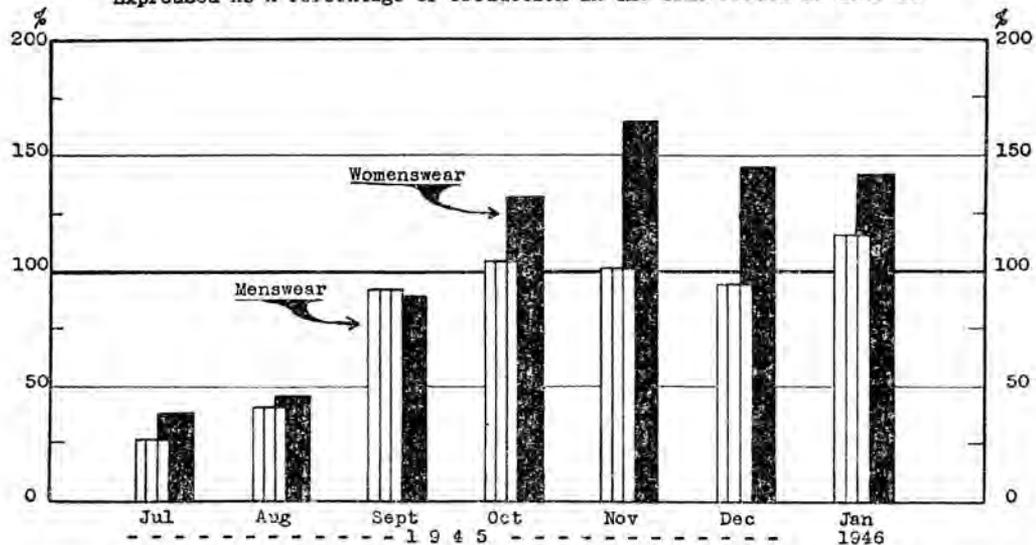
It took the OPA over 6 months to appoint an industry advisory committee even though most of those asked to serve were already members of a similar committee serving to advise the WPB and had all been checked as to their representative character. Members of the committee were notified by the OPA of their appointment in March 1944, but no meeting was called until September 21, 1944. I was permitted to serve as secretary of this OPA advisory committee but not allowed to vote, the reason being I am paid a salary for trying to keep abreast of what is going on in the industry. Presumably my advice would be unreliable because it would be based upon knowledge I was paid to obtain. I must confess that I never felt too badly over being denied the vote in these meetings since no recommendations of the committee were ever accepted. The chairman of the committee, feeling that nobody in the OPA wanted any advice, resigned in 1945. Since that time officials of the OPA have been very polite but mentally somewhat impervious.

5. *Hardship appeals*

Originally, most of the OPA price orders contained hardship clauses permitting the OPA to extend relief in cases where the agency felt that such relief was needed. These appeal provisions were deleted in November 1942, by Mr. Henderson, then head of the OPA, who stated that the job of price control was too important to permit the time of OPA officials to be devoted to a consideration of the problems of individual producers. This callous disregard of the situation of individual businesses may have been necessary in wartime. Certainly no justification for such an attitude exists today. At a later date certain relief provisions were inserted in the textile regulations but no producer was privileged to apply for relief unless he could show an over-all loss. As a result, whenever it became impossible to produce an article and sell it at the price ceiling without a loss, the manufacturer discontinued its manufacture. This accounts for the virtual disappearance of some types of badly needed fabrics.—(Compiled by Arthur Besse, National Association of Wool Manufacturers.)

EXHIBIT B

POSTWAR PRODUCTION OF WOOL MENSWEAR AND WOMENSWEAR CLOTHS BY APPROX. 60% OF THE INDUSTRY
Expressed As A Percentage Of Production In The Same Period Of 1939-40



	Menswear in thousands of linear yards per week							
1939	2069	1770	1514	1842	2198	2359	2038	
1945	551	732	1387	1937	2216	2252	2360	
45/39	27%	41%	92%	105%	101%	95%	116%	

	Womenswear in thousands of linear yards per week							
1939	1656	2115	1740	1536	1311	1404	1532	
1945	637	1003	1540	2040	2168	2040	2181	
45/39	38%	47%	89%	133%	165%	145%	142%	

EXHIBIT C

IN RE EFFORTS TO GET MAP ON OVERCOAT FABRICS REMOVED

NEW YORK 16, N. Y., *February 15, 1946.*

Mr. PAUL A. PORTER,
*Administrator, Office of Price Administration,
 Federal Office Building No. 1, Washington, D. C.:*

Will you not make it one of your first tasks to look into the serious matter of a men's overcoat shortage for next winter brought about by the maximum average price program of the OPA. Overcoat fabrics must be planned for immediately if they are to be available in time to be made into garments by next fall. We have called the attention of OPA to this matter but the agency has seemed utterly incapable of taking effective action. It will soon be too late. Matter was put before OPA at a meeting of industry advisory committee January 10. On January 15 at a meeting in New York with OPA officials and a task force we again urged action. In report of task force to Mr. Sells dated January 25 the threat of an overcoat shortage was again emphasized. Subsequent telephone inquiry resulted in our being advised that OPA had insufficient information to act. We offered to assist in immediately collecting whatever information was believed necessary. At meeting of same task force with CPA on February 5 which was attended by OPA representatives seriousness of situation was again outlined. No action of any kind yet taken by OPA. Unless map is immediately removed there will be a shortage of men's overcoats next fall even more serious than the present shortage of men's suits, a shortage for which the map is largely responsible. Will you not immediately institute some effective action.

NATIONAL ASSOCIATION OF WOOL MANUFACTURERS.
 ARTHUR BESSE, *President.*

EXHIBIT D. WOOL TEXTILE INDUSTRY

SUGGESTED WORDING FOR SECTION 1 AND SECTION 2 (A)

Section 1. (a) It is hereby declared to be in the interest of the United States, and the purposes of this act are, to prevent unwarranted and abnormal increases in prices and rents.

(b) The provisions of this act and all regulations, orders, price schedules, and requirements thereunder shall terminate on June 30, 1947; except that as to offenses committed, or rights or liabilities incurred, prior to such date, the provisions of this act and such regulations, price schedules, and requirements shall be treated as still remaining in force for the purpose of sustaining any proper suit, action, or prosecution with respect to any such right, liability, or offense.

(c) No regulation or order already issued under the Emergency Price Control Act of 1942 as previously amended and which is prohibited by this act shall remain in force and effect beyond June 30, 1946.

(d) The provisions of this act shall be applicable to the United States, its Territories and possessions, and the District of Columbia.

Section 2. (a) Whenever, in the judgment of the Price Administrator, the price of a commodity has risen or threatens to rise above the price existing in 1941, to an extent greater than "the increase in the cost of producing" the same or a comparable commodity has risen since that same date, he may, by regulation or order, establish such maximum prices as in his judgment will provide that such prices shall not exceed the 1941 price of the same or a similar item by an amount greater than the increase in production cost since that period: *Provided, however,* That no regulation or order may be issued or continued in effect beyond June 30, 1946, which requires any person to produce, sell, or deliver commodities in such a manner that the price of the items produced, sold or delivered or of any specified or named group or percentage thereof will be equal to, less than, or bear any fixed relation to the average price of items delivered in any previous period or any average price otherwise named, specified, or calculated.

For the purpose of this order the "increase in the cost of producing" shall be the difference between a producer's actual average cost of an item (figured in accordance with his usual books of account) in 1941 and the average price of the same or comparable goods currently produced at the current rate of operation. The "increase" on commodities which were not delivered in 1941, shall, at the discretion of the Administrator, be figured either (i) as the increase on the same

commodity delivered in the nearest year available for comparison, or (ii) on the most nearly comparable commodity delivered in 1941.

Every price regulation issued pursuant to this act shall contain a hardship provision which will permit the granting of relief as respects the ceiling price of an item which cannot be produced at a reasonable profit without requiring a producer to show that his over-all activities are conducted at a loss.

(Continue from middle of paragraph "Every regulation or order issued under the foregoing provisions, etc.")

Mr. SMITH. May I ask a question?

The CHAIRMAN. If we are going to interrogate Mr. Besse, perhaps we had better adjourn until 2 o'clock.

Mr. MONRONEY. I do not have any questions.

Mr. SMITH. I will not be very long.

The CHAIRMAN. All right.

Mr. SMITH. Do you feel it would not be unreasonable to allow your industry to recover its increase in costs since the year 1944?

Mr. BESSE. Not at all unreasonable, and it would not contribute to what I understand is inflation. I have read the dictionary, and at least Mr. Webster thinks that inflation is the providing of an excessive amount of credit or money.

Mr. SMITH. Did I understand you to say that the Office of Price Administration refuses to consider increasing ceilings on certain items unless a mill is operating at an over-all loss?

Mr. BESSE. That is written into our price regulation, MPR 163, that we have to meet certain requirements and we have to show also that we are operating or about to operate at a loss, so that we have no alternative but to give up production of that item.

Mr. SMITH. How has that affected your industry?

Mr. BESSE. Profit-wise, it has not affected us at all. We are not complaining that we are not able to make a profit. But we make a profit by producing the particular items that happen to be profitable, and we give up the others.

Mr. SMITH. You are not asking for more liberal hardship appeals for the purpose of making greater profit, but merely to make it possible to continue the manufacture of your standard fabrics?

Mr. BESSE. That is correct.

Mr. SMITH. That is all.

The CHAIRMAN. The committee will adjourn to meet at 2 o'clock. (Whereupon, at 12:30 p. m., the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

The first witness scheduled for this afternoon is Mr. Vaughn, of the National Association of Wool Growers.

STATEMENT OF HOWARD VAUGHN, CALIFORNIA WOOL GROWERS ASSOCIATION, CALIFORNIA

Mr. VAUGHN. Mr. Chairman, my name is Howard Vaughn, from California. I am here to represent the California Wool Growers Association, the lamb committee of the National Wool Growers Association, and I am a producer-representative on the National Lamb Industry Committee.

I believe that I can present to you the current attitude and actual

predicament of lamb producers in this country most accurately by answering these brief questions:

First. What led up to the present situation?

Second. What is the effect of the ceiling-subsidy combination?

Third. How does the sheepman look at the future?

First as to background—I trust you realize that a large percent of the lambs consumed in the United States are raised in about 13 western States; that the mothers of these lambs find probably 90 percent of what they live on in the native grasses, weeds, and brush of that area (the same is substantially true of sheep in other less populous sheep areas); and that practically all of this material would be wasted if not used by sheep. But in almost every section a small amount of concentrated grain or protein feed is required for a short season when native feeds are not sufficient. By these statements, I merely wish you to understand that sheep have always been a useful factor in our national economy, for without them the resources of the country could not be fully utilized.

Moreover, what is interesting now is that wool is always a strategic material that adds to the importance of this industry.

The beginning of the war found the sheep industry in a comparatively stable and prosperous condition, but immediately thereafter the following changes took place:

First. Essential help (especially herders) went into military service or Government-subsidized competing industries.

Second. Feed costs immediately went up.

Third. Predatory animals increased, making losses enormous.

Fourth. In 1942 prices of dressed meats were frozen by the Government.

Fifth. In 1943 there was a roll-back in price to consumers with a compensating subsidy to packers, but the net to the producer remained stationary.

Sixth. In 1944 the United States Tariff Commission disclosed that the American sheepmen were operating at a loss of about \$1.22 per sheep per year.

Seventh. In late 1944 the Office of Price Administration appointed a so-called advisory committee but it did not convene the committee until June 1945. The Office of Price Administration then indicated that it wanted to do something for the sheepman and suggested a subsidy of 25 cents per 100 pounds. Now this figure represented about one-tenth of what the Tariff Commission had said the sheepmen were losing. That committee adjourned in considerable disgust and has never, needless to say, convened since.

However, 2 weeks later, in June 1945, there was organized in Chicago a committee composed of representatives of all segments of the lamb industry. It was called the National Lamb Industry Committee. It is composed of growers, feeders, packers, and retailers of lamb and mutton. That committee came to Washington last June, arranged a joint meeting of Office of Price Administration, Department of Agriculture, and Office of Economic Stabilization, explained the serious plight of the industry and unanimously requested that ceilings be lifted on lamb and mutton. It is now history that the Government refused their request, but did counter with the offer of a subsidy intended to balance the loss which the grower was taking and to allow production to continue. The subsidy went into effect on the fifth of

last August. The National Lamb Industry Committee has carefully observed the working of the subsidy and ceilings since that date and one representative of the group, the feeders and the consumers, each segment of the committee is here to report to you today.

The representative of the packers is not here today, Mr. Chairman, because you have set aside time for their hearing on another day.

So much for the background. The next question is, how is the Government policy working? On that question I speak as a producer member of the National Lamb Industry Committee and as a grower of commercial lambs in the State of California. May I observe here that in the two great lamb-producing valleys of California, the San Joaquin and Sacramento, the 1946 crop of lambs is already being started to market. How Government regulations affect them will be duplicated in other sections of the country as feed develops and lambs mature. The situation there now reemphasizes the attitude taken by the National Wool Growers at their annual convention in January as well as the unanimous opinion of the National Lamb Industry Committee; namely, that the interests of all segments of the sheep industry require that both ceilings and subsidies be entirely removed at the earliest possible date.

Consider first, ceilings. One effect of ceilings on lamb meat is to prevent prices from becoming burdensome to consumers. Now sheep growers have always approved the policy of preventing inflation. They have always tried to carry their full load in any national effort. That is why they did operate during the war with a frozen income and rising costs. That is why the immense supply of lamb and mutton produced during the war is the marvel of all who know the difficulties under which sheepmen operated. That is why today, when we, the sheepmen, honestly believe the time has come to remove ceilings, we call your attention to our past record which we believe completely nullifies the statement of a certain high official in your hearings to the effect that all opponents of ceilings are "vicious enemies of the national welfare." We simply cannot believe that any workable Government policy can be created on that attitude.

But price ceilings on lamb meat have effects other than preventing price rises. Notable among these other effects is that ceilings limit distribution of the meat and disrupt markets. Take an example: During April and May there is a surplus of lamb in California. During that same season, lamb is invariably scarce in the East. Before ceilings, the price went up in the East at this time and California's surplus normally moved into sections of scarcity. Under ceilings the price goes down in California to the extent of the intervening freight rate and other costs. But the interesting fact is that the price goes down not only on the small percent of our crop which is surplus but also on the entire crop which is marketed at that time. This is because local buyers are quick to lower their bids to the level of net eastern values.

This situation has actually happened in California within the last 10 days because this year California has a drought and movement of lambs has begun 30 days earlier.

This is the kind of a situation that turns up under Government controls at the very time when the most of the sheepmen in the surplus areas are forced to market their lambs. I ask you, gentlemen, what good is it to have a ceiling when the whole thing is nullified by the fact that we cannot move our lambs to the positions of scarcity?

Consider next the effect of subsidies on the sheep business. First let it be said that the present subsidy arrangement did have the effect of helping to balance the sheepmen's rising costs. After a more or less chaotic start, because it was a new thing and started in the middle of the marketing season, the subsidy has done a good part of what it was intended to do. But the fact remains that sheepmen's costs are still going up.

Black market hay is now \$50 per ton in California (with a ceiling of around \$25) and for concentrates you pay whatever anybody asks if you can find them. You do that rather than let your sheep shrink when native feed is scarce, but in doing it, even if only for limited time you throw away your whole chance at a profit.

But our most serious objection to both ceilings and subsidies as presently handled is that they limit production of meat. And this is exactly the wrong way to try to lick inflation. The reason why the present set-up limits production is that it creates a broad undercurrent of fear of the future and uncertainty among sheepmen. Gentlemen, did you ever stop to consider how long it is before you can eat a lamb chop, that some sheepman somewhere in America must lay the plans that will eventually put the chop on your table? First, the proper feed for at least 12 months must be in sight. Then, the sheepman must have a band of ewes and must breed them to rams that will produce the right kind of lambs. And even then it is 5 months before the lambs are born and another 5 months before they are ready to market. Now, at some stage or other of that cycle, every lamb-producing enterprise in the United States crosses July 1 which seems to be the accepted date when this Government of ours chooses to decide what they will do about ceilings and subsidies thereafter.

Unfortunately for the popularity of Government control and for the sheepmen, ewes do not stop lambing and lambs do not stop eating when the owner is apprised of a prospect of loss. Buyers of feeder lambs in California today are hesitating to purchase because they do not know what will be the ceiling or subsidy, if any, on those lambs when they finally get to the packers. There is no optimism for sheepmen in facing a prospect like that.

For many years, we have learned to adjust our business fairly well to the laws of supply and demand; we have learned to protect ourselves against adverse weather and feed conditions in a free economy market. But our insurmountable obstacle is a referee, in the form of government, who changes the rules every June and keeps talking about what he will do next in all the months between.

Prices may rise if ceilings are off or they may go down. We don't know. But we do know that if we are ever to get increased production we must have the confidence that government will not upset our plans and we must have some degree of certainty of profits.

Our last question can therefore be quickly answered. It is: How does the sheepman look at the future? I submit to you that we can follow one of three policies:

First he might go all out for maximum production. But, in doing that, he will have to risk not only current profits but also the savings of a lifetime on the uncertainties of Government regulations. Continued evidence of liquidation in the sheep industry is the best proof that sheepmen generally will not follow that policy.

Second, of course, a sheepman might arrange to produce a lot of lambs and arrange to dispose of them in a black market which would give substantial returns. Everyone now knows of the possibilities in that direction and of the failure of Government to prevent it. But, as a class, sheepmen have always been law abiding. I see no probability of any extensive policy of that kind in the sheep business.

Third, the only other policy for a sheepman to follow is to cut down his flock to the point:

Where he will not risk too much of his accumulated capital.

Where he will not have to rely on black-market feeds.

Where he will get in enough returns to live on until there again is a prospect of free enterprise and a fairly certain profit.

That, I am sure, is the way the average lamb producer looks at the immediate future. It will not make for production, but it will play him safe.

To summarize, then, because regulations of the Office of Price Administration have prevented movement of lamb meat from sections where it is produced to those where it is normally consumed thereby often causing gluts in growers markets when consumers wanted lamb meat.

Because lamb always has been used in greatest quantity, by people in a middle and higher salary brackets which means that if price did go up slightly for a limited time no harm would be done to those people who must figure food costs closely, and because we are convinced that production will not advance as long as controls are maintained.

This growers section of the National Lamb Industry Committee asserts that the best interests of the country would be served by removing both ceilings and subsidies on lamb and mutton at the earliest opportunity.

The CHAIRMAN. What is the subsidy on lambs at the present time?

Mr. VAUGHN. The subsidy varies according to the seasons of the year. At the present time it is \$3.15 per 100 pounds on lambs over 90 pounds. On lambs between 65 pounds and 90 pounds, it is \$2.50; and on lambs under 65 pounds it is \$1. All of these subsidies are paid on the basis of lambs sold to registered packing houses.

The CHAIRMAN. They are paid by the Department of Agriculture direct to the producer?

Mr. VAUGHN. That is right.

The CHAIRMAN. Mr. BROWN?

Mr. BROWN. I notice in your testimony that you are against both subsidies and ceilings. Do you have a surplus of sheep now?

Mr. VAUGHN. No, sir. The figures are that the sheep production in the United States has gone down, I think, about 22 percent in the last 4 years.

Mr. BROWN. You do not have a surplus, is that right?

Mr. VAUGHN. There is no surplus, when you consider the figures for the entire country. There is, at present, a surplus in the State of California, and—

Mr. BROWN. Of course, we speak from the standpoint of the 48 States of the Union.

Mr. VAUGHN. Yes, but what I wanted to bring out was—

Mr. BROWN. That is all right. You have answered that question. Now this question—suppose the ceilings are not taken off, but suppose

they are raised high enough to give you a profit. Would you be against that? Or do you just want all ceilings and subsidies taken off?

As long as there is scarcity, as it looks like we will have for a while, we probably ought to have ceilings. Suppose we raise the ceiling; will that satisfy you?

Mr. VAUGHN. The reason that will not satisfy the sheepmen all over the entire country is that any ceilings however high they are—and they would have to be set in line with other meats—any ceilings therefore would interfere with the normal flow of lamb meat.

Mr. BROWN. Well, that is true of practically any crop, is it not?

Mr. VAUGHN. May I illustrate? In the large percentage of lamb being produced, for instance, in the month of May in the State of California and in the State of Arizona. The great scarcity in the United States during that time is in the eastern section of the country. The ceiling, therefore, prevents those lambs from moving from California to New York at that season of the year, unless you reduce the price in California by about 2½ cents per 100 pounds and that is exactly what has been done in California during the last week.

Without a ceiling, the price will go up in New York during that time, and the California people will be able to sell their lambs at the price which is normal all over the United States, or something like it.

Mr. BROWN. You prefer an increase in price, to subsidies, as I understand you, is that right?

Mr. VAUGHN. I do not think I should care to discuss the relative importance or desirability to use of subsidies and ceilings. The thing which we think would produce the best condition for the sheepmen, and the most meat for the consumer, would be the entire removal of both.

Mr. BROWN. We do not expect to satisfy everybody. We cannot satisfy everybody. But we are trying to do the best we can, so that you can make a profit and at the same time keep down inflation. If we raised the ceiling so as to give everybody a normal profit, it might be proper. But you want the ceilings off, and do not want either subsidies or ceilings. But suppose this committee decides they want to keep a ceiling on your product, would you then prefer to have the ceiling raised or would you rather have subsidies, as you have them now?

Mr. VAUGHN. I do not think the sheepmen ever went into that sufficiently to establish their opinion with regard to it. You can understand that it is not substantially important to the sheepmen whether their income comes from one or the other of the items that you have mentioned, so long as it is sufficiently high to cover their cost of production plus a reasonable profit.

Mr. BROWN. Let me ask you this: Do you want ceilings removed from everything?

Mr. VAUGHN. If ceilings are removed on all items of lamb and mutton—

Mr. BROWN. I am not talking about your commodities. I mean all commodities.

Mr. VAUGHN. We are making no comment with regard to other commodities, because we do not feel competent to state.

Mr. BROWN. But you do want them removed from yours?

Mr. VAUGHN. We consider their removal in our case would work for the best interests of the growers, and also of the consumers, because production would be stimulated, and more mutton would be produced.

Answering your first question: I think I failed to answer it as well as I could. I should like to say that if this committee, and subsequently Congress, decides that it is necessary, or that they want to continue controls, then, we will be happy to sit with the proper authorities in an effort to adjust either ceilings or subsidies to our present costs of production, plus the question of producing more meat, which is in the interests of everyone.

Mr. BROWN. I think that is a very good answer. I believe in a profit. I think the way to reach production would be, instead of giving so much out in subsidies, to raise the ceilings so as to get full production, and at the same time give people a profit. And in order to have full production, people who produce must make a profit to which they are entitled.

Mr. VAUGHN. But, Congressman, you must understand that in the lamb-producing industry production hinges on certainty, and to change ceilings each 12 months is a very great contribution to uncertainty. Sheep men simply cannot operate toward increasing production under those conditions.

Mr. BROWN. That is all.

The CHAIRMAN. Does anyone have any further questions?

Mr. GAMBLE. Mr. Chairman.

The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. Mr. Vaughn, are subsidies the same throughout the United States or are subsidies different in different geographical areas?

Mr. VAUGHN. The subsidies are the same all over the United States. The ceilings are different in geographical areas.

Mr. GAMBLE. How many ceilings would you have, then? East, West, and Middle West?

Mr. VAUGHN. There is East and West, which is the same, and then—I do not want to get into that. I know there is a ceiling for the East and the West, which is the same, and then there is one for the Middle West, and I think there is an intervening one in the Chicago area, which does not vary much from the other.

Mr. GAMBLE. Well, then, the ceiling is what is bothering you from the distribution standpoint?

Mr. VAUGHN. Yes, sir; definitely.

Mr. GAMBLE. The subsidies do not come into that at all?

Mr. VAUGHN. No.

Mr. GAMBLE. Then, if you do have different ceilings in different places, you still have your distribution difficulties, if that ceiling is not high enough?

Mr. VAUGHN. That is right. You see, the point is that in the spring—when, for instance, Arizona fellows have their lambs ready to go, there is a scarcity of lambs in New York. And the people in New York cannot get lambs, but you cannot get them there.

Mr. GAMBLE. Because of the freight rate that slams up against the ceiling?

Mr. VAUGHN. That is right.

Mr. GAMBLE. Then, the whole supply and demand is stopped by the ceiling?

Mr. VAUGHN. That is right. Before the Government regulation the situation was that the live price, for instance, on the eastern seaboard, might go up 4 or 5 cents because people wanted lambs.

Mr. GAMBLE. That is all, Mr. Chairman.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. From your testimony, I gather that so long as ceilings are kept on lamb prices, you must operate under conditions of fear and uncertainty.

Mr. VAUGHN. It is indefinite changing of ceilings which creates the fear, the idea being that, as I explained, from the standpoint of the production end of the business, you have to plan your affairs 12 to 15 months in advance, at least, and you do not know, when you make the plans, what sort of obstacles you are going to run into when you sell the ultimate product.

Mr. SMITH. And since we are operating under a depreciated currency, the Price Administration is compelled to continually adjust prices, and, therefore, you must expect, so long as price ceilings continue, to operate under fear and uncertainty; is that not correct?

Mr. VAUGHN. That is right. That is definitely right.

Mr. SMITH. Is there any possible escape from that situation? In other words, that would have the effect of reducing production, would it not?

Mr. VAUGHN. It has had that effect. It is a matter of record that production has been reduced.

Mr. SMITH. So, unless some realistic approach is made to this problem, your industry will be in the same position as a great many other industries, namely, you will just have to expect your production to continue to shrink?

Mr. VAUGHN. If the sheepmen had known any way to get around the obstacles which you have mentioned, I am quite confident that they would have recommended that policy instead of the idea of taking ceilings and subsidies off. But that is the only method they know of to get around the obstacles to production.

Mr. SMITH. You mentioned that it did not make any difference to the sheepmen whether they received their price in the form of a subsidy or higher prices.

Mr. VAUGHN. That is my personal statement and not one that I am instructed to make by the lamb industry committee or the National Wool Growers. I should think it would go for most sheepmen.

Mr. SMITH. I am rather sorry to hear you say that, because subsidies are inflationary. Subsidies are paid out of Government printing press money, and I think that is a national question and one that I think everybody should fight against.

Mr. VAUGHN. Well, Congressman, you brought up another phase of the answer, which you did not, at least, visibly get into your question. The matter of whether I am opposed to subsidies or not, or sheepmen are, I think it on the record. Almost all agricultural organizations are definitely opposed to the subsidy idea. But my original statement I think will show that what will get production is the satisfaction that there will be definite returns, and when you add subsidies and ceilings, you can add up to, say, 20 cents, just as easy as you can if you put on a 20-cent ceiling.

Mr. SMITH. Anyhow, you are opposed to subsidies?

Mr. VAUGHN. That is right. But we accepted them last June, from the statement of the Government, as being the only recourse that could be given us at the time.

The CHAIRMAN. Are there any further questions?

Mr. SUNDSTROM. Mr. Chairman.

The CHAIRMAN. Mr. Sundstrom.

Mr. SUNDSTROM. I am wondering if you could not get ceilings and subsidies removed, would you want any change in the present set-up? Is there any suggestion you could offer that would help the situation even though you could not get ceilings and subsidies removed?

Mr. VAUGHN. I should not like to answer that question without further conference with the industry that I represent, because at the present time our instructions are to take the attitude that we think the removal of ceilings and subsidies is the best all-round solution. However, I did state, I think, to the chairman a moment ago that if Congress finally decides that ceilings and subsidies, or either ceilings or subsidies, should be retained, then, we are citizens of this country just as well, and we will be glad to sit in with any committee which as the authority to make them up for the following year.

Mr. SUNDSTROM. Does your organization have the per capita consumption of lamb and mutton in this country?

Mr. VAUGHN. Yes; our organization has. I do not happen to have it here. I have a very interesting set of figures that I just got today, which has to do with the change in the consumption of lamb and mutton since ceilings went on, which indicates that there has been an increase of from 38 to 89 percent in the sections where lambs are produced, and a decrease of from 2 to about 40 percent in the sections where lambs are not produced, illustrating further what I said with regard to the disruption of distribution brought on by the ceilings. In other words, even in times of glut, they are held in the sections where they are grown.

Mr. SUNDSTROM. What do you estimate would be the increased cost of living if we removed all subsidies on lamb and mutton?

Mr. VAUGHN. I am no economist. I could not tell you that. It would be almost infinitesimal, I suppose, because, in the first place, lamb is only about 5 percent of the meat consumption of the country.

Mr. SUNDSTROM. That is all, Mr. Chairman.

The CHAIRMAN. If there are no other questions, you may stand aside.

Mr. Petersen is our next witness.

STATEMENT OF J. C. PETERSEN, REPRESENTING THE FEEDER SECTION OF THE NATIONAL LAMB INDUSTRY COMMITTEE

Mr. PETERSEN. Mr. Chairman. My name is J. C. Petersen, of Spencer, Iowa. I represent the feeder section of the National Lamb Industry Committee. Annually, there are between 6 and 7 million lambs placed on feed throughout the United States.

The previous witness, Mr. Vaughn, has given you the situation as regards the condition of the western range sheep producer. That unhealthy situation is also vital to us feeders, as we depend on the annual crop of feeder lambs from western ranges in order to properly feed our excess crops.

Because of the unwarranted slaughter of breeding ewes, we are

faced with a decline in feeder lamb production. It means that we will have no market for cheap roughages which can only be utilized by livestock. Lamb feeding is done in order to convert roughages which have little or no other value into meat. In California, lambs are fattened on Ladino clover; in the western irrigated sections, beet pulp and alfalfa hay are the principal feeds. In Kansas and adjoining States, lambs are grown and fattened on the growing wheat pasture during the fall and winter months, which improves the quality and yield of that crop, while in the Middle West all types of pasture, corn-field, silage, oats, and hay are utilized.

Because of the present demands for wheat and other food for export, the situation as regards feeding from the standpoint of conserving grain is important.

The feeders of these 7 million lambs require only 1 percent of the total corn production of this country. Therefore, the total pounds of dressed lamb, about 1 billion pounds, produced is very high for the amount of grain consumed.

During the war, lamb feeders were willing to accept the system of price control in order to make our contribution to the war effort. Later, subsidies were paid on sheep and lambs to reimburse the producer and feeder for having to sell at ceilings imposed at the beginning of the war and in order to cover the increased cost of production.

Subsidies are now decidedly unpopular with farmers and feeders. Realizing that subsidies and price control go hand in hand, the National Lamb Industry Committee, believing that the Government's program for subsidies and price control would be unworkable and unenforceable and would retard the production of food, voted February 18 to favor their elimination.

I want to briefly review, however, the situation as regards sheep and lambs as price controls were applied.

First. In July 1942, dressed lamb prices were frozen at the July 27 to July 31 base period.

Second. In December 1942, permanent ceilings were established on dressed lamb in zone A, which is the central part of the United States, as follows: AA or choice, \$26.50; A, \$25; B, \$23; and C, \$20.75.

Third. In June 1943, prices were rolled back 2 cents per pound at the wholesale level and 3 cents at the retail level. To compensate the packer for the roll-back, a subsidy of 95 cents per hundredweight live was paid the slaughterer.

Fourth. In August 1945, the 95-cent subsidy paid to the packer was discontinued and in its place a subsidy paid direct to the producer and feeder was instituted, ranging from \$1 to \$3.15 per hundredweight, depending on class and weight, and using the seasonal variation principle. The present comparatively low legal ceiling at the wholesale level in zone A is: AA or choice, \$24.50; A, \$23; B, \$21; and C, \$18.75.

These subsidies are only in effect until June 30 of this year and that is why we are here.

During this period of price control, production proved so unprofitable, the United States Tariff Commission placed the loss at \$1.22 per head during the year 1944, that 13 million ewes were slaughtered, or approximately 25 percent of the ewes on hand January 1, 1942.

Prior to the war, the percentage slaughter of sheep was approxi-

mately 6 percent. Since January 1, 1943, it has been running at 18 percent.

In 1945, 4,490,000 lambs were slaughtered, which is 20 percent of the total lamb production.

A high percentage of these sheep were breeding ewes. To plan a breeding program in sheep, the operator must have a minimum of 2 years to produce lambs at the slaughter level. A stopgap subsidy program, which is subject to uncertain Government policies, cannot be depended on to secure production.

As an example, and, as Mr. Vaughn mentioned, California is ready to market their spring lamb crop. Feeders in Iowa and adjoining States are hesitant about purchasing these lambs for feeding, because of no definite long-range price policy. The feeder is forced to take the position that by the time these lambs are ready for market, no price or marketing program will be in existence.

At the time permanent ceilings were applied, feeds in northwest Iowa were about as follows: Corn, 75 cents per bushel, now \$1.02; linseed oil meal, \$49, now \$56; and alfalfa hay, \$12 per ton, now \$20 per ton.

As feeding costs rise, the feeder can try to buy his feeder lambs cheaper and, therefore, try to control the profit on his operation; but, if by so doing, he puts his supplier of raw material, in this case the western grower, out of business, he is only in the long run penalizing himself.

In conclusion: Producers and feeders object to subsidies—

First, because they are accused of getting the subsidy, when, in effect, it is a consumer subsidy.

Second, with national income at an all-time high, it is difficult to justify paying our present grocery bill out of taxable income.

Producers and feeders object to price control:

First, because of the inability to make plans for further feeding because of the possibility of sudden changes in Government policies.

Second, the policy of controlling prices on one hand and increasing wages on the other puts the producer in a squeeze because of the increased cost of his labor and the things he buys.

I subscribe to the thought expressed as follows: "The combination of high prices to producers and low prices to consumers is politically too attractive and economically too dangerous to be used without restraint on a large scale."

Mr. TALLE. May I ask Mr. Petersen a question?

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Mr. Petersen, we have a number of mutual friends who have spoken very highly of you, and I am glad that you are here to testify.

You said something about the uncertainty of prices that results from the payment of subsidies. That same difficulty that you complain of was a bothersome thing in hog production, too, was it not?

Mr. PETERSEN. Yes.

Mr. TALLE. The producer cannot know in advance what the Government will do, how long price supports will be there, and those are items that represent risks you never had to take before; is that right?

Mr. PETERSEN. That is right.

Mr. THOM. May I ask a question?

The CHAIRMAN. Mr. Thom.

Mr. THOM. The National Association of Manufacturers wants all price ceilings taken off except those which pertain to the cost of living. What is your attitude toward that?

Mr. PETERSEN. We feel that if subsidies and ceilings were not in force, production would be at a higher basis.

Mr. THOM. Well, you have not answered the question. The National Manufacturers Association wants all ceilings taken off, except those which pertain to the cost of living. What is your attitude to that on behalf of the sheep growers?

Mr. PETERSEN. Well, I am speaking for the lamb industry, the group that I know about. I think I would favor the removal of price controls.

Mr. THOM. On everything?

Mr. PETERSEN. I do not think I would want to answer that right here. I am speaking for this committee.

Mr. THOM. Now, you have not answered the other question. How do you feel about the National Association of Manufacturers' proposal to take all ceilings off everything except those items which make up the cost of living? That would leave ceilings on lamb and take them off almost all other industries.

Mr. PETERSEN. If other industries operate under the same principles as this, I would imagine that production can be most easily obtained under a free economy.

Mr. THOM. Well, do you favor or do you not favor that proposal?

Mr. PETERSEN. Yes.

Mr. THOM. You do?

Mr. PETERSEN. Yes.

Mr. THOM. To keep it on the items that pertain to the cost of living, and take it off of everything else?

Mr. PETERSEN. I would take it off of everything.

Mr. THOM. Well, now, you have not answered the question.

Mr. TALLE. Mr. Chairman, he is not speaking for the National Association of Manufacturers.

Mr. THOM. The National Association of Manufacturers asked us to take off all ceilings except those which pertain to items which go to make up the cost of living.

Mr. PETERSEN. I am speaking from my experience——

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Let the National Association of Manufacturers speak for its own organization. This witness does not speak for them.

Mr. THOM. That is a perfectly competent question. He can answer or he cannot answer it.

The CHAIRMAN. The witness may answer that if he wishes to.

Mr. GAMBLE. They will be here Monday morning.

Mr. SMITH. I think the witness has answered the question.

Mr. THOM. The record will speak for itself on that.

The CHAIRMAN. If there are no further questions——

Mr. BUFFETT. I would like to ask a question, Mr. Chairman.

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. Can you discern any tendency of lamb raisers, or lamb feeders, to curtail their operations substantially because of this uncertainty?

Mr. PETERSEN. The slaughter of sheep, in 1945, was, if anything, as heavy or heavier than it had been since 1942.

In December 1945, the percentage of ewes slaughtered to the total, which includes a lot of breeding ewes, was 26 percent. Prior to the war that slaughter was about 6 percent.

Mr. BUFFETT. It went from 6 percent up to 26 percent?

Mr. PETERSEN. Yes. So that shows continued liquidation.

Mr. BUFFETT. What is the total number of lambs in the country compared with 5 years ago? Do you have any information as to that?

Mr. PETERSEN. It is approximately the same decrease as there would be with regard to ewes, about 25 percent.

Mr. BUFFETT. Do you, yourself, feed ewes in Iowa?

Mr. PETERSEN. Yes.

Mr. BUFFETT. Can you buy any protein concentrates now, legally?

Mr. PETERSEN. If you can?

Mr. BUFFETT. I say, can you buy them legally now?

Mr. PETERSEN. No.

Mr. BUFFETT. Well, then, is not the natural result going to be that the feeding of lambs which has decreased will be decreased even more sharply from this time on?

Mr. PETERSEN. Yes.

The CHAIRMAN. If there are no further questions, you may stand aside, Mr. Petersen. We were very glad to have your views, Mr. Petersen.

Mr. Dressler.

STATEMENT OF GEORGE DRESSLER, NATIONAL SECRETARY, NATIONAL ASSOCIATION OF RETAIL MEAT DEALERS OF CHICAGO

Mr. DRESSLER. Mr. Chairman, my name is George Dressler. I am national secretary of the National Association of Retail Meat Dealers of Chicago.

I am the retail representative on the lamb industry committee.

It would be difficult to present in words the chaos and confusion that exists in the retail distribution of meat product represented by this subcommittee of the lamb industry.

The principle and theory of control of production and distribution sounds like a beautiful dream. In reality, it has been a nightmare. We have been told that we must fear inflation. One of the best known quotations of our late President, Franklin Delano Roosevelt, was "The worst fear we have to fear is fear itself." For 3 years we have struggled with control of lamb prices and distribution. For 3 years the people whom we have tried to protect with these controls have suffered from them.

First, the producers have had severe difficulties. They can— or have—told their story.

Second, the feeders have their difficulties which they can tell of better than I.

Third, the legitimate packers have had a trying time.

Fourth, the retailers who have had to rely on the legitimate packers were without lamb a great part of the time.

The public who dealt with our legitimate dealers suffered. They had three choices:

First, to do without lamb;

Second, to patronize black markets, and

Third, to eat in restaurants which was both costly and inconvenient.

Lamb has been a product that for many years required considerable promotion. Through recognition by the medical profession of the health-giving merits it contained and the sales promotion of the industry at all levels, we developed a demand for that product which was beneficial to the public health and the financial economy of the producers.

Due to the restrictions imposed on the retail distribution of this product by the regulations of price control, it has and will suffer in popularity, consumption, and production. I wish to justify this statement by calling your attention to several statements embodied in MPR 355, that document which dictates how lamb and other meats must be sold.

On page 2 of MPR 355, it says: "On and after June 2, 1943, you must not sell or offer to sell any variety meats or edible byproducts, other than those on which dollars-and-cents ceiling prices are fixed by this regulation, and which are claimed sound and free from foreign material, including blood clots, mucous, hair, and wool." They definitely state that we cannot sell anything other than what they have specified.

In their price charts, which they have issued, they outline those items in there, lamb and mutton, which the retailer can sell.

I might also call your attention to the cutting charts. Here is a book produced by the industry, the National Livestock and Meat Board, which has representatives of the producers, the packers, and the retailers. They have prepared a booklet which we used to use prior to the war, and prior to Government control, in which it told us how to merchandise, how to sell lamb, how to get the most out of it for the benefit of the consumer, and for the benefit of the industry, and which was good for all of us.

Mr. GAMBLE. Who got that booklet out?

Mr. DRESSLER. This is produced by the National Livestock and Meat Board, through the cooperation of the various segments of the industry. They have shown us many ways and methods in this merchandising book how we could sell and move the items that were hard to move, that in many ways and often found their ways into the scrap boxes and bone boxes and eventually into grease tanks.

Mr. SUNDSTROM. Has not the Office of Price Administration given you a booklet, too, to show you how to cut meat?

Mr. DRESSLER. Slightly. They have limited our method of cutting. For instance, here is a specialty cut known as a marked up roast. In the summertime it was not unusual for retailers to take a lamb and remove a part of the shoulder, that blade section along with the shank, and make that little specialty cut which was attractive, tasty, and tender, and acceptable to the consumer. It made a nice small roast for the summer meal. This has the shank worked in with it. We cannot make that because the Office of Price Administration has not spelled out a price nor permitted us to do that, and with taking that out of the shoulder, we were able to merchandise the rest of the shoulder in various ways.

Going on a little further——

Mr. GAMBLE. What do you sell that for now, if you cannot do it under the Office of Price Administration?

Mr. DRESSLER. The only thing we can sell it for is a lamb shoulder roast or lamb stew, lamb shoulder chops, but we are not permitted, as in our language, to merchandise it in the various ways in which we may have done in the past.

These illustrations show how lamb patties and lamb loaves are made. It definitely tells us here that an attractive display of lamb loaf, about one-fourth pork or veal, mixed with the lamb, will serve as a binder. And, believe me, that does make a delicious roast, a very acceptable one to the consumer, and very easy to sell.

The Office of Price Administration definitely states that we cannot make that type of a roast, or loaf any more.

I call your attention to one of their statements here:

Ground meat.—The retailer must not sell any ground meat unless it has been ground beef, ground veal, or ground lamb, as defined in section 20 of the beef-veal-lamb and mutton retail regulation, and he must not sell such ground meat at prices higher than those listed above. If a customer buys any retail cut of meat and wants it ground, the retailer may grind that cut of meat for the customer, only if the grinding is done in a manner so that the customer can observe it. No addition may be charged the customer for that grinding.

The CHAIRMAN. We will have to continue the hearing for a little while. I have an engagement with some of the other members for a conference on H. J. Res. 301, but some of the members who have gone to answer the roll call will be here in a few minutes, and the hearing can then continue.

We will recess until they can get back.

(A short recess was taken.)

Mr. HAYS. The committee will be in order.

The chairman has asked me to preside for the rest of the session.

Mr. Dressler, you may continue with your testimony.

Mr. DRESSLER. I left off in my testimony while calling your attention to the various specialty cuts that were quite commonly used prior to Government control.

During the extreme emergency of the war, there were some of these practices that we could do without due to the labor situation. The difficulties in obtaining enough labor to make these so-called specialty cuts. However, today we are getting our boys back from the service, we have plenty of help in our stores today, and we feel that we can justly give them the service on the specialty items which they deserve.

We feel that the time has come when we not only should but will have to rely on special merchandizing ideas to move production.

Historically it has always been the practice in the retail trade to prepare in advance special lamb products in various forms according to supply and demand and according to the conformation and quality of the carcass. Today we are prohibited from that practice. It is more necessary now than ever that we sell every edible piece of meat that we possibly can. President Truman has just requested the industry and the consumers to conserve as much food for hungry Europe as we possibly can. In lamb there are a great deal of various ways in utilizing trimmings which otherwise might find their way in waste cans or garbage pails. Again I should like to call your attention to the charts on page 29 of the industry merchandizing booklet. For

instance, in the making of a so-called crown roast of lamb, or the small French lamb chops, I would like to observe in any restaurant or your own home if you serve lamb chops that invariably that little tip of lamb chop is left on the plate and finds its way into the garbage can.

The retailer, if permitted to do it, could utilize those little tips in there by adding a little lean or ground beef or a little veal or pork with it and making a tasty and palatable meat loaf or lamb patties. He cannot add anything to the lamb when he grinds it as patties under the present regulation.

And I would just like to call your attention to the tip of that. If you were to grind that tip alone, that certainly would make a palatable or tasty patty or meat loaf.

Again, I would like to show you these lamb patties which we prepared in advance. Here is a simple round drawn little patty that has no appeal, and if it was lamb alone it would not have much of a taste. But if you will notice where it has a little strip of bacon added to it, or sometimes it is rolled in corn meal or corn flakes, it makes a beautiful appearance in the counter, for sale, and it makes a very tasty and delicious serving on the table. But to grind it as lamb alone or to use just the fatty ends of the ribs or breast, it does not make a very tasty serving.

If we could just utilize all those little trimmings and be permitted to utilize them, how much food we could save for hungry Europe, which they have asked us to do. It is not only true on those particular chops, it is true in the lamb breasts. Lamb breasts in some communities are a very good selling item. In other communities they are taken off the carcass of the animal and dumped in the box or trimming can almost as fast as the animal is received. The consumer just will not eat them.

It is not a very beautiful piece of meat, and it is not a very tasty piece of meat in that particular form, but if that were boned and rolled, leaving a little piece of the shoulder or shank on with it, it could make a very nice roast; or if it were ground up into patties and prepared and made beautiful displays of, where we were permitted to grind that and with a little attractive decoration on it, it would be a salable product that today is going into waste.

Mr. TALLE. Did you used to do that?

Mr. DRESSLER. Yes, sir.

Mr. TALLE. In prior years?

Mr. DRESSLER. Yes, sir; prior to the control regulations.

Mr. SUNDSTROM. Is it against the law to do that?

Mr. DRESSLER. Definitely not. It is not against the law to grind and make lamb patties; but, as I read before in this statement, "Ground mutton or ground mutton patties"—and this also applies to lamb—they particularly specify "head meat, glandular meat, blood cartilage, gristle, bone." "Cereal"—that would apply to corn meal or corn flakes to make it more tasty and appealing—"Cereal of any kind or any other ingredient except seasoning shall not be put into ground mutton or mutton patties." And that applies to lamb as well. That is a specification of MPR 355.

Mr. TALLE. The price-control law says that those who set up regulations may not interfere with established business practices. In this instance it would appear that established business practices have been interfered with.

Mr. DRESSLER. I think, Congressman, that this is not the only instance where those things have taken place. Established business practices have been put aside more than once, in various sections of the Price Control Act.

Mr. HAYS. What reason do they give for that?

Mr. DRESSLER. Their theory is that they have no way of policing the industry to tell what the retailer may put into that ground lamb patty or what section of the shoulder he may have rolled into that rolled roast, along with the breast. You see, they permit us to roll shoulders; yes; but we cannot put a shoulder and a breast together to make the combination where we could move and sell that less choice cut along with the choice cut and still make a palatable serving. They say they cannot tell how much trimming we did with it or whether we are getting the proper percentage yield out of it. They feel that we would charge too much.

The competition will prevent the retailer from getting out of line on prices. He certainly cannot charge too much for an item. I would like to cite, for instance, lamb patties. I think that is an excellent example. I have seen lamb patties made out of just the breast and trimmings of meat. It is very palatable and tasty, and they were sold for 23 and 24 cents a pound. At the same time, I have seen lamb patties which were made and sold for 48 cents a pound, and in both instances the consumer was getting her full value for her money, because the man who is getting 48 cents a pound for it used the shoulder cuts of lamb. He happened to be in a territory where he could not sell those particular cuts, and it was his only way of moving that meat, in a loaf or lamb patty, with bacon or such other additions as he may have put on, and he got his regular cost out of it. But they say they cannot police it, because they could not look at a lamb patty and say whether it was made out of lamb shoulder or whether it was made out of lamb breast.

I would just like to impress one more thought on your minds. I think we have a moral obligation at this time, to the President and to his food program, to utilize every ounce of meat that we possibly can, and this would be an excellent way of doing it. I am sure that the retailers of this country are not interested in filling their bone cans with anything that is edible. However, if they are not permitted to sell it in any other form than that in which they receive it, or than what is specified in this book, they have no alternative but to throw it away.

We are dealing with a product that is highly perishable. If we do not sell it, we smell it. We did not, in the past, realize excessive profits by preparing these special cuts or using other merchandising ideas. The retailer is interested in selling his product as best he can, according to the supply and according to the demand. Competition will prevent him from getting out of line in prices. That is all I have to my testimony, gentlemen.

Mr. HAYS. Mr. Talle.

Mr. TALLE. I have no more questions. Thank you.

Mr. HAYS. Mr. Sundstrom.

Mr. SUNDSTROM. No questions.

Mr. HAYS. Thank you, Mr. Dressler. I appreciate your statement. There is one other witness for the afternoon.

Mr. Wilson.

STATEMENT OF J. B. WILSON, SECRETARY, WYOMING WOOL GROWERS, AND CHAIRMAN, LEGISLATIVE COMMITTEE, NATIONAL WOOL GROWERS ASSOCIATION

Mr. WILSON. Gentlemen of the committee, my name is J. B. Wilson. I live at McKinley, Wyo. I am secretary of the Wyoming Wool Growers and chairman of the legislative committee of the National Wool Growers Association.

I am also engaged in a small way in the wool-growing industry in Wyoming.

Mr. HAYS. Have you appeared before the committee before?

Mr. WILSON. I have appeared before the committee on several occasions, Mr. Chairman.

Mr. HAYS. We are glad to have you, Mr. Wilson.

Mr. WILSON. I notice always, in coming before this committee and the comparable committee of the Senate, that when the Price Control Act is up for extension, the fellows at the Office of Price Administration seem a little more reasonable, a little more anxious, perhaps, to make adjustments. But once you get the extension enacted into law, that sweet reasonableness goes out the window. So we have to get whatever relief we can from this committee, and I appreciate what the committee has done for us in the past.

It will be recalled by those who have been on the committee and who have heard me testify previously that I have always insisted that the Office of Price Administration used the wrong basis in fixing ceiling prices on wool. We have never been able, until recently, to get their reasoning for fixing these ceiling prices as they did. As I have explained to the committee previously, they did an impossible thing. They took a grease price of wool, an average grease price, and converted it into a clean price of all grades of wool, which is absolutely impossible.

At the hearings before the Special Committee to Investigate the Transportation, Production, and Marketing of Wool, held in November and December of 1945, there appears, on page 1053, a memorandum from Mr. Harding Bancroft, who at that time was the attorney for the Wool Division.

I am going to ask that that be placed in the record, Mr. Chairman, but I am going to read, at this time, just one paragraph from it, if I may. It is paragraph 5:

It must be remembered that the 1919 to 1929 Boston market price was higher than the December 15, 1941, price only with respect to a few specific grades of wool. The average farm price is a weighted average of all wool of all grades sold in the United States. It is, therefore, completely representative of the prices that the farmer received.

I would like very much to have the committee make inquiry of the Office of Price Administration as to the percentages of those few specific grades. I venture the statement that 80 percent of the domestic wool clip comes in what they call "a few specific grades," and 80 percent is a rather large percentage. They erred, and they have probably not yet corrected it; it probably would not make any material difference at the moment if they did increase the ceiling, because the ceiling is considerably above the price at which the wool is selling to the manufacturer. The Commodity Credit Corporation are currently

purchasing the wool at what is a comparable price, approximately 41 cents, which is an average price over the country. But they did err, and I think this committee should properly inquire, because we did make that inquiry in the past, and this is the first time they have seen the basis for their decision.

Mr. HAYS. Have you designated the parts that you want included in the record?

Mr. WILSON. Yes. I have.

Mr. HAYS. You may read it into the record.

Mr. WILSON (reading):

FEBRUARY 10, 1942.

To: Mr. David Cobb.

From: Harding F. Bancroft.

Subject: Maximum Prices for Domestic Shorn Wool.

The four standards set forth in section 3 (a) of the act show the following average farm prices determined by the Department of Agriculture for grease wool:

1. One hundred and ten percent of parity—29.4 cents per pound.
2. Market price prevailing on October 1, 1941—36.3 cents per pound.
3. Market price prevailing December 15, 1941—37.1 cents per pound.
4. Average price during the period July 1, 1919, to June 30, 1929—34.9 cents per pound.

It would seem from the foregoing that under the act we are required to set maximum prices for wool no lower than the market price prevailing on December 15, 1941.

However, the average Boston price on a clean basis for a few specific grades of wool were higher than those prevailing for the same grades on the same market on December 15, 1941. For the fine 64s and finer staple combing territory wool on a clean basis the price during the average 1919 to 1929 period was \$1.28 per pound, whereas the price on December 15, 1941, for that grade was \$1.18 per pound. If we use that price of \$1.28 per pound as the base price and compute all other grades from that with the customary differentials, it would result in a price approximately 10 cents per pound for all grades higher than if we based our maximum prices on a clean basis on the average farm price of 37.1 cents on December 15, 1941.

The question is whether it would be in compliance with the statute to use as maximum prices the prices based on the 37.1 average farm price on December 15, 1941.

1. The purpose of section 3 (a) as evidenced by the legislative history thereof was to assure to agricultural interests that no maximum price would be lower than the price that such agricultural interests received during any of the four base periods.

2. The relationship between the average farm price and the Boston clean basis price on December 15, 1941, shows that in an uncontrolled market the farmer would receive the highest price that he received during the four bases if our maximum prices are established at the market prevailing on December 15, 1941.

3. If we used the average price during July 1, 1919, to June 30, 1929, period, we would be using as a maximum a market price which allowed the farmer, according to United States Department of Agriculture averages, only 34.9 per pound.

4. The hearings before the Banking and Currency Committees used as evidence of the prices of agricultural commodities during the four periods mentioned in section 3 (a) the average farm price on December 15, 1941, as the highest price in any such period for wool. It was not brought forth in the hearings or the debates in either House that the market price on the Boston market for clean wool was higher in the 1919 to 1929 period than it was on December 15, 1941.

5. It must be remembered that the 1919 to 1929 Boston market price was higher than the December 15, 1941, price only with respect to a few specific grades of wool. The average farm price is a weighted average of all wool of all grades sold in the United States. It is, therefore, completely representative of the prices that the farmer received.

6. Because the 1919 to 1929 average on the Boston market was higher only in respect of a few grades of wool, it is clear that if we used that average as our maxima, the normal differentials between grades would not be maintained.

Certain grades, especially the finer wools, would have prices at levels out of line with the coarser grades. This would discriminate against the small growers, especially those east of the Mississippi and the growers everywhere who have mixed types or inferior types of wool. The differentials existing in the average prices (1919 to 1929) were unfavorable to all growers of other grades than fine. The December 15 base provides the most favorable differentials for all grades.

Mr. HAYS. Thank you, Mr. Wilson.

Mr. WILSON. The chairman asked Mr. Besse about the so-called superiority of foreign woolens. I happen to have on, and, of course, no one would accuse me of being a good model, but I have on a flannel suit made in New Jersey, Mr. Sundstrom, and my tailor, who has been in the tailoring business for 50 years, told me it was better than any piece of imported flannel he had ever handled in his life. And it is a domestic product.

That answers the chairman's question. There is no question but what we do make, in this country, just as fine wool, and in some cases, finer, perhaps, than those that are produced abroad. I would also guess that probably—I would hesitate to state the percentage, but a very large percentage of the goods sold as imported are actually made in this country. But the imported label seems to have a selling argument which is used by tailors and retailers.

I am sorry that Congressman Brown is not here, because I assume that he would ask his stock question, that is, when supply is in balance with demand.

As you gentlemen know, I have been attending practically all of these hearings. I think it was when Secretary of Agriculture Anderson was on the stand, one of you gentlemen, I do not recall whether it was Dr. Talle or Mr. Buffett, but one of the gentlemen asked him about the poultry situation, and it was developed by the Secretary's testimony that the poultry supply did exceed the demand. They are having difficulty in getting feed.

Then he was followed by the ex-Governor of Texas, Mr. Allred, who said that the supply of crude oil exceeded the demand.

And I want to add my 10 cents worth to that, and say that the supply of wool the world over exceeds the demand so that there is no longer any need for control on raw wool itself. The British Government purchased the wool clip of her dominions—Australia, New Zealand, and South Africa—and they have recently organized a syndicate to get rid of that wool and sell it, and they anticipate that it will take 13 years. So if you have a 13-years wool supply, certainly supply has more than met demand. So if that is the yardstick, then, wool should be removed from under Office of Price Administration control.

I want to endorse the statements made by the gentlemen who have just preceded me. They are all experts in their particular line—both Mr. Vaughn and Mr. Petersen are actively engaged in the feeding of lambs, Mr. Vaughn, in the raising of lambs, so they speak with authority for our industry. I also want to endorse the statement made by Colonel Besse, president of the National Association of Wool Manufacturers this morning, with relation to wool maximum average price, which is another abortion had in the Office of Price Administration. I would like, Mr. Chairman, permission to file a statement on wool maximum average price, because I am convinced from the questions that were asked this morning of Mr. Besse, that a good many of you gentlemen are not yet clear on the wool maximum

average price. So if I may, I should like permission to file a statement in order to conserve your time.

Mr. HAYS. That will be granted.

(The document above referred to is as follows:)

MARCH 26, 1946.

MEMORANDUM ON THE MAXIMUM AVERAGE PRICE DIRECTIVES—FOR INSERTION
IN THE HOUSE BANKING AND CURRENCY COMMITTEE RECORDS BY MR. J.
BYRON WILSON

MAP ORDERS SUPERIMPOSED ON PREVAILING PRICE CEILING ORDERS

The maximum average price directives of the O. P. A., popularly referred to as MAP orders, are widely misunderstood not only by the public generally, but even by the industries which they regulate. In order to understand their operation at all, it must be made clear at the outset that MAP orders do not replace ceiling orders in the textile and clothing industries in which they are effective, but rather are superimposed on and are in addition to such ceiling orders. Therefore, the rescinding of the MAP directives will still leave in complete control all prevailing price ceiling orders.

PURPOSE OF MAP DIRECTIVES

It was the avowed purpose of the maximum average price directives to prohibit up-grading in textiles and garments, roll back prices, and increase the supply of low end clothing. That this purpose could be accomplished by Government orders is erroneous thinking, since the tendency to produce better quality fabrics and garments was not brought about by the machinations of individual producers, but rather by the increased demand by the consuming public for better grades of goods.

There has been and still is a general shortage of textiles and garments in relation to demand. On the other hand, it is a well-known fact that especially during times of shortage, the consumer insists upon buying better quality fabrics and garments because they will last longer and need less replacing. Economically, the public's insistence in this regard is perfectly sound and it is ridiculous to try to make people buy inferior merchandise when their desire is for garments of better quality.

HOW MAP WORKS

The maximum average price directives though differing in detail in the various garment and fabric industries regulated, nevertheless, operate on the same basic principle. A manufacturer of fabrics or garments is required by his MAP order to maintain the same average price (total dollar deliveries divided by units) in every quarter beginning July 1945, as he had in the same quarter in either 1943 or 1944. (Base period depends upon the commodity regulated.) He can ship units that sell above and below this base period average price, but the average of all must be no higher.

If at the end of the current quarter's operation, because of consumer requirements or inability to obtain necessary raw materials, and various other reasons, his present average is higher than the base period average, he incurs a surcharge. This is the amount of the difference between the two, times the number of units shipped during the current quarter. If this surcharge is not offset by sufficient shipments at prices lower than the base period average in the following quarter, he cannot ship any units having a price higher than the base period average price. He immediately goes on a "make up" basis and must build up a credit equal to the surcharge, by shipping only units below the base period average price and holding back all those units above. Failure to make up the surcharge is a criminal offense.

EXAMPLE—WOOL FABRIC MANUFACTURER

(1) A wool fabric manufacturer delivered in the base period, first quarter, the following material:

100,000 yards at \$2.....	\$200, 000
50,000 yards at \$2.50.....	125, 000
100,000 yards at \$3.....	300, 000
50,000 yards at \$3.50.....	175, 000
100,000 yards at \$4.....	400, 000
400,000 (total yards shipped).....	¹ 1, 200, 000

¹Total dollar shipments.

The total dollar shipments (\$1,200,000) divided by the total yards shipped (400,000) equals \$3, which is the MAP. Deliveries in current first quarter must average no higher, though some may be below and some above.

(2) In the current quarter, this manufacturer is unable to secure raw material for the \$2 price line. Consumers are insisting on more men's wear fabrics at \$3.50 and \$4. This company normally does not produce sheer women's wear fabrics at \$2.50. On the basis of these facts, estimated deliveries run as follows for the current first quarter:

25,000 yards at \$2-----	\$50, 000
25,000 yards at \$2.50-----	75, 000
200,000 yards at \$3-----	600, 000
200,000 yards at \$3.50-----	700, 000
200,000 yards at \$4-----	800, 000
650,000 (total yardage shipped)-----	1 2, 225, 000

Total dollar shipments.

The estimated dollar shipments (\$2,225,000) divided by the estimated total yardage (650,000) equals \$3.42. This is the estimated average price for the current quarter, which is 42 cents higher than the base period average or MAP.

(3) Should shipments be made as planned, a "surcharge" would be incurred, amounting to 650,000 times 42 cents—\$273,000.

(4) This manufacturer has the following alternatives: (a) He can ship goods at or below \$3 and only enough \$3.50 and \$4 goods to keep the average at \$3, and thus not violate the directive.

Or (b) He can ship goods as planned and hope to offset the "surcharge" in the following quarter by enough shipments below \$3 to build up a "credit" to offset the "surcharge."

Or (c) He can ship goods as planned, and continue the same production pattern in the next quarter. He would thus build up an additional "surcharge" of \$273,000. He would then have to go on a "make-up" basis and being in violation of the order, would only be able to ship goods at or below the MAP of \$3.

(5) Should he follow alternative (a), he would immediately be withholding desperately needed goods from the market, for which his customers are clamoring.

Following alternative (b), he would simply be postponing the evil day by some wishful thinking, in which he hopes that something would happen in the second quarter to pull him out of his dilemma, developed in the first quarter.

By following alternative (c), he would be able to get full production for 6 months, but at the end of the 6 months, he would have to shut down two-thirds of his mills because only one-third of his production can be at or below the MAP price of \$3.

GENERAL RESULTS

From the very outset the textile and apparel industries regulated by the Maximum Average Price directives have unanimously opposed the orders. Congressional committees of both the House and Senate have heard the merits of and objections to these directives debated by OPA and industry representatives. These committees have urged that MAP directives be abolished.

In the face of overwhelming opposition, OPA has steadfastly refused to rescind the orders, but has endeavored to overcome criticism by ineffective amendments and modifications. These amendments and modifications have served only to emasculate the orders and increase the confusion.

The MAP directives have been in operation since June of last year, a period of almost 10 months. When Mr. Bowles announced the MAP program, he told consumers that the directives were developed so that "a greater proportion of the supply of apparel will be in the low and medium priced essential garments," and, "that there would be a reduction of currently inflated clothing prices by 6 or 7 percent."

It is clear to every citizen of this country that the forecast which Mr. Bowles made has not materialized. The supply of textiles and apparel is even more critical than it was 10 months ago. This is particularly true of certain kinds of low-priced apparel. MAP orders have not helped. They have aggravated an already acute situation.

SPECIFIC RESULTS

There has been presented before the House Banking and Currency Committee in the last 3 weeks, abundant evidence to indicate that the MAP directives have

actually been responsible for holding back from the market, desperately needed essential fabrics and clothing at all prices. At the same time this evidence further indicates that these orders have forced the production of undesirable and less essential garments and fabrics, and reduced or halted entirely in some cases, the manufacture of essential cloth and clothing.

The disruption and diversion of production caused by these orders has required producers to operate in fields in which they have had limited experience. The various segments of production have been thrown out of balance. As a result, total production of both fabrics and garments has been injuriously curtailed at a time when demand is greater than ever before in the history of this country. To the extent that these directives are postponing the time when supply catches up with demand, they are inflationary in character rather than a stabilizing factor.

To cite a few examples, on Saturday, the twenty-third of March, Mrs. James A. Reed, president of the Donnelly Dress Co., of Kansas City, and St. Joseph, Mo., told the House Ways and Means Committee that it was impossible for her to make and deliver thousands of inexpensive women's cotton dresses to retail from \$6.95 to \$14.95, because if she did ship them she would violate the house-dress MAP directive.

As a result, her factories are working now only part time, and these essential low and moderately priced women's dresses are being withheld from the consumer or not being produced at all. Criminal.

Leading cotton garment manufacturers have hundreds of thousands of shirts, underwear, and pajamas which they cannot ship because they are right now in violation of their MAP directive, or, shipment of these goods would put them in violation.

Mr. Robert A. Seidel, vice president of the W. T. Grant Co., among many examples, told the House Ways and Means Committee, of a boys' wash-suit concern, an important resource of Grant's who normally made 40,000 dozen garments a year. Recently, they had 2,000 dozen on hand which they could ship at \$11.04 a dozen and 15,000 dozen which they could ship at \$15. The first could be preticketed at \$1.35 each and the second group at \$1.95. However, the manufacturer has a MAP of \$10.17 and cannot ship these badly needed garments, and has no expectation of being able to ship 18,000 additional dozen garments which he now has in work, because he would violate his MAP directive and be breaking the law.

Mr. Arthur Besse, president of the National Wool Manufacturers Association, told the committee that MAP was specifically responsible for the shortage of men's suitings desperately needed for the servicemen now being released from the armed forces. He further pointed out that should the MAP directive on woolen fabrics be continued, the shortage of overcoatings this fall would be desperate. A survey of his industry revealed that more than 11,000,000 yards of men's wear suitings, enough for more than three and one-half million suits, were not produced by the industry in the last quarter of 1945, because of the stringent requirements of the MAP directive. In place of these desperately needed goods, a quantity of less essential sheer dress-weight fabrics were turned out, to enable the manufacturers to meet the arithmetic average required by the wool MAP directive.

From this last illustration it can be made clear at once why the base-period pattern mechanics utilized in the MAP directives cannot and never could work. For the wool industry, the base period is 1944, less 4 percent. During that year, the industry as a whole was operating from 25 to 75 percent on Government orders. The balance of the production devoted to civilian needs did not reflect even normal men's wear requirements, since more than 13,000,000 men were in the armed services and their clothes were being supplied by the Army and Navy. The base-period average did reflect a lower average price because a preponderance of women's wear light-weight fabrics were being made.

Now at a time when 10,000,000 men are being released from the Army, with a demand for men's suitings and coatings pent up over a 4-year war period, the industry cannot produce these desperately needed fabrics because being heavier in weight, they sell for more money, and consequently, raise the current average price far above the base-period price.

It also follows that should the wool MAP directive be rescinded, the wool-manufacturing industry would immediately turn to producing much more men's wear suitings and overcoatings so desperately needed. And of course, these fabrics as well as all others, would continue to be sold at or below the ceilings specified by the regular price ceiling orders.

SOLUTION

There is only one solution. If the Emergency Price Control Act is extended after June 30, it must be amended to make mandatory the immediate removal of all MAP directives and further amended, to prevent any orders of this character being issued in the future. Accordingly, adoption of the following amendment is imperative.

"The Office of Price Administration is specifically prohibited from issuing or enforcing any order which directly or indirectly requires or compels a producer of a commodity (a) to conform during any period to a pattern of production, or sales, or deliveries, of such commodity by price range or unit classification based on any prior period, or (b) to limit all or any part of his production, sales, or deliveries of such commodities in accordance with any formula based in whole or in part, on any weighted, or simple average price in any prior period.

"In addition, the Office of Price Administration is hereby instructed to adhere strictly to its price control functions granted by Congress, and specifically prohibited from issuing directives which are for the purpose of channeling commodities, which said function is not granted to the Office of Price Administration by this law."

The immediate removal of the MAP directives will definitely assure the citizens of the United States maximum production of apparel and textiles. These orders do not need to be replaced since they have never done the job for which they were set up, and, on the other hand, have done irreparable damage.

If there are certain kinds of apparel and textiles which are not now available in adequate quantities to meet the acute demand for these specific items, no MAP directive ever could bring them into existence. In all of these cases where there is a genuine demand and not a fictitious one in the mind of the theoretical economist, an examination of the ceiling prices of these specific commodities would reveal that the prices are not sufficiently high to permit their production, except at a severe loss to the manufacturer. If such specific commodities are deemed necessary, a realistic price sufficiently high to bring cost plus a fair margin of profit, must be established.

This kind of approach should have been taken in the first place by the Office of Price Administration. The MAP directives have never been more than a subterfuge to conceal the defects of an over-all pricing program. This subterfuge has gone on long enough. It is now exposed. Eliminate it.

Mr. WILSON. I do not know whether I can explain it so that you will understand it, but I will at least try, because I am not sure—in fact, I am convinced that the gentleman who wrote it does not thoroughly understand it. It is written in a way so that it is difficult to explain and understand.

Mr. HAYS. What do you have reference to, exactly?

Mr. WILSON. Wool maximum average price regulation. Mr. Besse testified on it this morning. Mr. Seidel testified at length on the maximum price regulation yesterday, and I anticipate you are going to hear a great deal more about it when the cotton people get on. And I also want to file a resolution passed by the National Wool Growers Association, which I represent, regarding wool maximum average price.

Mr. HAYS. That will appear with your testimony?

Mr. WILSON. Yes. Thank you.

(The document above referred to is as follows:)

RESOLUTION URGING CHANGES IN THE PRICE FORMULAS OF THE OFFICE OF PRICE ADMINISTRATION ADOPTED UNANIMOUSLY BY THE NATIONAL WOOL GROWERS ASSOCIATION AT ITS EIGHTY-FIRST ANNUAL CONVENTION, SALT LAKE CITY, UTAH, JANUARY 29, 1946

Due to price ceilings and unworkable maximum price relationships of the Office of Price Administration, wool textile manufacturers have been forced to reduce, drastically, their production of standard-weight men's suitings and overcoat materials, substituting therefor lighter-weight, cheaper, and adulterated materials. As a result, more than 11,000,000 yards of men's clothing materials were lost during the last quarter of 1945. Unless the present, recent price limitations of the Office of Price Administration are immediately corrected, this reduction in production and consequently in the use of American-grown wool will be greatly increased during 1946.

The sole market of the American wool grower is the American wool-textile manufacturer. Price restrictions, which are forcing adulteration of wool textiles, threaten the stability of the American wool-growing industry and are adding materially to its already grave problems of distribution.

Therefore, we urge that the President of the United States and his proper administration officials appoint an impartial, qualified committee to formulate a revised pricing policy for the Office of Price Administration which will insure an increase in the production of textiles for market demands.

We further recommend that this resolution be sent to Members of Congress with the urgent request that when and if the powers of the Office of Price Administration are extended that such extension contain a proviso prohibiting the establishment or enforcement of a maximum average price order applied to the wool-textile industry, and shall require that all ceiling prices reflect wage increases where their exclusion results in losses to producers and manufacturers, or results in adulteration of the wearing and service qualities of the products in order to reduce costs.

We deplore the fact that with large supplies of wool on hand in this country, and also a large world supply, that it is very difficult for returning servicemen and other citizenry to obtain suitable wool clothing.

Mr. WILSON. Incidentally, it may interest you gentlemen to know the Office of Price Administration is not cognizant of it, the President of the United States, on Tuesday, I believe, Tuesday, March 11, wrote Senator O'Mahoney, of my State, who is Chairman of the Special Committee to Investigate the Transportation, Marketing, and so forth, of wool, suggesting a wool program, pointing out that the wool growing industry was in a very, very serious condition, and that it was an obligation of the Government to take steps to protect that industry. So even though the Office of Price Administration is not cognizant of it, the President of the United States has seen fit to call it to the attention of a congressional committee, and recommending legislation along certain lines.

Last summer, as Secretary Anderson stated, when he testified before you last week, he recommended that, because lamb was a so-called luxury meat, and made up only 5 percent of the diet, that controls should be removed from lamb. That was at a meeting with the then economic stabilizer, Mr. Davies. That was not done, although I think Mr. Secretary Anderson made it quite clear to the gentlemen of the committee that he hoped the day would soon come when subsidies could be removed, and when ceilings could be increased to take up the slack due to the loss of subsidy.

I think perhaps that is all I have. I am very anxious to have the questions I have directed be asked in the record of the Office Administration. I am not going to give you my figures, I prefer to have them give you their figures, because when they say it is small amount, they err as they have erred in other instances.

Thank you, Mr. Chairman.

Mr. HAYS. Mr. Talle.

Mr. TALLE. No questions.

Mr. HAYS. Mr. Sundstrom.

Mr. SUNDSTROM. I have no questions.

Mr. HAYS. Thank you very much, sir.

That will conclude the hearing for this afternoon.

In the morning the committee will meet at 10 instead of 10:30, and we will hear the witnesses for the Joint Livestock Committee, and Mr. Edward O'Neil, president of the American Farm Bureau Federation.

(Whereupon, at 4:30 p. m., the committee adjourned, to reconvene at 10 a. m., Friday, March 15, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

FRIDAY, MARCH 15, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

I will recognize Congressman Worley who desires to introduce the first witness.

Mr. WORLEY. Mr. Chairman and gentlemen, I appreciate your courtesy in allowing me to present not only a constituent but a long-time friend, Col. Jay Taylor, from Amarillo.

In these days of prejudice, which we hear directed against the Office of Price Administration and some of the Government agencies, I believe Colonel Taylor's testimony will be based on facts and logical conclusions rather than on prejudice or bias.

Colonel Taylor is peculiarly qualified to testify because he is past president of the Texas Livestock Association, former chairman of the Federal Reserve Board, is an oil man and is a man who is identified with all civic programs down in the Texas Panhandle.

In addition, Colonel Taylor has just finished a distinguished career as a colonel in the United States Army.

While I am not familiar in detail with his testimony, I feel confident it will be logical, sound, and fair, and I appreciate your consideration and allowing me to present Mr. Taylor.

The CHAIRMAN. We are very glad to have your statement.

Mr. WOLCOTT. Mr. Chairman, I know, too, that Mr. Taylor is one of the best and ablest and most outstanding citizens of our State. I am sure the information he will give us will be very helpful.

The CHAIRMAN. We are glad to have you, Mr. Taylor. You may proceed with your presentation in your own way.

Mr. TAYLOR. Thank you, Mr. Chairman. It is perfectly all right if I am interrupted. I certainly appreciate the help from my two friends in Congress, and it is always a pleasure to appear before this committee and say what I think the people in my business in Texas are thinking, and that is exactly what I am going to say to you here today.

STATEMENT OF JAY T. TAYLOR, AMARILLO, TEX., ON BEHALF OF JOINT LIVESTOCK COMMITTEE

Mr. TAYLOR. I live in Amarillo. I am in the ranching business, and I also operate a small stockyards and cattle market.

The Joint Livestock Committee, for which I am appearing here today, is an organization formed by 134 livestock associations from all sections of this country. On this committee there are representa-

tives of the cattle, sheep, and hog producers and feeders, marketing agencies and stockyards. This Joint Livestock Committee met in Chicago on March 1 and 2 of this year, and after a very full discussion, a resolution was unanimously adopted. A subcommittee was appointed to present that resolution to your honorable committee and I was appointed chairman of this subcommittee. The resolution that was adopted in Chicago by the Joint Livestock Committee is as follows:

The livestock industry, represented by the Joint Livestock Committee composed of representatives of producers and feeders of cattle, hogs, and sheep, and of market agencies and stockyards, in meeting at Chicago, this March 2, 1946, is unanimously of the opinion that the Government program of price controls and subsidies as affecting the livestock industry has proven unworkable, unenforceable, and has retarded and is now retarding production of food and thereby interferes with the reconversion and readjustment program and has not been and is not now beneficial to this country.

We therefore respectfully recommend and urge that the Congress not extend this program beyond June 30, 1946.

On this subcommittee there are representatives of cattle producers and feeders, sheep producers and feeders, hog producers and feeders, stockyards companies and marketing agencies, and, while I will attempt to touch upon the principal reasons why the livestock industry feels that it should be relieved of the price control and subsidy programs, I hope that you will allow these special representatives who are here this morning time to present to you the positions of the respective segments of the industry.

There are many reasons why we are recommending that the Congress not extend the price control and subsidy program that our industry now operates under. Principal of these reasons are:

First, the fact that the entire industry, and I think this is important, and every segment of that industry joined in the adoption of the above-quoted resolution is, in itself, a most persuasive argument in favor of the resolution. And, incidentally, I know that, on February 28, just before our meeting, the Beef Industry Committee, which is composed of representatives of cattle growers and feeders, packers and beef retailers, adopted a similar resolution. The industry is unanimous in its position.

We have often been told, and this is the second reason, that controls would be removed when the supply was sufficient to meet the demand. There are sufficient numbers of livestock to more than fill the demand of the consuming public.

As illustrating this point, we are daily confronted with a most confusing situation. The Office of Price Administration insists that controls must be kept on our industry because of "shortage" while, at the same time, the Department of Agriculture tells us that we have an oversupply of livestock and that the numbers should be reduced. You, the Congress, have set up our Department of Agriculture to aid and advise us. Should we and you believe that Department or should you accept the leadership of this new agency, the Office of Price Administration?

We are convinced that the price-control and subsidy program is ineffective. The vastness of the black-market operations in meat cannot be exaggerated. We have reason to believe—and other witnesses will give you facts on this—that at least 90 percent of the meat being sold in this country is now sold at prices above the ceiling fixed by the Office of Price Administration.

When meat prices are discussed it is well to keep in mind that ceiling prices and the actual prices paid by the consumer are very different things, and it is the actual prices that are realistic and which affect the consuming public.

We are convinced that, if you should discontinue the present livestock and meat program, the actual price of meat would be lowered. Our abundant supply would see to that.

We cannot believe that any genuine American wants to see the present program made a permanent part of the Government's economic structure. This program must be discontinued some time. There will never be a better time for it to be stopped than June 30, 1946.

The supply will be adequate. The tremendous buying power of the public will then be best able to offset the loss of subsidies, and the law of supply and demand, with all of its competitive features, will quickly return our industry to a normal basis. There is no good reason for a continuation of this program past June 30, 1946.

The turning of livestock into good meat through feeding operations is at best and even under normal conditions, a hazardous undertaking. But, with the present program in effect, that operation is an impossible one. No one is operating on the long-term feeding basis that is historical in our industry.

All feeding is for short terms only. This results in premature slaughtering with tremendous consequent loss.

Black-market operations, now going on at an unprecedented scale, are likewise the cause of tremendous loss of meat and the usual by-products. Such operations are necessarily "under cover" and usually conducted under insanitary conditions. Full advantage of the meat byproducts cannot be taken by the black-market operator.

The public has recently been told that the greatest ally that inflation has is "fear and lack of confidence" prevalent in industry. We, in the livestock industry, confess great fear and lack of confidence. And when the facts are known our mental trepidation is warranted. We operate under a fiction. Our inventories are padded.

A tremendous percentage of this inventory is represented by reflected subsidies. We fear this influence and we have no confidence in the soundness of that feature of our inventory.

Yet we have during the war emergency produced record meat supplies. It takes at least 3 years to produce a good beef animal. Is it not natural for us to fear any program that controls our industry when, not only all our profit but most of our capital rests on subsidies that may be changed or removed on the whim of one man who may or may not be correctly informed, or who may or may not be interested in livestock production?

There is one further psychological consideration that cannot be overlooked when dealing with the present program. The black market is a fruitful source of crime. Widespread violation of governmental regulations, with apparent impunity and great compensation, leads to further and great disrespect and disregard for other regulations and laws and the rules of our society.

We have all seen parallel instances illustrating this proposition. The present program has a most demoralizing effect on the character of the citizenship of this country. This result is inevitable when the ineffectiveness of enforcement is so real and likewise so inevitable.

The answer is: Discontinue a program that breeds such fear and lack of confidence.

The above is a summarization of our principal reasons for recommending that the livestock and meat industry be freed from the artificialities of the price-control and subsidy program. These other gentlemen will present features more peculiar to those segments of the industry particularly represented by them.

Mr. THOM. May I ask a question, Mr. Chairman?

The CHAIRMAN. Mr. Thom.

Mr. THOM. The National Association of Manufacturers proposes that all ceilings be taken off except those pertaining to food products. That would mean the ceilings would remain on your products, but not on most products produced by manufacturers. What is your attitude toward that?

Mr. TAYLOR. Well, our attitude would be simply this, Mr. Congressman:

In the first place, I do not agree that the National Association of Manufacturers are realistic when they say "cost of living." Everything affects the cost of living. I do not think they are realistic.

Mr. THOM. I agree with you thoroughly on that.

Mr. TAYLOR. But the way we look at it, a good control of our business would have been all right. But this one we have now is unsound and unworkable, and it is doing irreparable damage to this country, and if you are going to continue the same kind of control under the Office of Price Administration that has been used, then, we say we would like to see everything removed.

Mr. THOM. Well, is your position, then, that you want all price controls removed?

Mr. TAYLOR. No, we are not coming here today telling you that, but I have just told you that unless you can make this thing workable on everything, I think the cattlemen of Texas would be glad to see every bit of the controls removed.

Mr. THOM. Obviously, then, you are not in favor of the National Association of Manufacturers' program to limit the ceilings to things which affect the cost of living?

Mr. TAYLOR. I certainly am not. Because I do not know who is going to limit the cost of living.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Taylor, I note you state there is a surplus of livestock.

Mr. TAYLOR. Yes, sir.

Mr. BROWN. Why do we not get meats on the market, then, if we have a surplus? Meats are very hard to get.

Mr. TAYLOR. Mr. Congressman, somebody must be getting meats on the market, because we are eating an unprecedented amount. Your consumption is up to 149 pounds of meat per capita in this country.

Mr. BROWN. Well, you cannot get steaks here. It is very seldom you can get steak in Washington.

Mr. TAYLOR. I had a pretty good one last night, about the size of a saddle blanket, down here in a restaurant.

Mr. BROWN. You might invite some of your friends.

Mr. TAYLOR. I will be glad to take you tonight.

Mr. BROWN. I am not debating the point. I am just trying to find out if there is a surplus of meat. If there is a surplus of meat, why is it not on the market? If it is not on the market, let us get it on

the market. I am not taking issue with you, but I am just trying to find out definitely if there is a surplus of meat. If there is a surplus of meat, it ought to be on the market. Let us find out why it is not on the market.

Mr. TAYLOR. Well, your black market, Mr. Congressman, is certainly keeping a lot of it off the regular channels of the market. For instance, the legitimate packers in our country simply cannot and will not buy meat above ceilings. So the man who furnishes your grocery man, and always has, with meat, is not now able to buy cattle and get that steak into your market, and your grocery man, perhaps, will not patronize the black market. Therefore, you are not getting the meat that normally would come to you.

If you take this price control off, and let everybody have a free market, you will see meat flowing back to the regular channels of distribution.

Mr. BROWN. You found meat here the first night you were here. I have been looking for it for several nights and have not been able to get steak yet.

The CHAIRMAN. You can get it in the restaurants. It is the homes that are having difficulty in getting it, it seems to me. I think it is not unusual to get a steak in the restaurant. Why is it that the housewives cannot find it? My wife told me this morning she thought she could get a steak for this evening. That would be quite an occasion. Why do they sell it to the restaurants when the home owners cannot get it?

Mr. TAYLOR. Simply because that restaurant will pay more for it than you will. I have just told you that I think 90 percent of all meat goes to the black market. If that is not the answer, I cannot give it to you. I think 90 percent of all the meat is selling above ceiling prices, and I think before you adjourn these hearings evidence will be presented that will verify that. That is your answer. There is no other answer to it.

Mr. PATMAN. I would like to ask Mr. Taylor a question, Mr. Chairman.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. It looks as though, as you say, there are too many animals now, and your argument is logical that you should not place controls or rationing on a commodity that is not in scarcity.

Mr. TAYLOR. Yes, sir.

Mr. PATMAN. I happen to know a little about the dairy industry, and I know they are trying to get, in our section of the country, an increase in price. And I think, on the facts, that the Office of Price Administration and the Department of Agriculture will have to agree on an increase in price. And one of the main reasons will be, if this increase is granted, that this increase is needed for the purpose of purchasing scarce feed.

Mr. TAYLOR. Yes, sir.

Mr. PATMAN. If we give this increase, that is, if the Office of Price Administration and the Department of Agriculture grant this increase, and the dairyman begins to compete in the market for this feed, which is already scarce—and they will get most of it because they can pay more—then, your industry, the beef cattle industry, will probably want an increase to compete with the dairy industry for that feed.

Mr. TAYLOR. I think they would; yes, sir.

Mr. PATMAN. But there is not enough for all. Now, if the Office of Price Administration decides that the dairy industry is, in view of the limited supply of feed, more entitled to first consideration, that will place your industry at a disadvantage, thereby possibly causing a scarcity. Do you think there is any danger of that scarcity getting to the extent that price control and rationing will be necessary later on, even though not necessary now?

Mr. TAYLOR. It would take quite awhile for that to come about. We have now 79,791,000 head of cattle in this country and you could not possibly, if you tried hard, market enough to create any great shortage, because, in 1929, we had great prosperity in this country and we only had 59,000,000 cattle.

Mr. PATMAN. I agree with you and that sounds very reasonable, but we asked Mr. Anderson about this consumption of meats, and he said he just could not tell, because people have so much money that we do not know what they are going to use that money for. If they are going to use it to buy meats, of course, that might create a scarcity very quickly. As you said awhile ago, they are consuming more meat than they ever consumed before. I think the first scarcity of steaks came about due to the enlarged and increased purchasing power. More people had money to buy meat, and they began to buy steaks, which they had not formerly been buying in such quantity. So I can see that Mr. Anderson would be at a loss to determine, with any degree of accuracy, the consuming power of the people.

Mr. TAYLOR. Yes; that is true.

Mr. PATMAN. But I agree, as long as commodities are not scarce and as long as they are plentiful, that price controls should be removed from those commodities.

Mr. TAYLOR. Yes. Here we are with all these tremendous numbers of livestock on hand, and we want the control taken off.

Mr. PATMAN. Yes; and, of course, now the feed situation will not enter into it so much for several months, because they will be on the grass.

Mr. TAYLOR. That is right, they will be on the grass; and that is the only way we have of marketing our grass, through livestock, and our feeders do not know what to do. They are puzzled, as they are going to tell you this morning.

Mr. PATMAN. To that extent, that weakens the argument that if the dairy industry is favored, that is going to put the beef at a disadvantage; even though it is placed at a disadvantage, it will be several months off?

Mr. TAYLOR. Quite a while off. I am not here complaining about any prices. We do not want any raise in the price ceilings affecting range cattle. The feeder may tell you a different story.

Mr. PATMAN. You are interested in the price of feed?

Mr. TAYLOR. That is right. And we can buy all the feed we want if we want to pay black market prices for it, too, Congressman.

Mr. PATMAN. If everybody did that, it would still create a problem?

Mr. TAYLOR. That is right. I would like to introduce next Mr. A. A. Smith, vice president of the American National—

Mr. SMITH. Mr. Chairman, I have a question.

Mr. TAYLOR. I am sorry. I thought you were through.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. You spoke about the uncertainties that flow from the use of subsidies in your industry.

Mr. TAYLOR. Yes.

Mr. SMITH. From what you said, I imagine that you would like to see subsidies removed altogether?

Mr. TAYLOR. Yes, sir, completely.

Mr. BROWN. Will you yield, Dr. Smith?

Mr. SMITH. I yield.

Mr. BROWN. I contend that when production equals demand, there is no necessity for ceilings, ceilings should be removed. I have stated before that I propose to introduce an amendment to this bill to that effect. The very thing that brings on inflation, of course, is scarcity, and when the supply equals demand, naturally, inflation falls. I shall introduce an amendment, which I think would take care of your problem to a great extent.

Mr. Taylor. It certainly would, Congressman Brown.

Mr. BROWN. I do not think we ought to have ceilings just to run people out of business.

Mr. TAYLOR. That is right.

Mr. BROWN. But I do think we ought to have ceilings, and I do think we ought to continue price control, but when commodities reach the point where production equals demand, I do not see the necessity for having a ceiling on that particular commodity.

Thank you.

Mr. TAYLOR. I am certainly glad to hear that.

Mr. SMITH. And you feel that your industry is in a position where it is supplying enough to meet the demand, generally speaking?

Mr. TAYLOR. Yes, sir. The Department of Agriculture's own figures, Congressman, would substantiate my statement to that effect: 79,791,000 head of cattle in this country.

Mr. SMITH. As against what in 1936?

Mr. TAYLOR. In 1936 we had 67,800,000 head of cattle.

Mr. SMITH. How many do we have now?

Mr. TAYLOR. 79,000,000—almost 80,000,000 head.

Mr. SMITH. You mentioned the demoralizing effect which this whole procedure is having upon our industry and the character of our people.

Thank you very much.

Mr. TAYLOR. I am glad you agree with me, Congressman. I think it is one of the worst things that is happening in our country—our farmers and ranchers are being subjected to this black market business. I spent some time in France during this war, and I was tremendously disappointed at the character of the French people whom I used to know as being a great people. But under 5 years of Hitler and black market, they have degenerated to where their whole idea is to cheat you and beat you out of something, and I think our farmers are becoming that way. Their idea now is "Let us beat the Office of Price Administration and sell these cattle and these hogs higher," and when these people, come out to your farm and offer you four or five hundred dollars more for your cattle and hogs than the ceiling price, it is pretty hard not to take it. And I say, let us remove that sort of thing in this country.

Mr. SMITH. Of course, that has always happened whenever the

contract has been interfered with or has been destroyed, as it has in this country.

Mr. TAYLOR. Yes.

Mr. SMITH. In other words, when the prices are not made in the free market, they have got to be made politically, and that is bad.

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. Have there been difficulties in distribution, Mr. Taylor?

Mr. TAYLOR. Oh, yes, sir; there are tremendous difficulties, because the people who formerly have been handling this beef are not now buying it because they do not want to pay higher than the ceiling prices for it. So you have a new crop of people handling most of this meat. There are difficulties, and there are wastes. That is the reason you are not getting meat as you used to.

The CHAIRMAN. Well, these great numbers of cattle are not processed for meat, are they? The feeder has to process them?

Mr. TAYLOR. A great many of them, yes; but we sell a lot of cattle right off the ranges that have never had any corn.

The CHAIRMAN. Is there any bottleneck in that, where they are not under process?

Mr. TAYLOR. No, sir; I know 1 packer who bought 27 head of cattle in Oklahoma City in 1 week, and normally he would buy 3,000. He bought 27 head. What can you expect when that large packer can only buy 27 head of cattle in 1 week, 1 big market like Oklahoma City.

The CHAIRMAN. What was the reason—price?

Mr. TAYLOR. It was price. And the cattle were not even coming to the market. They were being sold in the country, and bought direct by slaughterers who have sprung up during this Office of Price Administration administration.

The CHAIRMAN. Well, the subsidy is paid to the slaughterer, is it not?

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. What is his actual subsidy?

Mr. TAYLOR. Well, the actual subsidy is about \$3 a hundred on your AA grade, \$2.95 on the A grade, \$1.90 on the B grade, and \$1.25 on the C grade, and \$1.25 on the T grade. So, what does a man want to take \$1.25 as a subsidy for when some black market operator will come out and maybe give him three or four dollars a hundred more for his cattle or hogs.

The CHAIRMAN. Of course, if you take that subsidy off, we would immediately have to have an increase of 3 cents, on the higher grade, per pound, would we not?

Mr. TAYLOR. Well, that is a matter of opinion.

The CHAIRMAN. Well, to compensate him for what he is now getting, the price would have to be raised at least 3 cents a pound?

Mr. TAYLOR. Well, I think it will be. I think the price you are now paying—you are now paying far more than ceiling prices when you buy beef. So if that is what they are willing to pay, why not remove controls and let it get back on a free and competitive basis and meat will take care of itself. I think meat will go down some when you take your subsidies off. I do not think we will get any more money for these cattle. We are getting all we need now.

The CHAIRMAN. Do you not think the reputable dealers conform with the price ceilings fixed by the Office of Price Administration?

Mr. TAYLOR. Of course they do.

The CHAIRMAN. Men who have been in business for a long time and have good reputations in the community, do they not conform to the ceilings of Office of Price Administration?

Mr. TAYLOR. They certainly do; but they are handling less and less cattle every day; and going out of business, many of them, closing their doors; reputable packing plants, reputable commission men, on markets which are not now handling anything. They are closing their doors all over the United States.

The CHAIRMAN. Colonel, if there are no further questions, you may present your other witnesses.

Mr. KUNKEL. There is one question I would like to ask. Are those figures you gave correct? You started with \$3 and then dropped to \$1.90. Did you mean \$2.90?

Mr. TAYLOR. \$1.90.

Mr. KUNKEL. Is there such a spread between those two grades?

Mr. TAYLOR. I do not know, Mr. Congressman. These prices were put on by the Office of Price Administration.

Mr. KUNKEL. It seemed odd, though, to have a small drop between the first two and then a full dollar.

Mr. TAYLOR. I think that is an excellent question, and I would like to have the answer myself. I suggest you ask someone in the Office of Price Administration who put these prices on. I do not know.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. Colonel Taylor, I associate your name with the Federal Reserve bank in Dallas. Am I right?

Mr. TAYLOR. Yes, sir.

Mr. TALLE. You were chairman of the board, were you not?

Mr. TAYLOR. Yes, sir.

Mr. TALLE. And, therefore, you have information that is gathered from large banks, middle-sized banks, small banks?

Mr. TAYLOR. Yes, sir.

Mr. TALLE. You are therefore in excellent shape to get the data that anybody would need for this sort of presentation?

Mr. TAYLOR. Yes, sir.

Mr. TALLE. I think you have made a very good point in mentioning the uncertainty which subsidies and price controls bring into the picture. Agriculture is the most hazardous industry we have.

Mr. TAYLOR. Yes, sir. It certainly is.

Mr. TALLE. Farmers who are stock feeders and livestock raisers, are familiar with the uncertainties they have known all through the years, but there is no way under the sun, is there, in which they can determine how to deal with the uncertainty that depends on the whim of an individual?

Mr. TAYLOR. That is very true, sir.

Mr. TALLE. That is all.

Mr. SUNDSTROM. Mr. Chairman.

The CHAIRMAN. Mr. Sundstrom.

Mr. SUNDSTROM. Colonel Taylor, I am interested in your statement and your comments here today. I believe we had a meat shortage about a year ago, at which time this committee discussed it, and since that time the Office of Price Administration has inaugurated many new programs—at least, a year ago they had a new program practically every month, or a new subsidy.

Mr. TAYLOR. Yes, sir.

Mr. SUNDSTROM. And yet my wife tells me today she is having as much difficulty getting meat as she did a year ago. How do you account for that?

Mr. TAYLOR. Simply because the recognized, the respectable, the old-line dealers in meat are not getting it. It is going around them to the black market.

Mr. SUNDSTROM. Then, the new regulations and the new subsidies have not helped the situation at all?

Mr. TAYLOR. Not a bit; here are eight pages of the rules under which we have tried to operate our business, and every one seems to add more confusion than the last one.

Mr. SUNDSTROM. I believe, in answering a previous question, you stated that controls might be all right, but under the present set-up they were absolutely unbearable for your industry. Have you seen any indication at all of a change in attitude of the administration of the Office of Price Administration or any other organization that has anything to do with the pricing of meat?

Mr. TAYLOR. No, sir; I have not. But I must confess that I have not been home long. I just got out of the Army, and I have not been active in the cattle business during the last 4 years until the last 3 months. We had an appointment this morning. We were reluctant to come before this committee without first talking to Mr. Paul Porter, and we have tried ever since we got in town to have a meeting with him and tell him what we were going to tell you here this morning, and we got the appointment this morning at 9:15, but he called from home and said he was sick in bed and could not see us, and we hope very much to see him before we leave town.

Mr. SUNDSTROM. Is it not true that with practically the largest cattle population we have ever had in the history of the country, that the housewife cannot buy meat—is it not a true fact, then, that there must be something wrong with the system, between the original cattle producer and the distributor, which is tying up the whole thing?

Mr. TAYLOR. That is right. And all you have to do, sir, is just kick this thing out and let it get back as it used to be and you will get all the meat you want. If you do not, if you keep these numbers up and let us have a little depression in this country, we will be back up here asking you for a drought relief program or a cattle-killing program, such as we had in 1932. We had better get rid of them now while we have some money to buy them and do our liquidating in an orderly and businesslike fashion instead of shooting them out on the range as we did in 1932 and 1933.

Mr. SUNDSTROM. That is all.

Mr. BUFFETT. Mr. Chairman.

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. The burden of your testimony is that the producer, in order to survive competitively, has to become dishonest in the purchase of feed, and the consumer, at the other end, has to become dishonest in order to get meat?

Mr. TAYLOR. Yes, sir.

Mr. BUFFETT. In other words, the program operates to create immorality all the way from the farmer, who raises the cattle, to the fellow who finally eats it on his plate at home?

Mr. TAYLOR. Absolutely, Congressman. You are just as right as you can be.

Mr. BUFFETT. Actually, you could not create a program that would spread immorality faster in America than a program of this kind, which is tied up with human necessity?

Mr. TAYLOR. That is right.

Mr. BUFFETT. If I am a farmer, I cannot go out to my cattle, "Well I can only buy feed in the black market, so you will have to go hungry for a few days, because—" because the cattle would not understand that, would they?

Mr. TAYLOR. No, sir.

Mr. BUFFETT. And the housewife, at the other end, cannot explain to her children that they may be hungry, and the kids next door are eating meat, but she does not want to patronize the black market. People have to eat.

Mr. TAYLOR. That is right.

Mr. BUFFETT. And you have seen this thing operate in Europe to demoralize all of society, have you not?

Mr. TAYLOR. That is right.

Mr. BUFFETT. You will probably be interested in knowing, then, that much of our Office of Price Administration program is directly patterned from the program used by the Nazis from 1936 on, and if you want to get an accurate report on that, I suggest you get the Brookings Institution report on How Nazi Germany Has Controlled Business, because there is nothing we are doing here that did not have its counterpart in Germany. Even the subsidies, and all these other schemes that are being used. And it certainly demoralized that country. I think your testimony is very helpful.

The CHAIRMAN. In answer to the gentleman, I think every American citizen always realized the necessity for some control. I think if there had not been some control, there would have been a disaster falling upon the American people which is inconceivable and indescribable, and I think the American people realize that. If that is the issue, I think we will meet it.

Mr. PATMAN. I do not agree with Mr. Buffett's statement.

The CHAIRMAN. I agree that many of these things are impositions, that many of the people who are enforcing these things have shown arrogance, but the American people have submitted to that, and they have submitted to it because a greater good has come from it. I do not think anybody believes—I have not heard anybody say that the controls that we have put on consumer goods and other things were not justified. The American people believed they were. Now, I am sympathetic to these complaints that have been made here. I think it is the duty of Congress to listen sympathetically to them, but to denounce the whole program is certainly unjustifiable and cannot be maintained.

Mr. BUFFETT. Mr. Chairman, do you think it is all right for this committee to ignore the spreading immorality that program is bringing about?

The CHAIRMAN. I did not say it was all right to ignore anything, but there are some people who cannot see the forest for the trees, and they attempt to pick out various things that do aggravate the American people—and I admit they aggravate it—but the over-all picture of price control has protected the economy of America. I think everybody knows that.

Mr. TAYLOR. I think the cattlemen of Texas feel that the over-all price-control program has been beneficial, Mr. Chairman.

The CHAIRMAN. Has been what?

Mr. TAYLOR. I do not think there would be many cattlemen in Texas who would say that the Office of Price Administration never has done any good. Certainly, I do not.

The CHAIRMAN. Of course. But to say we have adopted some of the things we abhor because we have tried to maintain the economy of America, certainly is not fair.

Mr. TAYLOR. But the thing that I am trying to convince you gentlemen of today is that we have complied now with the rules that Mr. Bowles has said we needed to comply with. Our consumption, our distribution, our numbers are up, so now let us take it off. That is all we want to do.

The CHAIRMAN. I can say, whether I agree with you or not, that the chairman is listening sympathetically. I think the only thing I object to is to compare it to some of the abhorred things of our enemies, and I do not think that can be justified. If anybody wants to make an issue of that, I, personally, welcome it.

Mr. BUFFET. Let me suggest you read the report put out by the Brookings Institution.

The CHAIRMAN. I do not care about the book. I have lived in America since the war began and I have lived in America in the period before that.

Mr. BUFFETT. The war is over.

The CHAIRMAN. I say that price control has done as conceivably well as I have seen anywhere, and I do not know what would have happened to me or to you or any of the rest of us if we had not had some control.

Mr. SMITH. Let me ask this question, Mr. Chairman. Do you think that a presentation like the one that has been made here this morning merits this committee giving it the most serious consideration?

The CHAIRMAN. That is why we are listening to him.

Mr. SMITH. The point I want to make is this, Mr. Chairman. If we have a specific case where such evidence has been given as warrants our seriously considering the removal of price control—

The CHAIRMAN. Doctor, I try not to be too much of a partisan, but I think we have listened with too much lack of striking back at many of the attacks that have been made upon the constructive measures that the Democratic Party has advocated. I know that in many instances there have been great abuses, and that is why we are listening to you here, and I listen sympathetically. I think they ought to be remedied, if they can be.

Mr. SMITH. Mr. Chairman, I do not believe there is a man in Congress who pays less attention to partisan politics than I do.

Mr. PATMAN. And the Republicans voted for it, every one of them.

Mr. SMITH. I do not want to be put in a position of approaching this problem from any partisan standpoint.

The CHAIRMAN. This is beside the point. I just wanted to make a little defense against an attack that I thought was unjustified. You may proceed; sir.

Mr. TAYLOR. I would like to introduce now Mr. A. A. Smith who is vice president of the American National Cattle Growers Association and who lives in Colorado. He can give you far more information, and better, than I have been able to.

The CHAIRMAN. I see Mr. O'Neal is here, president of the American Farm Bureau Federation. He was scheduled this morning and we will get to his testimony as soon as we can.

Proceed, Mr. Smith.

STATEMENT OF A. A. SMITH, STERLING, COLO., AMERICAN NATIONAL LIVESTOCK FEDERATION

Mr. SMITH. My name is A. A. Smith. I am a producer of cattle, living in Sterling, Colo.

My appearance here is made for the American National Livestock Federation, a cattle producers organization, with a large membership in the 17 Western States, and in the two Southern States of Florida and Louisiana.

I am honored to be the first vice president of that association.

As a representative of our association, I was in attendance at the joint livestock committee meeting referred to by Mr. Taylor. Our membership participated in the discussion, and we were parties to the unanimous passage of the resolution read by Mr. Taylor.

While not officially a member of the beef industry committee, I was privileged to listen to its discussion the previous day, so that I know it too approved the principles promulgated by this resolution. Therefore, I know that the entire livestock industry, the producers, the feeders, the processors, the livestock exchanges, and the yard companies, are a unit in wishing for the elimination of subsidies and price controls as applied to our industry.

In appearing before this committee in opposition to the Office of Price Administration, I am not unmindful of the fact that with all others in opposition, we are designated by the Office of Price Administration as lacking in patriotism, and having our own selfish mercenary objective in view.

It is not my belief that my organization would wish me to take the time of this committee to extol its patriotic effort toward winning the war. The committee, I am sure, is fully cognizant of the record of the livestock industry and agriculture as a whole. The record of production speaks for itself.

Our association approved the rationing program during the war period. Please understand, I say rationing program. It has, however, at all times consistently and vigorously opposed the payment of subsidies, and the fixing of prices.

It has not at any time felt that the price-fixing policy was workable, and has felt and still contends that the payment of subsidies is inflationary. It has been our understanding from the creation of Office of Price Administration that as soon as the supply of any commodity was in balance with demand, controls of that commodity would be ended. I am repeating somewhat what Mr. Taylor said.

The Department of Agriculture says that we have too many cattle. As of January 1, 1946, our cattle numbered 79,791,000, a decrease for the year of 2,100,000 head. However, considering the reduction in dairy cows and heifers, of a little more than one and one-half million, our decrease in beef cattle was only approximately one-half million. Almost all of this decrease being in beef steers.

This to me is significant as showing the trend of the feeders, to feed

the heavier cattle, worried as they have been at the frequently changing rules and hoping that they might empty their feed yards before the regulations were changed. We should have this fall, barring unfavorable weather this spring, the largest cattle crop on record, and should the cattle feeders be allowed to operate under the law of supply and demand, I am confident that they would purchase these calves, rough them through in their corn fields, and with the minimum amount of grain change them from a 375- to 400-pound calf to a beef animal of from 800 to 900 pounds.

As a producer of cattle, I appear before this committee admitting frankly that for the past several years our business has been generally prosperous. I must, however, say that the prosperity of our business is largely dependent upon the weather, and very generally nature has been kind to us.

We produce only the framework for beef, and realize our dependence on our customers, the feeders. With the consumer's meat bill to about the extent of \$30 on a thousand-pound steer being paid by taxes, we consider our position very vulnerable. We cannot believe that the Congress intends to make subsidy payments a permanent policy, and we think that now, while the consumer's purchasing power is the highest in history, is the time to do away with subsidies.

Some of us who are old in the business, like myself, remember when the price of beef fell as much as \$3 in 10 days, and we fear a repetition, and the loss of life savings of many of us.

I said that our business has been profitable. I am very fearful, if this control program carries on, that my business, and the business of the people I represent, will have an unprofitable business this fall. I was very fearful that the feeders would not buy our cattle last fall, when the price was profitable to us. But there was some little change made in the program last year, and more particularly the feeders had a tremendous supply of soft corn last fall.

There is only one thing that they can do with that corn, and that is feed it. That I think had more to do with the filling of the feed yards last fall than any other one thing.

In a release from Mr. Bowles, dated February 4, 1946, Mr. Bowles said—some of you gentlemen evidenced an interest in some of Mr. Bowles' literature yesterday, so when I am through I am going to leave these with you. I might say that I have received a questionnaire from the Office of Price Administration, asking if I wanted to receive their literature. Having all that I wanted to read, I said, "No," but I get it anyhow [reading]:

Among the hardest hit by subsidy removals would be the millions of American city families, living on an annual income of from \$2,000 to \$3,000,

Mr. Bowles pointed out,

these people spend about \$14.50 a week for food to be consumed at home. The removal of subsidies would hike this bill to as much as \$15.75 per week.

Mr. SMITH of Ohio. What was that figure, \$14.40?

Mr. SMITH. \$14.50. The removal of subsidies would bring it to \$15.75. An increase of \$1.25 a week, if my computations are right, or 7 or 8 percent.

Mr. SMITH of Ohio. What is the date of that release?

Mr. SMITH. February 4, 1946.

In the Washington Post, a week ago Sunday, I believe, the 3d of

March, the Department of Labor said they had conducted a survey in the city of Washington, and they say that for the month—not a year, but for the month—between December 15 and January 15, there has been an increase in the price of fruits and vegetables in the Washington area of 8 percent.

I don't want to take up too much of the committee's time, but I will leave this with you. They go on.

(The following is the above statement)

PRICE OF FRUIT AND VEGETABLES UP 8 PERCENT

Prices of fresh fruits and vegetables in the Washington area increased 8 percent on the average between December 15 and January 15, a Labor Department survey of local prices revealed yesterday.

During that period, cost of all goods used by moderate-income families here rose 0.6 percent—3.6 percent higher than they were a year ago.

Biggest single price jump was in food costs, the most important part of the family budget. According to the survey, higher prices for fresh fruits, vegetables and meats more than offset the seasonal drop in egg prices to raise average food prices 1.5 percent.

The cost of white bread was raised 2.4 percent as higher prices were permitted chain stores to cover increased selling and production costs.

Clothing costs increased 0.4 percent with principal price jumps reported in men's rayon socks, sweaters, business shirts, undershirts and women's shoes.

Coal and fuel advanced 1 percent. Part of this was due to the fact that on January 2 local retailers were allowed to raise anthracite and bituminous coal prices 10 cents per ton to cover increased distribution costs.

The survey only partly shows the actual price rises, the Labor Department said. If changes in the quality of goods and the disappearance of low-priced merchandise are included in the picture, the increase in over-all prices would be raised another 5 percent, it was said.

Food, they say, is the highest increase, 1½ percent.

This makes me wonder if Mr. Bowles does not refer to prices as they should be, and the Labor Department perhaps refers to prices as they are.

Today I learned that there had been or was being appropriated, for food subsidy payments, the sum of \$2,300,000,000. Remembering as I do—

Mr. SMITH of Ohio. Would you mind stating for what year that is?

Mr. SMITH. I got this information yesterday. I said "today" but I expected to testify yesterday. One of my Congressmen told me yesterday that either there had been appropriated or was about to be appropriated, \$2,300,000,000 for payment of subsidies.

Mr. SMITH of Ohio. For 1946?

Mr. SMITH. Yes, right now, today.

Remembering as I do the days when, under Czar Reed, we first had a billion dollar Congress, I was amazed that the Congress would appropriate such a vast sum for the use of one of its hired men.

Mr. SMITH of Ohio. That is food subsidy you are talking about?

Mr. SMITH. That is what I understood. Then, by my cowman's arithmetic, which is perhaps not too good above thousands—I did some figuring. Assuming a population of 140,000,000 people, and assuming 4½ people to a family, I arrive at the fact that there are about 33,000,000 families in the United States. I divided the 33,000,000 families into the \$2,300,000,000, and that gives me a figure of \$70 per family, that this subsidy amounts to.

Now the figures of Mr. Bowles, which I quoted, state that we are saving \$1.25 per family per week. According to my arithmetic,

that would be \$65 per year. In other words, we are paying tax to the extent of \$5 more, and we are saving the consumer, according to Mr. Bowles' figures. I do not know who pays the taxes. I know I pay some. I have always understood that, generally speaking, the taxes came down to the ultimate consumer.

My most serious objection to subsidy payments, and price ceilings, is that there is, given to one man, or a small group of men, the power of life or death over our great industry. The Congress has delegated, and is considering redelegating, to its hired man, more power than can be wielded by this committee, or alone by the duly elected body which this committee represents.

This goes beyond my worries for my own business. This makes me fearful for the future of my country.

Thank you, gentlemen.

The CHAIRMAN. Any questions.

Mr. BROWN. You made a fairly good statement to the effect that there is a surplus of cattle. But you have not made a good case to the effect that there is plenty of beef on the market. My understanding is that you send most of your cattle to some other sections of the country to be fed. I want to know if you have a surplus of cattle that is ready to be slaughtered.

There might be a surplus of cattle, in other words, but not a surplus of cattle ready to be slaughtered. I would like to have your comments on that.

Mr. SMITH. I do not have the figures, Congressman, but there are a very large number of cattle being fed this year. We fed very heavily in my territory, and one of my neighboring witnesses will testify as to feeding in Colorado. In my own section, there are a great many cattle fed.

I have a letter in my pocket from one of my neighbors who now has in his yards some three or four thousand cattle which he is going to have to ship out by the 1st of April because of this new corn order. They cannot buy corn unless they pay black-market prices for corn.

Mr. BROWN. My point is: You might have a surplus in the number of cattle, but not a surplus in pounds, because there is feeding to be done. Maybe there are not enough cattle fed to be slaughtered.

Mr. SMITH. My only reply would be, Congressman, that to give the industry—if you give the industry the conditions under which they have always operated we will raise the cattle, the feeders will feed the cattle and you will at all times have an ample supply of good wholesome meat. Does that answer your question?

Mr. BROWN. I wanted your comment on it, because there might be a greater number of cattle today, but not a greater number of pounds for the consuming public.

Mr. SMITH. You mean there is a difference between cattle and beef.

Mr. BROWN. Of course. The consuming public cannot get cattle until they are fed and ready to be slaughtered.

Mr. SMITH. Like Mr. Taylor said, we ship quite a large number of cattle directly from our pastures to slaughter. That, very largely, in our section, constitutes the dry cows that our people turn out. Our steers and calves are almost entirely put through the feed yards before they are slaughtered. Does that answer your question?

Mr. SMITH of Ohio. Mr. Chairman, I have a question.

The CHAIRMAN. Dr. Smith.

Mr. SMITH of Ohio. I was interested in your calculation to show that after all the consumer pays this subsidy, and it actually costs him more in the end than if no subsidy had been paid. Now about 85 percent of all the taxes are paid anyway by the working people, the poor and the low-income groups.

Mr. SMITH. I have always understood that.

Mr. SMITH of Ohio. And they produce the things. You cannot eat paper money, you know.

Mr. SMITH. That is right.

Mr. SMITH of Ohio. It is what people produce that determines how much taxes they actually pay. I have figured out that \$1,955,000,000, of the \$2,300,000,000 subsidies is paid in the first instance by these very people that are supposed to be protected. But here is the factor that is of grave importance. This \$2,300,000,000 represents Government printing-press money, and that is the real inflation. So that, instead of reducing inflation by the use of subsidies, they, of course, have to increase it. I cannot mention that too often because that is our basic trouble.

Mr. SMITH. Well, Congressman, I am very happy that you agree with the position that we have taken since the beginning. That is what I said briefly in my statement, that we thought the payment of subsidies increased inflation. I hope you have arrived at the same figures in your calculation.

You know there are a great many ciphers in \$2,300,000,000. You agree with my figures, do you?

Mr. SMITH of Ohio. Yes, I do.

Mr. SMITH. Thank you.

Mr. SMITH of Ohio. It is very important that that fact be stressed, that inflation is Government printing-press money. That the Office of Price Administration is not dealing at all with inflation, but with the effects of inflation. If this Government printing-press money were removed, there would be no inflation, and the only thing that you are asking here is that you be permitted to produce?

Mr. SMITH. That is right.

Mr. SMITH of Ohio. As much as you possibly can, without these restraints?

Mr. SMITH. That is right.

Mr. SMITH of Ohio. And it is only by removing these restraints that you can return to legitimate business and do away with black marketing, because people are going to live, and if they cannot live any other way except by black market, they are going into the black market.

Mr. SMITH. They are going to feed their cattle too, Congressman.

Mr. SMITH of Ohio. They are going to feed their children too.

Mr. SMITH. That is right.

The CHAIRMAN. If there are no further questions you may stand aside.

Mr. TAYLOR. Mr. Chairman, the next witness is Mr. Yunglas of Iowa, a hogman.

The CHAIRMAN. Mr. Yunglas.

**STATEMENT OF WILLIAM H. YUNGLAS, WEBSTER CITY, IOWA,
PRESIDENT OF THE IOWA SWINE PRODUCERS ASSOCIATION**

Mr. YUNGLAS. I appreciate the opportunity of appearing before your committee.

The CHAIRMAN. Will you identify yourself?

Mr. YUNGLAS. I am William H. Yunglas, a farmer near Webster City, Iowa. I operate a livestock and grain farm in central Iowa.

I have 600 acres farmed—about 200 acres are corn, 150 acres are soybeans, the balance oats, alfalfa, and pasture. Practically no help has been employed on this farm in the past 4 years. That is, we do the work ourselves.

I am president of the Iowa Swine Producers Association, and a member of the American Corn Producers and also a member of the Joint Livestock Committee of which Mr. Taylor is chairman.

I do not propose to have the solution to the problem confronting your committee, but believe that some of the thinking of an average livestock producer might be helpful.

It seems that the present confused feed-food and livestock situation is a direct result of the continued artificial forces which have been injected into our agricultural production during the war years. Perhaps they may have been necessary at that time, but since it is past, there is no point in arguing it.

Now with the war over and the crying need of the country being "On with reconversion and peacetime production," the producer feels justified in unburdening himself of some of his woes. Chief of these are food subsidies, which have gotten into the public thinking as helps or gratuities to the farmer but are actually gifts to the consumer.

In the granting or withdrawing of them, the Government has practically dictatorial power over the producer or processor. They have distorted normal market relationships between grades or different forms in which a product is marketed.

Many of these must be collected at the local Triple A office and have the earmarks of a hand-out or even political implications.

Some are paid to the packer and are supposed to trickle down to the farmer. Others, such as flour, are paid to the miller, and in the recent case of the upward adjustment of wheat price to meet parity, the raise was made just following a campaign to get wheat moved, with the result that many farmers had sold, and the new owner got the benefit.

The worst part of the whole deal is for the Government to be paying a big slice of the city worker's grocery bill in a time of high wages. The farmer feels he is paying the bill for the administration being cozy with the labor vote. The entire subsidy program adds to inflation by the simple fact that with food costs low, the consumer has more of his income left to add to the inflationary pressure on other merchandise.

Getting out from under these subsidies and ceilings without anybody getting hurt too much is one of the farmer's major problems. He is old-fashioned enough to believe that the old law of supply and demand meant something. He sees the effect of illegitimate markets, ranging from black to nylon grey, on the public morality.

This effect approaches the public indifference to laws and regulations of the prohibition days.

The reports of excessive black-market prices which the public appears to be willing to pay raises the question in his mind of just how much ceilings are really protecting the consumer.

On top of this is his resentment because the consumer is paying tribute to the racketeers, were it not for the Government regulations they would be willing to pay to the legitimate dealers.

The continual piling of word on word and page on page of regulations, directives and orders have brought him to the conclusion that the complete elimination of subsidies and price controls on livestock, feed, and livestock products would do more to clear up the chaos than any other one thing.

Livestock numbers are such that if the consumer were to pay his entire food bill instead of having the Government foot nearly two billion dollars of it, he would adjust his purchases to fit the supply at very near the present price if all costs were included.

As corn rose in price, uneconomic users would drop out of the market, uneconomically produced livestock would be marketed, buyer resistance to the higher prices for scarce items, that had formerly been bargains when the Government was paying a sizable portion of the cost would result in buyers' selection of more plentiful and cheaper foods.

High moisture in low quality corn or feed grains could be utilized for what they were worth on an open competitive market just like we have always done before the birth of the first directive.

This could be done without wrecking the livestock industry by wholesale liquidation or completely alter the public's eating habit as has been suggested by some.

Only by the use of a livestock system of farming have we been able and can we continue to maintain a sound continuous agriculture. With approximately 55 percent of the Nation's acreage in pasture, grass, and hay land, it is imperative that livestock must have a major place in our economy. The intensive production of so large an acreage of intertilled or row crops during these past high demand war years, intensifies the importance of the recuperating by returning to hay and grass, of much of this acreage that has dropped out of its regular place in a legume rotation to utilize this added acreage we will require an even larger livestock population. Naturally, we want to do everything that is sensible within our power to help those in stricken lands, but liquidating our livestock industry to do it would only spell disaster for all.

The removal of these subsidies and ceilings, need not cause a radical change in the producer's income, a subject which has been spoken of by some as shamefully high. The farm income, through the past years, would reflect no more increase than the proportionate share of a national income if consideration were given to the accumulated depletion of the soil resources, the depreciation of machinery and buildings, due to inability to get labor, repairs, and paint, also to be considered are the many added hours of labor, of old men, women, children, time-and-a-half and double-time pay, are considered respectable in some occupations.

In addition to all this the farmers of the Nation through increased yield, larger acreage, and able management gave in return for this income, the largest production of agricultural products on record.

Mr. Bowles has often referred to his great desire to remove ceilings when supply and demand reach a balance. It sounds like a rather vague time, but we believe it has arrived. If not we stand to have a wartime control of sometimes doubtful value attached to our economy permanently.

The CHAIRMAN. Are there any questions?

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. Mr. Yunglas, I want to assure you that I am very glad to have your testimony, because you are from my State.

Mr. YUNGLAS. Thank you Mr. Talle.

Mr. TALLE. And I know from personal experience in my State, and your State, and the letters that have come to me recently, that your views are shared by the farmers in the State of Iowa.

Mr. YUNGLAS. I hope to represent them as well as I am able, sir.

Mr. TALLE. Thank you.

The CHAIRMAN. If there are no other questions the witness may stand aside.

The CHAIRMAN. Are there any other witnesses?

Mr. TAYLOR. Mr. Chairman, the next witness is a man who represents the sheep industry. He and his father are the largest feeders of sheep and cattle in the West. Mr. William Farr, of Colorado, will now tell you some of the problems affecting his industry.

The CHAIRMAN. Mr. Farr. Please identify yourself and proceed.

STATEMENT OF WILLIAM D. FARR, SECRETARY, COLORADO AND NEBRASKA LAMB FEEDERS ASSOCIATION

Mr. FARR. My name is W. D. Farr, Greenville, Colo. I happen to be secretary of the Colorado and Nebraska Lamb Feeders Association.

The members of this organization fed about one-fourth of all the lambs that are fed in the United States during the winter and spring seasons.

We are large lamb feeders in northern Colorado and we are also large cattle feeders. Incidentally, a large number of our feeders feed both cattle and lambs. Our country, Weld County, Colo., feeds more lambs and more cattle than any other single county in the United States, so feeding is a very paramount issue in our area.

We are asking you to remove price ceilings and subsidies from our livestock and meat.

Livestock feeding varies greatly from one season to another, because of feed conditions. It is extremely difficult to control the weather and the weather is the first control the feeder has.

A short grain or hay crop, or a dry summer affects the cost of our feed, and it affects our livestock. If it is a dry summer, and the grass has been dry, the cattle and the sheep come in to feed lots weighing less and in a thinner condition, so they have to be fed longer, and this influences our cost a great deal.

Feed is the biggest item we have in cost of production, and the thing that we have the least control over.

There were some questions raised yesterday that I think I would like to explain a little bit.

The subsidy on lamb is paid directly to the grower or to the feeder. No subsidy on lamb is paid direct to the packer as is the case in other meats. This subsidy fluctuates seasonally. In the fall, the subsidy on lambs weighing over 90 pounds is \$2.15 per hundredweight.

On December 1 that increased to \$2.65 per hundredweight.

On February 1, \$3.15 per hundredweight.

On May 1 it starts back down, reduced to \$2.65.

Because of this planned economy, there has been a shortage of lambs on the market for the last two weeks of each of these periods. Then there was a glut for the first 3 weeks of the new period. In other words, the farmer held the lambs back in order to get the increased subsidy payment which he got directly.

Ordinarily we market about 12 percent of the Colorado-Nebraska lambs in the month of May, but because of the decrease on subsidies beginning on May 1, we expect to have our lambs entirely marketed by April 30. This means that the lamb consumer will have a very little lamb to eat until the new crop of lambs starts to move in the latter part of June.

To prove this is happening, shipments from our territory up to March 10 show 43 percent of our lambs have been shipped. This compares to 29 percent a year ago on the same date, or an increase of 14 percent, which will just about take care of our average 12 percent marketing in the month of May.

I believe you would be interested in our own individual subsidy payments, as it illustrates how much subsidies amount to. It is the easiest way to get down to cases that I can think of. We are feeding about 35,000 lambs this season. Last month and this month we will sell about 50 cars of lambs, each month. We receive about \$3,000 per car on the market for the lambs, or, for the 50 cars, this amounts to \$150,000 worth of lambs for the month.

Then, at the end of the month, we had to take these account sales and go to our local Agricultural Adjustment Agency office, give them these account sales, they audit them, and then they pay us \$3.15 per hundredweight subsidy, which amounts to approximately \$600 per car, or \$30,000 for the month's operation, which we get in the way of a subsidy check. In other words, we are dependent for about 16 percent of our income from these subsidies.

We do not like this way of doing business. It is unsatisfactory to depend upon the whims of Government for such a large proportion of our income. It is unfair to saddle these payments on our taxpayers.

This program ends on June 30. No one knows whether it will be extended or, if it is, in what form or manner. No one knows what the new rules will be. Consequently, no one can buy California feeder lambs, as the gentleman mentioned yesterday, nor can we buy cattle from Texas, which we do ordinarily at this time of the year, coming off the wheat fields for summer feeding, because we cannot tell, within \$3 a hundred, what the price will be after June 30, because the subsidy on cattle and sheep is approximately \$3 a hundred, and if the subsidies are removed, and the ceiling prices are not changed, the market would be \$3 lower. Or, if there is any combination of different circumstances. So no one can buy feeder livestock today with anything except a gambling chance, and it is an extreme gamble.

Our area feeds a large number of cattle for the summer market. That is when beef is usually in the lightest supply. You gentlemen remember how short it has been in the past two summers. With this situation of Office of Price Administration ending on June 30, the subsidy question changing, you will see the shortest supplies this summer that you have seen for some time, just because it is so uncertain that we do not dare put them in our feed lots.

If we had some assurance now of what the new rules were going to be, we could feed for the summer markets. If you do not get rid of

ceilings and subsidies now, and put it off for another season, you will be faced with the same problem a year from now, and for the coming year you will be guilty of burdening the livestock industry with controls that have not worked, and cannot work, on livestock.

You are spending the taxpayers' money for fostering black markets, and you are causing our farmers to lose faith in their Government.

Now, I would like to answer a couple of questions which came up this morning. I have the figures here as to the livestock and wool situation in a pamphlet put out by the United States Department of Agriculture. The number of cattle on feed on January 1 was 4,157,000. This is 4 percent less cattle on feed this year than there was a year ago, but more than there was in 1944, and the third largest number of cattle that have ever been on feed.

The same is true of lambs. There were 6,724,000 lambs on feed on the 1st of January, which is the fourth largest number of lambs ever on feed on January 1. It is less than last year, because the lamb crop was smaller, and the sheep population on the ranges, as was pointed out yesterday, is dropping. The sheepman has had a bad deal, and the sheep population has decreased tremendously in the last few years.

As far as the slaughter is concerned, you gentlemen have asked what was happening to the meat, where it was going, why you could not buy it. The slaughter figures for 1945 show 14,538,000 head of cattle slaughtered last year, which I believe is one of the largest cattle slaughters ever on record. It is higher than it has been at any time—that compares to 1940 figures of 9,756,000. Almost 5,000,000 more cattle slaughtered last year than in 1940.

Miss SUMNER. Do you have the tonnage in there? I think that is the important thing, because a lot of cattle go to market just skin and bones.

Mr. FARR. This is in millions of pounds, 7,240,000,000 pounds of beef produced last year, compared to 4,971,000,000 pounds in 1940.

That same thing is true of lambs: 913,000,000 against 702,000,000 pounds in 1940. So we are producing the meat, it is being slaughtered, it is going somewhere, but, as Mr. Taylor pointed out, it is not going through the ordinary channels of distribution.

Thank you, gentlemen.

The CHAIRMAN. How do they figure the subsidy on the lamb?

Mr. FARR. A year ago, in June—the preceding year the packer received 95 cents per hundredweight on all sheep and lamb slaughtered. Then a year ago the sheep population was dropping so rapidly the Office of Price Administration realized they had to do something to help the sheep industry. So they increased, on the 1st of August, the subsidy to this new scale which I read do you this morning, and took it away from the packer and paid it directly to the producer, from August 1 to June 30, and it was an arbitrary figure arrived at by the Office of Price Administration to try to stop the liquidation of sheep numbers.

The CHAIRMAN. You are the only producer who receives the subsidy direct, are you not?

Mr. FARR. That is correct.

The CHAIRMAN. Is there not a great advantage to the producer, that they are paid directly to the producer, if we are going to have subsidies, rather than pay them to the slaughterer?

Mr. FARR. There are some advantages and some disadvantages on both sides. We know we get it. When the packer receives it, it has to be reflected back to us through competition and we never knew whether we get it or not. There is always that question. I say that the only one that came direct was the lamb. On cattle, we get 50 cents per hundredweight subsidy from the Agricultural Adjustment Agency and that was put on as an incentive to feed cattle. That is paid for cattle that bring over a certain price and weigh over 800 pounds, that go direct to slaughter. That is a feeder subsidy that was put on a year ago, just about this time of the year, to encourage the feeding of cattle and to produce a little more meat.

The question this morning, as to why the variation in that subsidy between grades, that is also to encourage feeding. The more you feed something, the more cost you get into it, and in order to produce double a carcass meat, the cost is more than to produce B or C grade, and, therefore, the subsidy is in proportion, in order to encourage feeding and get the tonnage.

As Mr. Smith pointed out, a calf that weighs 400 pounds has to be fed until it weighs 900 or 1,000 pounds, before it is beef, or if you buy a bigger animal, it is just a framework and you have to put this meat on them in the feed lots.

Mr. MONRONEY. Do you favor taking the ceiling off the feed, corn, and so on?

Mr. FARR. Yes, sir.

Mr. MONRONEY. You want it all taken off, clear on down the line?

Mr. FARR. We would like to have ceilings and subsidies removed from livestock and all of the feeds that we have to buy, because it puts artificial controls on feed supplies, and that is one thing that causes fluctuations in livestock feeding and handling. As a definite example, in our area right now, as I have explained to you, we are right in the peak of our lamb feeding season. We have had these lambs since October or November, and they are almost fat, but they need 2 or 3 weeks more feed. The Office of Price Administration ceiling price on corn is approximately \$2.35 a hundredweight to the feeder in our area. The truck people in the black market are getting as high as \$3 a hundredweight for this corn. Feeders who are in the position of having two or three cars of lambs left, which are not fit to slaughter, and need 2 or 3 weeks more feed, have no recourse but to patronize the black market and buy this corn for 65 cents a hundred premium in order to go ahead and finish them. It makes a criminal out of him to buy that corn, but if you gentlemen had them in your feed lots and if you had to ship them as half fatted stuff so that you would have to take less profit and less subsidy, you would do it, too, and practically every feeder in our country has been forced to bring in corn on the black market for the last 30 days.

Mr. MONRONEY. That is an occasional purchase, though, I gather, rather than throughout the season?

Mr. FARR. Up until a month ago, he could buy it at the legitimate price and then his supplies have dried up because of the talk of increasing the ceiling. They put a rumor out in the country and the man with corn says, "Well, the ceiling is going to be higher. I do not want to sell it now. I will wait for the raise in ceiling." If controls were off, some people would think it was high enough, and some people would continue to hold. But now they all hold under direct.

Government regulations. There has been a lot of corn bought this winter where you agreed to buy the corn and agreed to pay the ceiling price, and if they raised the ceiling in 30 days or 60 days, you would go out and pay more money. That is the only way you could get it.

Mr. MONRONEY. When feed starts to go up, a little bit each week or each month, do you think you will get the supplies of corn to come through, if the man can hold it for another month or 2 or 3 months and get a much greater price for it?

Mr. FARR. I think so.

Mr. MONRONEY. The farmers, knowing and watching the prices go upward, you think would keep selling what they have, regardless of the fact that if they held it, they could get a larger price in a period of 3 or 4 months?

Mr. FARR. That is right. It makes corn flow into the areas, or into the product where the levels thin off. We have had an artificial feed condition where it was more profitable to put corn into poultry, we will say, than into almost any other product. So the increase in poultry has been terrific because they could make money doing it. It was a favorable ratio. Where, if cattle, poultry, and hogs all compete on an equal basis, if one particular industry is pinched a little bit, and they start to liquidate and pull away from that corn market, and the others go along, it levels off. The same thing is true in the production of corn. It is raised here in the Midwest. It will not flow to either coast because of Office of Price Administration ceilings. The east coast and the west coast are terribly short of corn, and they cannot buy it legitimately, because it is too far to truck it and the trucks are taking practically all the corn.

Mr. MONRONEY. What price do you think corn would go to if you took the ceiling off?

Mr. FARR. I think we could buy corn for \$2.60 to \$2.75 a hundred instead of paying \$3, as we are now.

Mr. MONRONEY. But you testified the \$3 is an occasional purchase rather than an average price.

Mr. FARR. Yes.

Mr. MONRONEY. That is, a purchase that you had to make at the tail end of the season to finish out your lambs.

Mr. FARR. That is right.

Mr. MONRONEY. Do you think the corn would go up at least as high as the black-market price is today, if ceilings were removed?

Mr. FARR. I do not believe so.

Mr. MONRONEY. With all other industries, not only livestock industries, but other collateral industries bidding for this supply of corn—

Miss SUMNER. They are all bidding now. The black market goes right on down to the corn processor and the rest of them. They have all had to figure out ways and means of getting the supplies.

Mr. MONRONEY. But in your testimony you said black-market purchases were emergency purchases to meet an emergency condition. Evidently other people are pretty much in the same condition. They might buy 90 percent of their corn on the ceiling price and supplement it with 10 percent in the black market. I do not think the farmers in this country are 90 percent in the black market. I do not believe that.

Mr. FARR. Well, they are 100 percent in the last month or 6 weeks,

and they will have to stay approximately 100 percent in the black market until you get a new crop of corn or until you take controls off so it will level off and flow normally. The corn trucker is the man who is making the big profit on it.

Mr. MONRONEY. I do not see why you think that corn would not go higher if you took the ceiling off if the black-market price is now \$3.

Miss SUMNER. What part of the country do you come from?

Mr. FARR. Greenville, Colo., 50 miles north of Denver.

Miss SUMNER. Do you raise corn out there?

Mr. FARR. No, ma'am. We are what they call a deficit area. We raise very little corn, and that is in intensively farmed irrigated areas. That is in eastern Colorado, a hundred miles east of us, through Nebraska and Omaha.

Miss SUMNER. But you are dealing with men who do raise and sell corn, and you would understand that a man who is going to operate in a black market because he feels it is the only way to get supply, or for other reasons, is a man who takes some risk with the Government in the way of penalties to do so and he would feel that he had to cover himself; in other words, charge a premium to you for your corn in order to cover that risk; is that not right?

Mr. FARR. That is correct.

Miss SUMNER. So, in other words, when you get corn in the black market, you know ahead of time that you are paying a premium on it to cover the risk the man takes for operating in the black market; is that not right?

Mr. FARR. That is exactly right. And if I do not buy the corn on the black market, I cannot produce meat for you; I cannot buy Mr. Taylor's calves; I cannot buy the California gentleman's lambs; unless I buy the black market corn, I cannot produce the meat, and I have no way of passing it along.

The CHAIRMAN. I am going to ask the witness to stand aside.

Mr. O'Neal, president of the American Farm Bureau Federation, was scheduled for this morning. He is here, and I think we ought to hear him now.

Mr. SMITH. Mr. Chairman, I have just one short question to ask this witness.

The CHAIRMAN. Well, you can ask one short question, Doctor, but that is not the way it is usually done, you know. One question leads to another. I want Mr. O'Neal to have the opportunity to present his case this morning. Ask your question.

Mr. SMITH. Thank you, Mr. Chairman, I appreciate very much being allowed to ask this question.

Are any of the lambs processed for foreign shipment; and to what extent, if so?

Mr. FARR. There are practically no lambs processed for foreign shipment, except for military use. And I could not give you the percentage, but, during the wartime, there was quite a little lamb processed for foreign shipment at that time, but very little at the present time.

Mr. SMITH. That is all.

The CHAIRMAN. This witness can return later, if he desires.

Have you any other witnesses, Mr. Taylor?

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. Well, I want Mr. O'Neal to appear now, and then

you may produce your witnesses after lunch, because Mr. O'Neal was scheduled for this morning.

He may proceed now, and you may produce your witnesses later.

Mr. TAYLOR. We will be glad to come back after lunch, Mr. Chairman. Thank you very much.

The CHAIRMAN. Mr. O'Neal, there has been some delay this morning. I know you have other obligations this afternoon, so I think you should be given an opportunity to be heard.

We are glad to hear you, Mr. O'Neal. We have great regard for you personally and the great organization you represent.

Mr. O'NEAL. Thank you very much. When I look in the eyes of the portrait up there it takes my mind back over the years, over the record of this committee and what you have done for agriculture, and I hope you will be patient with me, while I present my brief, because I think this matter is of vital importance to us all.

STATEMENT OF EDWARD A. O'NEAL, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. O'NEAL. I have a statement and some exhibits which I have asked the clerk to pass around to illustrate some of the points I want to speak on.

The CHAIRMAN. You may insert in the record any additional material you have.

Mr. O'NEAL. Thank you.

The American Farm Bureau Federation was one of the first national organizations to support aggressively an all-out program for the control of inflation. We realized it was essential to control inflation for the well-being of the Nation. We have felt that effective price controls must be applied to industrial prices, to farm commodities, to services, and to wages.

The farmers, perhaps more than any other group in our economy, know the consequences of inflation and the inevitable deflation that follows. They know that following the close of World War I their costs continued to increase after their prices fell. They know that the prices of commodities used in production remained high, and for 20 long years they were at a disparity with the rest of the economy. Between 1919 and 1921, when farm prices were nearly cut in half, farm expenses dropped only about one-sixth. From the peak of the inflation to the bottom of the collapse in 1920-21, the price of corn dropped 77 percent, cotton 75 percent, eggs 72 percent, hogs 69 percent, wheat 64 percent, and butter dropped 56 percent. In the interwar period over 2,000,000 American farmers lost their farms by forced sale. This is equivalent to one farm in three. Farmers know what inflation and deflation mean, and they do not want to repeat the experience of the inter-war period.

Farmers want a control program that will prevent the repetition of that experience. They insist, however, that this program be one that really strikes at the root of inflation, one aimed at correcting disparities, and not one subject to the political whims and pressures of powerful groups. Farmers cannot support the continuation of the practices as now carried out under the price-control program.

At our last annual meeting, which was held in December 1945, our organization passed the following resolution on price and wage control:

PRICE AND WAGE CONTROL

While the military battle is over, the inflationary battle is still with us. During the war the Nation was moderately successful in preventing extreme inflation. To have severe inflation at this time would be a catastrophe to the Nation. An immediate release of all price controls would subject the Nation to the danger of rapid price increases which have usually followed wars. History indicates that such inflationary price increases are followed by periods of price collapse, which result in long periods of maladjustment, with prices for farm products very low in relation to prices paid by farmers for the products of others.

The American Farm Bureau Federation was one of the first organizations representing a large segment of our society that insisted upon the control of inflation and has consistently supported measures for this purpose. We again reaffirm our position in favor of an aggressive program to control inflation. We believe that if we are going to have a price-control program, the situation must be faced realistically. Price control, where necessary, must apply equitably to all segments of our economy, including agriculture, labor, manufacturers, distributors, and all others.

The necessity of full production is no less now than at any time during the war. Present wage disputes are interfering with production in many important areas and are threatening to slow up or stop production in many others. The American Farm Bureau Federation insists that ways must be found immediately by Government action, if necessary, to continue speedy reconversion and to further full production in every major field at the earliest possible date. Commodity and industrial prices cannot be controlled successfully without necessary wage controls. We do not believe that the removal of wage controls in an indiscriminate manner is in the best interest of the Nation. Wage increases must not be such as to necessitate price increases. Care must also be exercised to see that the margins of distributors are not permitted to increase beyond that necessary to insure an orderly flow of goods. We insist that a monetary, fiscal, and tax policy be adopted which will contribute to correcting the basic causes of inflation. Over-all general tax reductions, continued deficit financing, and the elimination of millions from tax responsibility at a time when inflation threatens is inconsistent with a policy of inflation control. While we have recognized many weaknesses in the Office of Price Administration, we have supported it as a necessary avenue of inflation control. Experience has shown that its orders are often confusing and not equitable, especially for the producers of some products. We earnestly request that adjustments be made in cases of inequalities.

As a guaranty against run-away prices, we recommend that the purpose of price-control legislation be effectively administered until June 30, 1945, and from then on only on those commodities for which the supply is not enough to meet the demand. It must be remembered that an adequate supply of goods is the best assurance against inflation in a supply-versus-demand market. Agriculture is at full production and insists that steps be taken immediately to get full production in other industries.

All controls should be revoked as rapidly as supplies of individual commodities or classes of commodities come into a reasonably normal balance with demand, and the danger of inflation decreases.

We reaffirm our opposition to subsidies in lieu of fair prices in the market place. These subsidies should be removed as rapidly as possible, and price ceilings should be adjusted accordingly. Changes in subsidies or price ceilings should be announced sufficiently in advance that producers may adjust their operations accordingly.

Many things have happened since that resolution was passed at our annual convention. We have seen strike after strike, with labor demanding 30-percent wage increases and, for the most part, receiving an increase of 18 to 19 cents per hour. We have seen Government encourage the granting of wage increases on the ground that take-home pay was being reduced. We have seen a program to control inflation on one hand, and on the other hand a program which adds to the inflationary pressures. We have heard much about the inflationary pressures and the excess purchasing power in the hands of consumers, and yet taxes were reduced and millions eliminated from the tax rolls. We have seen request after request for more and more

expenditures by the Federal Government. We have seen very little administrative interest in a real program to balance the budget and stop deficit financing, which in itself is inflationary. Frankly, the farmers feel that when it comes to controlling inflation the administration has been trying to ride two horses in opposite directions.

Only last week, on March 8, our board of directors which consists of 22 agricultural leaders from all over the Nation, again reviewed the price-control situation, and adopted the following resolution:

We reaffirm the position taken on price and wage control at our last annual convention. Consumer subsidies must be removed and price ceilings adjusted accordingly. The new Price Control Act must contain a definite schedule for the removal of consumer subsidies. It is utterly unjustifiable to subsidize the consumer's food bill by payments from the Treasury, which forces farmers to accept Federal payments in lieu of fair prices in the market place at a time when consumers' incomes are at record levels.

Mr. SMITH of Ohio. You mean the board of directors of the American Farm Bureau Federation?

Mr. O'NEAL. Yes, sir; that is what I said, sir. That is at the quarterly meeting of the board of directors.

Mr. SMITH of Ohio. You did not say so here, I just wanted to be sure.

Mr. O'NEAL. Yes, sir [reading]:

In extending the Price Control Act for 1 year, definite provisions should be made for the removal or suspension of ceilings whenever the supply and the demand for a product are in such balance as to prevent undue price increases.

Control of inflation must be made effective. The present governmental policy of encouraging and granting wage increases is incompatible with a sound price-control program. One of the basic causes of inflation is the excess purchasing power in the hands of the consumer. If inflation is to be controlled, wages must also be controlled, and cannot be permitted to rise promiscuously. Steps must be taken to correct the basic causes of inflation so that we may eliminate the necessity of price control at the earliest possible date.

The officers and representatives of the American Farm Bureau Federation are given the authority to oppose the extension of the Price Control Act unless provisions for consumer subsidies are removed and price ceilings adjusted accordingly. Further, we authorize the executive committee to insist that extension of the Price Control Act be limited to 1 year and that definite provisions be made for the suspension of price controls on commodities when supplies come into reasonable balance with demand.

What does this recent action of our board mean? It means that the American Farm Bureau Federation wants an intelligently administered and reasonable Price Control Act, but that its officers are given authority to oppose the extension of the Price Control Act unless consumer subsidies are removed and price ceilings adjusted accordingly. It means that we can no longer tolerate consumer subsidies. It means that farmers have reached the end of the rope as far as subsidies are concerned. They want price control because they feel that it will put them in a stronger position to meet the postwar situation, but they feel that this consumer subsidy program weakens rather than strengthens their position to meet the many necessary changes facing them in the not-too-distant future. They want a definite mandate in the law which will force the early removal of subsidies and corresponding adjustments in price ceilings. In making this demand I want to make it perfectly clear that farmers are not asking for higher returns. They are simply asking that they receive their money in the market place rather than in the form of payments from the Federal Treasury.

This resolution means that if price control is to be extended, it should be limited to 1 year, and that definite provision should be made for the termination or suspension of price controls on commodities when supplies come into reasonable balance with demand—that is, they want a definite program for the removal of price controls, and are not interested in a permanent price-control economy.

The board of directors of the American Farm Bureau Federation has authorized its officers to oppose the extension of the Price Control Act unless these provisions are incorporated in the pending legislation.

Now, the record on price control: As I stated earlier, the American Farm Bureau Federation was one of the first major organizations to support price control aggressively. We have consistently supported price control, and likewise we have consistently opposed subsidies. Last year we supported extension of the Price Control Act without amendment, except to reiterate and strengthen the final authority of the Secretary of Agriculture in respect to the pricing of agricultural products. We realized that administration of the OPA had not been perfect, but we felt there was so much opposition to the program that to open up the act to a lot of amendments would endanger the entire program. We supported the extension of price control on the basis of definite assurance from the administrators that certain administrative changes would be made. In my testimony last year I stated that I had received a letter from Mr. Bowles in which he stated that he regarded the stabilization subsidies as an emergency measure, and that it would be his policy to recommend the gradual reduction and elimination of such subsidies consistent with the purposes of the stabilization law. He also agreed, subject to certain interpretations, to the policy of protecting the returns to producers when subsidies were withdrawn in whole or in part. Mr. Bowles also stated that Judge Vinson, then Director of War Mobilization, and Mr. Davis, then Director of Economic Stabilization, had agreed to these policies.

Last fall the administration started out on a definite program to remove subsidies. However, they reversed this policy, and actually have indicated an interest in expanding the subsidy program in spite of the fact that numerous wage increases have been granted to labor. Consumer subsidies are like a rolling snowball that increases in size as it moves down the hill. According to my information, in the fiscal year of 1944 consumer-food subsidies cost about \$955,000,000; in 1945, about \$1,367,000,000; and for the fiscal year 1946 about \$1,798,000,000 was authorized. In addition, the administration found it necessary to come to Congress for additional funds for carrying the subsidy program until June 30 of this year. For the year beginning July 1, 1946, they have requested \$2,051,000,000 to continue the food-subsidy program. We feel the time has arrived to call a halt to this unwarranted and ever-increasing governmental expenditure. Farmers are deeply concerned about the encouragement of a cheap food policy on the part of Government.

The American Farm Bureau Federation is proud of its record on price control. We feel that we have made a contribution to economic stability. Likewise, we feel that it is our responsibility to make some fundamental changes at this time in the manner in which this stabilization program is to be carried out.

Now, as to removal of consumer food subsidies, again, I want to repeat that in demanding that consumer subsidies be removed and price ceilings be adjusted accordingly, we are not asking for higher returns for farmers. It would simply get rid of one unnecessary artificiality in the price-making mechanism for agricultural products. We may as well face the realistic fact that from the administration's viewpoint there will never be a good time to get rid of subsidies.

I do not like to take the position of "I told you so," but some time ago when we asked for a program outlining how subsidies were to be removed, we found that many advisers in high places thought they could find a time in the immediate postwar period when consumer subsidies could be removed without changing either consumers' or producers' prices and costs. At that time I expressed very grave doubts on this assumption. A review of what has happened clearly indicates that a time when consumer subsidies could be removed without hurting anyone did not materialize as contemplated, and in my judgment, will not materialize in the future. We may as well be realistic and face this fact. It has been estimated that to discontinue consumer food subsidies would mean an increase of 3½ percent in the cost of living. I fail to see why this should be so alarming when we already have had high Government officials state that the cost of living will increase from 5 to 10 percent, much of which is traceable to increased wages. Certainly, now, when labor is getting increases, is the time to remove consumer subsidies.

I do not see why we should be so unduly alarmed about an increase in consumer prices due to the removal of consumer subsidies, which are a direct payment from the Federal Treasury, when we can raise the price of steel in order to pay workers higher wages, or the price of meat to pay increased wages to packing-house workers. The farmers of the Nation are demanding that when these wage increases occur, one of the conditions for this increase be that the Government be required to quit subsidizing the consumer's food bill, and get the Federal Treasury out of the grocery business.

Food subsidies of nearly \$2,000,000,000 add that amount to the inflationary pressures. They increase the inflationary forces and tend to perpetuate the need for continuation of price control. They increase the demand for agricultural products in short supply. It is a well-established fact that lowering the price of meat increases the amount taken by the public. Surely, it cannot be denied but that subsidizing each family's meat bill from twenty to twenty-five dollars per year increases the amount demanded and increases the difficulty of enforcing ceilings and preventing black markets.

Again, may I repeat that farmers are not asking for increased returns. They are simply asking that we get rid of consumer subsidies and eliminate that one artificiality from the market mechanism. Farmers fear what will happen to their prices if we wait for a period of declining prices and then remove consumer subsidies. History clearly indicates that farm prices fall rapidly enough in periods of decline, without artificial price-depressing factors imposed on them by Government. If we cannot remove consumer subsidies now when consumer purchasing power is at an extremely high level, how can they ever be removed when prices start to fall, as has been proposed by some? Perhaps we had better review what will cause prices to fall. Certainly one of the important things is unemployment and a decline

in consumer purchasing power. How in the name of good common sense are you going to remove a subsidy and increase the price of milk or any other product when unemployment is increasing and consumer purchasing power is falling, if you cannot do it when consumer purchasing power is at a very high level? Certainly farmers are not going to be willing to absorb these subsidy costs in such a period. It is clearly evident that this would be the result if we wait until a period of declining prices.

Farmers are not kidding themselves. They know that wartime prices cannot be maintained indefinitely, but that everyone will be in a much sounder position if price declines in agricultural products are brought about by regular market factors without Government manipulation in these periods of decline.

I wonder if we realize that personal income taxes could be reduced by 17 percent if consumer food subsidies were eliminated and the savings passed on to the taxpayer. According to our estimates, a subsidy bill of \$1,798,000,000 is equivalent to 16.8 percent of the estimated amount of revenue from personal taxes in 1946. The average taxpayer's bill could be reduced by \$50 if consumer subsidies were eliminated.

If you turn, gentlemen, to pages 1 and 2 in the additional data I gave you, you will see it illustrated.

Mr. BARRY. Will you yield for a question Mr. O'Neal?

Mr. O'NEAL. I wish you would let me go on and get through.

Mr. BARRY. Just one question.

Mr. O'NEAL. All right.

Mr. BARRY. Am I to assume from your statement that you are also opposed to the subsidy which guarantees the farmer 90 percent of parity payments, after the war?

Mr. O'NEAL. No subsidy. There is no subsidy in that, my friend.

Mr. BARRY. That is alone without recourse. It is the same thing. One comes out of the taxpayers' pocket as well as the subsidy.

Mr. O'NEAL. All I ask you to do is to read the Government figures as to what the Commodity Credit has done. It has made an awfully good profit.

Mr. BARRY. I did not ask you that question. I said guarantee of parity payment, in the event that farm prices go below that for 2 years after the war. Now, before the 75 percent of parity you get a 15 percent payment, do you not, that comes out of the taxpayers' pocket just as the consumers' subsidy does?

Mr. O'NEAL. I think you are a little confused, my friend. It would take a little time on that. As a matter of fact, you gentlemen here are largely responsible for this.

The CHAIRMAN. Mr. O'Neal said he wanted to read his statement.

Mr. O'NEAL. You read the report of the Commodity Credit Corporation and then if you want to compare that to other agencies, Reconstruction Finance Corporation, and Federal Reserve, you can see it. Of course, you lose a little money every now and then on certain things, but the subsidy is not very extensive.

It is estimated that the elimination of consumer subsidies could save an individual having a taxable income of around \$7,500 about \$191 a year (see statistical appendix).

These figures cannot be overlooked in this period when it is so essential to eliminate unnecessary Government expenditures and relieve the inflationary pressure of deficit financing.

The subsidy program has grown until today it is estimated that for an average urban family of four, consumer subsidies amount to over \$62 annually (see statistical appendix). Since farmers produce much of their own food, they do not receive full benefit of this Government subsidy, but in addition are forced unwillingly to accept subsidies from the Federal Treasury for the products they produce.

The records clearly indicate that the consumer is in position to pay his grocery bill without subsidies from the Federal Treasury. According to the latest available figures, the weekly earnings of factory workers increased nearly 83 percent between the 1935-39 period and November 1945. During this same period the cost of living increased about 29 percent (see statistical appendix). Since January 1941, the base date of the Little Steel formula, weekly earnings in all manufacturing industries increased 55 percent, compared with an increase of about 29 percent in the cost of living (see statistical appendix). While it is true that the incomes of some individuals have not increased as much as the cost of living, this is not the case for the majority of our people. Why should we subsidize those who are able to pay their grocery bills, and spend millions of dollars, which in itself is inflationary, in order to take care of those whose incomes have not increased as much as the cost of living? Certainly there is a more direct way to take care of the needy.

We hear a lot of complaint about the fact that the price of food has gone up. Many delight in citing the increase since 1939. Very few point out that in 1939 farm prices were the lowest they had been for 35 years, except during the depression of the early thirties (see statistical appendix). Even in 1945 the factory worker was able to buy more food for an hour's work than at any time in our history. An hour's wages in the manufacturing industries in 1945 bought 6½ quarts of milk, compared to about 5 quarts in 1939, and 2½ quarts in 1914. Almost without exception an hour's wages in the manufacturing industries had more purchasing power in terms of food during the war than it had prior to the war (see statistical appendix). Expenditures for food in relation to consumers' incomes are lower today than they were before the war (see statistical appendix).

Now, controls on a selective basis. The American Farm Bureau Federation believes that if price-control legislation is continued, definite arrangements should be made for the removal of controls as soon as possible. Controls should be removed whenever the supply and demand for a product is in such balance that undue price increases will not occur if ceilings are removed. We believe that the Secretary of Agriculture should have the power to determine when there are ample supplies of agricultural products in relation to demand, and that when such determination is made, it shall be the policy of the Government to suspend ceilings on that group of products.

In order to assure proper correction of the policies and administration of price control on agricultural commodities, it is imperative the Congress rewrite the Bankhead amendment in order to make certain that its purposes and provisions are no longer evaded or nullified. The Bankhead amendment, as originally enacted by Congress, and as reenacted and strengthened last year, prohibited any action being taken under the Price Control Act with respect to agricultural products or food and feed commodities, either by the Administrator or any other person, without the prior written approval of the Secretary of Agriculture. This authority was given "notwithstanding any

other provision of this or any other law." By Executive directives and administrative interpretation this specific mandate of Congress has been evaded.

Because of the time factor in agricultural production, a relatively long period of time must of necessity elapse between when production is started and when the product reaches the market. It is necessary that this fact be fully recognized in the establishment of price policies for agricultural products, and we insist that farmers be informed of changes in policy sufficiently in advance to allow them to make their adjustments in production. We also insist that no policy be adopted which may react unfavorably on the price of a farm product after production arrangements for the ensuing year have been made by the farmers.

We would like to make it perfectly clear that it should be the policy of the administration to have the ceilings removed on virtually all products before the expiration of the act 1 year hence.

We feel that the guiding principle of administering price-control legislation should be to encourage production. Under the present circumstances, a high volume of production is the best way to combat inflation. Governmental price policies must not unduly hamper the production of essential products.

If we are ever going to reach a state when price controls can be removed safely, we must correct the basic causes of inflation. Too much attention has been given to attempting to control prices, rather than correcting the basic inflationary factors. The Government's wage policy has been definitely inflationary. If labor is to receive wage increases all across the board, there is no use of kidding ourselves; over a long period of time living costs will go up. It is estimated that approximately 80 percent of all costs are directly traceable to labor. Therefore, unless there is considerable improvement in the efficiency of labor, higher prices will result. Information released by the Bureau of Labor Statistics shows that for 23 civilian industries, the output per man-hour increased about 6 percent between 1939 and 1944, compared with an increase of nearly 40 percent in labor cost per unit of output (see statistical appendix). We are not against high wages but we believe that high wages should be contingent upon an increase in output per worker. Many folks take great pains to show that high hourly earnings for factory workers mean high farm prices. The record does not bear this out.

In the 1935-39 period, hourly wages were nearly three times higher than in the prewar period of 1910-14, and yet farm prices were only 7 percent higher than in the earlier period (see statistical appendix). In 1939 hourly wages were high, we had millions of unemployed, we had bread lines, cheap food and fiber, and farm prices were only 77 percent of parity. It is total purchasing power that makes good markets, not high hourly wage rates. Again, may I insist that any sound program to control inflation must give due recognition to the control of wages.

Farmers are concerned about the increased cost of distribution. They know that after World War I distribution costs increased and then remained high. They feel that a well-administered price-control program must give consideration to holding distribution costs at reasonable levels.

It has long been recognized that deficit financing is inflationary. With a national debt that approaches \$300,000,000,000, we must take

drastic steps to eliminate deficit financing. Great care must be exercised to eliminate nonessential Government expenditures and to reduce the necessary expenditures to a minimum. There is no logic in the Government undertaking vast subsidized housing projects and the like at a time when there are not enough raw materials to supply the demands of private individuals. Now that the war is over, in this period when inflation threatens, we must see to it that the Government does not become an added competitor for materials either by subsidies or by undertaking construction projects that could be delayed.

The excess purchasing power in the hands of consumers is one of the basic factors contributing to inflation, and yet last year we reduced taxes and eliminated millions from the tax rolls. As long as this inflationary pressure exists, there is no justification for reducing taxes except those necessary to encourage reconversion activities.

In summary, I sincerely hope that you gentlemen will prepare a price control bill that we can support aggressively. This bill must contain definite provisions for the elimination of consumer subsidies. Again may I remind you that in the removal of subsidies farmers are not asking for higher returns. They are simply asking that they receive their money in the market place and not be forced to take payments from the Federal Treasury in lieu of fair prices in the market place. I hope in preparing this legislation, after eliminating consumer subsidies, you will see fit to write a law so that price control can be administered on a selective basis for those products which are in short supply relative to demand.

The new price control legislation must have provisions for the control of wages where inflationary danger exists. Finally, steps must be taken to correct the basic causes of inflation so that at the earliest possible moment we can return to a free price economy which is the heart of free enterprise and of our democratic form of Government.

I sincerely hope that you gentlemen can make these necessary changes, because the American farmer wants and needs a reasonable, fair, and intelligently administered price control program in order to guard against inflation and the ravages of the inevitable deflation that follows.

I would like to submit for the record the statistical data and charts in support of this brief.

The CHAIRMAN. That may be inserted in the record.

(The statement referred to follows:)

HOW TO REDUCE PERSONAL INCOME TAXES IN 1946 BY 17 PERCENT (?)

ELIMINATE CONSUMER FOOD SUBSIDIES, THEN PASS THE SAVINGS ON TO THE TAXPAYER

(By American Farm Bureau Federation, Chicago, Ill., February 28, 1946)

Percent that Federal personal income taxes could be reduced in 1946 if consumer subsidies were eliminated and the savings passed back to the individual

Total amount of food subsidies July 1, 1945, to June 30, 1946 ¹ ...	\$1, 798, 000, 000
Estimated amount of income from personal income taxes in 1946 ³	\$10, 696, 000, 000
Percent consumer subsidies are of personal income taxes.....	16. 8

¹ Iowa Farm Economist, September 1945, p. 15.

² Does not include any deficit appropriations necessary to carry on subsidy program.

³ The revenue bill of 1945, S. Rept. No. 655, 79th Cong., 1st sess., Oct. 23, 1945, p. 4.

Possible savings for the average Federal personal income taxpayer in 1946 if consumer subsidies were eliminated and the savings passed back to the individual income taxpayer

Total amount of food subsidies, July 1, 1945, to June 30, 1946 ¹	² \$1, 798, 000, 000
Estimated number of individuals paying Federal income taxes in 1946 ³	36, 302, 048
Food subsidies for each Federal income tax-paying individual.....	\$49. 53

¹ Iowa Farm Economist, September 1945, p. 15.

² Does not include any deficit appropriations necessary to carry on subsidy program.

³ The revenue bill of 1945, H. Rept. No. 1106, 79th Cong., 1st sess., Oct. 9, 1945, p. 27.

Possible savings for various groups of personal income taxpayers if consumer subsidies were eliminated and the savings passed on to the individual taxpayer

Net taxable income class	Average income taxes per taxpayer	Savings per taxpayer if consumer subsidies were eliminated
\$0 to \$1,000.....	\$52	\$9 ¹
\$1,000 to \$2,000.....	127	21
\$2,000 to \$3,000.....	204	34
\$3,000 to \$4,000.....	374	63
\$4,000 to \$5,000.....	580	98
\$5,000 to \$10,000.....	1, 132	191
\$10,000 to \$25,000.....	3, 990	682
\$25,000 to \$50,000.....	14, 286	2, 396
\$50,000 to \$100,000.....	36, 481	6, 120
\$100,000 to \$250,000.....	94, 423	15, 859
\$250,000 to \$750,000.....	250, 995	42, 207
\$500,000 to \$1,000,000.....	514, 181	86, 345
\$1,000,000 and over.....	1, 393, 571	234, 841
Average for all.....	295	50

NOTE.—Based on data from the revenue bill of 1945, H. Rept. No. 1106, 79th Cong, 1st sess, Oct. 9, 1945, and the revenue bill of 1945, S. Rept. No. 655, 79th Cong. 1st sess, Oct. 23, 1945. Data on subsidies from Iowa Farm Economist, Sept. 1945, p. 15.

Elimination of consumer food subsidies and then passing the savings on to the personal income taxpayer would amount to about \$50 per taxpayer in 1946. Taxes on individuals with taxable incomes of around \$7,500 could be reduced \$191. An over-all reduction of about 17 percent in individual income taxes would be possible.

Amount of the grocery bill for an average urban family of 4 which is paid by the Government through the use of consumer food subsidies ¹

[1945-46 subsidy rates and 1945 food consumption levels] ²

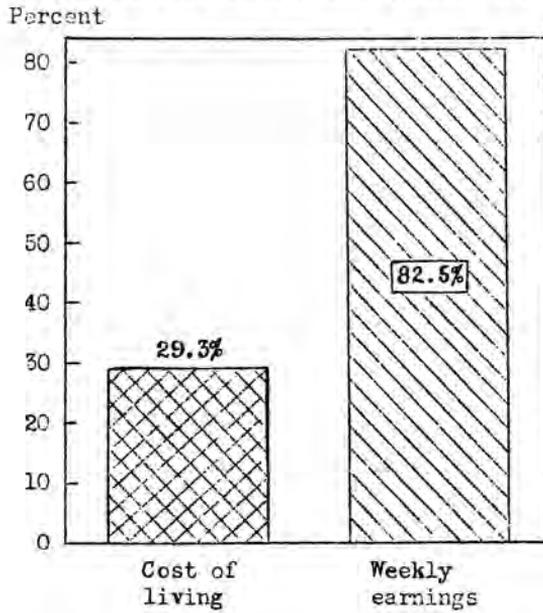
Item	Subsidy per pound retail	Quantity consumed by a family of 4	Subsidy per family
	Cents	Pounds	Dollars
Fluid milk.....	0.6	1,788.0	10.81
Butter.....	13.3	42.0	5.59
Evaporated or condensed milk.....	1.6	72.8	1.16
Cheese.....	7.5	23.2	1.74
Pork.....	4.4	235.6	10.37
Veal.....	3.0	44.4	1.33
Beef.....	4.9	218.0	10.68
Beef, extra on top grade.....	1.0	-----	.44
Lamb and mutton.....	6.0	28.0	1.68
Margarine, shortening, etc.....	5.0	78.0	3.90
Flour (including bakery products).....	.88	645.6	5.68
Sugar.....	1.4	292.8	4.10
Vegetables:			
Canned.....	9-2.2	³ 80.0	1.30
Frozen.....	1.25	6.4	.08
Dried fruit.....	5.0	26.0	1.30
Coffee.....	3.5	64.8	2.27
Total.....			62.43

¹ Approximate—for some of the minor commodities it is difficult to estimate accurately, so there may be an error of a few cents either way.

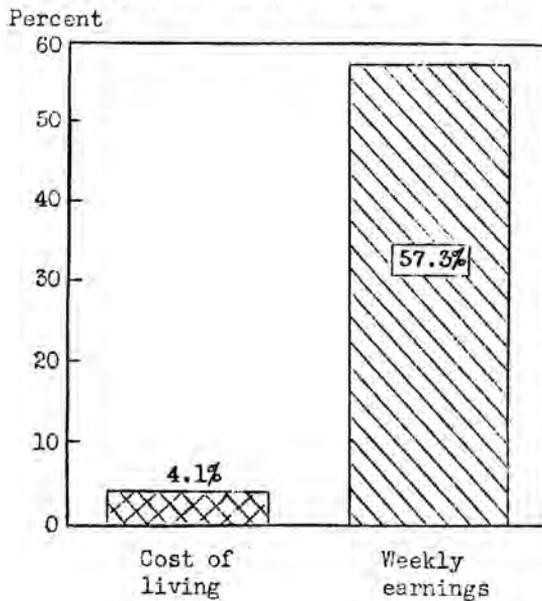
² Subsidy rates January 1946.

³ Estimate of only canned vegetables on which subsidies are paid.

Comparison of changes in the cost of living and weekly earnings of factory workers increase from the 1935-39 period to November 1945



Increase from the 1925-29 period to November 1945



Consumer food subsidies paid from the Federal Treasury amount to about \$15.61 per person annually, or \$62.43 for an urban family of four. The Government subsidy to the consumer amounts to over 13 cents on each pound of butter, 7½ cents on a pound of cheese, 3 to 6 cents on a pound of meat, and 1.4 cents on a pound of sugar. For the Government to pay part of consumer grocery bills when consumer incomes are at a high level and when the Federal debt is still mounting, does not make sense to the farmer.

Not only do consumer subsidies force the Government to use funds from the Federal Treasury rather than allowing a price in the market place, but consumer subsidies discriminate against the farmer as a consumer. While the city family gets a subsidy of over \$60 annually on its food bill it is doubtful if the farm family gets more than half that amount. Since farmers produce much of their own food, they do not receive the Government payment in the form of lower food prices to the same extent as city consumers. Only those who purchase their food participate in consumer subsidies.

Compared with the prewar period (1935-39) the cost of living has increased about 30 percent, while weekly earnings of factory workers have increased over 82 percent. Compared with the boom period of the late twenties, the cost of living in November 1945 was less than 5 percent higher, while weekly earnings of factory workers were up 57 percent.

Percentage increase in average weekly earnings of workers in all manufacturing industries and in the cost of living since January 1941¹

Month	1941		1942		1943		1944		1945	
	Weekly earnings	Cost of living	Weekly earnings	Cost of living	Weekly earnings	Cost of living	Weekly earnings	Cost of living	Weekly earnings	Cost of living
January.....	0	0	25.4	11.1	52.5	19.7	70.0	23.2	78.3	26.1
February.....	3.1	0	27.8	12.0	54.4	20.0	70.7	22.8	77.8	25.9
March.....	4.7	.4	30.0	13.4	56.7	21.8	71.3	22.8	77.9	25.8
April.....	5.4	1.4	31.8	14.2	59.5	23.1	71.0	23.6	76.9	26.1
May.....	10.1	2.1	34.5	15.1	61.7	24.1	72.7	24.1	72.7	27.1
June.....	13.5	3.8	36.1	15.5	62.3	23.8	73.6	24.4	73.9	28.0
July.....	11.2	4.5	36.7	16.1	60.5	22.9	70.5	25.1	69.4	28.4
August.....	13.6	5.4	40.3	16.6	63.4	22.4	72.2	25.4	56.6	28.3
September.....	15.1	7.2	41.9	16.9	66.6	22.9	73.6	25.5	53.3	27.9
October.....	17.7	8.4	46.0	18.1	68.4	23.4	76.2	25.5	54.0	27.9
November.....	17.2	9.3	49.3	18.8	70.1	23.2	75.9	25.6	53.5	28.3
December.....	20.8	9.6	51.2	19.4	67.3	23.4	78.1	26.0	55.5	28.9

¹ Calculated from data compiled by the U. S. Department of Labor, Bureau of Labor Statistics.

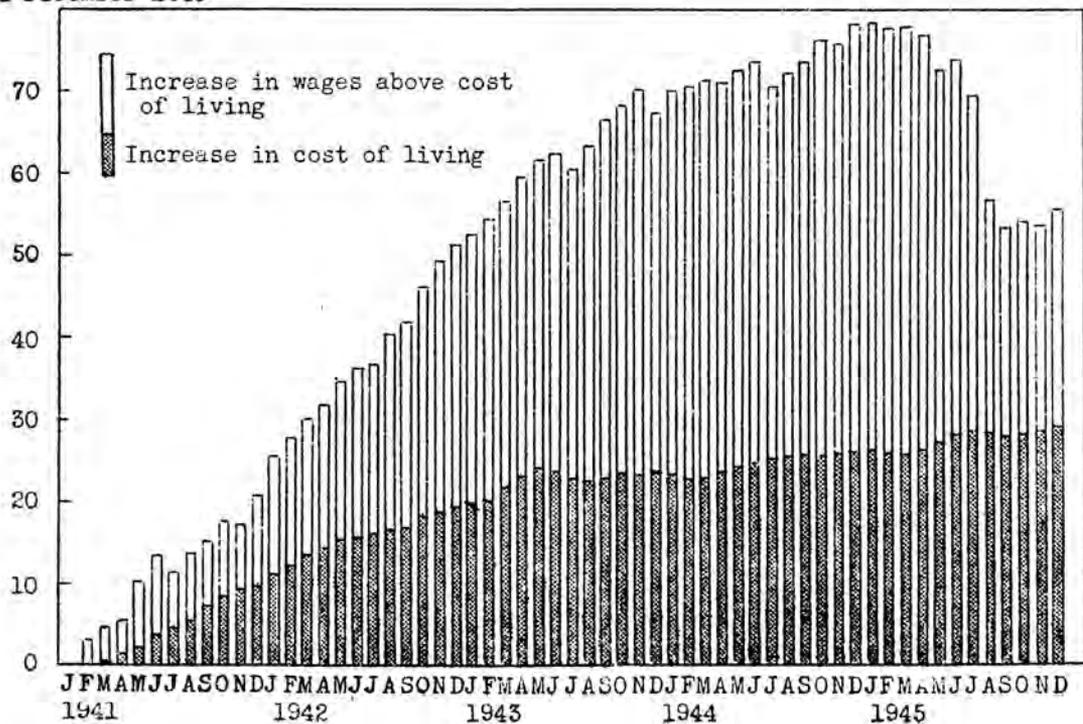
According to the latest available figure weekly earnings of industrial workers have increased nearly twice as much as the cost of living since January 1941, the base date of the Little Steel formula. Charges have been made that the Bureau of Labor Statistics index does not measure the increase in living costs. Even if living costs had increased twice as much as shown by this index, the income would still be about the same as the increase in industrial wages.

Status of agriculture in 1939 compared with parity

Product	Unit	Farm price, 1939	Percent 1939 prices of parity
Hogs.....	Hundredweight.....	\$6.31	70
Milk.....	do.....	\$1.70	86
Butterfat.....	Pound.....	\$0.242	74
Wool.....	do.....	\$0.229	101
Cotton.....	do.....	\$0.089	58
Wheat.....	Bushel.....	\$0.64	58
Corn.....	do.....	\$0.48	60
Index of prices received by farmers for all farm products.....		95	77

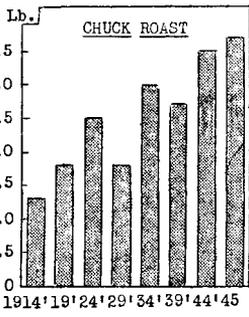
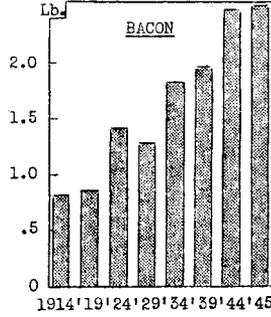
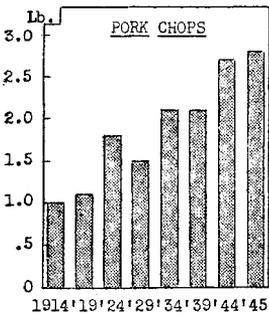
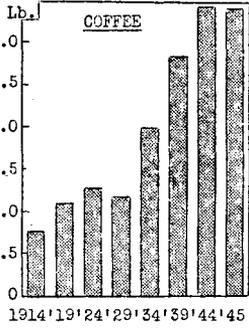
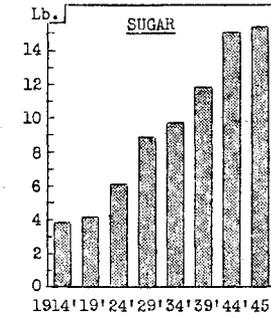
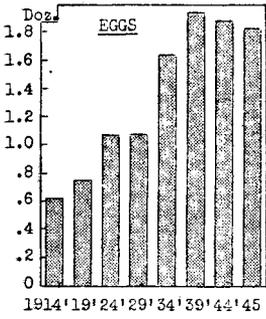
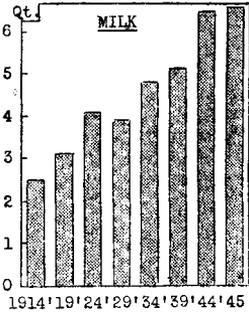
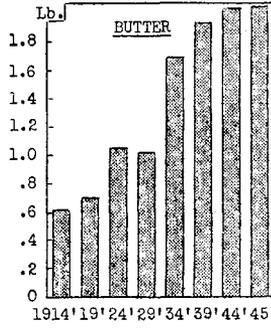
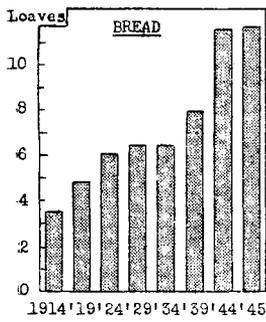
Many people are using farm prices in 1939 as a basis for comparing changes in farm income. It should be realized that in 1939 farm prices were the lowest they have been for 35 years except during the depression of the early thirties.

Percentage change
between January 1941
and December 1945



Changes in amount of food that 1 hour's wages bought, 1914-45

[Average hourly earnings in all manufacturing industries divided by the retail prices for the respective foods]



American Farm Bureau Federation
Chicago, Illinois - 1/29/46

Changes in amount of food that 1 hour's wages would buy, 1914-45¹

	Bread, loaves	Butter, pounds	Milk, quarts	Eggs, dozens	Sugar, pounds	Coffee, pounds	Pork chops, pounds	Bacon, pounds	Chuck roast, pounds	Corn, cans	Or- anges, dozens
1914.....	3.5	0.6	2.5	0.6	3.8	0.8	1.0	0.8	1.3		
1919.....	4.8	.7	3.1	.8	4.2	1.1	1.1	.9	1.8	2.5	0.9
1924.....	6.1	1.0	4.1	1.1	6.1	1.3	1.8	1.4	2.5	3.4	1.2
1929.....	6.4	1.0	3.9	1.1	8.8	1.2	1.5	1.3	1.8	3.6	1.3
1934.....	6.4	1.7	4.8	1.6	9.7	2.0	2.1	1.8	3.0	4.6	1.6
1939.....	7.9	1.9	5.1	1.9	11.7	2.8	2.1	2.0	2.7	6.0	2.3
1944.....	11.6	2.0	6.5	1.9	15.0	3.4	2.7	2.5	3.5	7.0	2.2
1945 ²	11.7	2.1	6.6	1.8	15.4	3.4	2.8	2.5	3.7	7.0	2.1

¹ Average hourly earnings in all manufacturing industries divided by the retail prices of the respective foods.

² Average of first 10 months.

Source: Calculated from data of the Bureau of Labor Statistics, U. S. Department of Labor.

In 1945 the factory worker was able to buy more food for an hour's work than at any time in our history. In 1914 an hour's wages in the manufacturing industries bought 3½ loaves of bread. By 1939 the purchasing power of wages had increased to nearly 8 loaves of bread for an hour's work, and by 1945 1 hour of factory wages would buy nearly 12 loaves of bread. The same is true for most other agricultural products. An hour's wages in the manufacturing industries in 1945 bought over 6½ quarts of milk, compared to about 5 quarts in 1939, and 2½ quarts in 1914. Almost without exception an hour's wages in the manufacturing industries had more purchasing power in terms of food during the war than it had prior to the war. In 1945 more bread, more butter, more milk, more pork chops, more bacon, more coffee, more sugar, and more roast beef could be purchased for an hour's work than during the prewar period.

(The data following take into account the fact that many consumers are buying more and better quality foods, eating at restaurants more frequently, and the like, than they did when their incomes were lower.)

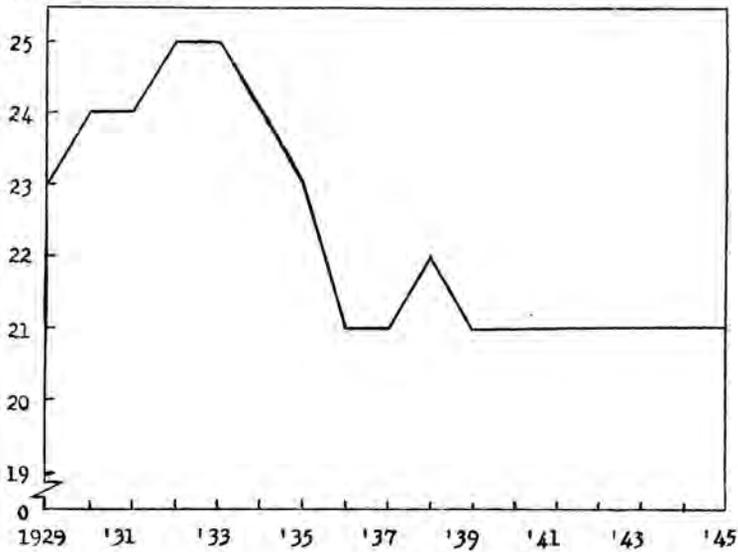
Expenditures of consumers for food expressed as a percent of total income, 1929-45

Year	Food ex- penditures as a percent of total income	Year	Food ex- penditures as a percent of total income
1929.....	23	1937.....	21
1930.....	24	1938.....	22
1931.....	24	1939.....	21
1932.....	25	1940.....	21
1933.....	25	1941.....	21
1934.....	24	1942.....	21
1935.....	23	1943.....	21
1936.....	21	1944.....	21
		1945 ¹	21

¹ Average of first 10 months.

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics, The Marketing and Transportation Situation, April-May 1943 and December 1945-January 1946.

Food expenditures as a percent of total income



Expenditures for food in relation to consumer's income are lower today than they were before the war. In 1945, only 21 percent of the average consumer's income was required to purchase food, compared with 21 to 23 percent in the prewar years and 25 percent during the depression of 1932-33. If consumers were now buying the same quantity of food as they did during the prewar years of 1935-39, their expenditures for food would amount to only 15 percent of their income.

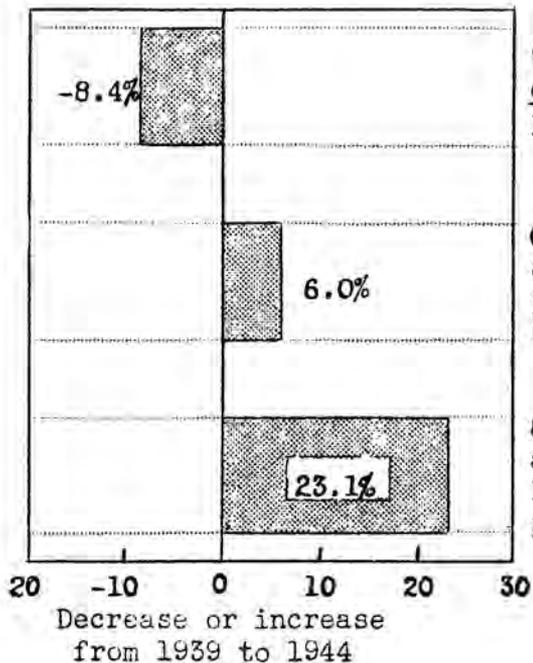
Relation of output per man-hour to unit labor cost in civilian industries

	Percentage increase or decrease from 1939 to 1944 in—	
	Output per man-hour ¹	Unit labor cost ¹
Average of 9 industries with a decrease in output per man-hour.....	-8.4	+52.5
Average of 6 industries with an increase of 10 percent or less in output per man-hour.....	+6.0	+47.4
Average of 8 industries with an increase of over 10 percent in output per man-hour.....	+23.1	+20.1
Average of 23 industries.....	+6.3	+39.9

¹ Simple, unweighted averages of the various industries classified by percent increase or decrease in output per man-hour, 1944 over 1939.

Source: Basic data from Productivity and Unit Labor Cost in Selected Manufacturing Industries, 1939-44, May 1945, Bureau of Labor Statistics, U. S. Department of Labor.

OUTPUT PER MAN HOUR

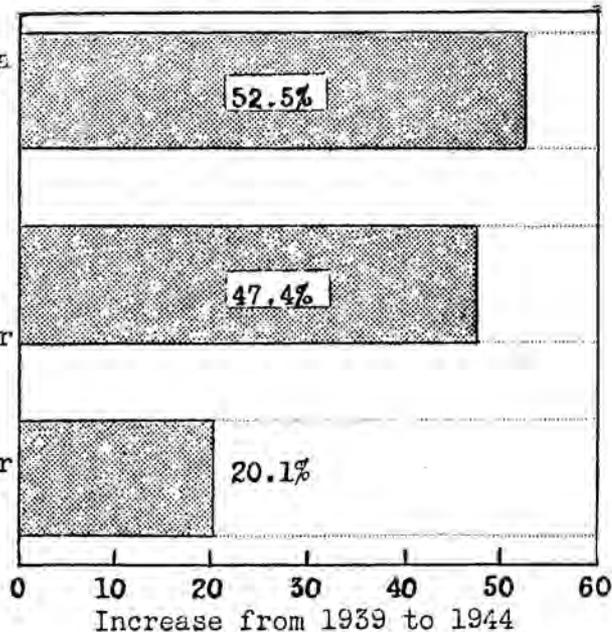


9 industries with a decrease in output per man hour

6 industries with an increase of 10 percent or less in output per man hour

8 industries with an increase of over 10 percent in output per man hour

UNIT LABOR COST



EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942 763

Change in output per man-hour and unit labor cost in civilian industries from 1939 to 1944

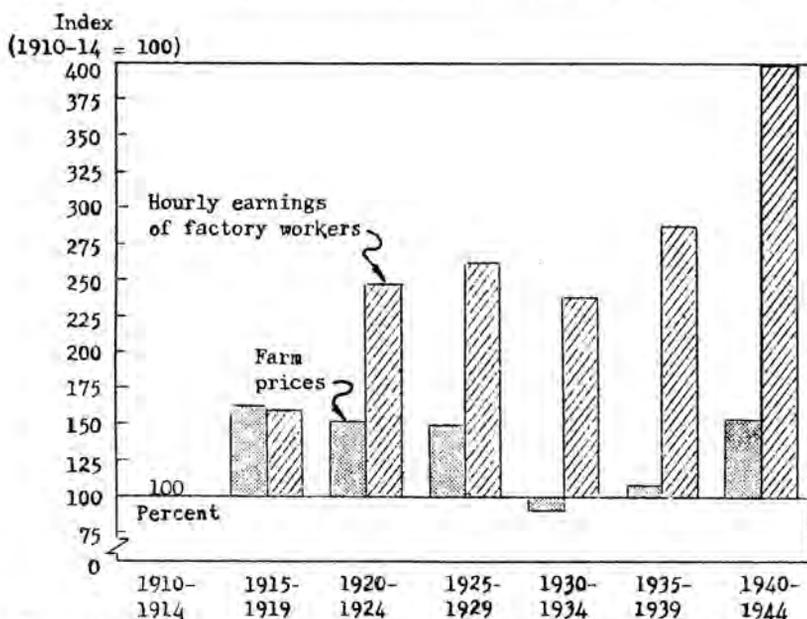
Industry	Percentage increase or decrease from 1939 to 1944 in—	
	Output per man-hour	Unit labor cost
Flour and other grain mill products.....	-16.0	+68.7
Cement.....	-15.5	+52.2
Chewing and smoking tobacco.....	-14.9	+51.7
Newspaper and periodical printing and publishing.....	-12.5	+35.9
Paper and pulp group.....	-7.3	+52.3
Cane-sugar refining.....	-4.0	+38.2
Nonferrous metals.....	-3.4	+52.6
Lumber and timber products.....	-1.0	+69.7
Fish (canning).....	-0.7	+51.5
Cotton goods.....	+0.3	+61.2
Meat packing and slaughtering.....	+2.3	+32.7
Boots and shoes.....	+5.2	+47.8
Fertilizers.....	+9.0	+58.4
Confectionery.....	+9.3	+36.0
Cigars.....	+10.0	+48.2
Bread and other bakery products.....	+11.2	+22.9
Cigarettes.....	+12.6	+18.4
Paints and varnishes.....	+14.1	+17.2
Leather.....	+14.2	+27.9
Woolens.....	+16.9	+39.9
Fruits and vegetables (canning).....	+24.6	+41.9
Rayons.....	+41.5	-0.3
Ice cream.....	+49.4	-6.9

Source: Basic data from Productivity and Unit Labor Cost in Selected Manufacturing Industries, 1929-44 May 1945, Bureau of Labor Statistics, U. S. Department of Labor.

Comparison of farm prices and hourly earnings of factory workers, by 5-year periods, 1910-44 (1910-14=100)

Period	Prices received by farmers	Hourly earnings of factory workers
1910 to 1914.....	100	100
1915 to 1919.....	162	159
1920 to 1924.....	151	247
1925 to 1929.....	149	262
1930 to 1934.....	90	238
1935 to 1939.....	107	286
1940 to 1944.....	154	399

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics, Agricultural Outlook Charts, 1946.



High hourly rates of pay for factory workers do not guarantee high farm prices.

The CHAIRMAN. Are there any questions?

Mr. BARRY. I have a question.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. Mr. O'Neal, for many years prior to the war, the farmers received low prices for their products, did they not?

Mr. O'NEAL. Yes, sir.

The CHAIRMAN. And it was not until the war started, about 1940, that the prices began to go up. It has been testified before this committee by Marvin Jones, last year, that farm prices have increased from about 85 percent of parity to approximately 17 percent above parity, which reflects an increase of about 50 percent since 1939, and that during that war period, in spite of the shortage of labor, farm production has increased from 25 to 35 percent. So that its production is greater, its farm prices are higher than ever before in the history of the country, and farmers are making more money now than they ever made in the history of the Nation.

Mr. O'NEAL. You need a little education. Prices are not as high. After the other World war I was offered 40 cents for cotton, and I held it. I held it and then sold it for about 14. Hogs went up 20 cents, and everything went up into heaven and then pretty shortly we went to hell. You are wrong in some of your dope. Now, the agricultural income, yes—

Mr. BARRY. That is what Mr. Jones testified to.

Mr. O'NEAL. Marvin is one of my lifelong friends. A fine fellow. But the agricultural income, as a whole—surely, we are not complaining about it—that is good.

Mr. BROWN. Will you yield?

Mr. BARRY. No; not just now.

Now, for years prior to the war a hundred percent of parity was

considered as a desirable price range for the farmer, if he had a hundred percent of parity. Today the average prices are about 17 percent above parity.

Mr. O'NEAL. That is right.

Mr. BARRY. Will you tell me in what year or what period of time prices were 17 percent average above parity?

Mr. O'NEAL. I have not got the tables here of the other World War. I think about in the last 35 or 40 years, they have been above parity only about 7 or 8 years, in the other World War period. That is the reason—you are a little young—but we fellows who lived through the other World War, we know what inflation means, and we know what hourly wages mean, we know what parity means. It is wonderful to have the index, but it is not worth anything unless you have a bounty. Labor went up. What use was it? What good did it do? When it got out of balance there were 12,000,000 men out of jobs. We had a parity formula. What good did that do? We were getting about 3½ cents for hogs.

Mr. BARRY. Well, prices were below parity, were they not?

Mr. O'NEAL. Yes; but what I am saying; I am trying to point out to you here, is that you have got to keep a balance all the way through. If you let one shoot up, the other has to shoot down.

Mr. BARRY. A balance of what?

Mr. O'NEAL. A balance in our economy all the way through.

Mr. BARRY. When supply gets great enough so that it meets demand, will not artificial high prices automatically start to fall?

Mr. O'NEAL. Yes.

Mr. BARRY. And level off?

Mr. O'NEAL. Oh, yes; surely.

Mr. BARRY. Well, would that not be an indication that it is time to remove the price controls, when that period arrives?

Mr. O'NEAL. No; no, indeed, my friend.

Mr. BARRY. Why not?

Mr. O'NEAL. As I say, we went through that experience before, you know, in the other World War, as I have just illustrated to you. Things shot through the roof.

Mr. BARRY. Well, I mean right now.

Mr. O'NEAL. Do you mean right now?

Mr. BARRY. Right now the average price of farm goods is 17 percent above what is considered a good price to the farmer. When the supply increases, those prices will start to fall towards parity, and may fall below parity, and that is why we have the provision in the law today that when they fall below 90 percent of parity, then the Government will guarantee subsidies to farmers, because farmers anticipate that sort of thing, and I voted for it. Would that not be an indication that the supply has met up with demand, when prices start to fall?

Mr. O'NEAL. Sure.

Mr. BARRY. You have been talking about the wages or organized labor. I want to tell you that where I come from, in a large county of 1,300,000 people, which was farm country about 20 years ago, that is Queens County, that about 85 percent of those people are white collar workers, and civil-service workers, clerks, accountants, and so forth. And their income has not increased more than 15 percent, roughly, and some less, since the beginning of the war. I will agree with you that organized labor, whose wages have gone up during the

war, could afford to pay higher prices for farm products, they could afford to buy expensive houses and automobiles, but this great white collar class, which is largely unorganized labor, are having a difficult time coping with the increased prices because their cost of living has gone up, the cost of food has gone up 45 percent in New York City, and the cost of living about 33 percent. They just cannot stand very much more of this continuing spiral of prices.

Mr. O'NEAL. The white-collar class—I gave you some indications of that in the primer I gave you, in the charts I gave you. I will show you the figures there, Government statistics. It shows the increase in prices. I will say this: The white-collar group suffers just like the farmer does in inflation, and maybe more.

Mr. BARRY. They are suffering from inflation——

Mr. O'NEAL. But here is the point I am making. Their weekly earnings, across the board, if you look on page 5 of the statistical appendix, you will see. I was over in New York once and made an information sheet for LaGuardia, and I know something about your little town. I went all around and we were talking about food and types of food, and I made this recommendation: I said, "Get your aldermen together, and rescind your law, and" I said, "I have seen more food wasted here in New York. If you just consumed your waste, you would feed your hogs."

Mr. BARRY. The fact that remains that Mayor O'Dwyer testified here last week and the civil-service employees, which consist of 175,000, have only had an increase of 15 percent, taken out of some fund, and in the meantime their cost of living has gone up 33 percent. Those are the people—and they exist in every small town and every large city of the Nation, and in the total they amount to more than the organized worker—who will suffer, and if you argue and take the position that you are for parity payments or a guarantee of 90 percent of parity payments to farmers when times are tough and when deflation comes about, then, I think you are inconsistent when you oppose subsidy payments for the benefit of consumers at this particular time when the consumers are in trouble.

Mr. O'NEAL. Well, I will say this: Do you question the record of farmers? We had less men, the unit of production per man on the farm was way higher than the one in industry, we had less people on the farms and we produced more food—we are afraid of surpluses now, we are afraid of surpluses coming directly.

Mr. BARRY. You have done a wonderful job.

Mr. O'NEAL. But I say to you, you are wrong when you magnify your little community. I am asking you to study the whole of the United States. The figures are right before you there.

Mr. BARRY. A civil-service worker cannot have another job. That is the only job he has. And his increase has only been 15 percent. I think that holds true throughout the country, without exception.

Mr. O'NEAL. I wish you would check your own figures. I think you will find they are not true.

Mr. BARRY. They are not my figures. The mayor gave those the other day.

Mr. O'NEAL. No, they are here in the record.

Mr. GAMBLE. Will you yield, Mr. Barry?

Mr. BARRY. I yield.

Mr. GAMBLE. These figures on page 5 here are for factory workers.

You are not talking about factory workers, you are talking about the civil service. There is no comparison at all.

Mr. BARRY. That is right.

Mr. O'NEAL. Look at page 10. That is everybody in the United States that eats. Let me ask you a question. What do you pay to get your shirt washed in New York City?

Mr. BARRY. I do not know.

Mr. O'NEAL. You do not have it washed?

Mr. BARRY. I have not had time to check on it.

Mr. O'NEAL. I will tell you what you pay. You pay 45 cents to get a shirt washed, and you have to wait 2 or 3 weeks. What are your folks doing in New York? Why do they not go to work?

Mr. BARRY. Will you tell me what figures you have in mind on page 10?

Mr. O'NEAL. Yes. Right at the bottom of the page.

Mr. BARRY. Well, that is talking about consumers. Everyone is a consumer. I am talking about the great white collar class.

Mr. O'NEAL. That is the average.

Mr. BARRY. I am talking about people who are being hurt now just as farmers were hurt for years before the war. When they were hurt, Congress gave them parity payments, and we guaranteed them parity payments in this war in case they went below 90 percent.

Mr. O'NEAL. That is right.

Mr. MONRONEY. Is it not a fact, Mr. O'Neal, that the factory workers which you quote as the standard are outrunning the cost of living by a considerable amount, and they amount to less than half of the total employed people of the Nation?

Mr. O'NEAL. Well, they are a pretty heavy percentage. Of course, if you get Green and Murray up there, they will tell you they are a heavy proportion of the population.

Mr. MONRONEY. I have not checked the figures lately, but the last time I investigated, I think the factory workers were around 20 million out of over 50 million people employed, which included many, many white collar workers, retail stores, public service people, Army and Navy, too.

Mr. O'NEAL. All right. Now, if those people are complaining so much—here on the farms of the country we are begging now for German prisoners of war, we are begging for veterans, we are paying as high as \$10 a day to farm labor, why do those people not move out of your towns and go to work?

Mr. MONRONEY. For the same reasons that farmers do not want to leave the farms and go in town to go to work. They just like it where they are.

Mr. O'NEAL. Well, maybe so. But I just want to answer my Irish friend from Oklahoma City. I am very fond of you. Let me say this to you: These figures are over-all, for all consumers in America. Let me ask you a question—this is a courteous committee—Do you think that the policy is that we must continue subsidizing, do you believe in cheap food?

Mr. MONRONEY. No, I do not believe in cheap food, because I come from an agricultural district.

Mr. O'NEAL. I thought you did.

Mr. MONRONEY. But to simply single out the factory workers whose incomes we know have been greatly inflated because of the 12

to 13 million organized workers, and say that this bulge of income for them applies to all the other people of the country is simply not giving the correct perspective. Your figures are right for factory workers, but I still say there are more than half of the workers of the country whose incomes have not bulged.

Mr. O'NEAL. We are not saying that. I have both factory workers and over-all there, if you look at it.

Mr. MONRONEY. I have been trying to figure it out, but I see that the same ratio of income spent for food has been exactly the same on your chart since 1936, so apparently this bulge has not carried it forward to help the average worker have a lot of extra money.

Mr. O'NEAL. Well, let me read you that statement. You have not read your little textbook.

Mr. MONRONEY. I wish I had had it yesterday. I could have had a chance to study it. It is very full of informative information. I want to compliment you on it.

Mr. O'NEAL. Expenditures for food in relation to income are lower today than they were before the war. In 1945 only 21 percent of the average consumer's income was required to purchase food.

Mr. MONRONEY. Well, I am following your chart there: 1936, 21 percent; 1937, 21 percent; 1938, 21 percent, clear on down to 1945. The same figure.

Mr. O'NEAL. That is right.

Mr. MONRONEY. So if that figure is correct, then, people actually are in the same position they were in in 1936. Now, if you remove food subsidies and allow their cost of food to go up 7 percent, then, they are going to spend more than the 21 percent of their total.

Mr. O'NEAL. I do not agree that the cost of food will go up that much. But you did not read your figures: 1935, 23; 1938, 22; 1936, 21.

Mr. BARRY. Mr. O'Neal, the statistics of the Department of Labor, which I called up 4 days ago, reflect a food situation in New York to have increased 45.5 percent since 1940. We have always accepted those figures as accurate as any in the country, and that is the situation there.

Mr. O'NEAL. Well, Franklin D. Roosevelt called me once to come up to Albany and to study your market. I went down to the market, and LaGuardia was along—I have forgotten who else. There we were, and if ever I saw two fellows mad as the devil—there were a couple of fellows who had driven a truck for the Washington Street Market from down in South Carolina with some early potatoes. And there the union labor had held them up, and they were sitting there watching the other fellow do the work. In other words, my friend, do not charge the cost of this food to the farmer. Labor plays an awfully heavy part in the cost of distribution of food, right in your own town. A sack of onions, which, down in Texas, would bring about 15 cents, as the President said, when it got there, into that market, and crossed that street, it was \$1.75. Do not blame us farmers for that.

Mr. BARRY. Well, maybe the union worker could afford to pay that price. But the white-collar worker, who had nothing to do with that situation, could not face the situation.

Mr. O'NEAL. Well, do not blame us.

Mr. BARRY. I am just talking about the situation that exists. I am not blaming anyone.

Mr. O'NEAL. Well, you better straighten that thing out up there. I will be glad to help you.

Mr. BARRY. The farmers today are really doing better than they have ever done in the history of the Nation. I cannot see why they cannot afford to go along with this for another year and then see if we can mend the whole thing. That is my position. I want to get these controls off as soon as possible, and I realize that the farmers have been up against it for many years, when their prices were around 75 percent of parity and sometimes less. This is about the first period in which they have made any money for a good many years. But I feel that one more year of this will not hurt the farmers very much, and might help the great white collar class an awful lot.

Mr. MONRONEY. May I ask one more question?

The CHAIRMAN. There is a roll call. Go ahead.

Mr. MONRONEY. In suggesting prohibition against subsidy, Mr. O'Neal, do you contemplate an immediate and complete cut-off as of June 30, or would you be willing to recommend that we discontinue a third of them, say, in October, a third in December, and maybe a third in March?

Mr. O'NEAL. I think that, as I specifically recommended there—no, I would not take them all off, except under the conditions where you have a full supply. I do not think, for instance—you are a cattle man—

Mr. MONRONEY. I am talking about subsidies. You are talking about prices.

Mr. O'NEAL. No; I am talking about subsidies. If you take those subsidies off of beef right now, as these gentlemen testified, you will have plenty of beef. You know you have it. You have got too much, literally, and you know that to be a fact. I would like to see you put the basic price I have suggested here in the law. Where you have ample supply, take the subsidy off, take the ceiling off, and let nature take its course.

Mr. MONRONEY. You are talking about specific products and I am trying to get this thing in focus over the whole inflationary problem. If the general policy is to remove subsidies gradually, do you not think, as a general policy, instead of flying an airplane straight into the ground, it would be better to come down gradually?

Mr. O'NEAL. Here is your trouble. You and I are human. I agree with you that you can take off some of them gradually, but with others, I would say you have got to end them, because you have conditions under which they can come off. Now, the fellow who has been getting this subsidy, he will not want to take it off; no.

Mr. MONRONEY. But as a general principle, to take them off gradually, and to get rid of them over a period of several months, say, 9 or 10 months, and be completely rid of them by that time, would be wiser than to cut them off abruptly as of June 30?

Mr. O'NEAL. Some of them you ought to cut off right away and some you could leave stand.

Mr. MONRONEY. They have got to be selectively removed and gradually?

Mr. O'NEAL. that is what I said.

Mr. MONRONEY. I tried to see if you said that. I watched your statement carefully, and it is not clear on that point, Mr. O'Neal. I thought that was probably what you meant, but in your statement

I did not get that, that you were willing to tolerate any subsidies whatsoever beyond June 30. I hope, if you would care to, or Mr. Ogden cares to, that you will clarify that in a supplemental statement, so that the Congress will know, because you have many, many friends in Congress who follow you.

Mr. O'NEAL. If you will read this over, you will see what our philosophy is there. Of course, many want to continue them indefinitely. That is the trouble. We do not want to compromise ourselves out of our shirt. It would be all right to continue some of them, surely.

The CHAIRMAN. You will have the opportunity to clarify any statement you have made, Mr. O'Neal.

Mr. O'NEAL. Thank you.

The CHAIRMAN. If you have a supplemental statement to make, it may be incorporated in the record.

Mr. O'NEAL. Thank you.

The CHAIRMAN. If you feel you would like to go into this subject in more detail, we will be glad to have you state it.

There is a roll call in the House.

Mr. O'NEAL. I appreciate very much your courtesy; I am sorry to have taken so long.

The CHAIRMAN. We are always glad to hear you on farm matters, and you are always welcome before this committee. We are glad to have your suggestions.

The committee will now adjourn until 2 p. m.

(Whereupon, at 12 m., the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order. We will continue the hearing of the livestock organization. Mr. Taylor, you may introduce your witnesses.

Mr. TAYLOR. Mr. Chairman, the first gentleman I would like to call is Mr. Rimsburg, from Minnesota.

The CHAIRMAN. State how many you represent and where you reside, Mr. Rimsburg.

STATEMENT OF OZZIE RIMSBURG, OF ST. PAUL UNION STOCKYARDS CO. OF SOUTH ST. PAUL, MINN.

Mr. RIMSBURG. Mr. Chairman, my name is Ozzie Rimsburg, I am with the St. Paul Union Stockyards Co. of South St. Paul, Minn., and represent the stockyards segment of the livestock industry.

The stockyard companies operate the facilities for the handling and care of livestock prior to sale. There are 68 such yards which are posted under the Packers and Stockyards Act and upon which the practices in livestock care and marketing are supervised by the packers and stockyards administration under the direction of the Secretary of Agriculture.

By far the largest percent of livestock slaughtered was and is today marketed through these terminals. Stockyard operations represent one of the mediums through which, for the past quarter of a century, farmers and consumers alike took steps to insure the stability and maintenance of livestock in our national economy. Many laws have

been passed, including the appropriation of vast sums of money, to eradicate and control livestock diseases.

This was done by the Congress not only to insure fair market practices in the selling of livestock, but as well, Federal inspection of packing, slaughtering, of meats in our processing plants, so as to provide wholesome meat and meat products for human consumption. This is highly important, since the livestock industry is basic not only to American agriculture but to the human diet.

During the 5-year period from 1935 to 1939 the sale of meat animals in the United States contributed 27½ percent to the cash farm income, equivalent to \$2,195,000,000. In 1944, 28.8 percent, or \$5,706,000,000 of the United States total, and this today represents well over a \$5,000,000,000 business.

Under a free-market system, competition forced all segments of livestock and meat in the industry to subscribe to the most economical methods obtainable. Experimental stations or land-grant colleges aided the growing farmer to adopt all economies possible in the production of meat. Similarly farmers adopted methods of marketing most advantageous to their interests in the sale of livestock, and packers and processors followed procedures in purchasing livestock most advantageous and economical to themselves.

The packing industry further developed scales and techniques to reduce their cost, established laboratories where through research more edible products could be produced, packaged and distributed to the consumer in their most appetizing high-quality condition. In addition thereto uses were found for most if not all the byproducts of meat animals.

However, the results above related were made possible under a free market, and under competitive conditions.

Today, instead of adhering to a system of economy, for instance in the procurement of meat animals, we find legitimate processors and packers competing with many new slaughterers in buying livestock, which today exist at every cross road in the country, thus requiring many buyers to purchase what one buyer before purchased in numbers of livestock.

Most of these added buyers are not skilled and experienced. Many were previously engaged in the for-hire business of trucking livestock, but under present regulations many truckers, in addition to trucking, are livestock buyers and secure with increased volume, income from commissions and other sources, and thus remove livestock from normal and policed marketing channels.

In this manner, our livestock-producing areas are today honey-combed with a very costly and wasteful method of livestock procurement. These added costs are passed on to the ultimate consumer, either in price of meat, or absorbed through subsidies from the Federal Treasury, or the black-market patron.

Another glaring example of waste existing today is in the large number of newly established slaughtering plants all over the country. Before controls, we had in the United States approximately 1,800 slaughterers, of which about 900 were processors. I understand that the current number now requesting subsidy is 12,168. No one knows how many slaughterers we have at present who do not or have not applied for subsidy payments. Even so, this tremendous increase in such uninspected slaughtering places since controls were established

indicates to what extent people will go to obtain meat supplies, where the protection provided through meat inspection and sanitary conditions in slaughtering, processing, and handling are completely ignored.

These newly established slaughtering plants were intended to be operated for the most part only for a short period of time, little or no consideration is given to the value of the byproduct. The loss of the value of this byproduct is tremendous to the industry, and while the total loss cannot be known, we do know it has been high in remunerative value to packers prepared to utilize such products in their entirety.

One of the greatest losses of this meat byproduct is reflected in the amount available with respect to protein feeds, of which at the moment there is such a total deficiency.

Gentlemen, we should no longer permit the continuation or increase of these mushroom, uninspected, and wasteful slaughtering operations. They cannot be properly policed, but they can and do flourish under a price-control program.

People everywhere, if they can get it, want meat from inspected sources, and if this cannot be secured, certainly that meat, prepared under sanitary conditions, would be at least welcome. So we of the livestock industry oppose the further extension of price controls and subsidies for livestock. The remedy for a bad law is to repeal, not better administration.

Our economy can only be preserved by a high productive efficiency, operating without price controls or restraints resulting therefrom.

The CHAIRMAN. Thank you, sir.

Mr. Taylor.

Mr. TAYLOR. Our next and final witness, Mr. Chairman, is Mr. C. L. Farrington, of Indiana.

Mr. PATMAN. Do you have a prepared statement, Mr. Farrington?

Mr. FARRINGTON. Partly, Congressman, and partly some comments I wish to make.

Mr. PATMAN. You may proceed in your own way.

Mr. FARRINGTON. Thank you. I am C. L. Farrington of Indianapolis, Ind.

STATEMENT OF C. L. FARRINGTON, OF INDIANAPOLIS, IND., NATIONAL LIVESTOCK EXCHANGE

Mr. FARRINGTON. Since the inception of the Office of Price Administration, I have been chairman of the ceiling and allocation committee of the National Livestock Exchange which is the national trade organization of old-line market agencies operating on the big terminal Government-supervised markets of the United States and whose members sell around 75 percent of the livestock that flows through those terminal markets.

We act as agents for the shipper and producer of livestock. We receive his shipments, feed, water, grade and sell it for him. We endeavor to advise him on his marketing and feeding problems. He depends upon us to keep him posted on current events and programs that might affect his operations in any way. We are selling him our services as representative agents in the marketing of his livestock, consequently it is necessary at all times that we remain active and informed in all things pertaining to livestock marketing.

When Office of Price Administration was created, therefore, we deemed it exceedingly essential that any controls or regulations of that agency should be practical and workable, and that we should advise with Office of Price Administration from time to time and render assistance in the making of those controls and regulations. We recognized that livestock production and marketing were so distinctively different from other commodities that controls and regulations which might be applicable to other commodities would only create chaos and confusion in our industry. It was also necessary that feeders and producers should be kept advised on all matters of control in order that there might be a maximum of compliance and a minimum of confusion when and if regulations were issued. Hence this committee was formed of which I was appointed chairman.

I would like to deviate from my text enough, Mr. Chairman, to say that as chairman of this committee, I have been called upon to come down here at different times to confer with Office of Price Administration on their regulations. We have tried to keep them as practical as we could.

I was asked today, as a witness, to summarize the testimony that has been presented to you, and I simply want to call your attention again to these few facts that were brought out this morning.

First, the animal numbers in this country are sufficient—in fact they are more than the Department of Agriculture says we ought to have. One big feeder sat here today, and I wonder if you caught the significance of his testimony. He told you that his subsidy had amounted to \$30,000 per month. And yet he is willing to give that up if you will do without subsidies and let his livestock sell on the open market.

In my experience in the livestock industry I have never heard a statement similar to that one.

Now, the price control and the subsidy programs are hampering the livestock industry, because of the uncertainty as to what to expect.

We, out in Indiana, have a great deal of soft corn. In fact, they are still shucking some of the last corn and getting it out of the fields. On the 1st day of January there was more corn left in the fields of Indiana than we had ever known. It was not merchantable corn. It is only corn that can be used as livestock feed, principally, and some of those men who cribbed it too early are now having to throw it out on the ground because there is a mold getting into the corn and they do not know what to do. They do not know on what basis they should buy their feeding stock, and unless something is done to give them some assurance, I am afraid a lot of that corn that might be utilized will be wasted.

The effect on the farmers and producers all over has been touched upon from time to time in the testimony this morning, and some of the things I have to say in my statement will be repetition of some of the things that have already been said, but they have impressed me so much in my contacts and in my experience with the livestock industry that I think it is well they be called to your attention.

I hope you will pardon me if I do repeat some of the things that have been said previous to my testimony.

Our experiences under the Office of Price Administration have been far from satisfactory. I do believe I can safely say that compliance with all Office of Price Administration orders has been at its maximum

in terminal markets. We have tried strictly to live up to the spirit and letter of the law insofar as it has been humanly possible to do so. However, we have learned to our sorrow that we were being penalized for doing so. Those who would evade the law, began bypassing our regular Government-posted and supervised markets, and set up new channels of marketing whereby their own selfish interests could be served. As restrictive order after restrictive order was issued, legitimate dealers found their hands more firmly tied and the unbridled operator operated with greater ease in his unregulated channels.

Gentlemen, the law specifically specified that pricing programs and ceilings must not divert business away from its normal market channels. I have here some figures from United States Department of Agriculture which I wish to submit for your consideration. In 1930, of packer hogs for slaughter under Federal inspection, 59.9 percent were purchased through public terminal, Government-supervised markets. In 1944 it was 47.1 percent and then when shortages became more acute and buying power high, the percentage dropped to 37.3 percent. At the close of 1945 it was even worse—in November it had reached 32.8 percent and in December it was 32.9 percent. Another set of figures from the same authority show that in 1940 the number of hogs slaughtered in federally inspected plants was 64.93 percent of the total slaughter in the United States. In 1944 the percentage was 71.26 percent but in 1945 it was down to 56.88 percent.

In other words, gentlemen, almost half the hogs slaughtered in 1945 went through other than Federal inspected plants. I am sure you can appreciate the gravity of such a situation.

Personally, I am the owner and operator of a commission business at the Indianapolis stockyards. This firm was founded in 1871: I have been there since 1905 and I believe that in that 41 years of association with and service to farmers and feeders of livestock, I have built up considerable experience and acquaintance. I know many of my customers personally as well as their families. I have been in many of their homes. We talk together on many topics especially concerning livestock production and marketing. I can truthfully tell you that I have never seen farmers in the frame of mind that they are in today. They do not know how to plan. They resent Government regulation that attempts to tell them not only what to raise but what to do with it when they get it harvested and what the price can be. Their costs have risen too, but one 5- to 10-cent raise in hog ceiling prices was the only recognition of that fact by the Office of Price Administration.

On a 200-pound hog, a nickle raise in prices means 10 cents per animal more for the producer and that animal represents 6 to 9 months' work and investment. Compare that dime per animal with recent wage increase per hour granted industrial workers. Is it any wonder that a rebellious attitude is developing in the minds of farmers and livestock producers?

Now, I know from my own experiences and knowledge of farmers that there is no more patriotic group in the United States. They demonstrated it in the way they produced under extreme handicaps during the war period. Nor do they want inflation—they are as determined on that score as anyone. However, they are not going to willingly submit to being used as an anchor or ballast or doormat

to an economy that is constantly rising at their expense. They just will not operate or try to produce under such circumstances.

I note a trend among these patriotic farmers to disregard more and more the regulations and edicts of the Office of Price Administration when such regulations hold them lower than their comparative level. When some buyer starts knocking on their barnyard gate bidding them more than Office of Price Administration says they are entitled to receive and offers them cash with no questions asked, the temptation is there to take the money and let Office of Price Administration "go hang."

Many are already doing it—more will follow. Gentlemen, the most serious objection to Office of Price Administration, in my opinion, is the fact that it is breaking down the moral fiber of so many good people. In many phases, it is worse than the prohibition law so far as public attitude is concerned—so many of its livestock control orders have been so unworkable and so unenforceable that many operators have even ceased trying to comply with them. The enforcement has been so lax that he who tries to live by them has only to look over the fence to see the others profiting by their disobedience of them. He cannot help but wonder "what is the use?" It makes cheaters out of honest men because cheaters profit and honest men are penalized.

I just received another complaint from one of our markets today. Office of Price Administration moved in with probes to check on all their buyers at that market.

What is the result of such a fishing expedition? I will tell you—even the legitimate operators leave that market and head for the unsupervised uncontrolled markets where they can operate in peace, as they see fit and as conditions warrant. You may well ask "Will not Office of Price Administration check there to?" and I can only answer "they never have."

Gentlemen, the livestock industry is in a mess. It was built up over a century of progress, through supply and demand. It has tried to operate for 3 years or more, under a theoretical method of control that has proved unworkable and unenforceable, that has promoted black markets and retarded the production of food.

Pigs are not pork, live cattle are not beef, live sheep are not mutton, live lambs are not lamb chops. Do not be misled by figures and numbers. There is a very important step in the process before live animals can be converted into meat. And it is the restriction of the conversion process that threatens the industry today. Office of Price Administration cannot solve it by restrictive measures. Only the farmer, feeder, or producer can solve it and they are not inclined to do so as long as some impractical group retains control.

Might I leave this thought with you—cheap meat can benefit no one if there is no cheap meat for sale.

Now, gentlemen, I want to thank you for the opportunity of appearing before you.

Mr. PATMAN. Are there any questions, gentlemen? If not, thank you very kindly, sir.

Mr. TAYLOR. Thank you very much.

Mr. PATMAN. Thank you Mr. Taylor for presenting the witnesses.

Mr. TAYLOR. Thank you for listening so attentively.

Mr. PATMAN. Congressman Rogers, did you want to introduce these next witnesses?

Mr. ROGERS. If you please, Mr. Chairman.

Mr. PATMAN. Very well, go right ahead.

Mr. ROGERS. Mr. Chairman and gentlemen of the committee, I represent the Sixth Congressional District of Florida.

That district produces practically 70 percent of the vegetable crops grown in the State of Florida.

Among the vegetables grown down there are tomatoes, and we grow some tomatoes down there that, of course, if we cannot get an immediate sale, we have to can them.

These gentlemen represent the canning industry. They represent the South Florida Cannery Association. Mr. Bechhold is president, and Mr. Rothrock is secretary and they desire to be heard and to give you the facts with reference to the dealings with the Office of Price Administration and how they have been treated by the Office of Price Administration.

Let me say by way of introduction, that in my district in what we call the real farming area of the South, the Everglades, that they have dealt very unfairly with some manufacturers down there. Two concerns have been put out of business because they would not give them a reasonable margin on the cement blocks they were manufacturing.

Mr. PATMAN. Give us the names of those concerns, Congressman?

Mr. ROGERS. One of those concerns is Shirley Bros., manufacturers of cement blocks at Pahokee, Fla., and the other is the R. Y. Kretsch Corp., he is president of it; I think it is called the Appliance Corp., but I am not sure about that.

At any rate, these are just two illustrations that I wanted to give this committee. They would not let them manufacture these blocks at a rate of around 18 cents.

Mr. PATMAN. Are these gentlemen going to testify about that, Congressman?

Mr. ROGERS. No; they are only cannerymen.

This might be a little out of order but I just wanted to let the committee know about it. It is in line with what they are going to testify about.

I am sure that what I started to say was this:

Those people in the Everglades when they get cement blocks, they have to get them from Fort Myers, and from the other surrounding territory, and those people are required to pay 22 to 25 cents a block whereas they will not let them manufacture them there at 19 cents.

I just wanted to make that statement for the record.

Mr. PATMAN. All right, Mr. Bechhold, you may proceed.

STATEMENT OF S. BECHHOLD, ON BEHALF OF SOUTH FLORIDA CANNERS ASSOCIATION, FLORIDA

Mr. BECHHOLD. Mr. Chairman, gentlemen, my name is S. Bechhold, of Fort Lauderdale, Fla. I am here representing the South Florida Cannery Association of which I am president.

I am appearing before this committee as a court of last resort. For more than 1 year we have been trying to get Office of Price Administration to extend price relief, which would enable us to handle the Florida tomato crop.

When we began these efforts, our case seemed so simple and obvious that we anticipated little difficulty in getting the adjustment. To our surprise and dismay, we have made no progress at all, in spite of protestations and enlistment of our Senators and Congressmen. Finally, we came to the conclusion that there was something radically wrong with the Office of Price Administration.

Therefore, we are appearing today to ask Congress to intervene and to save us. In the light of our experience we are certain that perhaps thousands all over the United States are in a similar situation as ours. We feel it our duty to recommend drastic and radical changes in the Price Control Act for the reasons which I shall state as briefly as I can.

After months of tedious work and conferences held here in Florida and in Washington trying to raise the ceiling price on tomatoes for Florida canners, all of which led to exactly nothing, the members of our association, which means the Florida Tomato Canners, have finally come to the conclusion that the Office of Price Administration, in spite of ever so many promises, does not care what happens to—

(a) The farmers, the money they invested in seeds and labor, with the result that their crop of ripe tomatoes must of necessity rot in the fields.

(b) The canners, their invested capital, their idle machinery, and the resulting unemployment which must follow.

(c) The wholesale grocers, the retail grocers and the housewife, all of whom will have to do without tomatoes, for which there is already a great shortage, and has been for the last few years, due to the policy of our Government agencies, which eliminated Florida canners from the tomato business and drove other canners throughout the country into byproducts.

(d) The food which is so badly needed here and abroad, and when there is again talk of rationing.

Price control that hampers or curtails and so completely stops production must bring inflation, and the very thing Office of Price Administration claims to prevent. I am for price control as a bulwark against inflation, but, and this is a very great but, sensible price control, which as yet Mr. Chester Bowles has failed to give us. Instead of striving for perfection and harmony, we are getting confusion, shut-downs, black markets, un-Americanism, and what have you. It seems that there is neither personnel nor purpose to handle problems which eventually would reestablish peace in our country.

Statistics show that the Florida tomato pack in 1938–39 exceeded 3,000,000 cases. We would have easily packed 1,000,000 cases in 1946 if a satisfactory price could have been obtained from Washington. We have asked for this, and we have fought for it for many months. No one in Washington concerned with this question, can say that they were not fully conversant with our problem. The tomato pack in the entire United States dropped from 41,000,000 cases in 1942 to 15,000,000 in 1945 because of the Office of Price Administration. The tomato season in Florida has started, and the ripe tomatoes are supposed to go into cans as a vital food product for our country, instead they are rotting in the field, all because the Office of Price Administration expects us to produce and to sell 30 to 50 percent lower than other canners. Why? If there is anyone in Washington who can give us an intelligent answer to this important question, we have not heard of it.

Our actual cost, without profit, for a dozen cans of tomatoes averages from \$1.25 to \$1.30, while our Office of Price Administration ceiling price is \$1.10 to \$1.15 per dozen, including subsidy. So far this year, out of a potential pack of 1,000,000 cases, 53,000 cases have actually been packed, and this figure cannot increase unless a price relief is immediately forthcoming.

We canners in Florida are disgusted and discouraged. We have been told in letters by our armed forces that we have done an excellent and outstanding job during this war. Filling tomato orders for the Army and Navy last year showed our members losses of thousands of dollars, and some did not fill their quota at all, because they could not afford the loss.

This great country was made great by a free people allowed to bring forward its best qualities by a democratic form of government. We did not reach the position of the most envied nation on earth because of rules and regulations from Washington. We became great because we were freemen to think for ourselves and stand on our own legs. We were free to work, free to develop, and free to plan. We did not have to ask Washington for a price of an article, and wait 6 months for a reply, and when it came it turned out to be a monkey wrench. The Office of Price Administration is trying to convince the American people that 2 and 2 is 5.

We are today economic slaves—slaves of rules and regulations of the worst sort—only thought possible in a totalitarian state. Do you realize that the Office of Price Administration takes the right, and mind you has done so in our case, and I am sure in many others; of denying us the right to earn a living, by refusing to allow a price at which we can exist. This situation is intolerable. These men were not elected to office. They are appointees hanging on to their jobs regardless of the misery they cause to others.

All this has brought strikes, black markets, no production, no planning, no hope for the future. It has cost billions of dollars in loss of wages and products, utter despair and unrest throughout our land. Unless we change it and change it now, we are due for a terrible awakening.

People will come to the realization that just as drugs eventually destroy the addict, so too, will regimentation in the end, reduce the people to slavery. Price control, as we have seen it, has to, and will continue to, work to the detriment of our country. It has not alone brought expansion to a standstill. It has retarded reconversion, and stagnated existing establishments in most lines. While, on the other hand, if left alone, we would by now be well into full production, and price adjustment would come by itself, not by a man-made law, but by one which no man can change—supply and demand.

There is no such genius in our Office of Price Administration, in our country, or in any country who can successfully violate this law; but this is exactly what Mr. Bowles has done, and continues to do, and you know the results, from every city and village in the land.

The Office of Price Administration has not controlled prices. The Office of Price Administration has made it possible for black markets to flourish; to drive others into idleness and out of business. In our case it is directly responsible for the destruction of valuable food by letting it rot in the fields by its refusal to give us processors a price which would enable us to buy from the farmer.

The war is over. The time has come to set us free from the totalitarian control which is monopolizing our very lives, and which has become a nightmare to all of us. It is destroying the very thing which has made this country so great. Our entire economy is out of gear because of unrealistic price ceilings and subsidies, which by the way, we condemned when Adolf Hitler started it in Germany, and control of production and numerous other regulations.

We hear nice speeches and promises from the heads of our agencies, but speeches and promises are cheap, and from our own sad experience we know that their statements are not true and their promises not carried out. All we get is "double talk" and arrogance. The American people are sick of it. The Office of Price Administration has had its day during this war until now. They will scheme and do everything to justify their position and to maintain it as long as possible, another year, another month, another day. If they win, our economic freedom is crushed.

I recommend immediate removal of the entire Office of Price Administration pricing policies, which only confuse the producers and everyone down the line. There are too many rules, regulations, and amendments which, when added up, do not make sense.

I would like to see the following: First, let each producer set his own price, based on actual cost plus a reasonable profit, but not above that reasonable profit. If this were done, all dislocations in our economy would at once, disappear. Of course, even this control should automatically be scrapped as soon as supply has caught up with demand.

Second, do away with all food subsidies. In the end, these are paid by the consumer in the form of taxation or Government borrowing, which again leads to inflation. Cut the two and one-half billion asked for subsidies and another two billion elsewhere, and balance our budget. Let people work and produce, and allow a sufficient return to both the producer and wage earner. Only then, and not before, can America turn out the goods, and end the scarcities, which bring black markets, higher prices, and aggravate our entire economic structure.

It seems incredible to vote for \$1,600,000 to Office of Price Administration, as is being proposed, for investigation of black markets when Office of Price Administration is directly responsible for creating this deplorable situation. It reminds me of the gang which smashes a storekeeper's window, and then goes and tells the storekeeper: "You see what happened? You need protection."

It is the eleventh hour. We will have to make up our minds if we are to recover from the immense exertions of this war. We are on a crossroad; one, leading to a greater America with a high standard of living; the other, to a life of regimentation, slavery, dole system, Government hand-outs, and a falling standard of living. Which shall it be? Control for control's sake and all its consequences, or freedom for the American people, for a free enterprise, all-out production, and again opportunity for all.

Why not trust in the good common sense of the American people? Surely there are more brains in the country than in the Office of the Price Administration?

Give us back the right to think for ourselves, to work, to produce, to expand, and to be masters of our own destiny.

Mr. MONRONEY. Are there any questions?

Mr. Riley?

Mr. RILEY. I have no questions.

Mr. MONRONEY. Mr. Buffett?

Mr. BUFFETT. I have no questions.

Mr. MONRONEY. Thank you for your statement, Mr. Bechhold.
the next witness.

STATEMENT OF W. J. ROTHROCK, SECRETARY, SOUTH FLORIDA CANNERS ASSOCIATION

Mr. ROTHROCK. My name is W. J. Rothrock. I am secretary of the South Florida Cannery Association.

At the start of the war, the Government appealed to canners for all-out production of essential canned vegetables: Tomatoes, peas, corn, beans, in that order of importance.

Yesterday I shopped in a supermarket, the type of retail distribution with the lowest percentage of mark-up and presumably with the greatest variety of supplies. I purchased an 18-cent No. 2 can (20 ounces) of peas, an 18-cent No. 2 can (20 ounces) of corn, and a 25-cent No. 2 can (19 ounces) of beans.

There were no canned tomatoes. Instead, I purchased a pound carton of an inferior substitute—raw tomatoes—for 33 cents. By the way, there is only 15 ounces gross, package and everything else, but it is supposed to be a pound.

For your information, when these raw tomatoes are skinned, cored, and prepared as stewed tomatoes, there will be a loss of 40 percent. Therefore, when buying raw tomatoes, the consumer must spend 62 cents in order to obtain a quantity equivalent to a 19-ounce No. 2 can of vine-ripened prepared tomatoes.

Canned tomatoes have never been nationally advertised because commercial tomato canning is really small business, in 46 of the 48 States, no coast-to-coast favorite brands, no Washington lobbyists. There are more individual tomato canners than canners of all other vegetables added together; many proudly trace their venture back to grandparents' kitchen factories.

Mr. Bowles, in his statement to you on February 18, 1946, stated that it is generally true in such industries as food processing that labor cost is a relatively small part of the total sales dollar. In this he was perhaps correct, in referring to peas, corn, or beans, for which commodities mechanical means exists for practically every step of the preparation and canning operation, requiring only supervisory labor. However, the peeling, trimming, and sorting of tomatoes can only be done by the hand and eye, no mechanical means having ever been invented that could do this type of work. It is incorrect to consider whole tomato cost of preparation in terms of cents-per-hour wages; it should be considered in terms of production as now it is requiring an average of three workers to do what one worker formerly accomplished before controls went into effect.

Before Government controls, because of keen canner competition or consumer preference for flavor, canned tomatoes largely were sold to local markets or where favorable freight rates applied. Compare this with the millions of dollars spent annually advertising other vegetables and juices, produced almost exclusively by mechanical

means by machines that can be operated 24 hours a day if necessary, limited only by the crop or the quantity that can be marketed.

Tomato canners did a grand production job in 1942 and 1943, before war plants took away their experienced help by paying double or higher wages, furnished transportation, better working conditions, and uniform hours. Some tomato canners in 1944 operated their canneries in the evenings with help who had already worked during the day in war plants.

Squeezed between too low a price ceiling on their finished product and rising costs, largely through waste by inexperienced help, tomato canners, individually and through their local State associations, appealed to local and Washington Government officials, unsuccessfully, for relief.

From the records I quote what the South Florida Canners did to inform both the Office of Price Administration and the Department of Agriculture that canned tomatoes were underpriced when tomato prices were named for 1944 on September 4, 1944, and Florida prices were the lowest in the United States and below the cost of production:

Yields and cost data were presented to the Office of Price Administration in Washington with a request for corrections.

When no correction was forthcoming, South Florida canners called in the Florida Government officials, showed them their costs—far above ceiling prices—and we know these officials reported to Washington.

On February 23, 1945, following the South Florida Canners' meeting at Miami, where it was developed that tomato canners' losses were averaging 60 to 70 cents per case of 24 cans, the Government men were taken into the tomato fields of south Florida and shown ripe tomatoes rotting in the fields. And we know the Florida Government officials made their reports to Washington. When Washington failed to act, another special canners' meeting was held at Fort Lauderdale on April 6, 1945, and all canners reported that they had stopped canning, with thousands of bushels of ripe tomatoes in the fields.

The Department of Agriculture's 1945 calendar year production report shows 342,000 bushels of unmarketed raw tomatoes in Florida. The canners believe these figures are low; but just think, if these ripe tomatoes had gone into cans, how welcome they would be today.

During March 1945 the Tomato Advisory Committee met in Washington. Senator Pepper and Congressmen Cannon and Rogers were unsuccessful in securing the privilege of any of three Florida tomato canners, then in Washington, attending the meeting. The best our Congressional Representatives could do was to obtain individual audiences for our canners; and as usual, they told their stories and were told the Florida situation would be considered.

On August 28, 1945, tomato prices were named for 1946, and still Florida had the lowest price in the United States. Immediately, the South Florida Canners, by individual calls, by letters, telegrams, telephone messages, and through their Congressional Representatives, protested to Washington for corrected prices, so a prospective one and a half million cases of tomatoes could be packed this winter in Florida.

The South Florida Canners kept the Office of Price Administration, Department of Agriculture, and the Office of Economic Stabilization

posted almost from day to day between September 28 and January 29 on the progress of the Florida winter tomato crop.

During January 1946, south Florida had a repetition of what happened in 1945—ripe tomatoes again rotted in the fields because Washington had taken no corrective action; all this happening with the country clamoring for canned tomatoes.

On February 3, 1946, the South Florida Cannery Association went on record with the National Cannery Association's meeting at Atlantic City, N. J., as follows:

If the Department of Agriculture and the Office of Price Administration had set out with the deliberate intention of ruining the tomato-canning industry in 1945, they could not have done as complete a job as was accomplished by reason of their "do nothing policy" while professing to be studying ways and means to correct regulations they knew were paralyzing canned tomato packing operations.

The 1945 crop of tomatoes is history, except for the southern tip of Florida where ripe tomatoes are rotting in the fields now, exactly like they rotted a year ago while the country is millions of cases short of consumer requirements. Were the Government men whose duty it was to see that sufficient canned tomatoes were packed and properly priced incompetent? Or were they just neglectful?

Flat pricing was equitable to the greater majority of canners in 1942, and price enforcement simple.

In 1943 a band-pricing formula was unfolded to an unsuspecting majority of canners and explained by the Office of Price Administration as necessary because the National Planning Committee demanded a pricing method which would maintain the normal sale price differentials that prevailed between different canners in a selected base period. The Office of Price Administration refused to hear any argument as to the advantages special interests would have under such a formula, especially on Government purchases, or the disadvantages to the greater majority of canners.

We need not remind you that pricing enforcement has completely broken down, and the cost of living gone up, because the consumer is so often compelled to pay, for an inferior substitute, double the price that the desired food, if obtainable, would cost.

Whether production and marketing have been so demoralized that a return to sensible flat pricing under Government control is no longer possible, or whether all Government controls and regulations should be lifted, is a matter which we think deserves careful thought and discussion by the canners at this convention.

If canners must operate under Government controlled pricing for the 1946 crop, then, why not require the Government to name prices prior to canners contracting with growers, similar to the 15-days-before-planting notice that is given growers on fresh fruit and vegetable ceiling prices.

The National Cannery Association reports the canned tomato pack for the calendar year 1945 as 14,470,550 cases, which is only 47 percent of the five previous years' yearly average pack, and 64 percent less than the 1942 pack—the last year before price controls.

Truly canned tomatoes, usable in over 50 different dishes, are a part of the American way of life—just as essential as bread, sugar, or potatoes. In fact, a can of tomatoes and a loaf of bread have tided many families over periods of financial stress.

It must be remembered that in pricing fresh vegetables, the Office of Price Administration have followed the course of supply and demand. When a product is plentiful, they lower the ceiling price, when a product is scarce they increase the price. However, on canned tomatoes they have held the price at less than average cost of production, regardless of the scarcity of the item. While in addition Florida, in tomato pricing area 5, has ceiling selling prices for canned tomatoes varying from 23 to 28 cents per dozen No. 2 tins less than area 7.

The Office of Price Administration has proved, by its record, its

inability to properly price canned tomatoes or regulate their distribution. Therefore, for the good of the country and to save the industry, we suggest that canned tomatoes be removed from Office of Price Administration controls. Then the consumer will be able to buy canned tomatoes again and they will not be any dearer in price than canned peas, corn, or beans—all less popular than tomatoes.

Thank you.

Mr. PATMAN. What was the Office of Price Administration's reply to you in answer to this argument?

Mr. ROTHROCK. I would be very glad to read it.

Mr. PATMAN. I, personally, cannot understand why they failed to grant relief under such circumstances.

Mr. ROTHROCK. I will be glad to answer that. They have a printed form of relief. I have one right here, sir. They are all the same:

Your problem is one about which I would like to have you get the views and opinions of people in this agency who are directly concerned with this matter. Therefore, I am simply acknowledging receipt of your recent communication until you receive a more definite reply. If a satisfactory reply does not reach you in a reasonable length of time, I will appreciate hearing from you again.

That was signed by Chester Bowles.

Mr. BECHHOLD. May I say one thing, Mr. Chairman? There is not a cannery in Florida which is not for sale today.

Mr. PATMAN. Not a cannery?

Mr. BECHHOLD. There is not a cannery in Florida which is not for sale.

Mr. BUFFETT. You mean every cannery down there is on the market?

Mr. BECHHOLD. Yes, sir; including mine.

Mr. BUFFETT. How many canneries are down there?

Mr. BECHHOLD. I would say about 20.

Mr. BUFFETT. Twenty tomato canneries?

Mr. BECHHOLD. Yes, sir.

Mr. PATMAN. What kind of prices are they offering?

Mr. BECHHOLD. What prices? Cheap.

Mr. PATMAN. What are you holding your own at?

Mr. BECHHOLD. My equipment is worth about \$150,000.

Mr. PATMAN. About \$150,000?

Mr. BECHHOLD. Yes.

Mr. PATMAN. And that is about the price it was in 1941. I am not trying to quizz you, but I am just trying to see how anxious they are to sell. They ought not to take losses.

Mr. BECHHOLD. We are losing money. Every canner is losing money down there.

Mr. PATMAN. Therefore, they are offering to sell their canneries at a loss?

Mr. BECHHOLD. Yes, they cannot operate. Mr. Bowles expects us to produce and sell tomatoes for 9 cents which cost us 11 cents to produce.

Mr. PATMAN. What is the nutritional value of tomatoes as compared to peas, for instance?

Mr. BECHHOLD. Well, our Secretary, Mr. Rothrock, can answer that.

Mr. ROTHROCK. With your permission, sir, tomatoes are listed as tops. According to the Department of Agriculture, Secretary Wickard made that statement that tomatoes were the first require-

ment of the country; peas, second; corn, third; and beans, fourth; sir. That was on December 19, 1941, directly after entering the war.

Now, sir, that was the stock reply I read you.

Here is my answer to Mr. Bowles:

Mr. CHESTER BOWLES,
Administrator, Office of Price Administration.

DEAR MR. BOWLES: In your letter of January 16, you told us that if a satisfactory reply did not reach us in a reasonable length of time, you would appreciate hearing from us again. No replies have been received; in fact, Mr. Bowles, we feel that you should personally know that it has been the practice in your Department (other than yourself) not to answer telephones, telegrams, or letters. Therefore, there is no way for canners to know what thought, if any, is being given to a subject such as our tomato matter.

We were told verbally that our Florida tomato situation was being studied as long as a year ago. Florida canners were denied the privilege of having a representative sit in on the 1945 Tomato Advisory Committee meetings conducted by Colonel Rountree. The canned tomato problem was allowed to delay, linger, and wait. Two-thirds of the year was gone before the 1945 tomato pricing program was issued, and when announced, it clearly showed that proper consideration had not been given to the canner's problem of getting tomatoes peeled and into the can as whole fruit. Despite canners' protests, no relief has been since granted.

A study of the California Canner's League production records covering 1945 production of tomato products, made after 1945 tomato prices were named, which gave California the benefit of the highest price range of any territory in the United States for canned tomatoes, indicates only a canned tomato pack of approximately one-half of prewar normal, but an astounding increase in the production of tomato products. In other words, California growers produced the tomatoes, but the canners in California could not pack them as canned tomatoes.

We know that you, personally, are not expected to know the details of the thousands of businesses regulated by your Department and that you must delegate such responsibilities to others.

We, likewise, realize that except from letters such as this, you are unlikely to know how the responsibilities that you delegate to others are accepted by them.

Mr. PATMAN. Now, how does your price compare with the California price?

Mr. ROTHROCK. I have in my hand here the official Office of Price Administration list. We are relegated in an area known as No. 5, which starts at Missouri, Arkansas, Louisiana, North Carolina, South Carolina, Georgia, Florida, and Alabama. We are grouped with those States.

Mr. PATMAN. I believe you left out Mississippi.

Mr. ROTHROCK. Yes, sir; and Mississippi. In other words, there is an airline distance of between a thousand and 1,500 miles between some of those places.

Mr. PATMAN. And you get the same price?

Mr. ROTHROCK. Exactly the same price. The lowest in the United States.

Now, let me explain one thing more. Florida crop is packed in the winter season, when we are subject to hazards which is not the case in the pack in these other States with which we are grouped. None of these other States have a winter crop. Their crop is all produced in the summer season, under normal growing conditions, and in industrial localities, where the Florida locality is agricultural. We are bound by all the rules and regulations of agriculture down there and, as you probably know, in agriculture there was no workmen's compensation, no withholding taxes, or any of those taken out of the worker's pay down there, but the minute that man stepped from a fresh packing house into a cannery, he had all those deductions taken right out of his wages.

Mr. PATMAN. You still did not tell me how the price compares.

Mr. ROTHROCK. The price compares in the highest area, which is California, Oregon, Washington, and Idaho, the price on standard tomatoes, \$1.34.

Mr. PATMAN. You are having to produce them for \$1.15, are you not?

Mr. ROTHROCK. You said produce, did you not, sir?

Mr. PATMAN. I mean that is your cost, is it not?

Mr. ROTHROCK. No, sir; that is our sale price.

Mr. PATMAN. \$1.15?

Mr. ROTHROCK. Now, let me explain something. We have what they call "band pricing," sir, which is a terrible situation, and which only benefits special interests, and has cost the Government millions of dollars.

Mr. BROWN. How much better are the California tomatoes?

Mr. ROTHROCK. Did you say better, sir?

Mr. BROWN. Yes.

Mr. ROTHROCK. They are inferior, sir. They do not have the same flavor, nor do they have the same color, but, answering the other gentleman's question, from \$1.34, which is their lowest price, our lowest is \$1.11, which is 23 cents difference.

Mr. PATMAN. Can they make money at \$1.34?

Mr. ROTHROCK. No, sir; they cannot. The best proof of that is they packed only 47 percent as many tomatoes, but they packed 200 and some percent more of juice and 300 percent more of puree, which are products.

Mr. PATMAN. Do you pack the tomato juice, too?

Mr. ROTHROCK. Yes, sir; we do. They are mechanically pressed, sir; not by hand labor.

Mr. PATMAN. Do they do it by hand labor out there?

Mr. ROTHROCK. No, sir; they are mechanically pressed, for juices. And you handle your peas, you handle your corn, and everything, mechanically. But not with tomatoes.

Mr. PATMAN. That is an interesting point. Tomatoes require personal handling?

Mr. ROTHROCK. Yes, sir.

Mr. PATMAN. There is no machinery?

Mr. ROTHROCK. Not for canned tomatoes.

Mr. BARRY. Has your production of juices and puree gone up in Florida?

Mr. ROTHROCK. Not to the same extent, because we could not get the equipment to do it.

Mr. BARRY. Customarily, you never made juice and puree?

Mr. ROTHROCK. No, sir. As a matter of fact, the Florida canning industry sprung into being, practically speaking, between 1941 and the present date, and it was the only part of the United States following our entry into the war that was able to deliver to the camps of the country when they needed it, in January, February, and March, 1942, either beans, tomatoes, or any other vegetable product, because the rest of the country was frozen.

Mr. PATMAN. You are talking about the canned goods and not the fresh goods?

Mr. ROTHROCK. Canned. Our camps required canned goods, sir.

Mr. PATMAN. They required canned goods?

Mr. ROTHROCK. Yes.

Mr. PATMAN. Well, I am personally going to look into this and ask the Office of Price Administration to give me a report on it. It looks to me as if it were a bad state of affairs. I know the committee will look into it, too.

Mr. ROTHROCK. It is a period of 12 months, sir.

Mr. BROWN. What about your oranges in Florida, is the ceiling higher in Florida than in California?

Mr. BECHHOLD. We do not know about that. They probably have their troubles, too.

Mr. BROWN. I know Florida oranges are very good.

Mr. BECHHOLD. Yes, they are very good; so are the tomatoes.

Mr. Chairman and gentlemen, there is the Washington Post of this morning. You will find that in all the grocery store advertisements, there is not one tomato advertised for sale. Why? There are none.

Mr. PATMAN. Well you bought some fresh tomatoes there.

Mr. BECHHOLD. I am speaking of canned tomatoes. There are none.

Mr. ROTHROCK. It takes two of those packages to make one can.

Mr. BECHHOLD. And 33 cents a pound. We are to can them for 9 cents, including labor and everything. These are 30 cents a pound.

Here is another letter which is a joke, from Mr. Chester Bowles to me.

Mr. PATMAN. Read it.

Mr. BECHHOLD. Dated November 2, 1945 (reading):

DEAR MR. BECHHOLD: Please pardon my tardy reply to your letter of July 9— That is November 2 he writes that—

Your letter, unfortunately was misfiled and only recently located.

Mr. BUFFETT. It was the same year; was it not?

Mr. BECHHOLD. Yes; the same year. And, mind you, there was at stake the welfare of our entire industry.

Mr. BROWN. Is that a letter from Chester Bowles?

Mr. BECHHOLD. Yes, sir. There is a difference of 7 months.

Before I read this, I want to tell you something about it. That shows you what the Office of Price Administration writes and what it does are two different things.

Mr. PATMAN. Will you read the letter?

Mr. BECHHOLD. Yes; I will. [Reading:]

Before this Office, in conjunction with the United States Department of Agriculture, requested the Office of Economic Stabilization to permit an increase in the gross maximum price for canned tomatoes, all phases of the problem were carefully considered. It was our opinion that an increase of 6 cents per dozen, basis No. 2—

and this 6 cents we already included in the pricing we told you of, our ceiling price, \$1.15—

would be sufficient to obtain the production needed to fulfill military and civilian requirements. While the war situation has changed since you wrote me, other factors are still of sufficient importance that we feel justified in continuing that price increase in effect.

In your letter you inquire who are the representative tomato canners who are considered when prices for tomatoes are under discussion. I wish to assure you with respect to the ceiling prices for packers of tomatoes in your area none of the firms mentioned are involved.

‡ In the first place, none of these packers are located in your area, and, in the second place, only one of the firms mentioned packs tomatoes.

Now, listen to this:

The bulk of the tomato pack is put up by small companies such as yourself, and they are the companies we consider when we establish prices.

Is that a joke?

Mr. PATMAN. I did not understand that.

Mr. BECHHOLD. He says:

The bulk of the tomato pack is put up by small companies such as yourself, and they are the companies we consider when establishing prices.

So he is driving us right out of business.

When recommending the recent increase in price, we were considering particularly the entire South.

So now he has crushed the entire South.

Mr. PATMAN. Who else would be here complaining about this besides you gentlemen? Do you have an association?

Mr. ROTHROCK. Yes, sir. I had better go back and if you do not mind, I will tell you that the Office of Price Administration have always been about 6 months behind in everything they did, sir.

Mr. PATMAN. Well, of course, I am not depending on the Office of Price Administration on this. It looks as though they delayed a long time. At the same time, in justice to them, I think it should be pointed out that Agriculture had to be consulted, too.

Mr. ROTHROCK. I have plenty of letters here on Agriculture, sir, more than I have on the Office of Price Administration.

Mr. PATMAN. And letters on the Office of Economic Stabilization?

Mr. ROTHROCK. Would you object to my reading my letter in answer to what Mr. Bowles has said to your committee?

Mr. PATMAN. I would like to hear it. It is not a long letter, is it?

Mr. ROTHROCK. No, sir; it is not. This letter is addressed to Chester Bowles. The date is March 13, sir.

Mr. PATMAN. Who is it from?

Mr. ROTHROCK. From the South Florida Cannery Association.

Mr. PATMAN. Do you live in south Florida, yourself?

Mr. ROTHROCK. Yes, sir. Belle Glade Canning Co., Belle Glade, Fla. I happen to be in Philadelphia, but I am a partner of Belle Glade Canning Co.

Mr. PATMAN. And the South Florida Cannery Association, that is your association?

Mr. ROTHROCK. Yes, sir.

Mr. PATMAN. Go right ahead, sir.

Mr. BROWN. Does your associate live down there?

Mr. BECHHOLD. Yes; I live in Fort Lauderdale.

Mr. ROTHROCK (reading):

In your statement to the House Banking and Currency Committee on February 18, 1946, under the heading of "What does this new policy mean to prices?" we understand your remarks to be a promise that manufacturers will no longer be required to wait 6 months before wage increases, which they have granted, will be taken into consideration in considering their prices. We cannot see how you can conscientiously make such a statement, knowing, as you do, that in the case of the Florida tomato canners, your investigators, in the spring of 1945, examined the Florida canners' books, which showed a cost of \$1.28½ to pack No. 2 tin standard quality tomatoes, and knew that it was due to the increased cost of labor—it requiring three workers now to do what one worker formerly accomplished. It is not the amount of money paid a worker per hour that counts, but it is what production the worker accomplishes that must be taken into consideration in arriving at the cost of labor. Nearly 12 months have passed without the

Office of Price Administration granting the Florida canners any relief other than that contained in the August 28, 1945, regulation permitting an adjustment up to 5 cents a dozen for wage increases available to all canners in the United States.

A composite cost sheet of the Florida canners, reporting on their January and February 1946 costs, shows \$1.30 $\frac{1}{4}$ cost to produce one dozen cans of No. 2 tin standard tomatoes, with the middle of the range gross maximum return for Florida canners of \$1.15 per dozen.

It is for that reason that last week only one canner was still operating on tomatoes in Florida, the balance having changed to other products.

They went into citrus and other products, with the few cans they had on hand, rather than lose money on the tomatoes.

Mr. PATMAN. Mr. Riley has a question.

Mr. RILEY. What subsidy do you get on that; you say the cost is \$1.30?

Mr. ROTHROCK. I am glad you asked that question. The South Florida Canners Association, in 1945, were denied that extra 6 cents incentive that the Department of Agriculture granted to every other canner in the United States, because they would not date it back further than July 5, 1945, and July is the rainy season, or the barren season, in Florida. But every other part of the United States got the benefit of that extra 6 cents. That is a part of the 18 cents. It is a total of 18 cents.

Mr. RILEY. The total is 18 cents?

Mr. ROTHROCK. That is right.

Mr. RILEY. You get 12 and the rest of them get 18?

Mr. ROTHROCK. But I have not given you the net price. We do not get 18 cents in addition to the \$1.15, sir. That 18 cents is in the \$1.15. I gave you the gross return, sir. Continuing:

In your statement you say that it is generally true in such industries as food processing that labor cost is a relatively small part of the total sales dollar. In this connection, we want to remind you that this may be true in the preparation and processing of vegetables like peas and corn, where mechanical means exist for practically every step of the operation, requiring only supervisory labor.

However, the peeling, trimming, and sorting of tomatoes can only be done by a hand and eye, no mechanical means having ever been invented that could do this type of work, and let us remind you, please, that canned peas and corn sell for as high as 18 cents a can, and the consumer would gladly pay 18 cents per can for canned tomatoes, but there are no canned tomatoes. As you can well appreciate, when you realize that from a 41-million-case pack, in 1942, when there were no price and production controls, the pack declined to less than 15 million cases, in 1945, because tomato canners found they were losing money at the Office of Price Administration gross ceilings, and the raw tomatoes either rotted in the field, as they did in Florida, or were turned into products in the Northern and Western States.

Instead of canned tomatoes, the consumer has been purchasing an inferior substitute, raw tomatoes, at double or more what hand-peeled and trimmed canned tomatoes would cost, or could buy machine-pressed tomato cocktail, which, incredible as it may seem, has an Office of Price Administration ceiling selling price higher than canned whole tomatoes.

You can buy V-8 in any part of the United States at 15 cents a can, and it is 90 percent tomato juice and it is pressed by a machine. And yet the owners and processors of V-8 have a \$1.44 ceiling price to the trade, and the best price they have got—I am going to take the 18 cents off now—is \$1.15 less 18 cents which is 97 cents. That \$1.44 is the ceiling price for V-8, to the jobber.

Mr. RILEY. There is no subsidy on juice?

Mr. ROTHROCK. Now there is none, because it has been taken off. But I am giving you the net price now, the comparison, 97 cents and \$1.44 that the wholesaler pays.

Mr. PATMAN. I think you have gone into it rather fully and I think you have made a pretty good case.

Mr. ROTHROCK. All right. I have just gotten to the point where I want it to be changed from the area we are in, grouped with States that are 1,500 miles apart, and in which we have an entirely different season of operation and put us in a separate area.

Mr. PATMAN. When do California tomatoes come in?

Mr. ROTHROCK. From September, October, and into December, according to the season, when the frost comes. And they are packed—

Mr. PATMAN. When do yours come on?

Mr. ROTHROCK. Ours come on starting in December, in the northern parts, they run on until about May, when the rainy season comes along. Then we are through.

Mr. PATMAN. From December to May?

Mr. ROTHROCK. That is right.

Mr. PATMAN. And California is from August to December?

Mr. ROTHROCK. Not August. They do not get started quite that early.

Mr. MONRONEY. The main trouble of your problem is you are forced to a ceiling price based on ordinary field grade tomatoes, sun-ripened under normal weather?

Mr. ROTHROCK. That is right.

Mr. MONRONEY. You are a winter-growing specialty tomato country?

Mr. ROTHROCK. Yes, sir.

Mr. MONRONEY. And you have hazards and difficulties and labor troubles which they do not have in the other areas?

Mr. ROTHROCK. Absolutely. But we could not get a representative into the advisory meeting. They said the man in Missouri would look after our case because he was looking after the South.

Mr. MONRONEY. I see.

Mr. PATMAN. Your problem is to be segregated into another area?

Mr. ROTHROCK. That is right.

Mr. BROWN. Let me bring out this point. Now, my understanding has always been that tomatoes raised in the winter months have brought a much higher price than those raised in the summer months.

Mr. ROTHROCK. All right, sir; I will be glad to go along with you on that.

Mr. BROWN. Vegetables raised in the winter months are much higher.

Mr. ROTHROCK. There is your evidence, the packed raw tomatoes.

Now, all prices are based back on what they sold for in 1941, sir. That is your base period.

Mr. BROWN. But your base period in the wintertime would give you a better price.

Mr. ROTHROCK. No.

Mr. BROWN. You should have had?

Mr. ROTHROCK. Everybody has gone back through the United States. Here is what the Office of Price Administration did: They took a base period in 1941; the first 90 days after your first day of packing is your base period, no matter whether you are in Florida, California, or Maine. They have taken that.

But you can appreciate right now that they are taking tomatoes of the size of golf balls and selling them because they are getting that high price for the raw tomatoes. And I cannot blame the grower,

because last year he left them on his vines, and then he lost them in the field. Even your own Department of Agriculture, on their own statement, shows that the crop was produced but that they were not marketed. It was a dead loss to everybody.

Mr. BROWN. I think any vegetable is higher in the winter months than at any other time of the year.

Mr. ROTHROCK. I wish you could get that across.

Mr. PATMAN. Those are two different things. One is the fresh tomato and one is the canned product. The canned product would be in competition with canned products.

Mr. ROTHROCK. That is right.

The gentleman is right, you canned tomato is in direct competition with your August or July or October canned tomato.

But your fresh tomato is different, and perhaps you have missed it at the moment, Mr. Brown, but you will find it in there. In the fresh market, they advanced the price according to the scarcity in the time of the year.

Mr. PATMAN. Yes. I am just wondering if these growers are not selling all there is in the fresh market.

Mr. ROTHROCK. You cannot blame them, sir, because last year they had to let them rot in the field.

Mr. PATMAN. But if they could make more money selling them green, they would not sell them to the canneries?

Mr. ROTHROCK. Well, unfortunately, sir, you cannot ship those green tomatoes. You can only ship perfect green tomatoes long distances. As soon as they start to color or if there is the least scratch in them, you cannot ship them long distances. You are dependent entirely on home consumption, where they can be consumed in a matter of 24 or 48 hours.

Mr. PATMAN. So your problem No. 2, the way I see it, is that you want a price high enough where you can compete in the purchase of these tomatoes, in the fresh vegetable market?

Mr. BECHHOLD. No, sir.

Mr. ROTHROCK. Let me tell you another thing, if you do not mind. In Florida today the price of tomatoes, if there were any to be had, and the last obtainable by the jobbers, they were paying as high as \$1.75 delivered in Florida per dozen for tomatoes. And they were bringing them from California.

Mr. PATMAN. You mean \$1.75 for a dozen cans?

Mr. ROTHROCK. A dozen cans; yes, sir.

Mr. PATMAN. Oh, we are talking about green tomatoes.

Mr. ROTHROCK. I am talking about your canned tomatoes.

Mr. PATMAN. I was not. I was talking about the other.

Mr. ROTHROCK. Well, maybe I missed your question. But I wanted to tell you that right in Florida, sir, where these tomatoes ought to be going into the cans, the last sales were as high as \$1.75.

I will tell you another thing that I do not think has ever come to your attention. Under this band price, a New York jobber will deliberately buy in California, the highest sales area in the country, a car of tomatoes, put it under his label, get his \$1.35 price, his 20 cents freight, bring it into New York, then put his margin on top of that—it is all legal, according to the Office of Price Administration—then he will turn around and buy, in Maryland or wherever he can,

at 20 or 25—in some cases 28—which we are under—and get the benefit of all that. Every one of those rules and regulations affect special interests. They have got a harvest on. But the poor canner is just “thumbs down.” In other words, the tomato canner in Florida today has to pay for the privilege of running his cannery the difference between the \$1.15 and the \$1.30 that it costs him to pack. That is 15 cents a dozen on every case he puts up.

Mr. MONRONEY. Supposing a New York canner were to buy at the California rate.

Mr. ROTHROCK. A New York jobber?

Mr. MONRONEY. Yes.

Mr. ROTHROCK. Yes, sir.

Mr. MONRONEY. He buys at the California rate.

Mr. ROTHROCK. Yes, sir; he buys it in California at \$1.35.

Mr. MONRONEY. He gets 20 cents freight on top of that?

Mr. ROTHROCK. Yes, sir.

Mr. MONRONEY. That is \$1.54.

Mr. ROTHROCK. Yes, sir.

Mr. MONRONEY. Then he bases his profit margin on what?

Mr. ROTHROCK. On that \$1.54 and establishes his price.

Mr. MONRONEY. Then he can go into this southern area, you say—

Mr. ROTHROCK. And buy for \$1.15 and get the advantage—

Mr. MONRONEY. The same brand?

Mr. ROTHROCK. Oh, yes.

Mr. MONRONEY. And then he gets an extra margin difference between the low price in the area and the area with the high price?

Mr. ROTHROCK. There is no question about that. That has been going on for 2 years, since 1943. It was put through in the Regulation of 1943, August 5, sir.

Mr. BROWN. Do they have many experienced men down there in the Office of Price Administration?

Mr. ROTHROCK. The experienced men all left the business, with maybe one or two exceptions. Every one of them refused to stay there, sir; they left.

Mr. BECHHOLD. Gentlemen, I had, two weeks ago, a wholesaler come into my place, from Philadelphia. He said, “I will pay you \$25,000 if you give me 25,000 cases of tomatoes—” premium. I told him, “Look, my friend, I do not do that kind of business. But if there is a canner who does it, I do not blame him.”

And I will tell you why I said that. There are canners down in Florida today who are on the verge of bankruptcy. I cannot give you the names, but I know.

Mr. PATMAN. I can see from the figures and facts you have outlined that it could not be any other way.

Mr. BECHHOLD. It is just terrible, what they are doing to us.

Mr. PATMAN. I am just trying to find out what the other side is. Usually there are two sides to a question.

Mr. BECHHOLD. Mr. Chairman, the other side is exactly what Mr. Bowles said, double talk, and nothing.

Mr. BROWN. I think people in Florida, like yourself, are to be congratulated on staying out of the black market.

Mr. BECHHOLD. We have black markets down there; we have them throughout the country.

Mr. SMITH. Is there a ceiling price on fresh tomatoes?

Mr. BECHHOLD. Not at the present time.

Mr. SMITH. Has there been at any time?

Mr. BECHHOLD. Yes; there was.

Mr. SMITH. What would be the purpose of putting a ceiling price on fresh tomatoes?

Mr. BECHHOLD. I do not know, sir, because in the fresh market when there is a scarcity, they raise the price, and when it is plentiful, they lower the price. They have been doing that right along. But not with the canned items.

Mr. Chairman, am I permitted to read a very short letter from the Director of State Markets in Florida?

Mr. PATMAN. Go right ahead.

Mr. BECHHOLD. This is to Mr. Harold Kolya, executive vice president of the Florida State Chamber of Commerce [reading]:

My recommendations regarding the information you will receive from the tomato canners will not go through the mail without a good deal of trouble. In fact, it might put me in jail for I cannot understand how the Office of Price Administration has ruled against the Florida farmers to the extent they have.

The very idea of not giving Florida the full benefit of everything they can give them, in the extent of canned tomatoes, is, to my way of reasoning, unexplainable. I believe and I believe it honestly, that we should go just as far as we can in expressing our opinion of the Office of Price Administration, and the way we have been treated by that Government Division.

I will publicize these fully, and will give the Office of Price Administration just as much Hades as I could gather around me in a letter. I have a feeling that the Office of Price Administration had better be abolished.

Mr. PATMAN. Any other questions, gentlemen?

Mr. BUFFETT. I have a question.

Mr. PATMAN. Mr. Buffett.

Mr. BUFFETT. You stated that the total back in 1942 was about 41,000,000 cases.

Mr. ROTHROCK. Yes, sir.

Mr. BUFFETT. How much in 1945?

Mr. ROTHROCK. A little less than 15,000,000.

Mr. BUFFETT. Then, this problem, as such, cuts across the entire industry?

Mr. BECHHOLD. Right.

Mr. ROTHROCK. Just a moment, sir. It does not. The pack in Florida was 75,000 cases as against what should have been a million cases, sir.

Mr. BUFFETT. I see.

Mr. ROTHROCK. Because they did not have the advantage of the extra 6 cents. I do not know whether you caught that or not.

Mr. BUFFETT. Yes, sir.

Mr. ROTHROCK. They did not give Florida the advantage of that.

Mr. BUFFETT. Yes, sir; I understand that. Tomatoes are one of the cheapest canned vegetable foods, are they not? Normally, that is?

Mr. ROTHROCK. It is one of the most necessary, and because of the great number of canners that are in the industry, and the keen competition, selling in local markets, without national advertising, naturally, it has sold to the consumer at less money proportionately than the other lines, but today the consumer would gladly pay as much, if not more, for a can of tomatoes than she would for any other products, but the other products, are either gathered from the field by ma-

chines or else are handled by machines; that is not the case of the tomatoes.

Mr. BUFFETT. A wholesaler was in my office a few days ago and he said he went to one of the canning areas—it was not Florida—the proprietor of the factory did not have anything to sell him but he took him down the road away to where he had an old machine shop, and he said he would sell him that machinery in there for \$5,000 if he wanted to buy it, and then he would have a lot of canned goods. My friend did not buy the machinery, it was just junk, worth two or three hundred dollars at the most. But he said that was the way that a lot of the canned goods were being sold in that area. Do you think that that condition might be widespread?

Mr. ROTHROCK. It is positively true in the Maryland territory. I know that. I only know of two canners down there who have sold the goods for what they really were worth.

Mr. BUFFETT. Then, the canner has this choice: He can do business at a loss until he goes broke, or he can go black market, or he can shut down?

Mr. BECHHOLD. That is right.

Mr. ROTHROCK. The Congress of the United States is responsible for it, too, sir.

Mr. BUFFETT. Yes, sir; I know that, and I do not like it.

Mr. PATMAN. Congress would also be responsible for inflation, too.

Mr. ROTHROCK. I am talking about the grades. The Congress eliminated the grades. They did not make it necessary to use the established grades that had been in practice for 10 years.

Mr. PATMAN. You do not expect Congress to legislate details, do you?

Mr. ROTHROCK. But they took it out and said commercial grading will do. In other words, if you and I agree that this piece of paper is red, it is red between us.

Mr. SMITH. May I comment on that point, Mr. Chairman?

Mr. PATMAN. Go right ahead.

Mr. SMITH. You are acquainted with subsection (h) of section 2, are you not?

Mr. ROTHROCK. Not by that name.

Mr. SMITH. All right. That specifically prohibits the Office of Price Administration from doing exactly what you said the Office of Price Administration did, specifically prohibits it. I am interested in that, because I fathered that particular amendment.

Mr. ROTHROCK. What is it it prohibits?

Mr. SMITH. You said the elimination of these grades has resulted in injury.

Mr. ROTHROCK. Yes, sir.

Mr. SMITH. Now, there is a clause in the Price Control Act which specifically prohibits the Office of Price Administration from eliminating those grades.

Mr. ROTHROCK. But they are eliminated, sir.

Mr. SMITH. Of course, they are.

Mr. ROTHROCK. Did Congress not say that it was not necessary to apply maximum average gradings on anything but Government purchases?

Mr. SMITH. I do not know that the Congress specifically said that, but this provision is in the Price Control Act, which prohibits such

elimination of grades. That is in the act, subsection (h) of section 2. That provision was written in there for the specific purpose of preventing the Office of Price Administration from using its powers to change cost practices, or methods of doing business that were commonly in existence. But the Office of Price Administration simply ignores that section of the law, and has said to me—I have put this up to them and said, “You are driving people out of business,” and they frankly said to me that they had to change these practices in order to be able to control prices.

Mr. ROTHROCK. Can I make a statement along those lines?

Mr. SMITH. Do not misunderstand me. I still think it is the fault of Congress. I still think it is the responsibility of Congress to see to it that the law is carried out.

Mr. PATMAN. Thank you very kindly, gentlemen.

Without objection, the committee will adjourn until 10 o'clock Monday morning, when we will hear from the National Association of Manufacturers.

(Whereupon, at 3:45 p. m., the committee adjourned, to reconvene at 10 a. m., Monday, March 18, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

MONDAY, MARCH 18, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

The first witness will be Mr. Wason, president of the National Association of Manufacturers.

Mr. WASON. Thank you, sir.

STATEMENT OF ROBERT WASON, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. WASON. Mr. Chairman and members of the committee, my name is Robert Wason. I am president of Manning, Maxwell & Moore, and the National Association of Manufacturers.

Your willingness to hear and receive the judgments of the National Association of Manufacturers on the subject of the Office of Price Administration controls is greatly appreciated.

For many weeks you have patiently listened to varying viewpoints on the Office of Price Administration. We want today to give you the viewpoints of the producers of manufactured goods in this country. To reduce our story to single form and to assist its clear presentation, what we have to say is produced on charts.

The value of our story to your committee will be increased if it can be presented without interruption. If it is agreeable to your members that our complete story can be told without interruption, I would be happy at the conclusion to answer any and all questions that you may ask within my ability to answer them.

The CHAIRMAN. We will request the committee not to interrupt you during your presentation of the charts.

Mr. WASON. Thank you, Mr. Chairman.

These observations have to do principally with inflation.

I would like to offer one or two broad assumptions, Mr. Chairman, if I may, representing the National Association of Manufacturers. We clearly recognize that there probably is no group of men in America that so clearly understand the problems of the Office of Price Administration as the gentlemen of this committee. We are well aware that with great patience over a period of weeks you have listened to various representatives of other segments of the economy, and that you have absorbed and clearly understand the viewpoints that they express.

If agreeable, inasmuch as my observations have to do with inflation, I would like to relate an incident that has to do with the subject.

Back in 1933 I was in Santiago, Chile, and one evening went to Valparaiso and up to a little resort called Vina del Mar. But Sunday came, and I decided to return to Santiago, and during the evening I had had a driver, an English-speaking driver, drive me around the city of Vina del Mar and Santiago in a cab, and when trains did not run the following day, he suggested that he might drive me back to Santiago. But we had become friends of the moment. He told me of a mortgage on his home amounting to 500 pesos, and about his great anxiety to relieve it because it was pressing upon him, and he had had postponements in the payments.

We entered into an arrangement whereby he would take pesos to drive me to Santiago, and when we got there, instead of paying him off, I suggested he see me the next day and he drove me again—and the following day, and when the pay-off came late one afternoon, he said to me: "Do you know how much this bill is?" And I assured him that I did not.

He said, "Well, I am sorry to tell you, but it amounts to 500 pesos," and he was on the verge of tears when he said it. I thought a while, and finally dug into my pocket and produced 500 pesos and paid him. And he wrung my hand and almost cried, and explained that this was the end of the mortgage that had tortured him for so many months.

I went into the hotel and said to the cashier: "How much is 500 pesos in American money?"

He said, "Oh, that is \$12.50." That was inflation.

We are aware that in the South Seas, where our soldiers were paid regularly and where goods were not available for purchases, the natives took pearl-handled revolvers off of dead Japs and sold them to our soldiers, and the price, in at least one instance, was \$250 American money or six Hershey bars. That was inflation.

And it is to that subject that I would like to address myself today. Not in the South Seas, or Chile, but impending inflation in the United States.

Within the next year, perhaps the next 90 days, the economic future of this country will be determined. It will be determined by whether we—all of us, the American people, acting through Congress—win the fight on inflation.

It will be a hard fight. Inflation has a head start. Since 1939, according to the Bureau of Labor Statistics Index of Wholesale Prices, this is what happened by the end of 1945, 6 years later.

Metal and metal products, up 12 percent.

Fuel and lighting materials, up 16 percent.

House-furnishing goods, up 21 percent.

Hides and leather products, up 24 percent.

Chemicals and allied products, up 25 percent.

Miscellaneous items, up 27 percent.

Building materials, up 32 percent.

Textile products, up 45 percent.
 Foods, up 54 percent.
 Farm products, up 101 percent.
 Livestock and poultry, up 103 percent.
 Fruits and vegetables, up 104 percent.

This rise in prices—this inflation we already have had—means that what could be bought for \$1 in 1939, took \$1.00, 25 cents, 10 cents, and 4 pennies in December 1945.

This picture of existing inflation does not include the rise of prices which has been, and will be, made under the new "wage-price" formula. It is officially estimated that this will amount to between 5 and 10 percent.

This picture of existing inflation does not include the rise in the price of meat recently announced by the Office of Price Administration, the rise in price of grain, which has been approved by the Office of Price Administration, the rise in the price of clothing, which the Office of Price Administration has already granted, nor the rise in the price of steel.

This picture of existing inflation does not include the higher prices the public is forced to pay because the Office of Price Administration policies have driven low-priced goods off the market.

This picture of existing inflation does not include the excessive prices being charged for the constantly increasing volume of goods sold in the black market.

The Office of Price Administration says that if Congress gave it "10,000 investigators," it would not have a chance of breaking up the black market in New York alone.

Finally, this picture of existing inflation does not include the inflation at present being given by governmental subsidies. The Office of Price Administration says this amounts to 8 percent in the cost of food.

If the people's savings, their War bonds, the money in their pockets, their insurance, their wages, are not to become worth less and less; if the cost of living, food, clothes, household furnishings, daily expenses, are not to go higher and higher and higher, this inflation must be stopped—now.

The only way this inflation can be stopped now is by production—all-out production—of washing machines, automobiles, radios, clothes, shoes, food, farm machinery, building materials, furniture, and so forth; in brief, all those thousands of things which the American public wants and business wants to produce.

This is not a problem which any one group alone can solve. It will take the united efforts of labor, management, farmers, and Government.

As the representatives of a major segment of American business management, we are anxious to accept our share of responsibility for getting maximum production. We ask consideration of our views because the National Association of Manufacturers is composed of

15,000 producing companies located in every State in the Union, as shown by the dots on this map:



These 15,000 companies range in size from great corporations employing tens of thousands of persons to small enterprises employing only a handful of men.

To be specific, 22 percent of these companies have less than 100 employees, 15 percent have less than 250 employees, 17 percent have less than 500 employees, 11 percent have more than 2,500 employees. (A block is left out here which accounts for the failure to add up to 100.)

Taken together, these companies provide jobs for 4 out of every 5 workers in American manufacturing.

Taken together these companies produce 85 percent of all manufactured goods in the country.

Obviously, if we are to get the all-out production necessary to stop inflation, these companies will have to do the job.

The policies of the National Association of Manufacturers are formulated by committees, the total membership of which is about 1,500. When a committee has decided on a policy it makes a recommendation to the National Association of Manufacturers' board of directors.

This board is composed of 141 businessmen. In electing directors, each of the 15,000 members of the National Association of Manufacturers has 1 vote, no matter whether he has 10 or 10,000 employees, no matter whether his company has five thousand or five billions of dollars in assets.

The members of the National Association of Manufacturers' board hold office for 1 year. Thus the board reflects current thinking of American business. The board also reflects the views of the Nation

as a whole, as shown by the dots on this map, indicating the cities from whence they come.



It is the considered opinion of the National Association of Manufacturers that today, the greatest handicap to all-out production are the policies of the Office of Price Administration. As we said in a recent advertisement:

Today this country has all the labor and materials necessary to turn out the things people want. Yet goods are still scarce. Store shelves are still bare. The national pocketbook continues to bulge. Inflation grows.

Why? Because price controls in peacetime hinder the production of goods. Business cannot live by producing at a loss. And goods that cannot be made to sell at the prices fixed by Government, just don't get made.

Nor will the raising of price ceilings solve the problem. When costs and selling prices are subject to change at any moment by Government action, production has to be on a day-to-day basis. That means uncertainty, reduced output, more inflation.

Remove price controls on manufactured goods and production will step up fast.

We know that many individuals and some businessmen disagree with this point of view. This is not surprising because in recent months the Nation has been flooded with propoganda in support of the Office of Price Administration.

We have been told by official statements, by pamphlets, through the press, over the radio, that only the Office of Price Administration stands between the people and disastrous inflation.

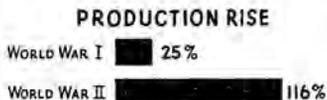
We claim this assertion is false, for these reasons:

The Stabilization Act was passed in September 1942, but the Office of Price Administration says:

"Price control first became really effective" with the hold-the-line order of May 1943.

Therefore the starting point of the Office of Price Administration, by its own admission, must be taken as May 1943.

The Office of Price Administration denies that price controls hinder production. To prove this, it uses the following chart:



According to the Office of Price Administration, "these facts exploded the idea that price control has hampered production. The opposite is true, steady prices * * * aid production."

Now let us look at the record of production before and after the Office of Price Administration.

The United States started its defense program in 1940. Here is what happened to industrial production *before* the Office of Price Administration:



This is what happened to industrial production *after* OPA.



From this record it is clear that the Office of Price Administration had a depressing effect upon business and production during the war. (The great records of production during the war were made largely in items not subject to price controls—airplanes, ships, munitions, and so forth.)

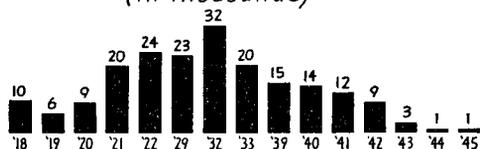
During the war this was desirable. By holding down prices, and thereby discouraging civilian production, we were able to devote more of our resources and manpower to the production of war goods.

Today, we do not want to restrict civilian production. Today, in peace, the problem is to get all the civilian production that we can—fast.

Another argument used by the Office of Price Administration to prove its that policies have not hindered production, is the record of business failures. The picture the Office of Price Administration presents is this:

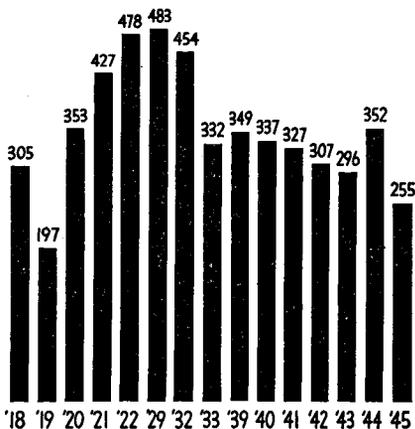
BUSINESS FAILURES

(In thousands)



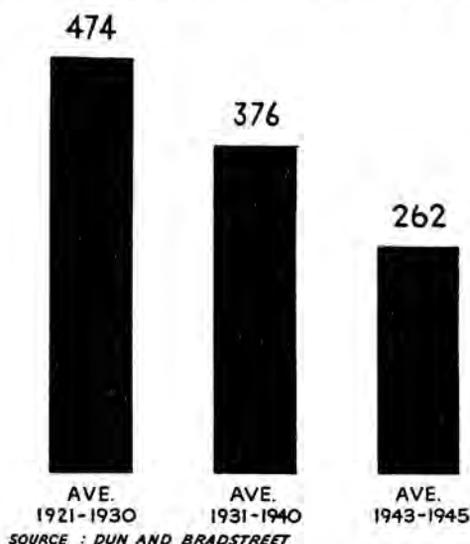
From this chart the Office of Price Administration concludes, "Fewer businesses have been in distress than ever before."

Let us see. When the number of businesses discontinued is added to business failures, this is the record (in thousands):



Source: Dun and Bradstreet

Here is the number of new businesses started (in thousands):



It is clear that the small number of business failures is not because "fewer businesses have been in distress," as the Office of Price Administration claims. The small number of failures is because, (1) thousands of concerns when the outlook became too unfavorable, have just closed up shop; and

(2) The number of new businesses started has been much below normal.

At the beginning of 1945 there were 300,000 fewer business firms in the United States than there were in 1941.

Not only has the Office of Price Administration discouraged incentive and hindered production *in the past*, it is discouraging incentive and hindering production *today*, and it will continue to discourage incentive and hinder production *in the future*. The evidence is overwhelming. Let us look at a few cases:

The Bear Brand Mills, Kankakee, Ill., makes men's socks. It used to make 5,000,000 dozen pairs of work socks a year. For 9 months it tried to get the Office of Price Administration to adjust prices to allow for rising costs. Under the price the Office of Price Administration set, the company makes more profit making only dress socks—1,000,000 dozen pairs a year. This requires only 20 percent of the plant's capacity. The other 80 percent of its machines are shut down.

A letter written by Blue Buckle Overall Co., Lynchburg, Va.:

We note you are anxious to purchase a quantity of men's bib overalls, but regret due to very low ceiling set by the Office of Price Administration, we were forced to discontinue manufacturing lot 79-B.

The W. T. Grant Co. representatives appeared before this committee. They operate 490 stores in 39 States. On January 1, 1946, its inventory of underwear was only 43 percent of what it was a year ago—7 percent of 1942. Actually, the inventory of underwear in 1942 was 14 times what it was January 1, 1946. Cotton piece goods

inventories were 42 percent of a year ago, and 13 percent of 1942. Why? "Practically every one of the Office of Price Administration's important regulations has forced cheapening of quality and disappearance of goods," in the experience of Mr. Sidel and the W. T. Grant Co.

A lumber company in Maine was asked to fill out an Office of Price Administration form. It answered:

GENTLEMEN: In reply to your request.

Our concern was established in lumber business in Milford, Maine—year 1884—always had a good business. We operated under the ceiling prices * * * and we are now in the bankruptcy court, so will not be able to fill out Office of Price Administration Form 60732686.

Yours very truly,

BARKER LUMBER CO.

This year the members of the South Florida Cannery Association packed 53,359 cases of tomatoes. They could have packed 1,000,000 cases. Why the difference? Present Office of Administration ceiling price, including subsidy, is \$1.10 a dozen. Present average cost of production, is \$1.26 a dozen. (This gentleman was before your committee.)

These are just a few examples of what happens to production under the Office of Price Administration. Hundreds—thousands—of other examples could be given. The evidence is everywhere.

What has happened to white shirts? There is no shortage of cotton.

Why is there no butter? Milk production is close to all-time high.

Where are men's suits, low-priced women's dresses, children's play suits, and scores of other items that should be plentiful now?

Everyone knows the answers to these questions. It is not shortage of raw materials.

It is not lack of productive capacity.

It is not shortage of manpower.

The reason the American public is not getting the goods it wants today is that the Office of Price Administration price ceilings have driven them off the market.

The Office of Price Administration admits that this is true, that its policies have prevented production. On clothing, the Office of Price Administration says:

Wartime increases in labor and materials have made some low-end goods unprofitable to produce. We are granting special increase * * * to encourage production.

On building materials in general, the Office of Price Administration says:

* * * There have been 36 different building materials on which price increases have been granted since VJ-day to help along * * * in bringing this production up.

The Office of Price Administration cites these increases to prove its policies are "flexible." It boasts of having made 4,857 individual price adjustments, and 459 industry-wide adjustments since VJ-day.

The truth is that in every one of these cases, the adjustments were made because the old prices were hindering production. *Otherwise, why make the public pay more?*

Too little and too late!

That has been the record of the Office of Price Administration since

VJ-day, and that will continue to be the record of the Office of Price Administration in the months ahead. This is certain to be true because the Office of Price Administration has to set and police the prices for 3,000,000 business establishments.

This is the number of places of business whose pricing policies the Office of Price Administration must attempt to control. If we look at the number of individual items:

There are 1,000 different sizes and varieties of nails to be policed.

The prewar Sears, Roebuck catalog listed about 50,000 different items;

The ordinary department store handles about 100,000 different items.

In the aggregate, the Office of Price Administration says that it has to set and police "something like 8,000,000 prices * * *". It cannot do it.

If the prices set by the Office of Price Administration are to be fair, the Office of Price Administration must know the costs of production and the costs of distribution on each one of these 8,000,000 items. No Government bureau—no matter how large it is or is expanded—can do that job.

No Government bureau which attempts that job can prevent delays, confusion, loss of production, and needless scarcity of goods.

With some prices too high, some too low, production is bound to stay out of balance.

If it is more profitable for a company to make small- and medium-sized dresses than it is to make large sizes, as it is under the Office of Price Administration, the large sizes will not be produced.

If it is more profitable to make fancy sport shirts than it is to make plain white shirts, plain white shirts do not get made.

Juggling first one of these prices and then another, means that the economic system is kept constantly out of balance.

Even if the Office of Price Administration had the best intentions in the world, the best administration that is humanly possible, it could not help but set some prices too high, some prices too low.

The significance of this is that there are certain to be delays, confusion, loss of production, because the price structure of this country is a seamless web.

The change in price in one segment of the economic system necessarily affects the costs of production and prices in every other segment.

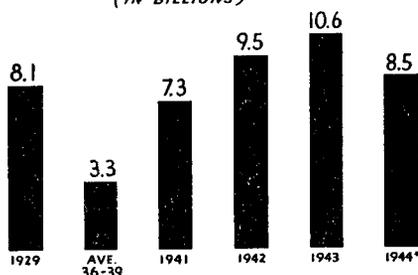
A rise in the price of steel, or cotton, or lumber, or any other basic commodity, affects the prices of thousands of products.

The Office of Price Administration cannot correct this lack of balance in production. If it makes a price adjustment to help solve one situation, that adjustment itself will create and aggravate a lack of balance in a dozen other parts of the economic system. Only free markets can maintain balanced production. Continuation of the Office of Price Administration can mean only continued unbalance, continued shortages, continued prevention of maximum production.

Another reason why the Office of Price Administration will continue to prevent maximum production is its policy on profits. On this

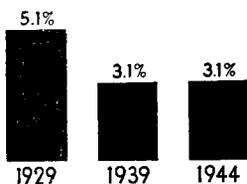
subject, there is a great deal of misinformation and misunderstanding. Therefore, business would like to keep the record straight. Here are the facts:

Net Profits All Corporations
(IN BILLIONS)



SOURCE: U.S. TREASURY
*ESTIMATE, U.S. TREAS. BUL. MAY, 1944

In terms of profits per dollar of sales this is the record:



*Gross Receipts
Source: U.S. Treasury

Business is proud of its fair profit record during the war. But the Office of Price Administration now proposes to force profits 25 percent below the 1936-39 level, a period in which 6 out of every 10 corporations in America had no net income. Here are the facts:

The Office of Price Administration says:

Prices will be established which will give a business the same rate of profit on its net worth that it had in 1936-39 before taxes.

In 1936-39, the average corporation tax rate was 17 percent.

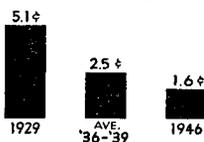
Today the rate is 38 percent.

This means a business which had a net income before taxes of \$100,000 in 1936-39, ended up, after taxes, with \$83,000.

Today it would end up with \$62,000, a decline of one-fourth.

For business as a whole, this is how the new formula will work in terms of profit per dollar on sales, assuming the 1943 volume of production:

PROFIT ON EACH \$1 OF SALES*



*GROSS RECEIPTS

The Office of Price Administration says, Prices will be set on the assumption of a theoretical "normal" production for the next 12 months.

This means that the Office of Price Administration, in fixing prices, will use, not present cost figures, but its own estimates of what costs will be under conditions it assumes will exist.

The reliability of Government forecasting 12 months in advance is somewhat shaken by Secretary Wallace's final repudiation of his Department forecasts of costs in the automobile industry, and its ability to absorb a wage increase of 25 percent within 2 years, without price increases.

The Commerce Department's study was released by Secretary Wallace on November 1, 1945. The study attempted to forecast volume and costs for the automobile industry 2 years in advance. On an assumed volume-and-lower-production costs, the study claimed that wage increases of 15 percent could be made in 1946, and another 10 percent in 1947. This document was widely accepted as an authoritative study, even by the fact-finding committee for the General Motors dispute appointed by President Truman.

Strikes were called, settlements were made, on the basis of that forecast.

On March 15, 4½ months after its release, 2 days after the strike was settled, and long after it had been acclaimed as proof for the support of wage demands, Mr. Wallace retracted the study.

Mr. Wallace pointed out that the study merely reflected an effort by Harold Wein, employed by the Office of Price Administration, not by the Commerce Department—he even disowned that part of it—to develop the statistical methods and techniques for determining and projecting cost-price and profit relationships. I offer that as an index of the invalidity of their claim of power to forecast prices 12 months in advance.

Such Office of Price Administration estimates and assumptions are sure to be wrong. No one can forecast with accuracy that far in advance. Certainly not under present conditions.

The Office of Price Administration says the profit to be allowed is not dollar amount, nor cents per dollar of sales. The profit Office of Price Administration will allow is the 1936-39 percentage rate on *net worth*. This means that if a business produces more per dollar of net worth, or capital investment, the Office of Price Administration will not allow any profit on the increased output. It is production we seek; it is production that is prevented.

To summarize why the Office of Price Administration hinders production:

1. With 3,000,000 businesses to regulate and 8,000,000 prices to set and police, it is not possible to prevent delays and confusion, with some prices too high, others too low.

2. With some prices too high and others too low, production will remain out of balance, because producers will naturally concentrate on turning out those goods which are most profitable, and attempts to correct this unbalance by price adjustments will always create still more points of unbalance.

3. Fixing prices on the basis of the Office of Price Administration's theoretical estimates of future production and costs, rather than on established facts, will make productin dependent upon the accuracy

of the Office of Price Administration guesses, instead of upon the realities of the market place, and

4. Holding profits 25 percent below 1936-39 and figuring profits upon the net worth, instead of upon the volume of sales, destroys the incentive to try to get all-out production.

Clearly, therefore, continuation of the Office of Price Administration means limited production, continued shortages, greater danger of inflation.

The second broad argument used by the Office of Price Administration for the continuation of price controls is that only the Office of Price Administration can prevent an inflation and collapse such as followed World War I.

This analogy is false. Here are the reasons:

The Office of Price Administration says:

After World War I, the Nation suffered a disastrous postwar inflation . . . abandonment of controls at this time would lead to inflation as bad . . .

Let us examine the facts.

World War I came at a time when industrial production was at peak levels. The war demand, coming on top of this, caused prices to rise sharply, 103 percent. January 1913, 100 percent; November 1918, 203 percent.

After the end of the war, there was a brief decline of prices, and then they rose to a new high in May 1920. The rise being 22 percent, or about one-fifth of the wartime rise. From 203 they went to 247 in May 1920, and leveled off at about 150.

Is there any reason to expect a repetition of this postwar rise of prices if the Office of Price Administration controls on manufactured goods are removed?

The answer to this question is found in the causes of the price rise after World War I.

At the end of World War I, foreign buying of goods in our markets increased by leaps and bounds.

Before the war, we shipped about \$500,000,000 more goods abroad than we bought. The \$500,000,000 is excess of exports over imports.

During the war, this excess of exports over imports increased to \$2,800,000,000.

In 1919, the excess jumped to over \$4,000,000,000—an unheard of figure for those times, and a volume of buying that could not do other than drive up prices.

An increase in foreign trade now comparable with what happened after World War I would mean—this is not excess, but the total of both exports—would mean exports of almost \$25,000,000,000 within the next year. Even the most optimistic estimates, allowing for foreign loans, are not more than half of that amount.

The second reason prices advanced after World War I was: during that war our manufacturing capacity, as measured by actual output, increased only 28 percent.

In the first war we went from reasonably good times into war.

In the second war, we went from depression into war.

During World War II, our capacity increased 105 percent and this increase came on top of a capacity already almost double that at the end of World War I. This means the Nation is many times as well prepared to meet the pent-up demand as it was at the end of World War I.

The final reason prices advanced after World War I was: Because of a lack of reliable statistical information on production and supplies, business feared a continuation of shortages, and bid frantically to get goods for its inventories.

At that time these were all the statistical tools generally available and at hand for business as reflected in the Federal Reserve Bulletin:

- Wholesale prices.
- Bank debts.
- Business failures.
- Bank assets and liabilities.
- Imports and exports.

Today there is no danger of an inventory inflation because of lack of information. Today business has these statistical tools in addition to those that I read:

On a weekly basis steel production; electric power production; freight carloadings; department store sales (on a monthly basis) consumer credit, in detail; income payments; cash farm income; industrial production, in detail; new orders; shipments; inventories; employment, in detail; wages and hours, in detail; construction contracts; department store stocks.

Clearly, then, the record of what happened to prices after World War I is no excuse for continuing the Office of Price Administration at this time.

Nor is there any reason to assume that the pattern of events after World War I will be repeated, if price controls on manufactured goods are removed.

To summarize, the inflation following World War I was caused by enormously increased foreign buying in our market, limited expansion of productive capacity, lack of information on available supplies and current production, which caused widespread fear of shortages.

Clearly, therefore, we have no reason to assume that the pattern of events after World War I will be repeated.

The final broad argument used by the Office of Price Administration for a continuation of price controls is that "gigantic" inflationary pressures are now "threatening our postwar stability."

What are these "gigantic pressures"?

The Office of Price Administration says:

The American public has "wartime savings" of \$145,000,000,000.

These could throw the Nation into a wild inflationary scramble, exceeding anything it has ever experienced.

We do not believe it. Is there any reason to expect this? Let us look at this \$145,000,000,000.

Now, on this discussion of inflation, we would like to analyze, in the next few charts, the character and position of that \$145,000,000,000 and, then, discuss the factors of inflation which we think have vastly more importance.

Of the \$145,000,000,000, \$45,000,000,000 of that amount are savings which the public had before the war—not "wartime savings." That reduces the total of inflationary pressure to \$100,000,000,000.

Another \$12,000,000,000 are in the form of trust funds—whether they be for the aged, or education, or for whatever purposes, they are not a menace to the market. This means that they will not come into the market for radios, washing machines, and so on. This reduces the total to \$88,000,000,000.

Another \$21,000,000,000 are time deposits. The record shows that in the aggregate, the public does not spend its time deposits. This reduces the total to \$67,000,000,000.

Another \$35,000,000,000 are invested in United States bonds. Certainly there is no reason to assume these will be dumped on the market. This reduces the total to \$32,000,000,000.

In the month of February, the sales of bonds in this country were \$60,000,000 more than the bonds that were redeemed by the public.

This \$32,000,000,000 remaining is in currency and bank deposits. If we assume a person carries twice as much money and bank balance when his income doubles, this would account for another \$15,000,000,000, leaving only \$17,000,000,000.

Of this \$17,000,000,000, perhaps, and this is just a guess and yours may be better than ours, perhaps \$1,000,000,000 is held outside the United States. A further large amount is held here temporarily for safety by foreigners now residing in this country. A considerable sum is being hoarded, and a large amount is just waiting for a favorable time for investment.

This \$145,000,000,000 is merely a part of the accumulated savings of the American people. It is not a special fund overhanging the market, just waiting to be used to bid up prices.

Does this mean that there is no "inflationary potential" today, no large sum which, if used, would drive prices through the roof? Let us consider that for a moment.

There always is an "inflationary potential" in every highly developed economic system. This "inflationary potential" consists of all the currency, bank deposits, Government bonds, savings, corporation bonds, mortgage stocks, in brief, everything in the form of "liquid savings" that can be converted into cash, and used for the purchasing of goods, plus the borrowing capacity of all the people and of all businesses.

This is the "potential" buying power that exists at all times. The real "inflationary potential".

Now, inflation is caused' not by the mere existence of these "liquid savings."

Inflation is caused by people using these "liquid savings" to bid up prices.

Run away inflation, and I distinguish between the two, is caused by people becoming frightened over the future value of their "liquid savings," and rushing to convert them into goods, no matter what price they have to pay for the goods.

What can cause people to get frightened over the future value of their money and "liquid savings?" There are three basic causes:

First, people may get frightened because of Governmental financial policies. (Continued large deficits are likely to have this effect; starting the money printing presses is also almost certain to do so.)

Second, people may get frightened because of continuing and growing shortages of goods. (Conversely, unless the Government is running the printing presses, a rising avalanche of goods gives people confidence in the future value of their money by giving them something to purchase in exchange for it.)

Third, people may get frightened because of scare propaganda, statements that prices are going up, that the Nation is on the verge of a disastrous inflation, and so forth and so forth.

Here are some examples. Mr. Bowles:

It would be difficult to exaggerate the gravity of the inflationary crisis we face * * * Everywhere the inflationary pressures have reached explosive proportions.

Paul Porter, Office of Price Administration head:

We are face to face with critical dangers that inflation will destroy all we have and blast us into a future of * * * needless poverty.

Office of Price Administration broadcast:

Unless you save the Office of Price Administration you do not save yourself, and you do not save the country.

Mr. Bowles:

Hello, everybody. The American people have undertaken a new all-out attack against the forces of inflation * * * the danger of skyrocketing rents and soaring prices.

Inflation can never be stopped in this country unless we stop creating fear in the minds of our people through irresponsible statements; unless we assure the public that they will get the goods that they want, at reasonable prices, by taking the Office of Price Administration shackles off of manufactured goods; unless we bring the Federal budget into balance, and thereby put an end to the growth of the inflationary danger which comes from continuous Government deficits.

What of the argument that price controls must be continued "until supply catches up with demand?" This is by far the most plausible of the arguments used in support of continuing the Office of Price Administration. Let us analyze this argument:

What is meant by "supply catching up with demand"?

Some people think of this in terms of the demand for individual items, say automobiles, in relation to the supply of automobiles.

But as usually used, the phrase means that price controls should be continued until enough goods are produced to "absorb" or "off-set" the "excess buying power" in the hands of the people, the \$145,000,-000,000 discussed earlier. This appears reasonable, but note:

Every dollar of production which is sold creates a dollar of buying power in wages, interest, or profits.

In other words, there is no such thing as having enough production to "absorb excess buying power." If we produce and sell \$150,000,-000,000 of goods and services, we thereby automatically create \$150,000,000,000 worth of buying power.

Continuation of the Office of Price Administration, therefore, *will never* bring supply and demand "into balance" in the sense that present "excess buying power" will be absorbed.

At the end of another year, there will be just as much "excess buying power" as there is today. This is not news to the Office of Price Administration, as witness the following:

The Office of Price Administration says:

Production during the next 12 months "will automatically create its own buying power." That at the end of the year, if the Office of Price Administration is continued, inflationary pressures will be fully as large or larger by the amount of the deficit than they are today.

In other words, the Office of Price Administration itself admits that if price control is continued, inflationary pressures will be greater a year from today than they are now. But that is not all:

By continuing the present scare campaign, by perpetuating and

increasing shortages through price controls, by continuing to pump buying power into the economic system through Government deficits without producing goods, it can be only a matter of time until people, because of the fear of inflation, start a wild scramble to convert their money into available goods—no matter what the price.

In contrast to this growing danger, what can we look forward to if price controls on manufactured goods are removed before “supply catches up with demand” on an item by item basis, before there are enough automobiles to meet the pent-up demand, and so forth. Would prices skyrocket? Many people think they would. Let’s see—

Do you think women would stand in line to buy nylons at \$6 or \$8 a pair, if they knew that next month they would be \$2 a pair?

Do you think people would pay \$10,000 for an automobile, if they are convinced that in 3 or 6 months, they can buy the same car for \$1,000?

Do you think a store could sell a simple white shirt for \$10 if people know that in a matter of weeks, they can buy all the shirts they want at \$1.95?

The plain fact is that people do not bid up prices when an avalanche of goods is coming onto the market.

People bid up prices *only* when they fear continuous and increasing shortages.

But if price controls are removed and production starts rolling, “Is it not probable that people will draw on their large accumulated savings to get what they want in a hurry?” No one can answer that question with certainty, but this much is known:

So far the people as a whole have shown no inclination to squander their wartime savings—there has been no significant increase in war-bond redemptions—no drawing down of savings accounts—no wild rush to convert money into goods.

Further, granting we have full production and full employment at good wages, there is no reason why savings should be spent for current purchases. With full employment at good wages, people can buy automobiles, radios, washing machines, furniture, and the other things they want, out of current earnings, as they always have in the past.

Finally, since these inflationary pressures will get larger during the next year if price controls are continued, it is obvious that the effect of extending the Office of Price Administration will be to aggravate whatever inflationary danger is involved in these accumulated savings.

Does that all mean that there would be no rise in prices if the Office of Price Administration is eliminated?

That is the crucial question. The Office of Price Administration has an answer. Mr. Bowles says:

* * * Whenever you get out of price control, you are going to have some ups of prices * * * you are going to get a balance * * * through some things going up and others going down, but even though that does not balance out, and the net result is a somewhat higher general level of prices, that * * * does not concern me.

And the total of that statement is available later if you wish.

“Some prices up—some down” that is what the Office of Price Administration predicts will happen if price controls are removed on June 30, 1947. Some prices up, some down. And just that.

Nothing more than that is what will happen if price controls on manufactured goods are removed on June 30, 1946.

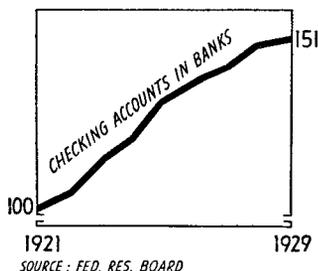
As the National Association of Manufacturers said in a recent newspaper advertisement:

Remove price controls on manufactured goods, and production will step up *fast*. Goods will then pour into the market and, within a reasonable time, prices will adjust themselves naturally, as they always have, in line with the real worth of things.

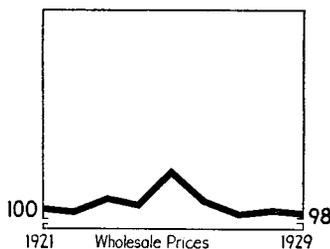
Competition has never failed to produce this result.

Is there anything beyond mere opinion to support this contention, that in spite of accumulated savings, in spite of "inflationary pressures," prices *will not* skyrocket if the Office of Price Administration is eliminated? Let us go back to the record once more.

Taking 1921 as 100, this is what happened to buying power during the 1920's.



Wholesale prices, over this same period, 1921 to 1929, were as follows:



Clearly, therefore, the relation between the rise of money and the movement of prices, does not indicate that they are tied together.

Prices are fixed by competition in free markets, *not* by the money supply. And what is this competition in free markets?

It is the effort of every manufacturer to meet the wishes of the American housewife, the effort to give her what she wants, at a price she thinks is fair. That is real price control.

Price control by the American housewife: This is the kind of price control that assures that the right things get made in the right quantities.

Price control by the American housewife: This is the kind of price control that assures maximum production, jobs, and prosperity for all.

Price control by the American housewife: This is the kind of price control that has made America great, and the only kind that can keep America great.

Price control by the American housewife: This is the kind of price control that we ask Congress to enforce in the best interests of all the American people.

I am most grateful, to you Mr. Chairman, and to the members of this committee.

The CHAIRMAN. Mr. Wason, did your organization take any stand in the original enactment of the price control and stabilization acts?

Mr. WASON. During the war; we favored it.

The CHAIRMAN. You did not take any stand at all on the original enactment of the act? Did I understand you to say that?

Mr. WASON. We favored it, Mr. Chairman.

The CHAIRMAN. You favored it?

Mr. WASON. Yes, sir, during the war.

The CHAIRMAN. Well, how do you reconcile that with your present attitude, if you favored it at that time, the control of prices; how can you reconcile that with the attitude you take now?

Mr. WASON. We felt during the war that the civilian economy should be reduced and controlled. We think now that the war is over the economy should be freed.

The CHAIRMAN. You speak the opinion of the National Association of Manufacturers, I understand?

Mr. WASON. Yes, sir.

The CHAIRMAN. How did you arrive at that opinion? In other words, how many members of the association have the opinion that you have expressed today, with reference to the membership?

Mr. WASON. Well, Mr. Chairman, I have explained how our organization is set up, and the action taken by the board. The board has acted on this subject four separate times since the war has ended.

The CHAIRMAN. Who are the membership of the board? How many are on the board?

Mr. WASON. One hundred and forty-one businessmen from different parts of the United States, representing large and small business.

The CHAIRMAN. Was the action of the board unanimous?

Mr. WASON. Yes, sir.

The CHAIRMAN. I understand it is your opinion that both acts should die at their expiration on June 30, is that so?

Mr. WASON. Yes, sir.

The CHAIRMAN. All controls should be taken off. Have you any opinion with reference to the control of rents?

Mr. WASON. We do not have opinions on that subject, for the reason that we are not in the landlord business. You gentlemen have listened with great patience to representatives of all segments of the economy, who have come here with reasonably expert information on their own subject, and we assume that that has been covered in detail by whoever appeared for the realty boards and others.

The CHAIRMAN. But you have a relationship to rent control. Your people certainly must be interested in whether or not controls remain on rent.

Mr. WASON. It has never been discussed.

The CHAIRMAN. Never been discussed.

Mr. WASON. There is no decision of any kind on that subject from our board.

On manufactured goods the decision is clear-cut, and it is unanimous.

The CHAIRMAN. Well, now, how many of your members are engaged in the manufacture of consumers' goods?

Mr. WASON. We have no break-down on that.

The CHAIRMAN. Are not the great majority of them engaged in that type of manufacture?

Mr. WASON. A large percentage, Mr. Spence.

The CHAIRMAN. The great majority of them are in the manufacture of consumers' goods. Well, of course, they would benefit by a rise in prices, would they not?

Mr. WASON. I would like to answer your earlier question, if I might, so that we can be clear as to where the association stands, and then come back to your last question.

Recently, we asked every tenth member of the National Association of Manufacturers, off an addressograph list, every tenth member, the question "Do you believe that price controls hamper the production of manufactured goods?" The responses were 46 percent from the total number sent out, which is an incredibly high percentage on a questionnaire.

Of that group, 503—the total replying were 673—503 said that they seriously hamper the production of manufactured goods. One hundred and twenty-nine said that they moderately hamper the production of goods. Twenty-two said "a little." Nineteen said, "not at all."

The CHAIRMAN. Now, we want to get the truth of the subject. When they put a witness on the stand, they usually ask him if he has any interest in the controversy, and I would like to ask you whether or not your organization has any interest in the rise of prices, whether or not it would benefit by the rise of prices.

Mr. WASON. We believe that there would be an improvement in the profit position of total industry.

The CHAIRMAN. But your members will almost all benefit by a rise in prices. Of course, if the prices rose high enough, it would destroy the beneficiaries of the people, I presume, but if there was a rise in prices, most of your members would benefit, is that true?

Mr. WASON. Yes, sir.

The CHAIRMAN. So you do have an interest in seeing that there is a rise in the prices of commodities, consumers goods and other commodities, is not that true?

Mr. WASON. Yes, sir.

The CHAIRMAN. And it is the opinion of your organization that no action should be taken by this committee, but that we should let these acts expire at the termination date?

Mr. WASON. Yes, sir.

The CHAIRMAN. Your organization goes much further than most of the organizations that have appeared before us.

Mr. WASON. We are aware of that, Mr. Spence.

The CHAIRMAN. Well, how do you account for that?

Mr. WASON. We are standing for a correct economic principle, and we want to go on the record here and now against those controls and this particular control of our economy. We want the people to be freed.

We may lack numbers. We may be greatly outvoted. This may

be extended, but in the future, we want to be on record as having taken our stand for the welfare of this Nation, and we do not want the responsibility on our shoulders, if it is extended.

The CHAIRMAN. Notwithstanding the fact that you say that almost all your members would be benefited by a rise in prices. Of course, I think the committee would have to consider that, because I think we want to look for disinterested testimony.

Mr. WASON. Mr. Spence, for an hour I have stated the case for the increase of production of goods. That is in the interests of every American alive. Now if there should be an Office of Price Administration ceiling, it should be put on the printing of money. It should be taken off production of goods.

The CHAIRMAN. Well there will be an interspace when the production cannot meet the demand. You will agree on that?

Mr. WASON. Yes, sir.

The CHAIRMAN. If you take off your controls, immediately—I am not criticizing you, understand, you have a right to come here and express your views, and I am not criticizing what you say, it is the natural characteristic of mankind to look for their own welfare and you have a perfect right to express your opinion—but there will be an interspace between the time when controls are taken off and production reaches up with demand. What is going to happen?

Mr. WASON. I would like to read a comment on that, and I would like to leave it for the record, if I may. It is from the Journal of Commerce, March 14, 1946. [Reading:]

Half of items freed of price controls fail to advance.

Decontrol study shows some price drops may affect the Office of Price Administration extension.

By Harry G. Borwick, and the date line is Washington, the 13th.

Nearly half of the products and product groups which the Office of Price Administration has removed from price controls have either declined in price or have been kept at the previous ceiling levels. These conclusions regarding the effect upon price levels of the limited decontrol program emerged from studies which the price agency has itself prepared.

and so on.

(The full text of the article is as follows:)

(From the Journal of Commerce, New York, N. Y., March 14, 1946)

HALF OF ITEMS FREED OF PRICE CONTROLS FAIL TO ADVANCE—DECONTROL STUDY SHOWS SOME PRICE DROPS—MAY AFFECT OPA EXTENSION

(By Harry G. Borwick)

WASHINGTON, March 13.—Nearly half the products and products groups which OPA has removed from price controls have either declined in price or have been kept at the previous ceiling levels.

These conclusions regarding the effect upon price levels of the limited decontrol program emerge from studies which the price agency has itself prepared.

SUBMITTED TO HOUSE GROUP

The studies have been submitted to the House Committee on Postwar Economic Policy and Planning to assist it in preparation of recommendations on the stabilization policies to be pursued during the transition.

The sharp congressional controversy over extension of OPA beyond the current fiscal year and the pressures which have been exerted in the capital to clip the powers of the pricing agency have all revolved around the consequences that would flow from the widespread removal of price ceilings.

To what use Members of Congress might put the decontrol studies in considering extension of OPA powers was uncertain. OPA officials charged with the decontrol program warned against drawing any generalized conclusions from the studies.

RESULTS OF STUDIES

Nevertheless, the studies show that:

1. Of 14 food and related food-product groups from which price controls have been removed, only 5 had advanced in price above their prior ceiling levels. In one of these five cases, the price increase has been of little significance to costs. In another case, the retail price increase was but 1 percent above the prior ceiling.
2. The most pronounced price increases which took place following removal of price controls were in the field of textiles. Out of six items which were decontrolled, prices increased in every instance save one.
3. In the case of industrial machinery, equipment, and parts, no general pattern is revealed by the studies. Where price increases following the lifting of ceilings did take place, they were generally moderate and, in the case of automotive parts, the increase was no greater than OPA would have had to grant under its reconversion pricing formula.

BREAK-DOWN GIVEN

The following break-down shows specifically what happened to prices of various products and product groups from which price ceilings had been lifted:

Industrial machinery, equipment, and parts; X-ray equipment and supplies.—Prices up an average of 15 percent. Gages, standard industrial-prices below ceilings, market highly competitive.

Automotive parts.—Passenger automobile parts were suspended from price control when sold to passenger automobile manufacturers August 29, 1945. Since then these parts have increased in price from 14 to 16 percent. This increase is estimated to be no greater than the increase which would have been allowed under OPA's reconversion formula.

Aircraft instruments.—Prices fairly stable.

Gas meters.—Up 10 percent.

Furnaces and ovens.—Up 2 percent.

Engineering reproduction machinery.—Up 6 percent.

Industrial recording, controlling, and indicating instruments.—Prices remain stable and can probably be counted on to remain so.

Ships and boats (other than pleasure craft).—No price increase.

Ships and boats (pleasure craft).—Prices up within a range of from 2 to 35 percent, or an average of possibly 20 percent.

Numbering and marking machines.—Prices up 5 percent.

SCIENTIFIC INSTRUMENTS

Scientific instruments.—Prices remaining stable and can probably be counted on to remain stable.

Spring winding and spring forming machinery.—Prices up as much as 14 percent, probably 10 percent on the average.

Gyroscopes.—No price changes in prospects.

Textile machinery accessories (principally of wood).—Prices up 9 percent since suspension, 27 percent on the average since October 1, 1941.

Knitting machine needles and components.—Price increases reported in a range from 18 to 20 percent.

Batteries (wet-cell storage sold by manufacturers to brand owners).—Manufacturers' prices up about 12 percent, but the increases absorbed by brand owners without being reflected in retail prices.

Aircraft and parts.—The War Assets Corporation advise that from their observations it is believed that the prices for surplus aircraft have fallen since price control was lifted. It is unlikely that the prices for aircraft and aircraft parts will increase appreciably over the prices which were in effect prior to the suspension. Competition in the industry is very keen, manufacturing facilities have been greatly improved.

METALS

Aluminum and magnesium.—Prices have not increased. Prices of aluminum castings have declined. Since decontrol, jobbers and retailers in several areas have taken advantage of the growing tight supply situation by exceeding previous

ceiling prices for aluminum corrugated roofing and siding. It is understood, but not confirmed by specific information, that in one State present prices have exceeded previous ceilings by as much as 40 percent. Another regional office succeeded in bringing jobber and retail prices in line with previous ceilings by threatening to reinstate price control.

Stainless steel.—Prices not believed to have increased.

Mercury.—Prices have declined (were far below base price at time of suspension.)

Drop forgings.—Prices up 10 percent on the average.

Ingot molds.—Prices up about 5 percent.

TEXTILE ITEMS

Mohair.—We resurveyed the supply-demand situation and came to the conclusion that the trend in mohair prices had reached a peak due to unusual conditions and was likely to reverse itself as the result of changed conditions. * * * At the time of release it began to drop and sold as low as 50 cents. At present mohair is selling at about 55 cents.

Dressed palmetto fiber.—Since decontrol, prices have risen by 25 to 28 percent.

Hair.—Since decontrol, prices of dressed badger hair (for shaving brushes) have risen about 42 percent and those of dressed pony hair (for brushes) about 111 percent.

NARROW FABRICS PRICES UP

Cotton thread (single-line industry and market inflexible).—Since suspension prices for all thread increased an average of 3.68 percent.

Nonelastic narrow fabrics (single-line industry and market inflexible).—Since suspension the average price increase was 3.82 percent in October, 8.49 percent in November, and 9.08 percent in December. The monthly range of change among 25 companies lay between 4 percent and plus 25 percent.

Furs.—Preliminary investigation reveals that the prices for the decontrolled fur items have increased by such leaps and bounds that the market is now in a terrified and jittery state. Buying is proceeding very cautiously. Production as a result has fallen off, awaiting the stabilization of the price level as well as an increased demand from distributors and retailers.

FOOD AND RELATED PRODUCTS

Potatoes.—Varieties that ordinarily command a premium have, from time to time since the suspension period, brought higher prices than would be permitted under price control but the weighted average price for potatoes has continued below ceiling prices. An upward tendency however has been recently in evidence.

Coconuts.—At the time of decontrol on October 26, 1945, the maximum selling price for importers was \$6 per bag of 150 pounds. Immediately after decontrol, prices rose to a high of \$25 per bag. Offers to sell are now being received from foreign sellers at approximately \$10.50. Desiccated coconut has also been exempted from price control and price level has risen substantially.

POSITION OF SAUERKRAUT

Sauerkraut.—The canned sauerkraut on the civilian market has generally been selling at ceiling prices at all distribution levels, but bulk sauerkraut has been selling at some 25 percent below ceilings. Though sauerkraut was exempted as a nonsignificant commodity, it was expected at time of decontrol that prices would drop below ceilings, because of the record crop of cabbage. The 1945 crop of cabbage was almost 60 percent more than the average of the previous 10 years. It is expected that canned sauerkraut will also sell substantially below ceilings when the initial demand of consumers for a war-scarce commodity has been satisfied.

Canned carrots.—Prices have consistently remained below ceilings and the general processor price is best indicated by the fact that various items are currently selling at prices a few percent below previous median prices.

WINE PRICES DECLINING

Domestic wines.—Prices of bulk and packaged domestic wine have been below existing ceilings and further declines are expected. The Wine Institute conducted a substantiating survey in October 1945, which indicated that average prices were at least 30 percent below ceilings. The OPA regional office in San Francisco

conducted an accounting study in the fall and agreed with these findings of the institute.

Dill seed and cumin seed.—These two items have risen substantially in price since the removal of controls. The increase in price has caused no hardship to food processors because the amounts used are so small as to affect costs very little.

Oranges.—The experience of decontrol and recontrol of maximum prices on oranges is clearly shown by the price record:

	Florida interior	California
Nov. 19 (suspension date).....	\$4.47	\$4.98
Dec. 28.....	6.00	6.26
Jan. 3.....	5.20	5.17
Jan. 4 (recontrol date).....	4.52	5.12
Jan. 25.....	4.48	5.06

TOBACCO TREND INFLATIONARY

Tobacco.—There is normally a lag of almost a year, and frequently 2 or 3 years between the sale of tobacco from the farm and the use of that tobacco in cigar manufacture. It was felt that by the time such cigars came into use, the various inflationary pressures from consumers would be sufficiently diminished so as to prevent the passing on of possible higher costs of tobacco. It was felt that the industry, realizing this, would not unduly raise the purchase price of tobacco.

However, it has turned out that prices have risen substantially, and there is some question as to whether the inflationary pressures created by consumer purchasing power will decline in the foreseeable future. From January 1945 (under ceilings) to January 1946 (no ceilings) prices of cigar filler increased by 85.6 percent and those of cigar binder by 64.1 percent.

Various fresh vegetables.—It is hard to tell what effect exemption has had on cucumber prices because there would have been a disaster adjustment this year which would have raised prices well over theoretical ceilings. Last year there was a similar disaster adjustment. However, it was evident that many sales were made at far above ceilings. The season has not progressed far enough to tell whether the yearly average will be below ceilings.

As exemption of green peppers and eggplants has been so recent and has been during the off season, it is impossible to tell the effect on prices for the 1946 crop. Expectations are still good that prices might average below ceilings.

SEEDS BELOW CEILINGS

Seeds.—Vegetable seeds were originally suspended from price control for 90 days on October 31, 1945. Vegetable seeds, which have an annual volume of some \$50,000,000 at the grower level, were selling ceilings. On January 28 this suspension was made indefinite, since prices have continued at some 10 percent below ceilings and production and stocks have continued to be much larger than in prewar years. The volume of production in 1945 was over two times the 1939 level of about 100,000,000 pounds. It is below ceilings.

Pretzels.—The average retail price has risen about 1 percent, to a level of about 15 cents, and is expected to remain at about that level.

Mineral mixed feeds.—No evidence of increases over ceilings.

DDT.—Price levels, particularly at retail have declined as much as 25 percent, and this decline seems to have been accelerated by decontrol. (This was expected at the time of decontrol as the product had passed substantially beyond the experimental stage.)

Specialty fertilizers.—No change in price level noted or expected.

DRUGS AND CHEMICALS

Domestic botanical drugs.—Some increased in price following exemption and some decreased; all price increases were absorbed by manufacturers of finished products.

Reagent chemicals.—No price increases were recorded.

Volatile oils (at grower level).—Most of them advanced slightly in price. Advances were absorbed by dealers or industrial consumers.

Guinea-pig complement.—Prices advanced about 10 percent.

Botanical drug extracts.—Several have advanced in price from 3 to 10 percent. Increases were absorbed with no effect on consumer prices.

Quinidine and its salts.—No price increases have occurred to date, but as soon as the synthetic is ready for sale, it is expected the price will increase substantially.

PRICES FOR WAXES SOAR

Carnauba wax.—Increase of approximately 100 percent over OPA ceiling, possibly caused by the reckless up-bidding of competitive buyers.

Beeswax.—Prices increased from 40–44 cents to 50–52 cents.

Church candles.—No change in prices.

Beeswax comb foundations.—No great changes have been reported.

Hearing aids.—Majority of manufacturers have put price increases into effect since the issuance of suspension order early in December. Cords for two makes were also reported increased in price.

Dental instruments, equipment, and supplies.—Increases of 17 to 20 percent indicated.

Surgical instruments or machines.—Increases of 17 to 20 percent.

Scientific optical instruments.—Increased in price by an average of 20 percent.

COOKING EQUIPMENT HIGHER

Commercial cooking equipment.—Increase in list prices ranges from 5 to 20 percent, probably averaging about 10 to 12 percent.

Electrical signs.—Prices have advanced from 10 to 25 percent at the manufacturing level. Most of the manufacturers claim that costs are up from 25 to 40 percent and that price increases have been less than cost increases.

Coin-operated machines.—Some categories have risen from 25 percent to as much as 300 percent.

Wallpaper.—Conversation with members of the industry indicate that price increases of 10 percent through 12½ percent will take effect on new lines. In view of the prospective increases, resumption of control is being considered.

Wiping rags.—Increases of as much as 15 percent may have taken place sporadically.

Printing and publishing.—Telephone books, mail-order catalogs, and other important items are historically subject to rigorous control by purchasers and will not be disturbed by suspension.

Bowling, billiards, and repair of equipment.—Latest information indicates that the effect of decontrol on bowling has been increased in bowling charges in a number of cities.

The CHAIRMAN. Well, now they have not risen because the Price Administration relieved the controls, because I assume they found that the supply had equaled the demand. I am talking about the goods where the supply has not equaled the demand and will not equal the demand for some time.

What is going to happen to those goods?

Mr. WASON. I do not know as to that, but in our testimony we did quote Mr. Bowles as expressing the opinion that some prices would go up and some would go down.

Our concern, Mr. Spence, is that a year from now they will be higher clear across the economy, and that when they are taken off finally they will go much higher than they would if taken off now—and by “now,” I mean June 30, 1946.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Wason, were there any ceilings on the goods furnished by your industry to the Government for war purposes?

Mr. WASON. Of course, there were, because our industries are so wide that they produce 85 percent of the goods in the Nation, and there were ceilings on many, in the case of most of us. I know in our own company ceilings were put on as of October 1941, I believe.

Mr. BROWN. Well, on the goods furnished to the Government for war purposes, as a whole, you made some profit, a fair profit, did you not?

Mr. WASON. No, sir; not a fat profit.

Mr. BROWN. I said fair profit.

Mr. WASON. Oh, fair profit. Yes. We think it was reasonable. And we expressed pride, Mr. Brown, in the war record, and the limited profit that we received. If there were people who made large profits, they were renegotiated down to their proper size in the opinion of the Army, the Navy, the Air Corps, and the Treasury Department.

Mr. BROWN. There was no complaint on your part about the profits made by your industry during the war?

Mr. WASON. We have no complaint.

Mr. BROWN. Just what is the difference now? Of course, now they put a ceiling on all the articles you make, is that right?

Mr. WASON. Yes, sir.

Mr. BROWN. You contend that you cannot make as much profit now as you did during the war, with percent ceilings, is that correct?

Mr. WASON. That is not quite our contention. It goes back to Mr. Spence's question. Our contention is that we cannot produce goods. That many items are being taken out of line because they can be manufactured only at losses, and therefore, every corporation that loses its line one day will lose its distributors, and will lose its customers.

Mr. BROWN. You take the position, then, that you would have more production with all controls off?

Mr. WASON. Yes, sir.

Mr. BROWN. That is all.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. I assume you labor under the assumption that if you get production sufficiently to reasonably meet the demand, there will not be any necessity for price control, there will not be any necessity for rationing, and there will not be any necessity for subsidies; is that right?

Mr. WASON. Yes, sir; and we also believe, Mr. Wolcott, that unless price controls are taken off now, we are headed for rationing at an early date to enforce the Office of Price Administration controls that are not otherwise enforceable.

Mr. WOLCOTT. The thing that I do not understand about this whole situation is this:

Every time any Member of Congress, every time any manufacturer or distributor advocates an increase in the price of a fraction, a small fraction of 1 percent, on the theory that we will get production, he is characterized immediately as an inflationist. Yet every day for the last several days the Office of Price Administration has voluntarily increased prices on certain commodities for that same purpose.

Now, some, not on this committee, suggested that we had done a very good job in holding the prices of bread, and the Office of Price Administration announced yesterday, I believe, that if the bakers would reduce the size of the loaf of bread, they would be authorized to charge the same price for it that they did before.

I think the increase is about 10 percent.

That of course, was not to get production, but it was to enable us to set aside a certain amount of foodstuffs to send overseas.

Now, regardless of the reason for which it is done, it is inflationary, is it not?

Then we read, also that the hotels were cooperating splendidly in reducing the quantity of food served at banquets, and so forth, and that one of the important elements in the conservation of food was to cut out head lettuce salads.

How much head lettuce do you think is going to be shipped to Germany to relieve the starvation in Germany?

So the net result of that is that the people of the United States, who are called upon to have to eat in restaurants, pay that much more for their food bill and as I see it, it is just a lot of lip service being given to the conservation of food. That brings up the question that you brought out here; namely, that as long as we live under a managed economy, and adjustments of our economy are made on a day-to-day basis, whatever the reason for it is, that industry because of confusion and uncertainty is not going to produce to capacity, is that right?

Mr. WASON. Yes, sir.

The Office of Price Administration has admitted errors in the pricing of over four thousand items, and has made corrections accordingly, as you have suggested, Mr. Wolcott.

Mr. WOLCOTT. Following that thought through, they have suggested that we make a half-pound loaf of bread. What do you think is going to be the result, if we make a half-pound loaf of bread instead of going into the grocery store or bakery to buy a loaf of bread, people are going to buy two half loaves, are they not?

Mr. WASON. That scarcity, Mr. Wolcott, results from a desire to take care of foreign peoples principally.

Mr. WOLCOTT. What I am getting at is the fact that the Government comes out voluntarily—and I am not saying that it is not desirable—I think it is desirable to cut down the wheat content of the bread and do everything we can, I do not think we will have to suffer very much, and it will help the people of Europe and other sections of the world, but the point I am making is not with respect to deterioration in quality, but the fact that they are doing for that purpose, what they have always criticized us for suggesting in the production field.

They are reducing the size or the quality of a commodity, and they are keeping the same price on. Does that not result, if it is a 10-percent reduction in size, and the price is maintained on the unit, is that not just about the same as increasing the price of the commodity 10 percent?

Mr. WASON. It is an increase.

Mr. WOLCOTT. When you decrease the quality of goods by 50 percent, and charge the same price for it, that results does it not, in a 50-percent increase in the price of the service or commodity?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. I took a couple of hours off Saturday and went downtown, window shopping—the Wolcott family is in pretty bad need of shorts—and I looked around, and saw quite a number of shorts in the windows for \$1.50, \$1.65, and in the case of a 16-year-old boy who wears them out pretty fast, I do not think we have ever paid more than 35 cents or three pairs for a dollar, and these shorts that were selling for \$1.50 or \$1.65 looked to me to be of pretty sleazy material.

It did not look to me as if a pair of those shorts would wear as long as a pair of shorts that used to sell for 35 cents. That is just as much inflation, is it not? If I have to buy four pairs of shorts for him,

which will wear as long as one pair used to, that is 75 percent inflation, is it not?

Mr. WASON. That is inflation, yes, sir; and it is everywhere.

Mr. WOLCOTT. Your point is that those maladjustments can be corrected by increasing the price at least sufficiently to encourage production in all of the competitive fields?

Mr. WASON. Mr. Wolcott, I would like to say, in answer to your question, and also to that of Mr. Spence: As Mr. Bowles has said, some prices will go up and some will go down. As the record has said, some prices have gone up and some have gone down.

When business gets into volume production, competition will bring the price down.

In our charts, I pointed out the losses, the discontinuances of businesses, when they no longer were competitive and the business was not profitable. That is the real regulator. Our boss is the American housewife.

Mr. WOLCOTT. I have not agreed with your newspaper advertising. I have not agreed that all these controls should come off on June 30, but I think I understand why you are taking that position. The point is that because of price controls, we are not getting sufficient production?

Mr. WASON. That is right.

Mr. WOLCOTT. Sufficient production to justify a removal of price controls?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. So there is some half-way point there somewhere, where, if we who have the responsibility of doing it, care to do it a little more conservatively rather than take them all off, that our purposes are the same. Namely, to at least compel the adjustment of price controls to get a maximum amount of production.

Of course, if we get a maximum amount of production, all this chaos creating the necessity of price control, will disappear and the necessity for price controls will be removed will it not?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. To me, one of the most important points you made was, in keeping with the experience which we have all had, that if there is a probability of a better product for less money coming on the market within 30 days, we would be very foolish to go out and buy if we can possibly get along without, would we not?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. You mentioned the case of shirts.

I noticed yesterday, or on Saturday, while shopping around, that I could buy all the sport shirts that I wanted to buy?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. Now, a lot of us are not sports. We do not have time. And I would hate to have to come down here to the Congress dressed in some of the shirts that I saw, red and yellow plaids, and so forth, which sold for 12 or 14 dollars.

I want to buy a white shirt. But I can buy a white shirt if I buy one with two pockets, and I do not need two pockets. I can buy a white shirt if I want to buy one with a collar that is half an inch longer than I am accustomed to wearing, because they put another half inch on the collar and another pocket on it and maybe another button on the sleeve and instead of selling that for \$2.65 to \$3, they sell it for \$8 to \$18.

Mr. WASON. And permitted under the Office of Price Administration ceilings.

Mr. WOLCOTT. Yes; those are the things I cannot understand of the Office of Price Administration, why, the same amount of goods in one garment, because it has a couple more buttons and a 5-cent pocket on it can be sold for so much higher than the thing I want to buy.

So the point is and your point is, that if the pricing could be adjusted in some manner to encourage the production of shirts within a ceiling, dress shirts within a ceiling where people could afford to buy them, that should be done, should it not?

Mr. WASON. Yes, sir. But so long as the control is on, that prevents the operation of a business at a profit, or the manufacturing of an item at a profit. It disappears from the market.

Mr. Wolcott, if agreeable, I would like to review a previous recommendation of ours, that controls be taken off as of February 15.

We appeared before the Colmer committee on reconversion, and proposed February 15 as the time when price control should be taken off. This was not an arbitrary date taken at random, it was based on a formula devised by the National Association of Manufacturers, Committee on War Controls.

The formula was worked out in the spring of 1945, and approved by the board in June 1945. The committee on war controls believed that the date for removal of controls should not be fixed by the date of termination of hostilities, nor a date 6 months thereafter, but on some definite point in the volume of war production related to civilian production, which represented the turning point toward the resumption of full civilian production.

Accordingly, the committee decided that when the War Production Board index of munitions output reached 30 points, (the high point, 100 having been reached in 1943), would be the beginning of reconversion.

Therefore, the 30 points of munitions output was selected because that was the place the index reached in February 1942, when the last civilian automobile left the assembly lines, and was the turning point toward full war production, and the sharp decline in civilian production.

The committee did not recommend that controls come off when the munitions index fell to 30 points. It recommended that the controls be taken off 6 months later, to give ample time for adjusting the economy to the removal of controls. This was the reasoning behind the National Association of Manufacturers' original proposal for the removal of controls.

The unexpected intervention of VJ-day on August 16 upset the original assumption on which the proposal was based. Obviously, with the complete cessation of hostilities cut-backs in war production would immediately carry the munitions index below 30 points, where it was in February 1942, and therefore, the reconversion council, meeting late in August, reconsidered the original position of demanding repeal of controls 6 months after the munitions index reached 30, and the National Association of Manufacturers, in effect, reaffirmed its original position by recommending the removal of controls 6 months after VJ-day, since VJ-day certainly represented practically the complete cut-back of war contracts.

Obviously, the 6 months after VJ-day meant February 15, 1946.

Now 7 months have passed since we emerged from the war, and in some industries we have had considerable economic paralysis, and the controls that preceded the war, that we carried in the war, are carried into the peace, and our anxiety is "When will we be free as a nation?"

Mr. WOLCOTT. You discussed the fact that if controls came off on June 30, we could expect an immediate increase in prices before the leveling-off period. I think I understand that that would happen, but I cannot understand where you would be, as a manufacturer, too much better off, if prices went up. You have to buy the things with which you fabricate your products. If you were in the steel-fabricating business, or making any product manufactured of steel, you would have to pay that much higher price for the basic product, would you not?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. And if you were in any other line of endeavor, you would have to pay more for the basic commodities which you manufactured into goods?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. But your position is that your profit would be safer and more sure, because you would be producing to capacity?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. And you might not necessarily make as much on each unit, but you would be manufacturing more units and therefore your profit would be better, or you would have more profit?

Mr. WASON. Yes, sir.

Mr. WOLCOTT. That would not necessarily result in any material increase in the retail consumers' price, and if so it would be merely temporary until production caught up with demand?

Mr. WASON. That is right, sir.

Mr. WOLCOTT. In the case of these shirts that I have mentioned, as soon as lower-price white shirts are back on the market what do you think is going to happen to all these \$10 and \$15 shirts? Are people going to buy those?

Mr. WASON. They will be excess inventory and they will be the victims of mark-down sales all over the country, as soon as people can get the goods they really want instead of the goods that are forced onto the market by the Office of Price Administration regulations.

Mr. WOLCOTT, to us it is a lot of silliness, it is just stupidly absurd to think of any Government Bureau controlling 8,000,000 prices.

Mr. WOLCOTT. I understand that in the case of new concerns, or new products, the Office of Price Administration gives a price based on cost of production plus a reasonable profit.

Mr. WASON. What is that profit, please?

Mr. WOLCOTT. I do not know.

Mr. WASON. Neither do we.

Mr. WOLCOTT. But it is based on the cost of production. Regardless of the profit, it is based on cost of production. Do you want to comment upon this situation?

If you are an old established concern, which converted to the manufacture of war materials, and now want to convert back, because you have had a historical price, you have got to go back to that price and you cannot produce until you do go back to it, but if you are a new concern, you can get a cost of production plus reasonable profit price.

It seems to me that puts a premium on these old efficient concerns, some of which have been in business for 50 or 100 years.

I just cannot understand what the Office of Price Administration theory in that respect is, and as I understand it, it was specified that way. They give the new concern a cost of production plus.

Now in radios, and in electric irons, in all of these fields, we are seeing a lot of new names these days. It is for that reason that the Office of Price Administration will give a new concern a cost of production plus, but will not give an older concern a price which will allow them to get their cost of production?

Mr. WASON. Yes, sir; it is. And Mr. Wolcott, there are organizations out across the country buying other corporations so that they can manufacture old goods under new names with new corporations in order to get around the Office of Price Administration stupidity.

Mr. WOLCOTT. The only sufferer is the consumer who hates to pay the higher price for an inferior product.

Mr. WASON. Yes, sir. Recently, some Fifth Avenue firm—it must have thought I had gone high class—sent me a swatch of shirtings that were gauze.

Mr. WOLCOTT. What is a swatch? A sample?

Mr. WASON. Three or four little samples. They were gauze in different colors. One was green, I recall, and one was yellow. There was no white. They offered to make them up at \$20.50 each.

I have never patronized the place or had a shirt there, but I did think it was a nice compliment.

May I, Mr. Wolcott, offer an explanation of industry? I am well aware that you gentlemen have listened patiently for many many weeks to able representatives of all segments of our economy.

During the war, the Government wanted to make a Bofors gun and an arsenal of the Government had completed the gun and assembled it in 106 hours.

They went off to an automobile manufacturer, and said, "We will put this gun here, but it has to be assembled in 106 hours. We have demonstrated that it can be done."

These engineers and others took the drawings and prints of this gun, and went to work on it, and several weeks passed, and later they came out and said, "What have you got?" They had blueprints the width of this table, and 42 inches long, and 8 inches deep, and said: "Why I do not know, we have made a good many changes in the tolerances, some minor changes in the design, but we think we have it now on a manufacturing basis."

And they said, "Yes, but how long will it take you to assemble it?"

They were not worried about that and went to discuss certain minor changes to see if they could get ordnance approval. The ordnance people were not willing to go ahead and they said to the automobile people, "We want it assembled in 106 hours."

Finally, they said, "Fred, what is our assembly time on that"? He studied a few minutes, and he said, "We will assemble that in 69 minutes."

Now, I am not talking about ordnance, nor the war. I am talking about 15,000 manufacturers who, when they are permitted to do so, will further reduce the prices of goods.

If you take that difference between 69 minutes and 106 hours, and multiply it by the number of guns in thousands, and divide into the

8 hours, you get the men that were created to march in metal, if not by foot, in the war.

But to industry, that is a normal, ordinary, obvious, everyday job, and if we can get past this hump by getting controls off, competition will require us to assemble it in 69 minutes, not 106 hours.

That is the story of 15,000 of us, and unless we operate on a policy of higher wages to labor, lower costs to the housewife, and a fair return to the investor, we are washed out of business at the rate of an average of 300,000 a year, as was indicated in these charts.

Our boss is the housewife. Our anxiety is for her welfare. Her interest and our interest are indivisible. We cannot exist except with her approval. And therefore, our prices and our goods must be right.

The thousand dollar radio of 25 years ago is vastly exceeded by a \$40 radio in our time, not with the same high-quality case; but with a better reception and clarity of tone. But the explanation is that we have got to get quantities of goods manufactured in order to absorb tooling costs, and to get our prices down. And every manufacturer in America works on that premise.

That is the great contribution that industry has made to our standard of living, and that is what has raised our standard of living. It was what industry contributed to the war. But somewhere ahead of us, and within the year between June 30, 1946, and June 30, 1947, we are going to be asked "Whatever became of the great production industry that assisted the men of America and of our allies to win this war?" and our answer is going to be: "It is prevented from operating by the Congress of the United States."

Mr. WOLCOTT. That is the position that you take here, as I understand you?

Mr. WASON. That is my position.

Mr. WOLCOTT. You do not want to be responsible for that.

Mr. WASON. That is why we cannot produce goods. What is the merit, may I ask, of putting a ceiling on machine tools? Machine tools reduce the cost of goods. The cost of a machine tool, if it is \$15,000, or \$40,000, means very little in a unit that it manufactures, because it will just push them out like sand or gravel out of a pit—goods, I mean, but machine tools had Office of Price Administration ceilings on them so that manufacturers like ourselves cannot buy them in order to reduce our costs of production, and get under the Office of Price Administration ceilings.

Now the machine tools for civilian manufacturers are prevented from coming into existence. Machine tools are the only way by which costs of production can be reduced. Machine tools are under the Office of Price Administration ceilings. If that makes sense.

Mr. WOLCOTT. That is all.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. Mr. Wason, I was very much impressed with your statement, and I will admit you made a much better case than I thought you could make in view of your advertising.

I am not saying that I agree with you on everything, but you have certainly made an impressive argument.

Mr. WASON. Will that do us any good, do you know?

Mr. PATMAN. Well, I do not know about that. I do not know whether I would be willing to agree to everything that you say, but I agree to the fact that you have made an impressive argument.

How many concerns are eligible to join your organization, Mr. Wason?

Mr. WASON. Any manufacturer in the United States.

Mr. PATMAN. In other words, what is your potential membership?

Mr. WASON. About 150,000 manufacturers in the country. And we represent 10 percent of their number, and 85 percent of their production.

Mr. PATMAN. Just a moment. There are 150,000 in the country. You have 15,000 members?

Mr. WASON. Yes, sir, producing 85 percent of the total goods.

Mr. PATMAN. But these 15,000, produce 85 percent of what the whole 150,000 produce.

Mr. WASON. Yes, sir.

Mr. PATMAN. How much of the production does the 11 percent of your membership produce? How much of that production do they have?

Mr. WASON. We do not have a break-down on that. We would be glad to attempt to make—

Mr. PATMAN. It is not that important. How much is your gross annual income, of these 15,000 manufacturers, Mr. Wason, approximately?

Mr. WASON. I do not have that. The capital invested is about \$50,000,000,000.

Mr. PATMAN. That is of the 15,000?

Mr. WASON. Yes, sir.

Mr. PATMAN. About \$50,000,000,000?

Mr. WASON. Yes, sir.

Mr. PATMAN. That means then, that the 135,000 would probably have how much in the form of an investment?

Mr. WASON. Mr. Gephart, at my left here is research director, and he states that would be something of a guess.

Mr. PATMAN. Well, you had some way of arriving at the 85 percent?

Mr. WASON. Yes.

Mr. PATMAN. I do not see how you could arrive at that figure unless you had some pretty accurate figures.

Mr. WASON. That is the production figure, yes, sir.

Mr. PATMAN. You said awhile ago in the event something was not done that what happened in the past might happen in the near future: That 300,000 of you might go out of business in a year. Were you mistaken about, or did I understand you correctly?

Mr. WASON. That was all corporations, Mr. Patman, not just members of our organization or just manufacturers.

Mr. PATMAN. I see.

Mr. Wolcott brought out the fact that in the event you were allowed to take off all controls, that consumers would be impressed that within 30 days they would be able to get white shirts, and they would not be quick, therefore, to buy these shirts in which values are greatly inflated and in which materials are not so good. But is it not a fact, Mr. Wason, that as long as there is a shortage of textiles, that a manufacturer naturally, in his own interests—and we expect him to look after his own interests—will make the article or the commodity that will make him the most money, as long as there is a scarcity.?

Mr. WASON. There is no shortage of cotton, Mr. Patman.

Mr. PATMAN. That is not the argument. The shortage is textiles,

and, regardless of what caused it—we are not arguing about that, we know there is a shortage, you admit that, do you not, Mr. Wason?

Mr. WASON. Yes, sir.

Mr. PATMAN. There is a shortage of textiles, there is a bottleneck there?

Mr. WASON. Yes, sir.

Mr. PATMAN. Although there is no shortage of cotton, there is a shortage of some kinds of cotton, I imagine, and certain classes and grades, but, generally, there is no shortage of cotton. You are right. But there is a shortage of textiles. Now, as long as that shortage exists, regardless of what caused it, the manufacturer who is fortunate enough to get a supply of these materials is going to use these materials to make the articles or commodities that will make him the most money. Is that not the logical way to look at it?

Mr. WASON. The manufacturer, Mr. Patman, is in a position where he must make what the people want. Under the Office of Price Administration he is prevented from doing so. If they want white shirts, there will be competition among white shirt manufacturers. There is not at the moment.

Mr. PATMAN. You are away ahead of me. I am talking about during this period when you admit there will be an upgrading.

Mr. WASON. I am sorry.

Mr. PATMAN. But during that period there is going to be a scarcity also, and will they be anxious to take care of their customers, and what the people want, or will they be more anxious to make more money out of the scarce materials they can get?

Mr. WASON. I hope I am answering your question. If not, please correct me, because I want to answer you directly.

The shirts on the market are not what the people want. They are what the people have to take. They are not what the manufacturer wants to make.

Mr. PATMAN. We are getting down to it now. Do you mean to say that the very minute these controls are taken off these manufacturers will stop making these shirts they are making so much money out of now, although they will only have a limited amount of materials? That they will immediately convert to the cheaper white shirts, the type of shirts that people want? Is it not a little unreasonable to expect that, Mr. Wason?

Mr. WASON. Mr. Patman, the best volume items that they have are the typical, everyday white shirts for all of us. The others are specialty items in small quantities, that require changes in manufacturing, and they are expensive to make. It is only those expenses, as alibis, that permit them to get the high prices they have received from the Office of Price Administration. But their ability to manufacture white shirts in great volume has forced the price down so that now, with rising costs of materials and labor, and Office of Price Administration ceilings, those items are forced off the market. They would be among the first to return.

Mr. PATMAN. I thoroughly agree with you, that in a competitive market that is exactly what will happen. But I am presuming that you must admit—I think you have—that there will be a period of time when there will not be a competitive market. There will be scarcities.

Mr. WASON. An interim period, Mr. Patman.

Mr. PATMAN. Yes; and during that period when a manufacturer

can only get so much material, which is not nearly as much as he wants, do you contend that he is going to use that material to make what the people want at a much lower price, than to continue on as he is now and making the articles out of which he will make the most money?

Mr. WASON. Our contention, Mr. Patman, is that there will be an interim period.

Mr. PATMAN. Yes.

Mr. WASON. And it is our anxiety that that period be terminated June 30, 1946, instead of being lengthened by another year to make it worse.

Mr. PATMAN. Yes. Now, Mr. Wason, in order to be thoroughly consistent about your contentions about this matter, do you not think you should advocate higher taxes, too? We have to pay the national debt, you know, and a lot of people are going to profit unduly—not all of them, of course—but quite a few will, by reason of the taking off of controls, and in view of the scarce and limited supplies of goods. Do you not think your position would be stronger if you advocated a higher tax rate during that period?

Mr. WASON. May I divide your question into two parts?

Mr. PATMAN. Yes, sir.

Mr. WASON. First, the benefits will come to 140,000,000 people. They will not be confined to 15,000 or any particular group among those 15,000.

Now, on the subject of taxes. I am very glad to comment on that. During the thirties, taxes were increased every year beginning with 1932, 1933, and in the year 1940 they were increased to twice what they had been, and during the war we paid a tax of 24 percent normal, 16 percent surtax, and 95 percent excess profits tax, with a postwar credit of 10 percent, which has since been returned.

If it is the judgment of this Congress that, on that tax rate, the American Nation can be preserved, then, the Congress should increase the tax.

Mr. PATMAN. Wait a minute. I did not advocate that.

Mr. WASON. Are you asking me to advocate it?

Mr. PATMAN. No.

Mr. WASON. Well, that is all right.

Mr. PATMAN. I am just asking you if you were not in favor of having an increase in taxes.

Mr. WASON. Why should the rate be increased, Mr. Patman?

Mr. PATMAN. I did not say to go back to wartime levels of taxation, not by any means, Mr. Wason. I could not believe we could justify that at all. But if you are going to profit by reason of scarce and limited supplies of goods, and obviously you will, do you not think taxes should be increased during that period of time? I do not mean to say 95 percent, but a tax that would be fitting and appropriate for the amount of profit that would ensue, in excess of what would usually be made in a competitive market.

Mr. WASON. The tax before the war was 17 percent. It is 38 percent now. Do you think that is adequate? Do you think that is an adequate increase? Or do you want more?

Mr. PATMAN. Well, I just do not know how the rate compares, Mr. Wason. You know more about that than I do. But I am just going on the theory that if we are going to take off all controls, and a

comparatively few people will profit so much, should we not have a tax bracket that would take care of the undue profits?

Mr. WASON. Mr. Patman in answer to your question—

Mr. PATMAN. It might be high enough, I do not know. But it just looks as though the situation should receive attention.

Mr. WASON. In answer to your question—and I would like to offer it as the answer—it is my belief that if controls were taken off, you would have increased production against which taxes could be levied at the present or a lower rate, to increase the total amount returned to the Government.

Mr. PATMAN. Well, that is a better answer, I think, Mr. Wason.

Mr. WASON. I think it is the answer.

Mr. PATMAN. It would increase the amount of taxes by reason of increased production. I thoroughly agree with you on that. Did you take any standard for your association on the Ruml plan, which passed Congress in 1943? The Ruml tax plan?

Mr. WASON. No, sir.

Mr. PATMAN. Your organization did not support it or oppose it?

Mr. WASON. No, sir.

Mr. PATMAN. What was your attitude on the 1945 tax reduction plan? Were you for it or against it?

Mr. WASON. We were for that.

Mr. PATMAN. You were for that?

Mr. WASON. Yes, sir. That is, the elimination of the excess profits tax?

Mr. PATMAN. Yes. And also the others. It went away beyond the excess profits tax.

Mr. WASON. Yes, sir, the refunds preceded that.

Mr. PATMAN. I notice that you stated you went before the Colmer committee. Now, that committee, if I understand it correctly—and I will say it is a very fine committee, presided over by a very fine chairman—went into this question for the purpose and really with the expectation of possibly limiting the removal of these controls. Was that your understanding?

Mr. WASON. Yes, sir. We appeared last fall, last October.

Mr. PATMAN. That is right. And they gave you a thorough and complete hearing, did they not, Mr. Wason?

Mr. WASON. Yes, they did.

Mr. PATMAN. You were satisfied with the hearing?

Mr. WASON. Oh, indeed.

Mr. PATMAN. And you were satisfied that the committee was very fair about it?

Mr. WASON. Indeed, we were.

Mr. PATMAN. Well, now, in their report, they stated that they reluctantly recommended that these controls continue for another year, until June 30, 1947.

Mr. WASON. Yes, sir.

Mr. PATMAN. Is that your understanding?

Mr. WASON. Yes, sir. But it has a vague plan for controls that has not yet been "finalized" in any manner, so that you could know just exactly what they do plan.

Mr. PATMAN. At any rate, they recommended the continuation of controls for another year. That was very plain. And they said they reluctantly did it, almost grudgingly. Now, if we, in this com-

mittee, who have worked on this thing for years, were to come to that same conclusion, our judgment would be supported by the action of another committee which has had nothing to do with it, that went into it solely for the purpose of recommending that controls be taken off, knowing nothing about either side, but, after learning about both sides, they recommended that controls be kept on for another year. I was very much impressed with the many arguments you made, Mr. Wason, and I will certainly give sympathetic consideration to them. I do not believe, however, that we can take off all controls at this time. It just does not seem to be sound, reasonable, and logical to me, that, as long as we have a scarcity of commodities, and scarcity of goods, that we should take off all controls and let a few people profit by reason of that scarcity. At the same time, I see the value and the tremendous force of your argument, that if we were to take off all of these controls, production would be increased tremendously, and eventually—we do not know how long it would be—production would catch up with demand and the general welfare would be benefited. We just have to weigh one against the other.

Mr. WASON. We attended the last rites of the War Production Board, when they passed out of existence, and up to this minute I have not read of any dire result that came from their passing. They went out of existence to the benefit of the economy. The Office of Price Administration remains in existence to the detriment of the economy.

Mr. PATMAN. I know that is your argument, Mr. Wason. I am not saying there is not something to it, but there is a difference between the War Production Board, I think, and the Office of Price Administration. In fact, the Civilian Production Administration is doing now practically what the War Production Board was doing, and they are asking for a greatly increased budget, I understand, to take care of some additional duties they had to reassume.

Mr. WASON. Yes, sir; and, Mr. Patman, it is my representation to this committee, as the head of the National Association of Manufacturers, that they will ask for more, and so will the Office of Price Administration in the period ahead of us, and the \$2,051,000,000 of subsidies which they have, with which they hide inflation, will have to be increased in the months ahead of us, between June 30, 1946, and June 30, 1947, to fool the people on what the real prices are that are being paid and camouflaged under Office of Price Administration ceilings.

Mr. PATMAN. Well, what they want and desire does not necessarily mean they will get from Congress, Mr. Wason. Congress does not always agree with these agencies. In referring to the taking off of different controls, I could invite your attention to one that I think was hurtful to the country, because it was taken off too quickly. That is what was known as L-41, the order or regulation, Executive order or regulation, that caused the allocation of materials, especially building materials. The very minute that order was taken off, on October 15, practically all the building materials went into places that were not so important, and all over the country you would see race tracks being built, roadhouses, honky-tonks, bowling alleys, and everything else, using the scarce and limited supplies of lumber, with practically none of it going into houses for people who need them so very badly. And I still think that if you carry your argument to your

logical end, you would take all controls off building materials, prices, production, allocations and priorities, and I just cannot see that, Mr. Wason. Of course, there are others which I could invite to your attention. Of course, in many cases I know it could be done, and could be done easily.

That is all, Mr. Chairman.

Mr. BROWN. Mr. Crawford.

Mr. CRAWFORD. Mr. Wason, first I want to congratulate you and your associates for coming here before us with this statement, and on the aggressive manner in which you have presented it. I think you would have to agree with me that this country has gone in one direction so long that if the private enterprise system is to be saved, those who are tied into that system are going to have to fight and fight to get it. Do you want to comment on that?

Mr. WASON. We believe that to be true. We, at the moment, are in a mixed economy—one-half controlled and one-half free, and no nation has ever survived on that basis. The movement has always been toward more and more and more and more controls. There has been no effort here to stop or arrest or prevent controls, and organizations built up, the Federal pay roll increases, the Nation operates on a continued deficit, and men go out across the United States and Europe to find new causes which can be supported by pressure groups that have votes.

Therefore, our position is that controls should end—now. And that we should move toward the restoration of the freedom of the American people. My case is for the housewife, not for these people who will get along.

Mr. CRAWFORD. Let me ask you this question: Taking three questions before this country at the present time, that of demobilization, as it affects our defense, military defense, the question of reconversion, as we have seen it interfered with by the numerous strikes, and the question of recapturing the economic freedom of the American people and particularly the consuming class, which of those three do you think is paramount at the moment?

Mr. WASON. Recapturing the economic freedom for the consuming classes.

Mr. CRAWFORD. If that cannot be recaptured, what chance have we for world peace?

Mr. WASON. We have none. We—pardon the big word—but it just leads us ineluctably away from peace.

Mr. CRAWFORD. If you had to take your choice—

Mr. WASON. It is the experience of all the organized economies that preceded this one, and on which this one is patterned from Europe.

Mr. CRAWFORD. If you had to take your choice between a continuation of the Office of Price Administration for another 12 to 36 months, and a continuation of the inflationary forces which this Government has followed and which Congress has been endorsing and continues to endorse, on the one hand, and a choice of discontinuing all inflationary forces at the present time, along with an increase in the tax rates, which would you choose? Do you understand my question? Let me enlarge on it. Suppose the Government and the Congress came out with a flat-footed proposition that the Budget would be balanced, that no more inflation financing whatsoever would

be carried on, directly or indirectly, and that there would be an increase in the tax rates, would you prefer that to a continuation of the Office of Price Administration with these inflationary forces running rampant under the present tax structure?

Mr. WASON. Well, the Office of Price Administration inflation—the Office of Price Administration organizes inflation. The Office of Price Administration creates, develops, and directs inflation. The Office of Price Administration feeds on inflation.

Mr. CRAWFORD. Well, now, a question has been submitted to you two or three times which I would call a double-barrelled question, which has to do with that interim period of scarcity and perhaps advance in prices. I would like to break that question into its two parts. I think the record will show that you have put yourself on record to the effect that there would be an interim in which there would be no competition. Do you want the record to show that?

Mr. WASON. There would be an interim, Mr. Crawford, in which the available manufacturing capacity could not produce the accumulated 3-year backlog of unbought goods. There would be that interim. I would like to so state it.

Mr. CRAWFORD. I understand that, but you do not mean to say that for 1 minute during that period, this interim period to which you referred, that competition would not be riding hard?

Mr. WASON. Oh, hard, very hard, and it would absorb it as rapidly as possible, but there would be a time, in that interval—and I want to make this clear for Mr. Patman, also—when, in some industries, they would not be able promptly to supply all the goods in demand, and, therefore, competition, as such, would not function vigorously, competitor versus competitor.

For instance, in 1 year, the automobile manufacturers cannot make automobiles that are in demand. Do I answer your question?

Mr. CRAWFORD. Well, you answered it. I am not so anxious about getting it answered for myself as I am to have the record show that your testimony did not say that there would be no competition. Let me ask it this way: Is there any competition in American industry at the present time?

Mr. WASON. Yes; there is.

Mr. CRAWFORD. Do you know of an industry in the country today where that competition is not in operation?

Mr. WASON. I know of none.

Mr. CRAWFORD. Do you know of industries in the country today where that competition is very keen, even on today's so-called seller's market?

Mr. WASON. Yes, sir; in every industry.

Mr. CRAWFORD. The competition exists?

Mr. WASON. Yes, sir. It exists on special shirts just as much as it would exist on white shirts.

Mr. CRAWFORD. Certainly. That is what I wanted to get in the record.

Mr. WASON. Thank you.

Mr. CRAWFORD. Because I have seen plenty of evidence of competition since last Wednesday night, when I went out in the field. It is good to go out there once in a while and see what is going on in the country. I think the record also shows that your testimony might leave the impression on some who read it or some who argued it, that prices will go much higher during this interim period.

Mr. WASON. The evidence I introduced indicated that some would go up, and some would go down, and I offered a quotation from the Journal of Commerce to that effect. But we also offered the testimony of Mr. Bowles to that effect, and we added our own.

Mr. CRAWFORD. What industry are you engaged in, Mr. Wason?

Mr. WASON. I am the president of Manning, Maxwell, and Moore.

Mr. CRAWFORD. What do they manufacture?

Mr. WASON. They manufacture overhead electric cranes. They manufacture Ashcroft gages. They manufacture Hancock valves. They manufacture Consolidated safety valves, which went onto probably 75 or 80 percent of all the warships and merchant ships of the United States during the war. They manufactured budget hoists. They manufacture a mess of stuff.

Mr. CRAWFORD. Have you any evidence that your prices will advance when the industry opens up without Office of Price Administration controls?

Mr. WASON. We have no reason to believe that whatsoever.

Mr. CRAWFORD. You have reason to assume that your prices will not advance; have you not?

Mr. WASON. Our competitive situation is such that we have no request for price increases with the Office of Price Administration.

Mr. CRAWFORD. When it comes down to actually running industry—I am now referring to manufacturing—where management and skill is required, and where economies are necessary in the factory, by the superintendent and his foreman, and those who set up the factory policy, as well as the employees who work at the bench and the lathe, which would you prefer, a period of advancing prices, a period of stabilized prices, or a period of slightly declining prices?

Mr. WASON. Slightly declining prices.

Mr. CRAWFORD. Because there you have a much better morale among the personnel in your factory; do you not?

Mr. WASON. You have it among your customers.

Mr. CRAWFORD. Exactly. If you wanted to hire a man, an important keyman in your industry, would you pick a man who had established his character and integrity and managerial and production ability from a man who had gone through a period of advancing prices or from a man who had previously operated plants in a period of declining prices and at that time established his ability?

Mr. WASON. We would want the man who had developed an ability to cope with declining prices and who understood how to develop tools that would manufacture goods at lower costs to us and, therefore, to the consumer.

Mr. CRAWFORD. So then, on the basis of these, I think it is fair to come to the conclusion that you are not here begging for an opportunity to gouge the consumers of this country through the increase in prices that might occur during the interim period?

Mr. WASON. Mr. Crawford, our mission here is primarily to obtain your assistance in permitting the production of goods, to assist insofar as possible the validation of money outstanding, to prevent the inflation that is ahead of us, and to reduce the inflation that is here. That is where I began.

Mr. CRAWFORD. Two years from now you may be sitting on one of these committees, and I may be out there running a factory.

Mr. WASON. Well, you certainly understand the processes, and there are a lot of jobs around.

Mr. CRAWFORD. So I am going to try to put myself in your position and put you in my position. Is it any more despicable for a man to stand before a congressional committee and to speak for the financial interests of himself and his group than it is for a man who holds public office to always try to cater to the group that he thinks may have the greatest voting power so as to keep him in office?

Mr. WASON. The difference is that we are using our money.

Mr. CRAWFORD. Then I come to the conclusion that it is not much worse, then, for you to stand here than it is for members of legislative bodies to do what I referred to.

Mr. WASON. But we are spending our money, and, therefore, we do it in millions, not in billions.

Mr. CRAWFORD. So there are two parties of interest: the people of the United States and the people who happen to hold public office. That is the reason I congratulated you for coming here and presenting your case without any fear.

Now, have you and your group any amendments you wish to offer on the assumption that this law is going to be extended?

Mr. WASON. No, sir.

Mr. CRAWFORD. Or do you leave it flat?

Mr. WASON. Flat.

Mr. CRAWFORD. Do you know of any black markets in this country as a result, would you say, of the Office of Price Administration controls?

Mr. WASON. Yes, sir. I listened to testimony here on Friday where some cattle feeders explained openly and avowedly that they were all in the black market, and forced into it by the Office of Price Administration.

Mr. CRAWFORD. Now, going to page 14 of your prepared statement, we had better develop that for a moment. Now, do you know of any spokesman for any large organization of American citizens who ever appeared in public and presented a statement which agreed with the opinions of every member of that organization?

Mr. WASON. No, sir.

Mr. CRAWFORD. When Congress approves a proposition, by a roll call, and it carries by two votes, it goes out across the country as an act of Congress; does it not?

Mr. WASON. Yes, sir.

Mr. CRAWFORD. Although within two votes of Congress voting against it. Now, do the individual members of your organization have submitted to them various propositions upon which they vote from time to time? And which they send to their local manufacturer's association units, and they, in turn, send it on to headquarters?

Mr. WASON. There is a session of that kind on in New York today. The National Association of Manufacturers has an affiliate called the National Industrial Council, and that National Industrial Council comprises about 350 trade associations, and it has about 40,000 manufacturing members. They are in session today, going over different proposals.

Mr. CRAWFORD. When those trade associations thus contact your individual members, and pass the concensus of opinion of the individual members on to your headquarters, does that have a considerable effect on your board of directors?

Mr. WASON. Indeed, it does.

Mr. CRAWFORD. So then, according to democratic principles and according to American custom, and the procedure which has been followed in this country since the inception of our Government, you arrive at the conclusions which you present here as the opinion of the National Manufacturers Association?

Mr. WASON. We do, and from the standpoint of our board, this subject has been four times considered. At our last meeting, held after Mr. Bowles had attacked the National Association of Manufacturers and various other organizations in his spare time, our board, on a resolution from the floor, moved a resolution to support the testimony that I have given you today and that motion was carried unanimously.

Miss SUMNER. I wish you would bring out the fact, while you are here, that every one of your members has succeeded in guessing the market and what is going to happen about prices or he would not be in business long, whereas over in the Office of Price Administration, run by Mr. Gilbert, Mr. Wallace, and a few others, those men have never shown or demonstrated that they can guess what the American people are going to do about demands or about prices. I wish you would develop that.

Mr. WASON. I would be very happy to. I did read the testimony of two releases made by Mr. Wallace in which the Office of Price Administration economist made the flat statement that wages could be increased 25 percent in 2 years. That document was used as the basis of wage discussions in the General Motors case, and 2 days after the strike was settled, Mr. Wallace disowned the Office of Price Administration economist whom he had sponsored in his release last October.

We emerged from the war, and the prediction was that we were to have deflation. And in connection with this deflation that we were about to have, the anticipation of 8,000,000 unemployed was set up. And to meet the deflation, the labor unions were tipped off to come in and make a demand on industry for wage increases to prevent the deflation.

Instead of that we had inflation. However, the wage increase injection was made into the economy to accelerate the inflation while, on the other side, the deflation that was planned never came into existence, and is not in existence now, and will not be unless the Office of Price Administration creates it.

Miss SUMNER. I mean I want you to show the truth, that every member of your industry, every year, and way long before the end of the year, has to get what the people want, the kind of prices they can get for it, he has to have his research, or what have you, so that he can guess right or he goes out of business. I wish you would comment on that.

Mr. WASON. Miss Sumner——

Miss SUMNER. I mean the average fellow around here does not understand that. He thinks a professor knows more about business than a businessman, and they talk all this economic claptrap that is purely claptrap and the Congressmen do not know it. I wish you would develop that.

Mr. WASON. It is not a matter, Miss Sumner, alone of a manufacturer guessing the market. He cannot guess. His estimate must be accurate. And every manufacturer, in any year, prepares an

estimate of what his business is going to be in the succeeding year. It is checked by his total sales organization in the field for his single, particular product—not for 8,000,000 products, just for one. But for the one product, he has a sales organization at work. He has an office organization computing the facts and figures.

When it comes to November of a certain year, he may revise January before he puts through his production order. When December comes, he will revise February. And he does that month by month, by month throughout the year, 15,000 instances, 40,000 in the National Industrial Council, as well. But the guess is based on what the housewife thinks. If the day comes when goods that a manufacturer is offering for sale commence to fall in the market, then, the housewife is investigated and studied by the sales organization, by research groups, depending on the size of the outfit, so that goods can be made exactly as the housewife wants them, not as the manufacturer wants them.

Mr. CRAWFORD. Referring to your testimony on page 7 of your prepared statement.

Mr. WASON. Yes, sir.

Mr. CRAWFORD. I wonder if you had a chance to read the testimony I developed on that particular point with Chairman Eccles, of the Board of Governors, Mr. Bowles, Mr. Small, and Mr. John Snyder, in which I interrogated them specifically as to whether or not their proposal was to continue the Office of Price Administration controls so long as the people of this country had a great excess of buying power, measured by \$100,000,000 or \$200,000,000 or did they expect to come back and plead for the continuation of the Office of Price Administration only until the supply of goods approximated the demand?

Mr. WASON. I did not read that testimony, Mr. Crawford.

Mr. CRAWFORD. Well, I suggest that you read that and come to some conclusion as to the replies of those gentlemen, especially if you are going before the Senate committee with your testimony, because I have gathered the distinct impression, from those four gentlemen, that they have in mind that Office of Price Administration controls so long as this potential inflationary force is present.

Now, I never saw you before until today. I have never met you formally or informally. I did not know there was such a man in existence until you appeared here this morning. But you have developed here completely the thought in my mind back of those interrogations of those four gentlemen, which you will find in the record, and if it is now before the people of this country that the control of our economy must run as long as we have a potential inflationary danger, a potential inflationary power, which may be exercised at such time as the citizens of this country decide, in their own interests, to run away from the ownership of currency and dollar credit into the ownership of things, then, that is something for the Congress and for the consumers of this country to be concerned about.

Mr. WASON. Thank you very much, Mr. Crawford. We will develop that point.

Mr. CRAWFORD. I emphasize this, because I want you and the people of this country to analyze that testimony which I developed on this particular question, because if that is to be the control period, so long as we have an excess buying power, which we, as free economic

agents, may exercise, against the desires, for instance, of some popular party that may be in power, Democratic or Republican, and the exercise of such power would run contrary to the administration policies, well, then, we had better wake up to what is going on in this country.

Mr. WASON. Mr. Crawford, it is our belief that we are in the midst of a 5-year plan, the Office of Price Administration being one of its units, and that is the reason why we have so vigorously disassociated ourselves from these efforts to control the economy and prevent the production of goods which alone reduce inflation.

Mr. CRAWFORD. Let me ask you this question, as a practical manufacturer. You can answer it speaking individually or for your group. On what basis has Congress or the consuming public any reason to assume that the supply of goods will ever reach the demand under a price-control plan such as followed by the Office of Price Administration?

Mr. WASON. We cannot understand it. From an economic standpoint, we cannot explain it. We have no wish to question the good intentions of the Office of Price Administration or anybody else. Nor do we. But from an economic or a production standpoint, it just does not make sense, it never will make dollars, and it cannot make production.

Mr. CRAWFORD. Now, going to page 88 of your testimony, I find where you speak of this: "Until supply catches up with demand philosophy," you say, "This is by far the most plausible of all the arguments that is used in support of the continuance of the Office of Price Administration." When you make that statement, which I have just read, do you mean insofar as the consuming public of this country is concerned, that that is the most plausible argument which is used by the Office of Price Administration?

Mr. WASON. Yes, sir.

Mr. CRAWFORD. It carries with the wind, where you find it.

Mr. WASON. Plausible; yes, sir. Carries with the wind, but the wind is loaded with propaganda at the Government's expense.

Mr. CRAWFORD. That is all I have, Mr. Chairman.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. Mr. Wason, I, too, am interested in the housewife. We have a couple of million in New York City. I want to call your attention to the fact that the price of food, beginning, say, in 1940, was low. The farmers were getting low prices, about 85 percent of parity. Under the Office of Price Administration ceilings today and last year, the farmers are getting an average of 117 percent of parity, which is an increase of about 50 percent. That was reflected in New York City by an increase in the housewife—and that is the biggest item in her budget, food—of 45 percent. Now, I have talked to farmers from parts of the Middle West, South, and all over Long Island, where I spend my time in the summer, and they told me that prices were fine.

And the only reason they could not produce more food at those desirable prices was because of the shortage of labor. Is that true?

Mr. WASON. There is supposed to be a shortage of labor. There is an excess of labor in many locations. The beach resorts had plenty of labor.

Mr. BARRY. I am talking about farm labor now. We deferred farm labor by passing a bill here, because it was so short, and in spite

of the shortage, the farmers increased their production to 35 percent greater than what it was before the war. Now, my question to you is this: today we are undertaking to feed a good part of Europe and Asia, in addition to our own people, in addition to our soldiers. There is going to be a greater shortage of food. You take the position that if we take off price ceilings on food today that we are going to have a decrease in the price of food within any reasonable time?

Mr. WASON. We will have increased production of food.

Mr. BARRY. There is a shortage of labor. The price has been good for years. They never had such high prices as 17 percent above parity.

Mr. WASON. I can offer two specific examples.

Mr. BARRY. I am talking about the general food average now, some are low and some are high, but the general food average is about 17 percent above parity, and parity has always been a desirable price for a farmer. Under those conditions why should a farmer refuse to produce?

Mr. WASON. May I offer two answers?

Mr. BARRY. Certainly.

Mr. WASON. First, a very large canner of foods, in December, said to me: "Our food crops next year are going to be greatly reduced. The reason is that in this month we must make our contracts with farmers for the raising of foods, and the Office of Price Administration ceilings, under which we are making those contracts, are such that they are not being signed. Therefore, food will not be raised."

Mr. BARRY. What food was that? What type of food?

Mr. WASON. That was a variety of foods.

Mr. BARRY. Do you not know that there is no food on which the Office of Price Administration can place a ceiling below parity, and there is no ceiling at parity? All prices are above parity.

Mr. WASON. Let me offer a second one. A manufacturer of machinery said to me that there is going to be a food shortage in the Middle West in many, many spots this summer. We are set so that our machinery just cannot be made and it is not being shipped, and it will not be available on the farms to produce food this summer. The old machinery is worn out and useless.

Mr. BARRY. Well, in spite of that, the fact remains we produced 35 percent more food than ever before in our history and the prices are higher than ever before in our history, and it has been testified by Judge Marvin Jones, who was formerly head of the Agricultural Committee last year, that farmers are better off now than they ever were in the history of the Nation. And with a coming scarcity because of the European and Asiatic situation which we are going to undertake to correct, is it not certain that if we take off ceilings on food prices, that prices will go up?

Mr. WASON. The production will go up. We can be sure of that.

Mr. BARRY. During the wartime every farmer, in every section of the country, experienced a scarcity of labor. Now, I will concede that returning soldiers will increase labor, but the increased demand resulting from wartime will far out-stretch the increase in labor.

Mr. WASON. There has been some movement of labor into the city. There has been the education of farm labor in various parts of the world and a possible reluctance to return to the farm after having seen it. But farm wage prices should rise, and if they are reflected in the price of food, that is quite as proper as if they were reflected in the price of steel.

Mr. BARRY. Are you familiar with the parity formula, 100 percent of parity?

Mr. WASON. Yes.

Mr. BARRY. Parity means a desirable price to the farmer over a period of time. And the ceilings are an average of 17 percent above parity. Do you think those prices are too low for the farmers?

Mr. WASON. If the goods cannot be produced, they are too low.

Mr. BARRY. They have been produced—35 percent more than ever before in the history of the country.

Mr. WASON. On this labor shortage, Mr. Barry, there are some 3½ million people who have left manufacturing, and certainly some of them went to the farms.

Mr. BARRY. All right. Now, suppose farm production increases, to catch up with demand. Would inflated prices then have a tendency to drop?

Mr. WASON. Yes, sir.

Mr. BARRY. Would not the ceilings that are 17 percent above parity tend to lower themselves, once production catches up?

Mr. WASON. I think they will, with the production of goods, as you have stated.

Mr. BARRY. Would that not be the time to remove the ceilings?

Mr. WASON. If goods cannot be produced, the time would be now.

Mr. BARRY. Beg pardon?

Mr. WASON. If goods cannot be produced, the time is now.

Mr. BARRY. Now the prices are very high. The housewife in New York City pays 45 percent more for food than before.

Mr. WASON. Mr. Barry, we live in New York City, Manhattan Island, and we are aware of that New York situation, but that is not normal and that is not average. In New York you pay the gyp that the union puts on truck drivers coming in from various parts of the country for the Teamsters Union, you pay gypts in most of the big markets in the city—they are loaded with rackets. The Little Flower could not push them out.

Mr. BARRY. I am sure you will find the same situation prevails in every big city in this country.

Mr. WASON. Not to the same extent as in New York.

Mr. BARRY. There is a very slight fluctuation of one or two points.

Mr. WASON. I think, Mr. Barry, we have much bigger and better rackets than any other part of the country.

Mr. BARRY. Well, that is the biggest item in the budget. Let us get to rent, which is the second largest item in the family budget. Today we have what is probably the greatest scarcity of homes in the history of the Nation. And any reasonable person will tell you it takes 2 to 3 to 5 years to catch up with the demand for housing. We had no ceilings on homes, and the prices on Long Island have gone up as high as 60 percent. With such a shortage, do you take the position that eliminating the ceilings on rents is going to reduce rents?

Mr. WASON. I do not know as to that.

Mr. BARRY. What would you say?

Mr. WASON. I am not informed on the subject.

Mr. BARRY. Well, with the increasing demand caused by returning soldiers, and the tremendous existing shortage, what would happen eventually if the ceilings were taken off rents?

Mr. WASON. If I were in the real-estate business, I am sure I would be able to answer that.

Mr. BARRY. Well, now, as a matter of simple law of supply and demand, what do you think?

Mr. WASON. We have just appointed a committee to make a study of that subject, including the rackets in big cities, and the combination of politics and building supply manufacturers, and building contractors, and such, to see how much of it is substantial and how much is fraud.

Mr. BARRY. Well, take the prices of homes. You can see they have risen all over the Nation, in the small towns and big cities. There is a boom going on in Florida today that equals the one that went on 20 years ago. Is that not true?

Mr. WASON. Well, the farthest south I have been is Washington.

Mr. BARRY. Well, assuming what I say about housing to be true—I think everyone knows it—is it not logical that if we take a ceiling off rents, they, too, will start going up?

Miss SUMNER. He says he does not know anything about rent; why do you press him?

Mr. BARRY. As a matter of common knowledge, I am sure the gentleman knows something about that subject. You do not have to answer it if you do not want to.

Mr. WASON. Well, rent is something that I pay.

Mr. BARRY. So do we all.

Mr. WASON. But beyond that, I have little information about it.

Mr. BARRY. We had a housing bill up here recently, and we know what the price of housing is, throughout the country. They are beyond the reach of the great majority of returning veterans. They cannot find a place to rent. Even the most conservative member of the House, no matter what his position was, admitted we had a terrific housing shortage. We all know that the prices of houses, which have not been under control, have gone up twice or three times their normal price. I would just like to know if you really believe that our taking rents away from control today would have rents go up or down?

Mr. WASON. Our recommendation is that they be taken off of manufactured goods to give the housewife access to the materials that she needs with which to run her home.

Mr. BARRY. I understood your position to be that you wanted ceilings taken off everything. I mean you wanted a discontinuation of the Office of Price Administration Act; is that not so?

Mr. WASON. We have no position on rents, and I think I so stated.

Mr. BARRY. Well if you take all controls off, rent control will go with them, will it not? Now, you mentioned, I believe, that the causes for inflation after the last war were, first, the tremendous buying from abroad, then the lack of capacity, and the lack of statistical information. Is that right?

Mr. WASON. Yes, sir.

Mr. BARRY. Now, you mentioned the sum of \$25,000,000,000 in connection with that statement. I would like you to explain that. You say, "An increase in foreign trade now comparable with what happened after World War I would mean exports of almost \$25,000,000,000 within the next year." "And even the most optimistic estimates, allowing for foreign loans, are not more than half that amount."

Just what do you mean by that? In 1919, you mentioned, the

excess jumped to over \$4,000,000,000, an unheard of figure for those times, and a volume of buying that could not do other than drive up prices. That is your first cause of inflation, I gather, after the last war.

Mr. WASON. In the last war we moved from reasonably good times into war. In the present war, we had 10,000,000 unemployed in January of 1940, and we moved from a depression abruptly upward, and I am talking to those facts. But may I offer this:

The excess of exports over imports in the years 1912, 1913, and 1914 averaged \$500,000,000.

Mr. BARRY. What was the total of exports for those years; I mean any one year?

Mr. WASON. In 1912, \$2,399,218,000.

Mr. BARRY. What was the highest year you had?

Mr. WASON. 1915. 3.5 billion dollars.

Mr. BARRY. What was the total exports in 1915?

Mr. WASON. \$3,554,000,000.

Mr. BARRY. Well, I have the total exports from 1924 to 1930 and in only one year did they ever exceed \$5,000,000,000. I doubt that in 1919 they ever exceeded \$5,000,000,000.

Mr. WASON. In 1919, \$7,920,000,000.

Mr. BARRY. Up to 1930 it is \$4,000,000,000 except for the year 1929 when it was \$5,000,000,000. Where did you get your figures from?

Mr. WASON. The Statistical Abstract of the United States.

Mr. BARRY. Well, my figures are out of the Statesmen's Yearbook. The point is that even assuming your figures are correct, in 1919 you had \$7,000,000,000. What part of that was our national expenditures? Or take the domestic sales as against foreign sales. Do you have any idea as to that?

Mr. WASON. About 15 percent.

Mr. BARRY. That high?

Mr. WASON. Yes, sir.

Mr. BARRY. And you think that 15 percent was sufficient to cause inflation?

Mr. WASON. Of that type?

Mr. BARRY. Of the type we had after the last war.

Mr. WASON. Well, the historical fact is known to us. Whether it was inflation or not, I am talking here to certain Office of Price Administration figures that have been submitted to this committee.

Mr. BARRY. But you have completely ignored domestic demand which existed at that time.

Mr. WASON. Following the war, various nations in Europe had call on American goods as a result of loans to European nations, and those goods were drawn off in competition with the drawing off of goods for domestic consumption.

Mr. BARRY. Let me ask you this: Do you believe that the demand from Europe will be less now than it was after the last war, in view of what has taken place all over the world?

Mr. WASON. That will depend on the extent to which the Congress of the United States will support inflation by supplying them with the money with which to acquire American goods.

Mr. BARRY. Well, I understand you to say that your association took a position favoring the British loan.

Mr. WASON. That is not so.

Mr. BARRY. You are opposed to it, are you?

Mr. WASON. No, sir; that was brought up, and it was laid on the table.

Mr. BARRY. Aside from the loan, do you not think that the demand will be greater—and my point in this question is to answer your statement about the last war—that the demand will be greater from all over the world, regardless of the loan, for American goods?

Mr. WASON. I do not think we have said quite that. We did say, on the same basis. But, may I analyze this?

Mr. BARRY. I wish you would, because the only reason you give us is a lack of capacity to produce, and lack of statistical information, as I read your statement, and in World War I foreign marketing of our goods increased by leaps and bounds. You conclude by giving three reasons and that is the only one this is really a tangible reason, from my point of view, on page 68:

Inflation following World War I was caused by three things: enormous increased foreign buying, limited expansion of productive capacity, and lack of information on available supplies and current production.

Mr. WASON. Yes, sir.

Mr. BARRY. I just cannot conceive how purchases of 5 billion dollars or 7 billion dollars could cause that inflation.

Mr. WASON. On page 63, Mr. Barry, we said, "An increase in foreign trade now comparable with what happened after World War I would mean exports of almost 25 billion dollars within the next year." And I would like to analyze that, if I may. Our excess of exports over imports in 1941 was \$1,802,000,000. When this is multiplied by 8, the figure 14,400,000,000 dollars is reached. To this must be added the total import of about 5 billion dollars to get the true export figures of nearly 12 billion dollars without accounting for any price increase.

An estimated price increase of merely 10 percent would leave an estimated export figure of 22 billion dollars, and if prices at home and abroad should rise more than 10 percent, the figure is almost 25 billion dollars.

Mr. BROWN. Well, we will have to go to the House in a moment or two.

Miss Sumner has a question or two.

Miss SUMNER. The impression was given here by the chairman when he was questioning you, and your answers seemed to give him that impression, that you would have a great interest in seeing a tremendous skyrocketing of prices. I wonder if you did not overreach yourself a little bit. As I think that over, it seems to me that even if the prices would begin going up, and up, and up, the manufacturers would have even less interest than anybody in the whole production system, distributors or anybody.

Mr. WASON. We would, Miss Sumner. The answer I tried to give him was that our interest was in the total economy, and that the housewife was our boss and that we could do nothing in the making of a profit except as it served her.

Miss SUMNER. If, for instance, there were skyrocketing prices, prices going up every week, and the cost-of-living index going up, you, it would seem to me, would be in a good shape to lose money in such a situation, if that really happened, because you would have made your orders away in advance—

Mr. WASON. We would be committed.

Miss SUMNER. The manufacturer is the low man on the totem pole in the economic system, is he not?

Mr. WASON. Yes.

Miss SUMNER. So when prices gradually go up, you are going to lose money and you would be a fool to come in here if you thought that was a result of removing the Office of Price Administration; is that not right?

Mr. WASON. That is true, and we are in the position where every single cost entering into manufacturing—the sale of the goods to the consumer, the payment of labor, and every other cost in operation—must be paid by the manufacturer. Those are his risks before he can get anything.

Miss SUMNER. In other words, you make your contract today for a year from now, perhaps, and you set your price on that basis, but the distributor or the labor union or anybody else along the line can add his price on and raise his price tomorrow; is that not a fact?

Mr. WASON. That is true, and I would like to make it clear to this committee that we are absolutely opposed to runaway prices, that, as an organization with competence, we will do everything within our power, as an association, and as individual members, to prevent it, if there be any question.

Miss SUMNER. That is all.

Mr. BROWN. Thank you, Mr. Wason.

The committee will adjourn now to reconvene at 2:30 this afternoon.

(Whereupon, at 1:15 p. m., the committee adjourned, to reconvene at 2:30 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

Mr. Sherrard is our first witness this afternoon, representing the American Hotel Association.

You may take the stand, Mr. Sherrard.

STATEMENT OF GLENWOOD J. SHERRARD, CHAIRMAN, BOARD OF DIRECTORS, AMERICAN HOTEL ASSOCIATION

Mr. Chairman, members of the House Committee on Banking and Currency.

I am Glenwood J. Sherrard, owner of the Parker House, in Boston, and chairman of the board of directors of the American Hotel Association. Appearing with me as representatives of our Association are: J. E. Frawley, Fort Shelby Hotel, Detroit, president; Daniel J. O'Brien, Commodore Perry Hotel, Toledo, Ohio, treasurer, all officers of the American Hotel Association; and John J. Wicker, Jr., Richmond, Va., general counsel, Virginia Hotel Association.

We are grateful to you for an opportunity to express the view of our industry on H. R. 5270, having to do with the extension of the Price Control Act. Our joint statements will relate entirely to rent control.

We have attempted to break down the subject into four parts.

I should like to address you first by giving the economic background of our industry, showing the unfairness of the base period under which we have been compelled to operate, and pleading for an

increase in rent ceilings. Mr. O'Brien will then list for you the specific types of relief which we seek. Mr. Frawley will reveal to you some of the very trying experiences of the industry under rent control. Finally, Mr. Wicker will set forth suggested amendments to enforcement procedures.

According to the 1940 census, there were 27,987 hotels with a grand total of 1,444,390 rooms. These hotels have an estimated valuation of 5 billion dollars and do an annual business of over 1½ billion dollars. Our association membership embraces about 65 percent of the Nation's hotel rooms.

I respectfully call your attention to the fact that the hotel business is a business made up of small businesses. There are no giant corporations in the hotel business. As a matter of fact, the 1940 census reveals that 89 percent of all hotels have less than 100 rooms and 83 percent were operated by individual proprietors or partnerships.

The hotel business is nonsectional; there are hotels in every city and most small towns throughout every section of the country. The half million employees in our industry are all local people depending upon the hotel for their livelihood.

We believe that rent control is essential in the fight to prevent a disastrous inflation. The fact that hotels have willingly cooperated with the Office of Price Administration has, in no small degree, resulted in making the control of rents the most effective of all price controls. Top Office of Price Administration officials will attest our strenuous efforts to make rent control work in the nation's hotels.

Price and rent controls were instituted as a war measure and we willingly accepted them as such. Now with extension of controls under consideration, hotels ask for elimination of injustices and inequities in order that peacetime rent control can be made even more effective on a fair and equitable basis.

I should first like to point out to you that the hotel business in the period from 1932 to 1939 suffered perhaps more than any other business from the great depression. In that period 81 percent of the nation's hotels went through bankruptcy, foreclosure, or some form of reorganization. In the 4 years 1936 to 1939, the average earnings of hotels were approximately 1 percent of their estimated valuation before providing any interest on mortgages.

Therefore, the generally accepted base of 1936 to 1939, used as standard of measuring industry profits, is grossly unfair to the hotel business.

Mr. OUTLAND. Mr. Chairman, do you request that the statement be completed before any inquiries are asked?

The CHAIRMAN. Would you rather complete your statement before being interrogated?

Mr. SHERRARD. If it meets with the wishes of the committee, we would rather give our complete statement and then be asked any questions.

Mr. OUTLAND. I just wondered if Mr. Sherrard had any comparable figures for any other period besides 1936-39?

Mr. SHERRARD. We will give them to you in our statement, sir, if that is satisfactory to you.

Mr. OUTLAND. All right.

The CHAIRMAN. Proceed.

Mr. SHERRARD (continuing). In the 4 years, 1936 to 1939, the occupancy of hotels averaged 63 percent; in 1940, 64 percent; 1941, 67 percent; then rose to 73 percent in 1942, 84 percent in 1943, 87 percent in 1944, finally reaching the peak of 91 percent in 1945. Military personnel and their families have accounted for a large part of the peak activity during 1944 and 1945.

While during the war period the volume of hotel business increased to unprecedented and abnormal levels, operating costs have likewise risen at an alarming rate.

Hotels, as primarily a service business, have particularly borne a substantial increase in wage costs. Likewise, the costs of materials and supplies of which hotels are large consumers, have risen drastically.

According to Government statistics, compiled by the United States Department of Labor—Bureau of Labor Statistics—the average hourly wages in hotels for 1945 increased 60 percent since January 1941, and 77 percent over the 1936–39 average. The commodity-price index which reflects the costs of materials and supplies used by hotels advanced 34 percent from 1940 to 1945.

As hotel room rents were frozen under rent control at the prewar levels, the substantial increases in wages and operating costs could be absorbed only out of the abnormally high volume of business.

However, gentlemen, we have gone beyond the danger point in absorption of cost increases. This is strikingly illustrated by the fact that the average break-even point for hotels has been computed by accountants as 82 percent occupancy as compared with the more normal prewar safety point of 65 percent. And costs continue to rise.

In the peak years 1944–45, income from sources other than room rentals was double that of the 1936 to 1939 average.

Unquestionably, this is an abnormal volume of business resulting from wartime conditions but which, to a very large extent, has enabled many hotels to absorb the heavy cost increases to date. A decline in income from these sources is not only inevitable, but in innumerable cases has already started. The loss of this revenue will throw a much heavier burden on the primary room business of hotels.

A recession of only 10 percent in hotel business from the 1945 peak will submerge the hotel business beneath the break-even point.

With all our costs still increasing, you will appreciate our alarm at the situation we are facing.

No business can be soundly operated on a price structure that can produce a profit only when operated at an abnormal capacity. Certainly the words "fair and equitable" used in the act were not intended to mean ruin for the hotel business. We, therefore, request that, in order to preserve the hotel business on a fair and equitable basis, a general increase in hotel rents of 10 percent be provided, to offset, in part, the increased cost of labor, material, and other operating expenses.

I think you will agree that the 1-percent average earnings of our industry during 1936 to 1939 are inadequate upon which to base existing price controls. Before rent control, hotel room rents consistently followed commodity prices, for hotel patronage depends upon the national economic welfare.

Following 1939, when business was on the up-grade, the hotels would normally have again followed commodity prices, and would have marked up room rentals 10 or 15 percent.

Therefore, the increase which we are proposing at this time, is merely an increase which would correspond to that which would have been made in due course by the industry, of its own volition, had rent control not been present.

To offset the possible charge that hotel room rentals would have climbed precipitately in the absence of rent control, may I simply recall to you the 1920-29 inflationary period in America which followed the last war.

Even though rent control was not then operative, hotel room rates showed no disposition to rise, even though certain commodities experienced substantial price increases. National figures in hotel occupancy and hotel earnings are not available covering the 1920 decade, but those of us who are in the business can testify to the fact that very few hotels increased rents in this period.

Although the industry did enjoy high occupancy, and high earnings, during 1944-45, the figures which represented net profits were inflated, because of the fact that wartime shortages of supplies and labor prevented normal maintenance and repair. The industry estimates that we have accumulated a deficit of \$300,000,000 in deferred maintenance, resulting from the past 5 years of shortages of maintenance, repair, and operating supplies and materials.

From this point on I present Mr. Daniel J. O'Brien, the treasurer of our association.

The CHAIRMAN. Mr. O'Brien.

STATEMENT OF DANIEL J. O'BRIEN, TREASURER, AMERICAN HOTEL ASSOCIATION

Mr. O'BRIEN. Mr. Chairman and gentlemen of the committee, I am Daniel J. O'Brien, president of the Superior-Jefferson Hotel Co., operating three hotels in Toledo, Ohio, and treasurer of the American Hotel Association.

We are thoroughly familiar with your committee's past discussions of the provisions in the price-control law, which requires that the law be administered in a manner which will be "generally fair and equitable."

We are appreciative of your problem in legislating only on broad principles. We frequently find, however, that officials of the Office of Price Administration interpret the law in a manner so rigid as to prevent adjustments in the case of an individual hotel property which is threatened with financial difficulties, because of the inexorable squeeze between mounting costs and rigid ceilings.

We have never felt it was the intent of Congress to force important business groups out of business in order to achieve an administration of the price-control program which would be "generally fair and equitable." We again appeal to you, therefore, for a further definition, or possibly the elimination of the word "generally."

Our experience is full of instances where Office of Price Administration officials in Washington express agency policy to us, but where remote regional and area offices decline to pursue a policy charted for us in Washington. And when these regional and area offices have taken a different view of the particular problem at hand, Washington officials have found it next to impossible to require their district representatives to bring their actions into line with such national

policy as had been enunciated to us in our dealings with top officials.

No industry, as scattered as are we, can ever live under such vague and nebulous regulations as those which have not been reduced to positive language, and have not been interpreted uniformly, by the agency itself throughout its entire organization.

Like Mr. Sherrard, who preceded me, I am a member of the National Hotel Industry Advisory Committee on Rent.

Our committee has sought, conscientiously, to cooperate with the Rent Section to which we are accredited, as well as the Enforcement Section of Office of Price Administration. I have the highest personal regard for Mr. Ivan Carson, Mr. Eugene Swigart, and other rent officials, as well as for Mr. Reginald Watt, chief, Rent Enforcement Branch.

I do believe, however, that they need more help in those departments, and they need to be vested with greater authority over the operations of the agency.

Our advisory committee, after negotiating for months with these officials for some amendment to the regulations, or for some new interpretation, ultimately find ourselves in accord, whereupon, these men agree to prepare such amendment or interpretation. However, when it finally appears, there will be sections of the amendment, or interpretation, which have never been discussed with us at all, and which almost totally refute or nullify the basis for agreement reached during our extended negotiations.

Our committee feels that somewhere in these departments, there is an authority higher than these men which dictates their procedure. As you may well imagine, this is totally unfair and disheartening to any industry group which seeks an opportunity to negotiate in good faith with the agency.

Because of these, and other experiences, we come before you today with four specific proposals, confident that your committee will welcome any sound suggestions as to methods by which rent control for hotels may be made to work more effectively on a fair and equitable basis.

First, as to liberalization of hardship clause. When the hotel rent regulations were originally promulgated, they contained no provision for the relief of hardship resulting from substantial and unavoidable increases in property taxes or other operating costs. In 1943 we pointed this out to the Senate Banking and Currency Committee, and the committee informally directed the Office of Price Administration to amend its regulations to provide for such hardship. Accordingly, amendment 5 (a) 9 was issued, providing that a hotel could file a petition for adjustments in the maximum rents allowable on the ground of substantial hardship from increases in property taxes or other operating costs.

However, this amendment required a comparison of the results of the current year upon which the petition was based with a so-called representative period prior to the maximum rent date.

The Office of Price Administration has interpreted the representative period as being the 3 years prior to the maximum rent date. This hardship clause was an attempt to give some relief but unfortunately its requirements were so rigid that only two hotels have been able to get relief under it. The effect of the clause is that any hotel which lost money in the 3 years prior to its maximum rent date would have to

lose more money in a current year before it could qualify to file a petition for relief.

As Mr. Sherrard has explained to you the hotel business prior to 1942 was below the break-even point and earning on the average only about 1 percent on the estimated valuations before interest on indebtedness. I therefore submit to you gentlemen that while during wartime, the use of prewar base years might have been justifiable, it is certainly grossly unfair now to use distress periods as a basis for measurement of hardship.

It seems to me that this situation is similar to that which arose in connection with the excess-profits taxes. As you gentlemen well know, Congress wrote into the tax laws relief provisions to permit taxpayers to establish that the earnings of the base years of 1936 to 1939 were not a fair measure of their status for the purpose of computing excess-profits taxes.

These relief provisions permitted the taxpayers to establish a fairer basis in order to give relief from hardship which otherwise would have occurred. To force the use of prewar base years for the purposes of determining hardship under the hotel rent regulations, in a great many cases, is also unfair.

To correct this situation I suggest that the basis of measuring hardship be changed so that any petitioning hotel which is actually operating at a loss because of substantial increases in property taxes or other operating costs, should be eligible for adjustment of its maximum rents.

To accomplish this, the measure of whether or not a hotel is losing money should be one that permits a minimum interest return on a reasonable appraised value of the property. Certainly this is a workable and fair basis for a peacetime period.

I do not believe that any amendment to the act is necessary to accomplish this, but that a directive from your committee should be issued in a similar manner to your original directive which resulted in the hardship clause as it is now constituted.

Second: Adjustment of hotel rates is required. As pointed out to you by Mr. Sherrard, hotel room rates have traditionally followed commodity prices. Our industry has always been extremely sensitive to the ups and downs of our national economy. Under rent control for the first time, we were unable to maintain that traditional relationship with increasing commodity prices, and a squeeze has been created which quickly could raise havoc with the entire industry. This could easily happen through further rises in operating costs, over which we have no control, or through a decline in occupancy, over which we similarly have no control.

Office of Price Administration officials have admitted to us that their machinery would prove inadequate to handle thousands of hardship applications, should either of these two possibilities materialize. The only single method by which the inequities of this squeeze could be removed would be through the granting of an industry-wide adjustment of 10 percent.

A very keen competitive situation has always existed in the hotel industry. It is present, to a remarkable degree, even under frozen room rates. If we remain under control, without fair and equitable adjustments, we will soon reach a time when even the removal of rent controls cannot save us. When a national decline in hotel occupancy

comes as it surely will, we will then have passed the time when we can successfully increase our prices.

I am sure you realize that the dual problem of wages and prices which is perplexing industry today lies somewhere between the jurisdiction of different congressional committees.

As a result of this, your Banking and Currency Committee takes no direct jurisdiction over wages, and your House Labor Committee takes no direct jurisdiction over prices.

Actually, we have no one place to go with our story regarding the effect upon our industry of proposed legislation now before the Congress which would increase to 65 cents an hour the mandatory minimum wage.

A national survey which the American Hotel Association undertook, including all 48 States, revealed the fact that if this minimum wage were made effective, our total pay roll costs would immediately rise 21 percent, and we would require a 7-percent increase on total income.

We believe that this industry-wide adjustment in hotel rates could be accomplished by a simple directive from your committee to the Agency, and need not entail any amendment to the act.

Three. Separation of hotels and rooming houses.

We believe it to be imperative that the Administrator set up a special set of regulations governing hotels. Currently, we are grouped with tourist courts and rooming houses. We have frequently been denied some helpful amendment or interpretation which would simplify rent control in hotels, because of the fact that such a regulation would prove difficult to administer in the case of tourist courts and rooming houses.

As America's seventh largest industry, we earnestly submit that we should be entitled, after 5 years of rent regulations, to be governed by a set of regulations truly applicable to our industry.

Rent control is entering new areas constantly. This is done after special investigators of the Bureau of Labor Statistics study an individual city or area and find that rentals are rising. Let us point out, however, that hotel room rates are not examined as one of the indexes employed in ascertaining whether rents in that community or area are rising.

It has been our contention, therefore, that where occupancy in hotels reveals no congested condition, hotels might properly be excluded from controls being newly inaugurated at this late date.

Wherever hotels have many rooms available for guests each night, the competitive conditions within the industry will easily maintain competitive room tariffs.

And yet, we have found the Office of Price Administration unwilling to exclude from control, in the new districts which they are entering, the hotels of that community or area, even though it is established that occupancy in those hotels is at a level low enough to insure competitive pricing practices.

Extension of price control would seem to become a socialized program rather than a justifiable effort to hold down rents, when it is imposed upon properties where there is no congestion. We believe that if there were a separate classification for hotels, Office of Price Administration could more simply and more directly enter new areas or decontrol old areas expressly on the basis of hotel occupancy in those areas.

We know that many of the officials of Office of Price Administration

are high-class men with good background in business. On the other hand, as would be perfectly natural with a far-flung organization, of this kind, many petty tyrants and arrogant staff people have been in a position to deny legitimate petitions for decontrol, with no recourse left for the hotel.

We are convinced that there are some area rent directors who are admittedly opposed to the decontrol program in their area, because through such decontrol they would lose their present jobs.

Thus, even though decontrol would be justified by the facts in the case, controls linger past the point of usefulness, constituting an unnecessary irritant and potential liability against hotels. We do not deny that there are many communities where housing controls may need to be retained long after the need for rent control in hotels may have passed.

We believe that a separate rent regulation for hotels would better enable the Agency to distinguish between these two types of housing facilities.

In a study of a petition for decontrol no consideration is given to the status of the hotels in the area. Transient hotels may show substantial vacancies and yet decontrol is denied because of the rooming house situation. Let me give you an example:

In a western city, the petition of the hotels for decontrol was denied, even though it was admitted that the hotel occupancy was down to the break-even point. Petition was denied because local groups had expressed to the investigators a desire to have rent control continued. So, the petition was rejected, regardless of the financial plight of the hotels themselves.

Based on this type of thinking, America could easily have rent control with us the rest of our lives, because it is conceivable that for 20 years there might be some cities in which housing congestion would continue.

Fourth. Change of freeze period: There are great segments of the hotel industry in America which have been laboring under a set of room rates which have caused grave hardships. They were frozen to a set of room rates which were not typical or normal.

Here's the way that could happen: A hotel's fixed expenses are such that it must maintain as high a degree of occupancy as possible. When occupancy starts to decline, hotel management finds itself obliged to accept a certain number of permanent guests. Rates paid by these guests are far less than those paid by the transient traveler. In numerous areas, such as lower California, Denver, and St. Paul, rates were frozen during one of those periods when hotel rooms were a drug on the market, and were being offered at rates below the present cost of operation.

Obviously, frozen to that set of rates, they have been unable to enjoy even reasonable earnings, although they have housed the highest total number of guests in their history.

Hotel earnings in 1940 are estimated to have averaged 1.83 percent, and in 1941, 2.52 percent of the fair value of the investment, before providing for interest on mortgages.

These small earnings were indicative of the highly competitive situation which prevailed, born of low occupancy, and in themselves attest the fact that rates were at an extremely low level throughout most of the country.

The problem also confronts us of having many individual rooms frozen to a rate less than the regular rate. In many cases the only time rooms were sold during the base period was at such reduced rates although the hotel could show that for years the regular rack rate prevailed. This results, for example, in one room out of a tier of similar rooms having a rate lower than all comparable rooms in the hotel.

Relief can now be obtained only by showing "special relationship" which in most cases has been difficult to do after the lapse of several months.

Obvious difficulties are experienced in explaining these variations to guests and also lead to errors by clerks who must remember that certain rooms carry odd rates. These in turn can lead to unintentional violations.

We strongly feel that where a number of rooms of this character are located in a hotel, the hotel should be able to petition the area rent director for a review of the experience rentals on that room, prior to the base month.

The burden would be upon the hotel to establish its experience rates, but only through such device could the hotel have an opportunity to have the ceiling on a certain room, or a number of rooms, actually fixed at the level which that room customarily was rented for.

In this instance, too, we feel that a mere directive from your Committee could accomplish this purpose, and that no actual amendment to the act would be required.

And now Mr. J. E. Frawley.

The CHAIRMAN. As of what date did they freeze the rates on hotel rooms?

Mr. O'BRIEN. It varied in different parts of the country, Mr. Spence. Some places February of 1941; some places July of 1941; and some places February of 1942.

The CHAIRMAN. Why did they pick those as base dates?

Mr. O'BRIEN. We have never been able to find out just how they were established, someone just decided that was the date at which defense activities began to affect the various areas.

The CHAIRMAN. Well, now, you have both transient guests and permanent guests, do you not?

Mr. O'BRIEN. That is right; most hotels, not all.

The CHAIRMAN. How do they fix those rates?

Mr. O'BRIEN. They were frozen as of the same date.

The CHAIRMAN. All right. You may call your next witness.

Mr. O'BRIEN. Mr. J. E. Frawley, who is president of our association, is our next witness.

The CHAIRMAN. Mr. Frawley.

STATEMENT OF J. E. FRAWLEY, PRESIDENT, AMERICAN HOTEL ASSOCIATION

Mr. Chairman and gentlemen of the committee, I am J. E. Frawley, manager of the Fort Shelby Hotel in Detroit, and of two other small hotel properties in the State of Michigan, and president of the American Hotel Association. I should like to present a brief statement setting forth some of the industry's problems under rent control.

I am hopeful that you will believe, after listening to them, that we

are simply not taking up the time of your committee with trivial matters, but that somehow a better administration of this difficult program may result from your discussions with Agency officials.

Our industry is frequently reminded by field representatives of the Office of Price Administration that there is no excuse for any single violation of the rent regulations now that we have had 3 years within which to familiarize ourselves with these regulations. While being willing to admit that we all know a great deal more about operating under price control than we did 3 years ago, I must point out that we are placed in the impossible position of conforming to regulations and interpretations which are in themselves conflicting.

We are told one thing today by the Rent Department of the Office of Price Administration, only to be prosecuted by the Enforcement Section tomorrow, for pursuing a course originally charted for us by the Rent Department. I know of no single instance when the viewpoints of these two sections were completely composed for any single problem which has arisen within our industry. Always the subject is left up in the air. I submit that it is extremely difficult to comply with regulations, the interpretation of which finds two sections of the Agency in disagreement.

As I stand before you, I am convinced that neither the Office of Price Administration nor the Congress is alone in seeking to avoid inflation. I am very sure that the hotel men of America realize that they too have a stake in avoiding that threat to our national economy. At the same time, we do strenuously object to an administration of the Price Control Act which would bring about widespread changes in prevailing business practice. We do not believe that Congress vested in the Agency authority to ignore existing practices of industry prior to the rent freeze.

Section 5 (a) 1 of the hotel rent regulations provides that if I wish to undertake major capital improvements in my hotel, I may go to the area rent director, outline these changes to him, and receive advance approval of a definite adjustment in ceiling rates, based upon this additional investment. Many of our hotels have received this advance opinion, proceeded with their major capital improvement, only to be subsequently denied the adjustment formerly agreed upon. Also, in some cases, an advance opinion would be denied. I have in mind one hotel in Chicago where more than 1 year passed before the issuance of an advance opinion. During that period, building costs on the improvement contemplated jumped nearly \$40,000. No greater deterrent to the improvement of real properties, or to the spreading of employment in connection with such improvement, could possibly exist than is now present in the lax and inefficient manner in which the Office of Price Administration appraises these proposed capital investments.

For more than a year we have pleaded with enforcement section of the Office of Price Administration to establish a certain practice which we felt was only fair. It was this: When a hotel submits a settlement to Office of Price Administration, based on alleged overcharges, we have maintained that the district enforcement attorney owed it to that hotel to acknowledge that settlement. We understand fully that such acknowledgment would prove no barrier to a reopening of the case in the event that fraud or error were subsequently uncovered. There have been instances, however, when a settlement would be

submitted on the basis of the estimate of some enforcement official, the hotel's remittance forwarded to the Treasury, and the case presumably closed, only to have a personnel change occur in the office whereupon the file would be reopened, without the knowledge of the hotel, and a further penalty sought covering the same period, but based upon a different interpretation of the same regulations. The Office of Price Administration has agreed that an acknowledgment of these settlements comprised a reasonable request, and has promised that such a practice would be instituted. To my knowledge, it has not yet been inaugurated.

For fear you might believe that the hotel industry has not made an honest effort to comply with rent regulations, let me report to you that our national organization urged upon our entire membership voluntary participation in a self-audit program. The Office of Price Administration complained to us that they had an inadequate staff of investigators and accountants, and since they would be unable to visit every hotel and audit their accounts, they urged the hotels to undertake such audit voluntarily as a means of spotting unwitting violations. Even this degree of cooperation has not earned for us the fair and impartial treatment by district enforcement people which was pledged by enforcement heads in Washington when this national audit plan was undertaken. We have shown our good faith, to the extent of revealing our own unwitting overcharges, but have not enjoyed a similar evidence of good faith on the part of enforcement officials.

We resent the alacrity with which the Office of Price Administration is willing to rush into print and brand hotel owners and managers as criminals and chiselers. The Enforcement Section is ready, at the drop of a hat, to rush into print with some statement of violations, and accuse a hotel of "gouging." Even if the Office of Price Administration is subsequently proved in error, it appears that the Office of Price Administration officials have no device by which they can remove the stigma which they have cast upon the reputation of the hotel. I have in mind one case in the deep South where a hotel was sued and indicted in the press only to have the agency ultimately determine that no violation had occurred. The Office of Price Administration official responsible met the hotel man on the street and apologized, but nothing whatsoever was done at any time to remove, through the public press, the indictment initially filed.

The arbitrary and temperamental manner in which district enforcement officials move in their prosecution of hotels has caused us many heartaches. I have in mind a case, again in the extreme West, where a hotel had been visited by the Enforcement Division, and several conferences were held with reference to a number of violations. The Office of Price Administration withdrew from the second conference and told the hotel man to do nothing about the charge until a further conference could be called. In spite of this agreement, the hotel found its name emblazoned in the public press a few days later, without any attempt toward a further conference, and held up to public ridicule for violating the Price Control Act. Our industry called the attention of enforcement officials in Washington to this breach of good faith on the part of the district enforcement attorney for having brought suit without further consultation with the hotel, after having first promised that such consultation would ensue. Washington en-

enforcement officials admitted that they did not approve of such a performance by the district offices, but said that since the suit had been brought, there was nothing that they could do. The hotel was left no recourse except to negotiate at the local level, with enforcement officials, in whose good faith they had lost complete confidence.

There is now pending before the Office of Price Administration a proposal which would right a grave wrong in many hotels. Let me describe it to you briefly. The majority of our hotels over the country, back in 1940 and '41 and '42 voluntarily offered specially reduced rates to men and women of the military forces. The 30-day base period, preceding the effective date of rent control, frequently found that these special rates were in many cases the highest rates for which a given room would have been rented. Unless the hotel could look back 6 months later, and ascertain beyond the question of a doubt that that man who had rented that room during the base period, was a member of the military forces, he was denied an adjustment on that room.

In some cases, even though able to identify the tenant or guest as a member of the military, his petition was denied.

Under the belief that the administration of rent control was to be fair and equitable, many hotels continued to charge their regular rack rate on a room which had been rented during the base period to service men or women at special reduced rates.

After all, they reasoned, they were charging the general public the same rate that they were charging them for other similar rooms. It never occurred to them that rent control required giving the public the benefit of servicemen's special rates.

Yet, many of them awakened later when haled into court, charged with day-to-day violations, which when computed at treble damage penalties, sometimes reached into six figures.

And all because they had, out of some patriotic motive, given a little special consideration to members of the military.

When the Office of Price Administration reserves to itself all credit for its fight against inflation, and impugns the motives of our industry which, in cases like these, was guided by a patriotic impulse, our hotel men get mad.

In a meeting of the hotel industry advisory committee on November 13, 1945, Office of Price Administration agreed to bring forth what was to be known as an incentive formula, whereby hotels would be eligible for minor adjustments in room ceilings, based upon extensive rehabilitation, modernization and major capital improvements.

A survey recently completed by our association reveals the need for the expenditure of \$1,400,000,000 for rehabilitation, improvements, and additions.

Present high occupancy of hotels discourages owners from making improvements and repairs. Also peak building costs discourage such work.

Office of Price Administration agreed that only through some incentive formula could this tremendous program be undertaken promptly, thus spreading employment through every community in America. But no such incentive amendment or interpretation has appeared.

In fact, we are told within the agency that they may have to recede from their agreement.

I tell you frankly, gentlemen, that unless we can rehabilitate our properties rapidly, before the present high level of travel declines, you will have in the hotel industry a victim of wartime material restrictions and rigid price ceilings. There have been many times in our history when hotels found themselves unable to pay even their real-estate taxes. And those conditions could easily return, for want of understanding by the Office of Price Administration.

There is one practice witnessed constantly within the agency which can scarcely be defended. Decisions on applications and petitions are handled in a manner whereby the petitioner or applicant seldom knows whether his case was dealt with by district, regional, or Washington officials.

A little fast footwork and they lose the ball between them. Either an administrative determination is within the regulations, and thus can be fully defended, or it is not.

We maintain that an unwillingness to accept the responsibilities resident in their respective offices smacks of insincerity and is poor public policy. Such conduct breeds distrust, and is a positive hindrance to full compliance with the regulations.

I will say to you in all sincerity that any good hotel owner, or manager, is far more desirous of maintaining sound guest relations, than he is in maintaining good relations with Office of Price Administration.

Even the sums assessed against us individually in the form of penalties are not as important to us as are our guest relations, which will be the basis of our normal business operations when ultimately released from Price Control.

This being the case, it is preposterous to assume that any hotel under good management, would be so ready to "gouge" its guests, as implied by the agency.

I have spent my entire life in the hotel business. My reputation means much to me. Without the good will of the guests, who have perennially stayed with me in Detroit and other cities, I cannot survive, Office of Price Administration or no Office of Price Administration. But let me tell you what is happening, and how unauthorized activities by field representatives of the agency can only result in turning our guests away from us, and breeding suspicion in their minds.

Instances have been reported to us where investigators have gone up and down the corridors of our hotels, knocking on doors, and asking the guests how they are registered, and whether they are being charged more than ceiling prices.

When we have confronted the superiors of these investigators with actual reports of such happenings, they have merely replied that that was a part of enforcement procedure, and while not generally recommended, might easily be a justifiable procedure.

We are being treated like criminals or bootleggers or thugs, rather than as representatives of America's seventh largest industry. I am sure that if our roles were reversed, you members of this committee would writhe under such treatment by these minor tyrants and social reformers who are tramping through our properties.

Each of you men in your own homes know full well that the cost of operating your home has risen since 1940 and 1941. Fuel, laundry, food, commodity prices, and labor, have all risen substantially.

We in the hotel business have also felt all of these increases, and felt them sharply. There is only one type of person in all America

who has been spared these increases in living costs. He or she is the person occupying hotel accommodations, on a monthly basis, whose rentals were frozen to some rate identical with that paid in 1940 or 1941, whose increased costs of maintaining a home have been borne entirely by the hotel, with none being passed on to him.

These permanent residents of hotels have become a preferred class of tenants, but Office of Price Administration has made it impossible for hotels to recover their rooms, even at times when the military required additional housing in that community. Some of us can tell you that we have rooms, rented to permanent guests, where we are losing up to a dollar a day per room, but Office of Price Administration declines to recognize any basis for an adjustment.

A final source of Nation-wide irritation to our hotels has been the patchwork set of ceilings under which our rooms were frozen. I have rooms that are frozen at \$5 for one person, and \$4 for two persons.

Nearly every hotel in the country has some ceilings set on certain rooms, where it is cheaper to occupy the room doubly or by three or more persons than to occupy it singly. This is ridiculous.

And yet, remedial action within Office of Price Administration has never been taken to correct this situation.

It makes for the worst possible guest relations; it compels us to lose money month after month, because of some one experience rental on some certain night 3 or 4 or 5 years ago; it also is productive of numerous unwitting errors by our room clerks who, in their hurried operations, fail to detect these jumbled rate structures on identical rooms. Failure to find some way of correcting a situation as grossly unfair as this, must easily reveal that the agency has not proven itself competent to provide generally fair and equitable regulations for our industry.

In all of these experiences which I have recited to you, we feel that there is a simple way to guard against repetitions of these irritating practices.

It is a very simple expedient indeed. A mere directive from your committee to the Administrator would be enough.

That directive would require the rent and enforcement departments to compose their differences, and to rule jointly on cases involving them both, and requiring Office of Price Administration officials in Washington to be responsible for the action of their representatives in regional and local offices.

Until or unless these things happen, rent control will continue to be by far the greatest single headache the hotel industry in America has ever known.

I would like to deviate from this statement for a moment to comment on the situation in Detroit.

In my own hotel in Detroit, which did a business last year of about \$1,900,000, our pay-roll increases as compared to the time our rents were frozen in 1941, were 63.31 percent. The chairman asked Mr. O'Brien a question about rent freezing. Detroit rents were frozen on July 1, 1942, as of April 1, 1941, with the result that a 10-percent increase in rates, which was put into effect in July of 1941, had to be taken off in 1942 when they announced the predating of our rent control.

My own hotel, in 1941, lost \$77,000. If I were to go back to the same percentage of occupancy that I had in 1941, this year I would have lost \$302,000, or would have lost that in 1945, and in 1946.

Our pay rolls, on account of new union contracts, have gone up on the basis of \$33,000 a year additional.

My hotel has a replacement value of \$5,000,000, and with an assessed valuation of close to \$2,000,000, made \$36,000 after income taxes last year, and, if they operate in the same condition this year, with the same volume of business, they would make approximately \$25,000 before provision for taxes.

Thank you very much.

Mr. BROWN. May I ask you a question?

Mr. FRAWLEY. Yes, sir.

Mr. BROWN. I wanted to ask Mr. O'Brien a question. I am the Congressman from the same State. I am sorry I was not here when he testified. I received a letter from a young man in my home town. I would like to read a paragraph and get your comment on it:

The present ceiling price on hotel rooms was arrived at the time when hotels were running anywhere from 60- to 80-percent occupancy. In other words, during that particular period, if you had a \$3.50 room, rather than let the customer pass on, you would give him a \$3.50 room for \$2. This might be known at the time that that room would be rented for that price during that particular month. And you were caught with that price by the Office of Price Administration. The hotels feel this is unfair.

I think that is unfair. The highest price on one day in a particular month is the ceiling?

Mr. FRAWLEY. That is the ceiling price. For instance, you might have a tier of rooms exactly alike, which I have in my own case. For instance, 602 is the same as 502—502 might have rented, in an emergency, for \$2.50. The regular rate would be \$4. You would be frozen so that you would rent that room at \$2.50 and the identical room on the next floor would have to rent at \$4.

Mr. BROWN. Even if it was not occupied but for 1 day?

Mr. FRAWLEY. That is right.

Mr. BROWN. I would like to know how they arrived at that.

Mr. FRAWLEY. That is what we would like to know.

Mr. BROWN. What is the complaint you make? Do you want a higher ceiling or a higher base?

Mr. FRAWLEY. We need, as Mr. Sherrard said, an adjustment of 10 percent upward in our rates. The break-even point, as Mr. Sherrard pointed out, in our business, prior to the rent control, and prior to the war, was about 65 percent. Now we need 82 percent occupancy to break even. We are running about 90 percent occupancy, but the business is gradually dropping off, and in many cities it has dropped off considerably.

Mr. BROWN. It is based on 1941, is it?

Mr. FRAWLEY. In some places 1941, and in some places 1942. I think there were some places that were not frozen until 1943 and later.

Mr. BROWN. They have not given you anything for increased costs of material and labor?

Mr. FRAWLEY. They have not given us any allowance for that at all.

Mr. BROWN. Have you asked for it?

Mr. FRAWLEY. Yes, sir.

Mr. BROWN. Well, of course, there are two classes of hotels. This hotel I refer to in my home town—this is a prohibition town, and, of course, he depends altogether on rooms. In a lot of other cities, you know they make money out of liquor. I do not understand how they can lose so much. Of course, I think each one ought to be based on the rooms, but in the over-all picture I suppose that would be the answer. Of course, if you run a barroom in connection with your hotels, I do not know of any barroom that has operated in the red. But most of the hotels in a State which are dry, you do not have any source of profit but the room rental, and I do not see how they can stay in business with costs having gone up as they have.

Mr. FRAWLEY. They have a distinct problem, but I think many people have an exaggerated opinion of the profits from the liquor business. As a matter of fact, in your State and mine, they have got it pretty well controlled, so that the State gets a substantial amount of profit.

Mr. BROWN. In my State it is local option.

Mr. FRAWLEY. Yes; that is right.

Mr. BROWN. Of course, I think the hotel ought to make a fair profit on room rental besides the liquor. Of course, the man who does not sell liquor is in bad shape. But the man who does sell liquor, I think, is making increased profits in his hotel.

Mr. FRAWLEY. Well, our volume has gone up as it has in rooms, but there have been no price increases.

Mr. BROWN. I may be wrong about that. But I think there are several hotels here in Washington that were foreclosed. They were bought up very cheaply by several corporations, and they began to sell liquor and they were paid for in a short time.

The CHAIRMAN. Rather than have a 10-percent increase, would it not be better to have individual adjustments, rather than just have an over-all 10 percent? Is the condition that you described with reference to your hotel general in the case of all the hotels?

Mr. FRAWLEY. I think you will find that it is a pretty general picture.

Mr. BROWN. I do not think you will find that the man who has only rooms to rent would make as much money as a hotel which sold liquor?

Mr. FRAWLEY. That is true, but there are many conditions which alter that.

Mr. BROWN. I am not arguing with you, but I think the rooms ought to bring a profit besides the sale of liquor.

Mr. OUTLAND. Will you yield, Mr. Brown?

Mr. BROWN. Yes, sir.

Mr. OUTLAND. You raised a point, sir, about which I wanted to ask Mr. Sherrard when he spoke a moment ago, because I think it is rather important. It is stated here in your written statement that 81 percent of the nation's hotels went through bankruptcy, foreclosure, or some type of reorganization during the 1936-39 period. Is that correct?

Mr. FRAWLEY. That is correct; yes, sir.

Mr. OUTLAND. I asked at the time whether or not he wanted to be interrupted or wait until after he had completed his statement. Is it not true that almost all large hotels in the metropolitan areas go through bankruptcy?

Mr. SHERRARD. I do not think all hotels do, sir.

Mr. OUTLAND. Regardless of base period selected, would you not find a very high proportion that originally went through financial reorganization? Do you have any figures on that that would help us out?

Mr. SHERRARD. I can tell you of a great many hotels which have not gone through bankruptcy and I can tell you of a great many that have, sir. But that goes back sometimes to the original cost of the buildings and the method of financing. I think that would be the only fair answer to that, sir.

Mr. OUTLAND. Let me phrase the question in a different way, then. Do you have any figures on the average earnings of hotels over any consecutive number of years, that would help us out on that, to show the contrast between so-called normal times and now?

Mr. SHERRARD. I could give you a chart here which is put out by Horwath & Horwath, who are accepted accountants of the business, which shows how earnings of hotels have gone for 11 years, if you would like to look at it, sir.

Mr. OUTLAND. I would like to very much. I think that the point brought out that the very high degree of occupancy has kept down the loss undoubtedly is true. I am wondering, before that period, when there was not such a high degree of occupancy, and at the same time when there were no price ceilings under the Office of Price Administration, what the situation was as far as incomes of hotels was concerned. That is the point I wished to raise.

Mr. SHERRARD. Do you mean previous to the war, sir?

Mr. OUTLAND. Yes.

Mr. SHERRARD. Well, it varied in the various sections of the country. In certain sections of the country which enjoyed good business—it is the economic picture of that section of the country that would answer the question, I believe.

Mr. OUTLAND. Getting back to the question that the chairman asked a moment ago, would not adjustments be fairer if made in individual sections of the country rather than an over-all 10 percent?

Mr. SHERRARD. Well, I think that the first thing that should be done, in my opinion, is to straighten out a great many of these inequitable situations. That is a matter of administration. Then, something has to be done to take care of this general increase in cost. I think perhaps the members of the committee forget that we are a service industry. We sell something besides the room, which is different from a tenement or a flat or something like that, which sells a room. We sell services in addition to the room, and it is the increased cost of service which we want taken care of with this 10 percent. But there are numerous cases. We could go on for hours with descriptions of these funny ceilings for which there is absolutely no reason.

There are ceilings even as late as this year. They are now talking of putting Wilkes-Barre, Pa., under a ceiling for hotels, which they have never had. Fort Collins, Colo., because they have a student

housing shortage there. None of the students are going to live in the hotels, anyhow, but they want to bring the hotels under control.

Mr. OUTLAND. I agree thoroughly with your point that those hotels sell something besides just four walls and a bed. I have traveled a great deal and I have my favorite hotels where I like to go and feel that I am at home. There is something almost intangible in the relationship that is established between customer and management. But the point I was trying to get clear in my mind was whether or not, in times when there is not price control, whether perhaps some of these hotels losing money did not occur about as frequently as they are occurring now.

Mr. SHERRARD. I would not say as frequently. There have always been periods when hotels lost money, sir. There always will be. No act will take care of that, unfortunately.

Mr. OUTLAND. Thank you very much.

Mr. FRAWLEY. Thank you, Mr. Chairman. I would like to present Mr. John J. Wicker, Jr., general counsel for the Virginia Hotel Association.

The CHAIRMAN. Mr. Wicker.

STATEMENT OF JOHN J. WICKER, JR., GENERAL COUNSEL OF VIRGINIA HOTEL ASSOCIATION

Mr. WICKER. Mr. Chairman, ladies and gentlemen of the committee, my name is John J. Wicker, Jr. I am an attorney at law, with my offices and residence at Richmond, Va. For a number of years I have been general counsel of Virginia Hotel Association.

That is a State association comprising in its membership approximately 80 percent of the hotels within Virginia and affiliated as a State association with the American Hotel Association.

First of all, let me say that I am in thorough sympathy with the fundamental purposes of price control during wartime and during the continuance of emergency conditions. In my opinion, it is just as important to win the war against inflation as it was to win the war against Germany and Japan. In many ways inflation can be a far more destructive enemy of the American people than any foreign nation. I was in Germany in 1923 when it was undergoing the horrors of inflation, and the suffering and chaos which I saw all around me then was even worse than that which had existed while the shooting was going on.

Secondly, I have genuine admiration for the splendid accomplishments of the Office of Price Administration. I believe the Office of Price Administration has saved the American people billions of dollars, and that it is entitled to sincere support in the furtherance of its commendable efforts to save us from the ravages of inflation.

However, in the course of its work, the Office of Price Administration has been guilty of a number of unjustifiable procedures and tactics which constitute irritating abuses and, sometimes, gross injustices. These practices certainly should be eliminated and the abuses corrected. Accordingly, I propose to submit for your consideration certain criticisms of current enforcement procedures affecting the rent

regulation for hotels and recommendations for the elimination of these abuses.

The hotel industry, not being opposed to rent control during this emergency, is keenly aware of the need for enforcement of the Price Control Act. In the words of George Washington, "The true administration of justice is the firmest pillar of good government." By that expression, he sought for a fair and impartial attempt to apply "equal justice under law." The goal of the Government prosecutor should be, not only to prosecute the guilty, but equally zealously to protect those members of the community who are involved in alleged infractions. It must be expected, in so vast an organization as the Office of Price Administration, that some local officials are found who wield their club of authority indiscriminately. However, when such abuse of authority becomes widespread throughout the country, strong remedial measures must be taken to compel adherence to a sane national enforcement policy. Accordingly, I shall attempt to list some of the more frequent abuses of authority by local enforcement officials of the Office of Price Administration. I shall suggest, in some instances, that appropriate directives be issued to the Price Administrator, and in other instances your committee recommend specific amendments to the Price Control Act, where need be, to correct these shocking abuses.

First, local enforcement attorneys are compelled to meet quotas. It has come to our attention that in many defense-rental areas, enforcement attorneys have become slaves to statistics and operate on a quota basis. For example, in one large city, we understand that each enforcement attorney must grind out a quota of 75 enforcement cases per month. The pressure exerted on these men to keep up the flow of cases must all too easily cloud their judgment. Each man is striving, not only to enforce the purposes of the Price Control Act, but also to build a statistical record tabulated on intricate International Business Machine cards. Local attorneys state that the pressure to build a record of cases emanates from Washington.

Accordingly, we ask your committee to see to it that this practice is discontinued.

Second, some local enforcement attorneys resort to reckless, premature and indiscriminate publicity. One of the unfairest techniques of some local enforcement attorneys is their resort to reckless, premature and indiscriminate publicity. On numerous occasions, hotel owners and managers have awakened in the morning to read in the press for the first time that they are accused of "rent gouging." This occurs frequently without a prior opportunity to sit down with the Office of Price Administration officials in an attempt to iron out whatever difficulties there may be. On other occasions, after a conference has been held, the decision is conveyed to the hotel owner for the first time when it is spread all over the press in screaming headlines.

The desire for personal publicity is another factor responsible for this shocking abuse of the press. In one large city the chief enforcement attorney insists that his name be mentioned in connection with all enforcement actions. His personal scrapbook must be pretty bulky indeed.

Another favorite device of these local enforcement officials is to take a few minor cases and create the false impression that hotels in general are willful violators. For example, in one instance, the Office of Price Administration officials reported in the press wide-spread "gouging" by hotels in the city. A careful examination of the facts revealed that the alleged overcharges were exacted by two residence clubs, a rooming house, a resort hotel out of town, and a third-rate hotel in town. However, the belief was fostered that the major hotels of the city were out to "gouge" the innocent public.

In New York recently, a hotel was condemned by the Office of Price Administration for violating the rent regulations and suit was filed, with widespread publicity for \$374,500. The truth was that the Office of Price Administration, by interim order, had permitted the hotel to charge higher rates. Subsequently the Office of Price Administration modified this interim order and directed the hotel to refund about \$105,000. The hotel, at great cost to itself, issued checks to all guests and returned all but \$28,500. The latter sum could not be returned because the guests could not be located. Although the hotel offered to turn this money over to the Treasury Department, despite the fact that there was no legal obligation to do so, the Office of Price Administration filed this outrageous suit for the fantastic sum of \$374,500 and thus besmirched the reputation of the owners of the hotel. We resent the readiness to catalog our hotel owners and managers as criminals, crooks, and chiselers. The Enforcement Department of the Office of Price Administration is all too eager to rush into print with reckless statements of violations and irresponsible accusations of "gouging."

Accordingly, we ask your committee to see to it that this practice is discontinued.

Thirdly, penalties should be waived for charging rates subsequently approved. Mr. Frawley has discussed with you the current practice of penalizing hotels for charging their usual rates for rooms which had previously been rented at special reduced rates to service men and women.

We believe that this injustice can be remedied by the adoption of that portion of H. R. 4177—introduced by Congressman Kunkel of Pennsylvania and now before your committee—which amends section 205 (e) of the Price Control Act, concerning treble damage actions so as to provide (reading):

That the Administrator may not institute such action on behalf of the United States, or, if such action has been instituted, the Administrator shall withdraw the same, (1) if the violation arises from the selling of a commodity at a price or prices later permitted by action of the Administrator to be charged.

Fourth, cumulative penalties should be abolished. Prior to July 1, 1944, a tenant or guest who was overcharged could sue for \$50 for each violation or overcharge. The harshness of this penalty was brought to the attention of this committee in the case of *Ward v. Bochinō*, brought in the Supreme Court of New York in 1944, where for 31 weekly overcharges of 50 cents each, totaling \$15.50, the tenant sued for \$1,550. In order to prevent this injustice from recurring, the Stabilization Act of 1944 amended section 205 (e) of the Price Control Act so as to abolish these cumulative penalties. Today, a tenant can

sue for only \$50 or three times the total overcharges, whichever is greater.

However, one development has since occurred which is as unfair as the old law. Where the tenant has not brought suit within 30 days of the date of the violation, the Office of Price Administration may institute suit for the same overcharges. In most instances, in the case of hotels, the Office of Price Administration has sued for treble the total alleged overcharges to all guests. Where a hotel has contested the justice of the claim, the Office of Price Administration has resorted to the legal blackjack of filing suit for \$50 for each overcharge for each room.

The pyramiding of these sums runs into fantastic figures. In one case in Texas, suit was filed for \$37,000 but was ultimately settled for only \$750. This reveals either that the Government attorneys sold out their claim or else that the original suit for such amount was wholly unwarranted.

Recently, in New York City in the case mentioned above, in point II although the alleged overcharge was \$28,000 and treble damages would be \$84,000, the Office of Price Administration filed suit for \$374,500.

Accordingly, we respectfully urge this committee to recommend that section 205 (e) of the Price Control Act be amended as follows:

In subsection 2 of the section 205 (e) change the colon after the word "determine" to a comma and insert immediately thereafter the following language:

or (3) in an action instituted by the Administrator, such amount not more than three times the total overcharges, to all buyers of the defendant, upon which the action is based as the court may in its discretion determine:

Miss SUMNER. Did I understand you to say that you are in favor of keeping the price-control law in effect as regards hotels?

Mr. WICKER. Yes, madam; a sanely, sensibly, equitably administered price-control act, minus the abuses of which we complain, should be just as applicable to hotels as to any other commodity upon which the public is dependent for as long as any price control is needed.

Miss SUMNER. Well, of course, I take the position that Congress can do nothing about administration, and we have seen that amendment and it does not help any. So far as I am concerned, I am willing to vote that Office of Price Administration, even if it is taken off everything else, be left on the hotels. There is no one here opposing that. Is there?

Mr. WICKER. I think Mr. Sherrard could answer that better, but I think I could say that on the face of it, surely it could hardly be contemplated to have a price control effective on hotels, and upon hotels only, unless I misunderstood the lady.

Miss SUMNER. As I understand you, you want it left on, is that right?

Mr. WICKER. We are not appearing here on that question, madam.

What we are appearing here for is to bring to the attention of this committee the situation in which we happen to be just about the only industry that has received no relief in spite of tremendously advancing costs since we are largely a service organization, and to bring to the

attention of your committee these abuses and inequities in the enforcement, which run contrary to the fundamental purposes of the act.

Miss SUMNER. Well, I am just interested in something I can do something about. I cannot do anything about administration.

Mr. WICKER. Well may we suggest what this committee can do, we believe, just as the Senate committee did, in bringing about the original hardship amendment.

It was merely a suggestion from the Senate committee to the Office of Price Administration that something should be done, and that if it was not done there would be some legislation, and the Office of Price Administration responded forthwith and did grant an amendment, which amendment, unfortunately, in practice, has not worked out as well as it should, and therefore we request that a further suggestion or directive, or whatever you may call it, be made and called to the attention of the Office of Price Administration.

Miss SUMNER. That is my point. Suggestions are always made and some minor change is made that turns out to disillusion people. So I do not bother with that any more. I just wanted to be sure that you did not mind having price control on hotels.

Mr. WICKER. The hotel industry is not asking for price control.

Miss SUMNER. That is what I mean.

Mr. WICKER. But the hotel industry—

Miss SUMNER. Have no objection to it?

Mr. WICKER. As long as price control is necessary in the public welfare, for all lines of industry, including the hotels, we want to do our part, and we think we are doing our part, but we want it administered fairly and we want a reasonable base.

Mr. WOLCOTT. As I understand your position, Mr. Wicker, it is that where written, the Office of Price Administration does not use good judgment in the administration of the law, you want the Congress as far as possible to spell out the intent of Congress in simple terms so that they will get as much of the injustices of the administration of the law eliminated as far as possible by laying down definite rules.

Mr. WICKER. That would be extremely helpful, sir.

The next suggestion we have is, at the end of section 205 (e) add the following:

Provided however, That in an action instituted by the Administrator, a judgment in an action for damages under this section shall be a bar to the recovery under this section of any damages in any other action against the same seller on account of sales made to all buyers by said seller prior to the institution of the action in which such judgment was rendered.

Mr. BROWN. You are not against damages. You are against treble damages.

Mr. WICKER. We are against the cumulative, pyramiding of damages, and damage after damage. There should be an end.

And in many cases there should be, of course, as recognized in the law, only single damages, where the violation, if such, was unwitting, unintentional, and a clerical error, or wherever it was not shown to be deliberate or willful there should not be a penalty.

Our point is this: Let me give you an example. Down in Richmond, Va., the Office of Price Administration sent several of its investigators and accountants down to a hotel and they worked for weeks. All of the records of the hotel were turned over to the Office

of Price Administration investigators. They went through them with a fine-tooth comb. After they had finished, they took it up with the hotel and said, "We think your violations amount to so much. We have a right to sue you for treble damages."

That was gone into thoroughly. Finally a settlement was arrived at, and the Office of Price Administration admitted that the amount was only a negligible percentage of the amount they had first stated. The matter was closed.

Then, some months afterwards, a change of officials occurred, there was a new interpretation, and they undertook to rake up the same thing and brought another action.

The CHAIRMAN. Have they ever obtained any of those large judgments they have sought?

Mr. WICKER. Not in Virginia, but Mr. Sherrard can perhaps answer that nationally. Mr. Sherrard or Mr. O'Brien.

Mr. SHERRARD. Not in any case that we know, sir, involving any of our members. They sue you for 39 or \$89,000 and settle for anything from \$6,000 or \$3,000.

And these violations, in 99 percent of the cases, are violation such as Mr. Frawley drew your attention to, where people have been put in a room to protect a reservation. One of the violations in my hotel was where I put a man who had a reservation for \$3.85, our minimum rate, in a \$7.70 twin-bedded room in order to protect his reservation. We do not rent twin-bedded rooms singly, but any time that we put anybody in that room, from that date on, and charged him over \$3.85, because we kept our agreement, we are subject to paying a penalty. Which we had to do. That is not equitable.

The CHAIRMAN. They always sued for the treble damages?

Mr. SHERRARD. Yes, sir.

The CHAIRMAN. They have always sued for the treble damages?

Mr. SHERRARD. I guess they have always sued for them. I was thinking of settlement, sir. I think under the law they sue for treble damages.

Mr. WICKER. Mr. Chairman, of course the Office of Price Administration does not have to, but it seems to do that as a sort of practice. Again, quoting from a case in Richmond, Va.

There was tremendous publicity which came out last year, hotels were indicted in the public press, and the claim was made that they had overcharged and violated the regulations to the extent of some \$40,000 and consequently they were sued in the United States District Court at Richmond for one hundred and thirty thousand-and-some-odd dollars. The hotel officials denied any violation, said if any violation had occurred it was merely technical, unwitting, and in small amount, said that the prices which they had charged had been prices theretofore approved by the Rent Control Section of the Office of Price Administration, and that all of that, including all of their records, had been turned over to the Office of Price Administration in advance.

Nevertheless, the suit was filed, the papers carried it, in large headlines, naturally, and it was repeated time and again, and then, when trial time approached, they went into it thoroughly to see just what could be proven.

The Office of Price Administration itself admitted that there was not a single wilful violation, that the violations occurred, which they

could specify in an aggregate business of over a million dollars, that the violations amounted to less than \$1,800 and they settled for that amount. That is not an exaggerated, isolated case, but it is one that I know of personally.

Mr. WOLCOTT. Mr. Wicker, just on this point of cumulative damages. How is it that they are able to bring suits against you for treble damages, or \$50 on each room. You are in the business of selling all the rooms you have in your hotel, just as the grocer is in the business of selling carrots and beans.

How do they get around this very clear intent of Congress that the \$50 would be a ceiling on the treble damages on all violations up to that date? I assume from what you say that they considered your relationship, in the selling of rooms, different from the merchant's relationship to selling merchandise, is that it?

Mr. WICKER. Mr. Congressman, I think the position they take—at least I have talked to some, and the position they take is this:

That Congress, by its amendment to the law has made it so that the individual, the buyer, so to speak, who has the primary right to bring an action for treble damages, can only bring an action for treble the total, or \$50, whichever is the greater, but that the amendment only covered the individual, and that the amendment does not prevent the Administrator from separating those and from bringing an action and treating each day "his violation on each room, as a separate and distinct transaction."

Mr. WOLCOTT. This is very interesting:

In other words, they hold that the Office of Price Administration, being subjugated to the rights of the individual, and inasmuch as each individual could bring an action for \$50, that the Office of Price Administration can bring an action for \$50, on each separate violation.

Mr. WICKER. That is correct, sir.

Mr. WOLCOTT. That is very clearly not the intent of this committee and not the intent of Congress.

Mr. WICKER. That is our opinion, but unfortunately——

Mr. WOLCOTT. It was to get rid of those abuses that we changed the language.

Mr. WICKER. Exactly sir, and we have tried to impress that upon the Office of Price Administration and, while, as was stated by some of the former witnesses, the justice of the position is often admitted by top officials in Washington, in one branch, unfortunately in another branch they take a different view, and then the enforcement officials down at the lower level, seem to go right ahead and rush into court.

And when they do this, the top officials say, "We are sorry, but it is in court, and what can we do about it?"

Fifth. In relation to damages for nonwilful violations.

Where the violations which occur are not wilful, no sound reason exists for imposing penalties up to three times the overcharge. Furthermore, the burden of proof should be, where it belongs in all legal proceedings, on the plaintiff, be he the Administrator or a private individual.

Since criminality is not involved in these cases, it is not fair to impose an additional burden upon hotels or businessmen in general merely because some inexperienced clerk made an unwitting error.

Accordingly, we propose the adoption of that portion of H. R. 4177,

referred to above, which amends section 205 (e) of the Price Control Act, concerning treble damage suits, so as to provide, as follows:

that the Administrator may not institute such action on behalf of the United States, or, if such action has been instituted, the Administrator shall withdraw the same—(v) if the violation did not occur in a deliberate effort to violate a regulation, order, or price schedule of which the seller had knowledge or a reasonable opportunity to acquire knowledge—

If that amendment does not find favor with your committee, then we submit that, in the alternative, penalties above single damages be prohibited unless the Administrator proves that the violation was wilful.

This can be accomplished by amending section 205 (e) of the Price Control Act, as follows:

In subsection (2) of section 205 (e) change the proviso clause to read as follows:

Provided, however, that such amount shall be the amount of the overcharge or overcharges, or \$25, whichever is greater, unless the plaintiff proves that the violation of the regulation, order, or price schedule in question was wilful.

Miss SUMNER. Mr. Chairman, may I ask a question.

Mr. BROWN. Miss Sumner.

Miss SUMNER. You did some searching through the law books before you made up your brief, did you not?

Mr. WICKER. That is correct.

Miss SUMNER. Does it not violate the Constitution to assume that the defendant is guilty and be forced to prove his own innocence? That is French law, that is not American law. Does that not violate the Constitution?

Mr. WICKER. Madam, I will say that, of course, lawyers necessarily differ as to what is constitutional and what is unconstitutional, but we certainly feel that it is completely foreign to all sense of fundamental American justice to take any citizen and say, "You are guilty unless you can prove yourself innocent."

Miss SUMNER. Well, is it not a fundamental part of our common law, that the defendant is assumed to be innocent until he is proven guilty? In every State and Federal court, before this law came up. Are there previous instances?

It was certainly so when I was practicing law.

Mr. WICKER. That is certainly true in criminal prosecution, but in our statements to the committee we are dealing with suits that are brought in civil actions—not criminal actions, but civil actions—brought for damages, and there it appears that technically, they can—and when I say "they" I mean the Office of Price Administration—can get by with a procedure which practically assumes that you are guilty and that you are guilty of wilfully, and deliberately, and with wrongful intent, violating the provisions of the law.

Miss SUMNER. Well, you say "technically"?

Mr. WICKER. Yes.

Miss SUMNER. Technically the Office of Price Administration is suing; but as a matter of fact, if you look through that form, it is your own Government that is suing you, and it is not suing you for damages but is suing you for a penalty.

Mr. WICKER. That is correct.

Miss SUMNER. In effect, it is in reality a criminal suit. Is that not true? In effect that meets all the definitions of a criminal suit by a sovereign government against the citizen, is that not right?

Mr. WICKER. You are absolutely correct. Fundamentally, it is the application of a penalty, and we thoroughly agree that a penalty should not be applied unless the person against whom it is applied is shown by competent evidence is shown to have been guilty of violating the law deliberately or wilfully or with such negligence which indicates a wanton disregard of the law.

Mr. BROWN. Is not the burden of proof in all civil cases on the plaintiff?

Mr. WICKER. That is right; it is and that is what it ought to be here. But in these Office of Price Administration cases, unfortunately, in order to escape the penalty provision of treble damages, or something more than the return of the amount of the violation, the burden as it stands appears to be on the citizen to prove his innocence of any wrongful intent, and that is one of our points, and that is one point which could be cleared up by the adoption of this amendment that we suggest, that nothing more than single damages, or \$25, whichever is the greater, shall be in order unless the plaintiff, that is whether an individual or the administrator, proves that the violation of the price regulations, order, or schedule in question was wilful.

Mr. WOLCOTT. Could that not all be cured by writing the word "wilful."

Mr. WICKER. I believe so, sir. The law as it stands at present however, does specifically put the proviso in there.

The proviso as it now reads put the burden on the defendant to prove that it was not wilful. In other words, just as the lady suggested, the assumption is that it was wilful and that is a wrongful assumption.

Miss SUMNER. Putting the word "wilful" in there will not change the fact that the defendant has to prove his innocence and will not prove the fact that it is a criminal penalty in addition to the damages. It would simply ease your difficulty in making your proof.

Mr. BROWN. I think the words "single damage" would cure it all.

Miss SUMNER. That would cure the damage part.

Mr. WOLCOTT. The reason why the word "wilful" was not written into the damage clause was because whether you overcharge wilfully or not we assumed that you should pay back the overcharge. You charged something you should not charge.

Mr. WICKER. That is correct, sir.

Mr. WOLCOTT. If we provided that unless you wilfully violated it, then there should be no punitive damages, that would cure the situation and put the burden of proof at least on the Government to prove wilfulness.

Mr. WICKER. I believe, that would probably do it, sir, except that in Public Law 383, page 10, paragraph 2 of subsection (E), there is this language of the proviso as to single damages, and I quote:

Provided, however, That such amount shall be the amount of the overcharge or overcharges or \$25, whichever is greater. If the defendant proves that the violation of the regulation or order or price schedule in question was neither wilful nor the result of failure to take practical precautions—

And so forth.

Mr. WOLCOTT. You suggest that should come out and be replaced by this other language.

Mr. CRAWFORD. Mr. Chairman, we had an understanding that no

questions would be asked until these gentlemen have finished their testimony.

Now I have been sitting here watching the performance of this committee. If questions are going to be asked I have several I want to ask these witnesses.

We come in here almost every day, at the beginning of these sessions, and have a concrete understanding, and within 25 or 30 minutes it is changed and the procedure is upset. I do not like it. I try to be here on time and help the chairman start these hearings, and then they go haywire.

The CHAIRMAN. We will try to get the committee back on the beam and stay there.

Mr. MONRONEY. May I make a unanimous consent request to insert in the record a letter from the vice president of the Oklahoma Hotel Association following the testimony of these gentlemen.

The CHAIRMAN. That may be inserted.

Miss SUMNER. That is my fault Mr. Chairman, and I was not in here when that was brought out.

Mr. CRAWFORD. It is not your fault.

The CHAIRMAN. Let us proceed.

Mr. WICKER. Sixth, penalties should be abolished for one who relies upon Office of Price Administration instructions.

Mr. Frawley has pointed out the harshness of imposing penalties on hotels that, in good faith, have relied upon representatives of one Department of the Office of Price Administration only to be subsequently prosecuted by another Department of the Office of Price Administration.

In many cases, hotels are taken over by new owners with the knowledge that the Office of Price Administration had not previously taken any enforcement action against the hotel after the lapse of 2, 3, or even 4 years. After the hotel changes hands, the new owner learns for the first time through the medium of a suit by the Office of Price Administration that the hotel is alleged to be in violation.

Accordingly, we urge the adoption of that portion of H. R. 4177 which amends the treble damage provisions of section 205 (e) of the Price Control Act as follows:

* * * the Administrator may not institute such action on behalf of the United States, or, if such action has been instituted, the Administrator shall withdraw the same, * * * (ii) if the violation arose because the person selling the commodity acted upon and in accordance with advice and instructions of the Administrator or any of his agents; (iii) if the violation arose by virtue of an interpretation of the regulation, order, or price schedule with which the seller was not provided until after the violation; (iv) if the violation is one which the Administrator or his agents could have discovered with the application of reasonable diligence; * * *

Seventh, the injunctive process should be equally available to Government and business.

Under the present law, the Office of Price Administration can step in at any moment and seek an injunction to restrain any person from any alleged violation.

In many cases, threats are made by the Office of Price Administration and accusations of violations are aired in the press. It is only just and fair to spare the hotel owner or operator the uncertainty and anguish of standing by and waiting for the Office of Price Administration to start a suit against him. The hotel man should be permitted, in such a case, to come voluntarily into court as a plaintiff—

not as a defendant—and seek an adjudication as to the justice of his position.

Accordingly, we recommend that the law be amended so as to enable any person, who is actually threatened with enforcement litigation by the Office of Price Administration and who believes that the charge is unfounded or unjust, to file a petition in the United States district court for the district in which his business is located, and obtain an adjudication in the form of a declaratory judgment on the merits of the controversy existing between him and the Office of Price Administration.

Finally, and somewhat along the same line, we believe that any person affected thereby should have the right to challenge the validity of any regulation, order or price schedule issued by the Office of Price Administration affecting him, and obtain a speedy and reliable determination thereof.

We believe this could be accomplished by the adoption of section 3 of House Joint Resolution 314, introduced by Congressman Hartley, of New Jersey, and now before your committee.

The general purport of which is to enable any person so affected to bring a proceeding in the district court of the United States for the district in which the business is located, contesting the validity of the price schedule or regulation.

That concludes my prepared statement, Mr. Chairman.

If there are any further questions, I will be glad to answer them.

The CHAIRMAN. Do you object to bringing your suits into the Emergency Court of Appeals, to test the regulations of the Office of Price Administration?

Mr. WICKER. We think that the procedure of being able to bring the suit in the Federal court in the locality where the business is located would be much fairer and more equitable to the citizen, and that the Government could certainly take care of the public interest there just as well.

It is all right for anybody, perhaps in Virginia—

The CHAIRMAN. Of course, there ought to be uniform enforcement of these regulations, and if you bring the suits in various districts, you might have very many conflicting judgments regarding the same regulation. How would you handle that? That was the underlying purpose for the Emergency Court of Appeals. It seems to me there is some reason for that, because it would not be very advisable to have one regulation enforceable in one district and none enforceable in another. It would not be adjudicated, and before it went through the United States Supreme Court it would take a long time.

Mr. WICKER. Mr. Chairman, I think there is a good deal in what you say, and I agree thoroughly that if all the people of the United States were located conveniently to Washington, that would be ideal. But the same situation confronts the Government in the matter of the Fair Labor Standards Act. There any court of competent jurisdiction can entertain actions all over the country, and there have been differing and contrasting decisions and interpretations by different courts—Federal courts, if you please, and sometimes State courts—but those differences have been rather rapidly resolved one way or the other, because the Administrator is a party to every such action, and wherever the Administrator is a party to the action, nothing can happen without his knowledge, and if there are contrasting results

obtained in the district court of California, for example, and a different result in the district court in Michigan, and district court in the District of Columbia, the Administrator can bring those in focus, and I believe in the provision provided for by Mr. Hartley, there is provision for speedy action on such cases.

The CHAIRMAN. While I realize there is some advantage in the individual being able to go before the Federal court jurisdiction, before you could reconcile those different decisions, price control might be taken off, because it has been my experience that to go through the district courts and courts of appeal and the Supreme Court, it would take a long time.

Mr. WICKER. Well, of course, there is that objection, Mr. Chairman. Of course, the same thing is true if you bring a matter to the attention of the Emergency Court of Appeals. You then have either the Government or the citizen's right of appeal, and that time consumed in appeal would be covered there. The only real advantage, in the way of time and expedition, under the present system of the Emergency Court of Appeals is that there is one court of three or more banks, but one statutory court assigned, and that is an advantage.

On the other hand, as I have indicated, it has the disadvantage of putting upon citizens located a considerable distance away, that although the principle may be very serious, the amount may not justify bringing an action in a court having its seat at Washington. The question is: Which would be the better for the nation and citizens at large? We are inclined to think that the disadvantages of the manner and method we suggest would be less than the disadvantages that exist under the present system.

The CHAIRMAN. Have you had occasion to practice in the Emergency Court of Appeals?

Mr. WICKER. Personally, I have had three cases when we wanted to, but although located right in Virginia, rather close by geographically, we felt that the cost would be more than the amount would justify—and I am not speaking only of cost in dollars and cents, or the usual cost of litigation, but the cost in difficulty of coming up and having a place to sleep, under the present crowded conditions, and being able to go through and get a hearing. Whereas had we been able to bring an action in the United States district court, in the locality where we reside, in two of those cases, I believe, that the action would have been brought and I believe it would have been rather speedily disposed of in one way or the other.

Mr. BROWN. May I ask a question?

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Now, all suits for damages, and all criminal suits are brought in the local courts?

Mr. WICKER. Yes.

Mr. BROWN. The only thing you have in the Emergency Court is the determination of the regulations?

Mr. WICKER. Yes, sir.

Mr. BROWN. A lot of people misunderstand that point. They think all suits are brought in the Emergency Court of Appeals.

The CHAIRMAN. How long does it take to get a case decided by the Emergency Court of Appeals, ordinarily, let us say, and reviewed by the Supreme Court?

Mr. WICKER. I would hesitate, Mr. Chairman, to generalize on that,

since I have not personally brought a case before that court. I would hesitate to generalize.

The CHAIRMAN. Are there any further questions?

Mr. CRAWFORD. Mr. Chairman.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. First, I want to ask Mr. Sherrard this question. Are you familiar with the testimony submitted here the other day with respect to placing rent controls under State laws, where there are State laws?

Mr. SHERRARD. I have read about it in the newspapers, sir. That is all I know about it.

Mr. CRAWFORD. What do you think about that?

Mr. SHERRARD. You mean personally?

Mr. CRAWFORD. Yes, sir.

Mr. SHERRARD. Personally, I would have no objection, as far as I am concerned, but I would not want to put the association on record without asking our various State organizations what they thought about it.

Mr. CRAWFORD. You could not very well put them on record unless they had authorized you to do so.

Mr. SHERRARD. That is right. I would be very glad to ascertain how they feel about it, and report to the chairman, if he would allow us to, later.

Mr. CRAWFORD. Now, I want to ask Mr. O'Brien a question. Mr. O'Brien, on page 4 of your statement, at the top, I think the record should be made clear, because what you say there is in line with what Mr. Wicker has said. You said: "I do not believe that any amendment to the act is necessary to accomplish this, but that a directive from your committee should be issued in a similar manner to your original directive which resulted in the hardship clause as it is now constituted."

Now, I want the record to show, if it is correct, that you are restricting that particular language to a correction of this particular difficulty to which you refer.

Mr. O'BRIEN. That is correct, sir.

Mr. CRAWFORD. That is right?

Mr. O'BRIEN. That is right; yes, sir.

Mr. CRAWFORD. It is easy to get the impression from your statement that your position is to the effect that a directive from this committee is all that is necessary to clear up all of your hotel troubles.

Mr. O'BRIEN. I do not think that is so.

Mr. CRAWFORD. I do not say it is so. I say, without further clarification, it is easy to get the idea that you are not asking for any amendments whatsoever to the act.

Mr. O'BRIEN. Oh, yes; we are.

Mr. CRAWFORD. In other words, you endorse all of these suggested amendments which have been presented by Mr. Wicker?

Mr. O'BRIEN. Absolutely.

Mr. CRAWFORD. Now, I want to ask Mr. Frawley a question along the same lines.

Mr. O'BRIEN. May I interject one thing further in answer to your question?

Mr. CRAWFORD. Surely.

Mr. O'BRIEN. My remarks went to just these four items, while Mr. Wicker's remarks were entirely directed toward enforcement.

Mr. CRAWFORD. On the last page of your statement, Mr. Frawley, the last paragraph, I wish you would clear up those remarks for me. Let me read it to you:

In all of these experiences which I have recited to you, we feel that there is a simple way to guard against repetitions of these irritating practices. It is a very simple expedient, indeed. A mere directive from your committee to the Administrator would be enough.

You realize that any Member of Congress disagreeing with you gentlemen, on your position can take a statement or that kind to the floor and make a considerable argument on it?

Mr. FRAWLEY. I am talking——

Mr. CRAWFORD. So I want you gentlemen to make this record clear as to where you four spokesmen stand on this proposition of amendments to the act.

Mr. FRAWLEY. All right, Mr. Crawford, I am talking here about administrative practices. Mr. Wicker is talking about enforcement practices.

Mr. CRAWFORD. In other words, you wholeheartedly endorse the presentation made by Mr. Wicker?

Mr. FRAWLEY. Yes, sir.

Mr. CRAWFORD. All the way through?

Mr. FRAWLEY. That is correct, sir.

Mr. CRAWFORD. Thank you.

Now, Mr. Wicker, let me ask you this question: Suppose these amendments which you have recommended here are all adopted, what is there in the general set-up which would prevent the Office of Price Administration from creating in the minds of local persons, through bad publicity, that your particular institution, or some other institution, has acted in a criminal manner? If the bad publicity is there, the public gets the impression, regardless of what may come out of the legal proceeding. What is there in these proposed amendments, to prevent the Office of Price Administration from doing that?

Mr. WICKER. There is nothing in the proposed amendments, sir, that would prevent improper and indiscriminate and unjustifiable publicity about which we complain. That is something which we believe, where a directive or something from your committee would probably go further toward correcting than anything else.

As far as the publicity goes, that is a matter which is not dealt with by the specific recommendations for specific amendments to the law. It is something that could hardly be dealt with very effectively by an amendment to the law, but which we believe can be dealt with effectively by directive from your committee.

Mr. CRAWFORD. Then, if these amendments are adopted, some of that bad publicity may be continued?

Mr. WICKER. It may be, but I believe it will evidence to the Office of Price Administration the intent of Congress more clearly. Personally, we feel that the intent has been evidenced rather clearly, but, unfortunately, it has not percolated, so to speak, in the minds of many of the Office of Price Administration officials.

Mr. CRAWFORD. Do you think it likely to percolate?

Mr. WICKER. I believe, sir—I have heard—my father is a Baptist preacher, and he said if he kept on preaching on sinners long enough, he might get to the heart, because, he said, a drop of water, if it dropped long enough, would wear a hole through a piece of granite.

Mr. CRAWFORD. That works both ways. At St. Johns, county seat of Clinton County, which is a very strong Republican county in the Eighth Congressional District of Michigan, within the last few days a very bitter editorial was written against me and my position on this matter. The editorial was sent to me by a friend. I called the Office of Price Administration and I said, "Where did you get the authority to say to your investigators on rent control in Clinton County, that I had committed this act that is charged?" They said, "We have never heard of such a thing." I said, "You send me a letter on that proposition." They sent the letter, and it is going to be made of public record. The Office of Price Administration, Washington office, apologizes profusely, but in the minds of all of the people of that county, which has, for six elections, given me an overwhelming majority, I am branded as an outcast insofar as that editorial was concerned. The act is committed, so far as the public knows.

Mr. WICKER. Yes, sir.

Mr. CRAWFORD. And when they put this lousy publicity in a newspaper as to one of your institutions, the act is publicity as far as the public is concerned. There is nothing in your amendments to correct that, is there?

Mr. WICKER. I do not believe it is possible by any amendment of the law to correct that. I wish it were possible, because the Congressman can readily appreciate, with the righteous indignation that you feel in your own case, just how we felt after suffering under this yoke for a good many years. We have had this type of thing thrown at us all over the country by the unfortunate and unwarranted actions of some local Office of Price Administration officials.

Mr. CRAWFORD. The calculation is unquestionably based, so far as my mind is concerned, by certain ones in the Office of Price Administration who believe that by one drop at a time they can politically destroy every man on Capitol Hill who even questions one act of the Office of Price Administration. And the same way throughout the country. If somebody questions it, they will eventually get you one way or the other.

As far as I am concerned, my skin is sufficiently thick to take the punishment, and while I am here I am going to speak on behalf of the people of this country.

The CHAIRMAN. Who wrote the editorial? Did the Office of Price Administration write it?

Mr. CRAWFORD. The two Office of Price Administration investigators appeared at St. Johns, Mich., and informed the newspaper publisher that they had been sent there at my request. And that is pretty raw stuff, I am telling you.

Miss SUMNER. To do what?

Mr. CRAWFORD. This will all be made public. This fight is out in the open. We might as well all understand what is going on.

That is all I have.

The CHAIRMAN. If there are no further questions, you may stand aside.

I will see to it that the Office of Price Administration gets your testimony.

Mr. WOLCOTT. Just before they leave, I have a question.

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. You have called attention in your statements to these so-called hardship cases. That is, when rooms happened to be rented at an extremely low figure to take care of a reservation on a certain date, that you have not been able to get adjustment on the application for adjustment.

Mr. WICKER. Yes, sir. In my own particular case, I made several applications.

Mr. WOLCOTT. You made the statement here of cases where you rented for four dollars a room which ordinarily rented for six. Are all your comparable rooms renting for \$6?

Mr. WICKER. That was Mr. Frawley's case, but I have cases that are exactly analogous.

Mr. WOLCOTT. Let me ask Mr. Frawley. There are similar or almost identical rooms in your hotel which are rented for \$6?

Mr. FRAWLEY. That is right.

Mr. WOLCOTT. And the Office of Price Administration would not give you any relief on that?

Mr. FRAWLEY. No; they would not give us any relief.

Mr. WOLCOTT. I wonder, Mr. Wicker, has any question ever been presented to the Office of Price Administration or the Emergency Court of Appeals as arbitrary action on the part of the Administrator of the Office of Price Administration, by filing a protest with the Office of Price Administration and then appealing that adverse ruling in the Emergency Court of Appeals? Could that not be tested on the ground that it was an arbitrary act on the part of the Office of Price Administration, in not granting you relief under those situations? Under the law, of course, the Emergency Court of Appeals can review only cases of invalidity of the act or where the Administrator has acted arbitrarily or capriciously? Does that give the Emergency Court of Appeals jurisdiction?

Mr. WICKER. That question might be tested, sir, along that line. However, the question that appears when you consider that is: While it is arbitrary in an individual case, they say, "Well, here, this is a regulation that is governed by the provision that the regulations and price schedules should be fair and equitable generally." That word "generally" covers a multitude of sins.

Mr. WOLCOTT. Yes. When they do not want to change the regulation.

Mr. WICKER. Yes.

Mr. WOLCOTT. We have language in the act which authorizes them to adjust each one of these cases individually if they want to do it.

Mr. WICKER. Yes, sir.

Mr. WOLCOTT. If they do not want to do it, they say the prices are generally fair and equitable, and that lets them out?

Mr. WICKER. Yes, sir.

Mr. WOLCOTT. Now, as I understand, you have had other cases where, in your base period, hotel business was not too bad at that time?

Mr. SHERRARD. That is true in some cases, yes, sir.

Mr. WOLCOTT. Is it the practice of a hotel, when you are only operating, let us say, to 65 percent of your capacity, to close up certain of your floors?

Mr. SHERRARD. Yes, sir.

Mr. WOLCOTT. Let us say you have 10 floors, and you have closed

off 2 floors, and you have filled up the other 7 or 8 floors. Then you have somebody come in with a reservation. Has it been your practice to put them on one of these other floors temporarily, for that particular night?

Mr. SHERRARD. Mr. O'Brien has a concrete example on that.

Mr. O'BRIEN. During the base period I had two floors closed.

Mr. WOLCOTT. I may say I was talking to a hotel man who brought this out.

Mr. O'BRIEN. In my case I had two floors closed. Consequently, our minimum price rooms, which always go first, would be sold out quickly, and guests who were accustomed to being taken care of at the minimum price had to be provided for, and they were provided for by giving them higher priced rooms, but charging them the rate they were accustomed to paying.

Mr. WOLCOTT. That would be a very extraordinary case, where you would open up a room on one of these floors?

Mr. O'BRIEN. No, you probably misunderstood me. I did not say we opened those floors. We keep those closed.

Mr. WOLCOTT. I see.

Mr. O'BRIEN. But we give them a better room at the minimum price on one of the open floors.

Mr. WOLCOTT. Rather than open up those floors, you would give somebody a \$6 room for \$3? That is, if that is what he had been accustomed to paying?

Mr. O'BRIEN. That is right. And then we get caught in the base period by that action, you see.

Mr. WOLCOTT. Yes. I have no further questions.

The CHAIRMAN. You may stand aside.

Mr. SHERRARD. Thank you for your courtesy, gentlemen.

The CHAIRMAN. I will see that the Office of Price Administration obtains your testimony, and the points you make which can be remedied by legislation, will be.

(The following is a letter to Hon. A. S. Mike Monroney from Oklahoma Hotel Association.)

Hon. A. S. MIKE MONRONEY,
House Office Building, Washington, D. C.

DEAR MR. MONRONEY: In answer to your telegram of March 16, relating to reenactment of the Emergency Price Control Act of 1942, as amended, which is now before your committee, I wish to offer the following comments and express my convictions on this subject. I may add that as first vice president of the Oklahoma Hotel Association, an office which places me in close contact with hotel men throughout the State, I believe the ideas I express reflect the considered opinion of the entire hotel industry of Oklahoma. As a supplement to this letter I am enclosing a copy of resolutions unanimously adopted by our State convention at its closing session on February 26.

In the years selected by OPA (1936-39) as the period that reflected fair competitive conditions, and a fair return upon capital investment, many of our Oklahoma hotels were operating on an occupancy rate of 50 to 60 percent of capacity. During that period such hotels could not pay a fair return on investment unless the occupancy rate was about 75 percent. Every new hotel in the State, with one or two exceptions, was, or had been, going through the financial wringer; a number of them were foreclosed and sold for less than the bonded indebtedness, while most of our older hotels were not meeting expenses.

This situation had led all downtown, transient hotels not only to reduce rates to unremunerative levels but caused them to rent a great many rooms by the month, at bargain rates. By "bargain rates" I mean rates at which a hotel cannot maintain its property. Such monthly hotel rates are bargain rates in

the same sense that merchandise is sold at bargain sales, oftentimes at less than the cost of such merchandise. This general situation had depressed daily rates from 17 to 20 percent below fair remunerative rates throughout Oklahoma.

The fact is that the hotel industry, in Oklahoma, during the depression years, was losing money, each owner trying to "sweat it out" and save his business. Our rates were 25 to 35 percent below those of neighboring States, for comparative accommodations, the reason, of course, being that Oklahoma had more new hotel building, relative to population, during the twenties than did our older sister States. As a result, the hotel business in Oklahoma was not in a healthy condition during the 1936-39 period and did not reflect a fair return upon investments for the industry as a whole.

Under OPA "hardship regulations" a hotel must prove a loss for 6 months, or a year, before it can make a case. That is not all.

If a hotel was losing 2 percent in the 1936-39 base period, OPA could not permit a rate adjustment to better the base-period condition. If the hotel was losing money at that time, it would not be permitted to make a profit now. The best OPA could do was to restore it to its former competitive condition. If it was losing money in 1936-39, it must continue to lose money. Such a regulation does not conform to the preamble of the Emergency Price Control Act passed by Congress. It was a plain violation of the act.

There would be no criticism of this rule during the war emergency, provided it was limited to businesses that were making a fair profit during the base period, but to say that a business (due to general conditions, over which it had no control, and which was sustaining a loss in a given period) should have its loss position "frozen," while other businesses had their profit positions protected, could not result in a just or equitable application of our laws; I feel sure the Congress had no such idea in mind. The application of this rule is all the more indefensible, since the base period selected could not be applied fairly to (1) every part of the land, nor to (2) every condition of business. The regulations were basically unsound and violate every principle of justice and an equal application of the law to all citizens alike. Congress certainly did not intend to do this when it enacted the Emergency Price Control Act of 1942.

If we are to preserve our system of private enterprise, the businessmen of American will have to carry on enterprises, oftentimes for years at a loss, or without material profit, looking forward to the time when profits will be substantial. Established and profitable businesses will encounter periods of loss when they must preserve their trade position through former savings. This has been the history, and normal course, of thousands of American enterprises, and we cannot permit this general plan to be destroyed without completely changing over our entire social and business economy.

When we point these considerations out to OPA officials, their reply is this: "You are making money now, aren't you?" And to this we have to say, "Yes." The occupancy rate of hotels located in most defense rental areas have been the highest in all history, but this pressure is now declining.

Due to the fact that the expense of hotel operation has increased from 20 to 40 percent since 1941 that pay rolls have increased from 50 to 100 percent, a 20 percent decrease in the occupancy rate, or demand for rooms, would result immediately in an operation loss to many of our hotels.

I note that Mr. Bowles has urged that Congress reenact the Emergency Price Control Act of 1942, as amended, without change.

Under the powers OPA has assumed under that act, and in consideration of how the act has been administered, I urge that Congress, in extending this act for another year, afford due protection to the just rights of every citizen alike.

The only equitable principle to apply in the case of rent control is that of a fair return upon the capital investment of each citizen, and, insofar as possible on an individual basis, under conditions as they exist today, and not on conditions which prevailed in 1936 or 1939. This principle has lately been applied, in effect, to the steel and auto industries. It applies to public service corporations which can go before the courts, if necessary, and sustain their rights to a fair return on investments. This principle should be embodied in the new Price Control Act, and the right to a fair return on capital investment clearly established under conditions as they are today, instead of going back to a period now 7 to 10 years past, when many enterprises were operating under distress conditions.

One of the most outrageous regulations applied to the hotel industry was that of making no distinction between transient hotels and residential or apartment hotels when it came to freezing monthly rates and monthly occupancies. Transient hotels, which occupy the most expensive downtown locations; which are

built, staffed and organized, solely to accommodate purely transient trade, had monthly and weekly bargain rates frozen in the same manner as residential hotels, apartment hotels, and apartment houses. OPA officials were unable to understand that there was a very wide difference in the investment, operation, expenses, and mechanical details of operation, as between the residential and transient types of hotels. They attempted to draft rules which would apply uniformly to all these varying types of operation, and their natural differences in location or services.

By no possibility could regulations, so conceived, be reasonable or equitable for every hotel or every condition of hotel operation. When OPA froze retail prices in the mercantile field, it excluded all articles of merchandise then offered by merchants on the bargain counters of America. But when it came to the question of rentals in our hotels, it excluded bargain rates as they applied to both weekly and monthly rentals. This is a clear example of discrimination, and one which Congress alone can correct.

I trust you will get these facts before the Banking and Currency Committee of the House, in order that your committee may have these facts before it when it comes to enacting a new price-control bill.

Yours sincerely,

A. MARTIN KINGKADE,
Vice President, Oklahoma Hotel Association.

Mr. Smith.

Mr. SMITH. Mr. Chairman, I am Patrick Smith. The lady from Illinois has requested that the man from Illinois go on first.

The CHAIRMAN. Were you going to go first and introduce the witnesses with you?

Mr. SMITH. Yes, if you please, what we have tried to do is to work it out in such an order that we would use a minimum of time and get the story told quickly.

The CHAIRMAN. That is all right. Is it all right with you, Miss Sumner?

Miss SUMNER. Yes.

**STATEMENT OF PATRICK J. SMITH, ATTORNEY, INDIANAPOLIS,
IND.**

Mr. SMITH. My name is Patrick J. Smith. I am an attorney of Indianapolis, Ind., and together with other counsel, represent certain work-glove manufacturers.

Together we have drafted a suggested amendment to section 925 of the Emergency Price Control Act, which amendment I will refer to again in the course of my statement. Prior, however, to any further reference to the amendment I should like to give the committee a brief background of what the proposed amendment to the statute seeks to do.

There are with me here Mr. Elsey, secretary and treasurer of the Indianapolis Glove Co., of Indianapolis, Ind.; Mr. Stokes, chairman of the executive committee of the Boss Manufacturing Co., of Illinois; Mr. Mason, vice president of the Wells-Lamonte Corp., of Chicago; and Mr. Houghten, president of the Good Luck Co., of Illinois. These four companies manufacture more than one-half of all work gloves produced in the United States.

These four men are prepared to make available to the committee information in connection with the work-glove manufacturing business as the committee shall desire to elicit from one or more of them.

As the committee remembers, on the 28th of April, 1942, the general maximum price regulation was promulgated to become effective on

May 11, 1942. It was subsequently amended from time to time, particularly by amendment 23 on August 20 and by amendment 38 on November 11, 1942.

The general maximum price regulation fixed no schedule or list of dollar-and-cent prices for commodities, but provided in substance that a seller's maximum price for any commodity or service should be highest price charged by the seller during March 1942 for the same commodity or service, or if no such charge was made, then the highest price charged for a similar commodity or service most nearly like it. In the event that he no highest price charged for a commodity or a similar commodity, then his highest price charged was to be determined by the highest price charged by the seller's closest competitor.

The regulation also defines the term "the highest price charged during 1942" first, as the highest price which the seller charged for a commodity delivered or service supplied by him during March 1942 to a purchaser of the same class; second, if there were no such delivery then his highest offering price; and, third, if he made no deliveries and had no offering price to a purchaser of the same class, then his highest price would be that price charged to a purchaser of a different class adjusted to reflect the seller's customary differential between the two classes of purchasers.

The regulation further provided that if before April 1, 1942, the seller raised his prices for a commodity or service to all his classes of purchasers—or to all his classes of purchasers except those to whom he was bound to make deliveries or supply during March 1942, pursuant to a firm commitment made before the price rise—and

If during March he delivered the commodity at the increased price to at least one class of purchasers, then in order to allow the seller apply the price rise to any class of purchasers to which no deliveries of supply was made during that month after the price rise—except upon a firm commitment made before the price rise—the highest price charged during March shall be deemed to be the seller's increased offering price to such class of purchasers for deliveries or supplies of services during March of 1942.

Many of the work-glove manufacturers, and all of those who are represented here, issued to the trade during March of 1942 a price list carrying increased prices for work gloves.

All of the work-glove manufacturers represented here sold and delivered certain models of their work gloves pursuant to such increased price during March of 1942, but did not sell and deliver each item of glove which they manufactured. In fact it was probably physically impossible to do so. Take, for example, Indianapolis Glove Co.—they manufactured substantially in excess of 500 different models or items of work gloves. Only 58 of these items were sold and delivered during March 1942 at the increased prices. This was true for several reasons.

(1) They had outstanding many prior commitments for delivery of gloves, some of which ran back to September 1941.

(2) Many of the retailers who were purchasers from the manufacturer had stocked up, when prices began to rise in 1941, on the more popular models of gloves in order that they would have merchandise available for their trade.

Thus, many of the manufacturers delivered during March 1942 only a nominal number of their work gloves at the increased prices as published by the lists of prices issued in that month.

It has been the practice and custom in the work-glove industry for more than 25 years to price work gloves on a so-called base price, that is to say, that when a work glove manufacturer learns the cost of 8-ounce Canton flannel, then he computes his price for gloves made out of lighter or heavier flannels.

In other words, from the price at which an 8-ounce Canton-flannel glove will sell by a work-glove manufacturer, by adding to that price or subtracting from that price certain differentials, depending upon whether there are additions to or subtractions from the weight of the base glove such as adding a leather palm or gauntlet wrist, or using a heavier or lighter flannel, the price for all other gloves is determined.

It is very much like pricing in the automobile field where a stock car is priced at a certain dollar figure and then, as bumpers and windshield wipers and other accessories are added, the price is increased by an addition to the cost of the stock car. So it is in the work-glove business.

A 10-ounce Canton-flannel glove costs more than an 8-ounce glove because 10 ounces costs more than 8 ounces. If a leather palm is added to an 8-ounce glove it costs more than if a flannel palm was used. If a gauntlet wrist is added instead of a knit wrist, the additional cost of the gauntlet wrist is added to the cost of the plain 8-ounce Canton-flannel glove. As I have said, this has been the practice and custom in the work-glove manufacturing business for longer than 25 years.

Section 902 (h) of the Emergency Price Control Act provides that:

The powers granted in this section shall not be used or made to operate to compel changes in the business practices, cost practices, or methods or means or aids to distribution established in any industry * * * except where such action is affirmatively found by the Administrator to be necessary to prevent circumvention or evasion of any regulation, order, price schedule, or requirement under this act.

After general maximum price regulation was promulgated, various work glove manufacturers studied their records of sales and deliveries made during March 1942.

Upon the basis of the long established practice and custom of the work glove industry of in-line pricing, these manufacturers determined that the revised price lists of March 1942, pursuant to which some sales and deliveries had been made in March, represented their highest prices charged for all items within the meaning of the regulation.

This practice was generally followed by the industry with the approval of the Office of Price Administration.

In fact, one work-glove manufacturer represented here was assured by an Office of Price Administration official that its published March 1942 price list represented its lawful ceiling prices under the regulation. Later the Office of Price Administration took the position that the practice was improper. In 1944 dollar-and-cents prices were established.

I will use one example as illustrative of the difficulties and confusion into which industry has been thrown by reason of, we believe, improper construction of the regulation and statute.

The Indianapolis Glove Co., after the issuance of general maximum price regulation, had many consultations with other members of the work-glove industry and representatives of Office of Price Administration in Washington, and Office of Price Administration confirmed the earlier interpretation which the industry had made.

Because work gloves were needed in the war effort all manufacturers continued to manufacture gloves and sell them at what they honestly believed to be their selling prices under the regulation, press releases and statements of representatives of Office of Price Administration.

In January of 1943, a representative from the Office of Price Administration called on the Indianapolis Glove Co., and after searching its books and talking with officials of the company, the representative assured the glove company that its pricing of gloves was in accordance with the Office of Price Administration regulations.

Nothing further was heard from Office of Price Administration until March 2, 1943, at which time Indianapolis Glove Co. was notified that the prices which it was then charging for certain of its work gloves were in excess of the maximum prices established pursuant to the Emergency Price Act.

Upon receipt of this notice Indianapolis Glove Co. discontinued the shipment of all its gloves and went into further conferences with representatives of OPA. As a result of these conferences the Indianapolis Glove Co. on March 18, 1943, received a letter from the Office of Price Administration, which will be referred to and quoted from by Mr. Elsey.

The Indianapolis Glove Co. continued to sell its gloves pursuant to the authority granted in this letter until August 28, 1943, at which time it received another letter from the Office of Price Administration repudiating the March 18 letter.

From August 28, 1943, the date of receipt of the latter letter, Indianapolis Glove Co. shipped no gloves about which there was any controversy.

Later in 1944, dollar-and-cent prices were promulgated. Despite this letter of March and despite the assurances of the representatives of the Office of Price Administration given in January, the Office of Price Administration on October 6, 1943, filed a complaint against the Indianapolis Glove Co. alleging that the glove company had exceeded its maximum prices by the sum of \$50,000, and asking for triple damages.

An answer was filed, and one of the defenses set up was the good faith of the glove company in the carrying on of its business. After the answer was filed, the Office of Price Administration stipulated that it did not claim that the defendant, in the sale of its gloves during the times referred to in plaintiff's complaint, willfully violated the regulations of the Office of Price Administration in respect of selling prices.

It was further stipulated that Office of Price Administration did not dispute the defendant's contention that what the glove company did in the sale of its gloves it did in the belief that it had the right to do so under the applicable regulations.

The case was tried in the District Court of the United States for the Southern District of Indiana, and judgment entered against Office of Price Administration.

Office of Price Administration appealed to the circuit court of appeals at Chicago, which reversed the case on the basis of a decision of the Supreme Court of the United States in the Seminole Rock & Sand case.

I will not take the committee's time to labor the difference between the Rock & Sand case and the case in the work-glove industry beyond

saying that in the Rock & Sand case there was an entirely different regulation involved, namely, MPR-188.

There was no proviso clause such as in our case, and there was only one commodity sold, namely, crushed stone. There were no deliveries of stone during March of 1942 at the higher price contended for.

After the decision by the circuit court of appeals, the glove company petitioned for a writ of certiorari. The petition was denied. The amount of the penalties has not yet been determined.

Prior to the decision by the circuit court of appeals of the Indianapolis Glove Co. case, the circuit court of appeals had decided the Good Luck Glove case by affirming the lower court's judgment that there was no liability under the circumstances of that case.

Thus in reality we have this situation: The members of the work-glove industry construed the regulation and believed that they were pursuing their business in accordance with the provisions of the regulation, and in this they were confirmed by Office of Price Administration officials as hereinabove recited.

Two district court judges also thought they were. Initially, three judges on the circuit court of appeals believed that the industry was correct, and it was not until the Rock & Sand case was decided by the Supreme Court of the United States that the contentions of Office of Price Administration were sustained.

In preparing this proposed amendment, we have believed that our cause is a righteous one. We believe frankly, that Office of Price Administration's administration in connection with the work-glove industry borders on persecution because these men have been in business for long periods of time, and have conducted their business in an honest, upright manner. They have consulted and advised with the Office of Price Administration, yet despite representations of agents of Office of Price Administration, despite the provisions of the regulation itself and despite the so-called press releases of the Administrator, Office of Price Administration has brought suits against the work-glove manufacturers over the country.

As a matter of fact, four such suits are now pending where Office of Price Administration is seeking thousands of dollars in penalties against these people. These attacks on the work-glove industry by Office of Price Administration have been made on work-glove manufacturers producing about 90 percent of all work gloves.

This amendment, if passed, will do only two things: First, in those cases where the violations were nonwillful and where practical precautions were taken to avoid a violation, the damages and penalties will not be assessed. Second, in those cases where there has been nonwillful violations and practical precautions have been taken and the penalties have been paid, it will permit a claim for refund to be filed with the Court of Claims. This, we believe, to be the intent of the Congress.

We do not view this amendment as special legislation because it will apply to all persons who have sold commodities or services for use in the course of trade or business, where there has been nonwillfulness and practical precautions have been taken.

In other words, the amendment seeks to make good faith a full and complete defense instead of a partial defense as it now is in section 925 (d). The amendment would not create inflationary tendencies,

because it would not affect the price to the consumer, and there would still be the necessary insulation on consumer prices remaining.

Thank you.

You gentlemen, as I understand it, have been furnished with a copy of the proposed amendment, which is a rewrite, in many of the lines, of the present 925 (e). Our amendment deals largely with the addition of the clause which appears at the bottom of page 2, and on page 3, with the necessary and appropriate changes in the language of the present section, to adapt our philosophy to the present 925 (e) of the statute.

Mr. FOLGER. Mr. Smith, I believe we have arrived at 5 o'clock exactly, and if it is not inconvenient to you gentlemen, the committee will recess and meet again tomorrow at 10 a. m., at which time you may continue your presentation.

Mr. SMITH. Thank you, sir.

Mr. FOLGER. The committee will now adjourn to reconvene at 10 a. m.

(Whereupon, at 5 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, March 19, 1946.)

1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

TUESDAY, MARCH 19, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened at 10 a. m., Brent Spence chairman, presiding.

The CHAIRMAN. The committee will be in order.

We will continue hearing the testimony of the glove manufacturers.

STATEMENT OF PATRICK J. SMITH—Resumed

Mr. SMITH. Mr. Chairman, on yesterday I presented a statement to the committee, and I would like to do two things this morning. We were just a little pressed for time last night. I would like to ask permission of the committee to have inserted in the record a copy of the amendment to section 925 (e) of the Emergency Price Control Act, which we are advocating.

The CHAIRMAN. Without objection, that may be done.

Mr. SMITH. The amendment reads as follows:

Emergency Price Control Act of 1942.

Act of January 30, 1942, C. 26, 56 Stat. 23, as amended.

Amendment of subsection (e) of section 108, title I, 58 Stat. 640, title 50, U. S. C. A. App., sec. 925 (e).

Sec. 925 (e) (1). If any person selling a commodity violates a regulation, order, or price schedule prescribing a maximum price or maximum prices, the person who buys such commodity for use or consumption other than in the course of trade or business may, within one year from the date of the occurrence of the violation, except as hereinafter provided, bring an action against the seller on account of the overcharge. In such action, the seller shall be liable for reasonable attorney's fees and costs as determined by the court, plus whichever of the following sums is the greater: (1) Such amount not more than three times the amount of the overcharge, or the overcharges, upon which the action is based as the court in its discretion may determine, or (2) an amount not less than \$25 nor more than \$50, as the court in its discretion may determine: *Provided, however,* That such amount shall be the amount of the overcharge or overcharges or \$25, whichever is greater, if the defendant proves that the violation of the regulation, order, or price schedule in question was neither willful nor the result of failure to take practicable precautions against the occurrence of the violation. For the purposes of this section the payment or receipt of rent for defense-area housing accommodations shall be deemed the buying or selling of a commodity, as the case may be; and the word "overcharge" shall mean the amount by which the consideration exceeds the applicable maximum price. If any person selling a commodity for use or consumption other than in the course of trade or business violates a regulation, order or price schedule prescribing a maximum price or maximum prices and the buyer fails to institute an action under this subsection within thirty days from the date of the occurrence of the violation the Administrator may institute such action on behalf of the United States within such one year period. In such action the seller shall be liable to the same extent as though the

action had been brought by the buyer as hereinabove provided. If such action is instituted by the Administrator, the buyer shall thereafter be barred from bringing an action for the same violation or violations. Any action under this subsection by either the buyer or the Administrator, as the case may be, may be brought in any court of competent jurisdiction. A judgment in an action for damages under this subsection shall be a bar to the recovery under this subsection of any damages in any other action against the same seller on account of sales made to the same purchaser prior to the institution of the action in which such judgment was rendered.

(2) If any person selling a commodity for resale or for use or consumption in the course of trade or business violates a regulation, order or price schedule prescribing a maximum price or maximum prices the Administrator may, within one year from the date of the occurrence of the violation, bring an action against the seller on account of the overcharge. In such action the seller shall be liable for whichever of the following sums is greater: (1) such amount not more than three times the amount of the overcharge or the overcharges upon which the action is based, as the court in its discretion may determine; or (2) an amount not less than one hundred dollars nor more than one thousand dollars, as the court in its discretion may determine: *Provided, however,* That the seller shall not be liable in any amount for an overcharge or overcharges or damages or penalties if the said seller proves that the violation of the regulation, order or price schedule in question was neither willful nor the result of failure to take practicable precautions against the occurrence of the violation. Any action under this subsection by the Administrator may be brought in any court of competent jurisdiction. A judgment in an action for overcharges, damages or penalties under this subsection shall be a bar to the recovery under this subsection of any overcharges, damages or penalties in any other action against the same seller on account of sales made to the same purchaser prior to the institution of the action in which such judgment was rendered: *Provided,* That in all cases where overcharges, damages, or penalties have been assessed by a court prior to the effective date of this amendment and subsequently paid, whether before or after the effective date of this amendment, then the amount of such overcharges, damages, or penalties so paid shall constitute a claim within the meaning of sec. 145, chap. 231, 36 Stat. 1136, if, prior to the assessment of said overcharges, damages or penalties, a court of competent jurisdiction shall have found that the defendant in violating the regulation, order, or price schedule for which said overcharges, damages or penalties were assessed did so neither willfully nor as the result of failure to take practicable precautions against the occurrence of the violation.

Now, I would like to suggest that on yesterday I made the following points we are advocating an amendment to the Emergency Price Control Act, which has as its main purpose the recognition of good faith performance by the people in industry and business who have attempted to honestly follow the Office of Price Administration regulations, and I pointed out, using the Indianapolis Glove Co. as an example, which can be multiplied many, many times, that, first of all, the maximum price regulation did not fix a dollar-and-cent price. Therefore, it was necessary for us to construe the regulation. That we did. We read the regulation, read the press releases, and conferred on repeated occasions in Indianapolis, Chicago, and Washington, with representatives of the Office of Price Administration. They concurred in the construction which we placed on the regulation and the proviso clause, which refers to the increase in prices prior to April 1, 1942.

Office of Price Administration representatives came to our factory in January of 1943, and, after reviewing our customer invoices, looking over many, many samples of our gloves, talking with the people of our company, the investigator said: "Yes; you are complying with the regulation."

Then, on March 2, we received notice from the Office of Price Administration that they did not agree with what the investigator had said or what we had done. We stopped shipment and went into

further conferences with the Office of Price Administrator and on March 18 we received a letter which Mr. Elsey, who will follow me, will read in part to the Committee.

They told us to go ahead and ship under our March 21, 1942, price list. We did that. We continued to do so until August 28, at which time another letter was received by us which repudiated the March 18 letter and repudiated all that had been told us by Office of Price Administration officials theretofore.

We were sued on October 6, 1943, for treble damages covering the period of time under which we operated on the advice, both oral and written, of the Office of Price Administration. We are still faced with that suit. There are four men here who represent the glove industry, or the work-glove manufacturers, who are in almost the same situation.

Now, we are asking this committee to consider giving us relief, because we honestly believed—and so did the Office of Price Administration believe—that we were functioning under the maximum price regulation.

Now, I should like to present Mr. Elsey—

Mr. PATMAN. What is their contention now?

Mr. SMITH. They say, sir, that our highest price charged in March of 1942 was the highest price charged for each glove, each work glove, that it was a separate item, despite the fact that there is a proviso clause in the regulation which says, in substance, that if on or before April 1, 1942, you raised your price, and made a delivery to any class of purchaser, that that is your highest price charged. That, we did.

Mr. PATMAN. I do not see how they could get anywhere in court. I think a judge would require them to show that it was willfully done, would he not?

Mr. SMITH. We have shown that. As a matter of fact, the Office of Price Administration came in in our case, and stipulated—stipulated, if you please, sir—that there was a nonwillful violation and they further stipulated that they made no contention that the defendants' contention on good faith was not correct.

Mr. PATMAN. Who brought the suit?

Mr. SMITH. The Office of Price Administration.

Mr. PATMAN. That does not sound very consistent to me.

Mr. SMITH. They have four pending now, sir. These four men who will talk to the committee following me are all representatives of a work-glove manufacturer, each of whom is being sued under circumstances comparable to the ones I have recited.

Mr. PATMAN. Well, you would think you were acting in good faith, and you certainly had their approval, both oral and written, that that should end the legal proceeding, would you not think so, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. SMITH. Well, the District Court for the Southern District of Indiana held against the Office of Price Administration. The district court for the Danville court held against the Office of Price Administration. The Good Luck Glove Co. went to the circuit court of appeals against the Office of Price Administration and the circuit court of appeals held with the district court. So that what happened was that not only has all the work-glove industry concurred in the interpretation of this regulation separately and severally, the Office of Price

Administration has concurred in it, two district court judges and three circuit court of appeals judges. When we went up to the circuit court of appeals in Chicago and the Good Luck Glove went up the second time those cases were argued in the circuit court of appeals prior to the decision in the Supreme Court of the Seminole Rock & Sand case, which came up from the Carolinas.

These cases in the circuit court of appeals were not decided until subsequent to the decision by the Supreme Court of the United States in the Rock and Sand case. They bottomed their decision in the circuit court of appeals squarely on the Rock and Sand case decided by the Supreme Court of the United States, yet the Rock and Sand case was under Maximum Price Regulation 188, and the Supreme Court said that we are giving no consideration to amendments 28 and 30 on which we relied, which contained the proviso clause on the increase in prices, and yet, despite that, the circuit court of appeals says that we are bound by the Rock and Sand case.

We felt that that—

The CHAIRMAN. Has that case been reviewed by the Supreme Court?

Mr. SMITH. Our case?

The CHAIRMAN. Yes.

Mr. SMITH. No, sir; because we came up on a petition for writ of certiorari, which was denied. We filed a petition for the writ of certiorari in November, and it was denied at the turn of the year. The same is true about the Good Luck Glove case, because we felt that there were many points of distinguishment between the Rock and Sand case and our case.

I mean, the factual question was not even comparable, because in the Rock and Sand case they made no sale or delivery of crushed stone during the month of March at any price other than the price at which the Office of Price Administration contended. We have an entirely different factual background, a different regulation, and the Supreme Court itself said that amendments 28 and 30 were not in their contemplation in the decision of the Seminole Rock and Sand case.

Yet, gentlemen, we have gotten no relief, and we are faced with very substantial penalties and as one of these men will tell you if the Office of Price Administration is successful in its suit for damages against him, it will wipe out—wipe out—his capital. That is the situation we are faced with.

Mr. PATMAN. What does this district manager out there contend as to the letter he wrote to you that it was all right? In other words, it appears to me that the same fellow who gave you permission to go on must be the same person authorizing this suit, and I cannot understand why he would authorize the suit, if his organization had approved what you were doing. The good faith part of it is what I am interested in.

The CHAIRMAN. Were all these facts disclosed in the suit?

Mr. SMITH. Oh, yes, the letter was stipulated, sir.

Mr. PATMAN. Well, nobody makes him push a suit, I suppose.

Mr. SMITH. To answer your question, I will review two things.

No. 1, in the Indianapolis Glove case, after many and repeated conferences, Mr. Elsey, as he will tell you, sat in the office of the Office of Price Administration while they telephoned the regional office in Cleveland. Subsequent to those conferences, and the tele-

phone conversation, we received this letter, a part of which he will read to you, and which is in the record in the Supreme Court of the United States. And they said, "Go ahead on your March 21 price list."

You will also be told here this morning by Mr. Mason—and we have an affidavit—that they came to Washington, and they talked to a man who, at that time, was assistant to the chief enforcement attorney, subsequently became the chief enforcement attorney—or price attorney, rather—and he told them, after a complete review of their business, their practice, "You are conforming with the regulation in your pricing."

They went forward, then, on that assurance. That assurance was repudiated by the Emergency Court of Appeals in the Wells-Lamonte case. It was repudiated by the Seventh Circuit Court of Appeals, and they passed it off as saying that the Administrator could not be bound by oral interpretations given by hundreds—yes; maybe thousands—of subordinates, and they said, in our case, that although in writing, it has no greater bearing than the man who sat at a desk in Washington and said orally, "Yes, gentlemen; go ahead."

We feel, sir, that in view of the effort that we made, great effort, I might add, in repeated conferences with Office of Price Administration officials, in view of the communications by Office of Price Administration officials to us, both orally and in writing, that it is a clear case—we believe—of unmitigated, unadulterated persecution. And what they are trying to do is to strip us and drive us out of business. And that is what they are going to do in some of these instances, if they are successful in their claims for penalties.

Mr. PATMAN. I cannot understand why they would insist on a penalty if it is clear that a person had been acting in good faith.

Mr. SMITH. Well, sir, again may I say that in our case, in the Supreme Court, the Office of Price Administration stipulated and agreed that we had operated in good faith. We do not understand it, either.

The CHAIRMAN. If there is anything you wish to place in the record, you may put it in the record.

Mr. SMITH. I have offered the amendment. I will present at this time Mr. Brodehurst Elsey, who is secretary-treasurer of the Indianapolis Glove Co.

The CHAIRMAN. You may proceed, Mr. Elsey.

STATEMENT OF BRODEHURST ELSEY, SECRETARY-TREASURER, INDIANAPOLIS GLOVE CO.

Mr. ELSEY. Mr. Chairman, my name is Brodehurst Elsey. I am secretary-treasurer of Indianapolis Glove Co., whose office is located at Indianapolis, and I have been engaged in the manufacture and sale of work gloves for 42 years.

At our plants we manufacture various models and styles of work gloves, all designed for the general broad purpose of protecting the hands of men and women while at their work.

During the late World War, as during World War I, our product was in great demand by war workers and farmers.

As the war progressed, the demand for work gloves increased while

prices of all our raw materials rose. Our labor costs increased. By the early part of 1942 considerable increases in the costs of our raw materials had driven our costs very close to and in some instances in excess of our selling prices.

In the work-glove industry jobbers purchase long in advance of their needs and work-glove manufacturers enter into commitments for deliveries several months in the future. In the latter months of 1941 and early months of 1942, jobbers had made large commitments for future deliveries of the more popular models of work gloves.

I point this out because, as you gentlemen know, the base period for fixing ceiling prices was March 1942. Having entered into these contracts, we had little chance in March 1942 to deliver work gloves except under prior contract.

Because our costs had approached and in some cases even exceeded our selling prices, many work-glove manufacturers increased their prices in March of 1942 and made some deliveries. But not deliveries of each of the more than 500 models manufactured. In fact, few manufacturers made deliveries of their more popular models at increased prices.

At the time and after the general maximum price regulation became effective, we, and others in the work-glove industry, had repeated conferences with representatives of the Office of Price Administration in Indianapolis, Chicago, and Washington relative to prices of work gloves.

We, like many others, had studied the law, press releases, and the regulations, and applied them to our business in the matter of prices.

In January 1943, an investigator from the Office of Price Administration came to our plant. Shortly thereafter an assistant investigator also came. These men examined customers' invoices and many models of our work gloves. We were advised by the investigator that our pricing structure was in accordance with the regulation and the applicable law.

On March 2, 1943, we were advised by the Office of Price Administration that our prices in many instances were over ceiling. There had been no change in our prices since March 21, 1942. We stopped shipment and went to the Office of Price Administration for further conferences.

As a result of these conferences with myself, Mr. Clayton and others from our plant, and telephone calls in my presence with the Cleveland regional office, we received a letter from the Office of Price Administration on March 18, 1943.

I would like to read a paragraph of that letter.

We have sought but not yet obtained a clarification of your position from the regional and national offices. We have been advised, however, that information is being assembled by the National Office for use in preparation of a specific regulation establishing maximum prices for work gloves applicable to the entire industry. Believing that the present situation constitutes a serious impediment to the production of goods and materials essential to the prosecution of the war, we see no alternative other than to advise you to proceed with shipments on the basis of your March 21, 1942, list prices pending a definite ruling and decision by the Cleveland and Washington offices. It is understood that this does not legalize or validate the prices charged from May 11, 1942, the date the general maximum price regulation became effective, up to the present time.

We believe that this letter was composed by the Washington office, because on August 28, 1943, more than 4 months later, we received a

letter which repudiated the letter of March 18. In the August letter we were advised that—

A further ruling and determination has now been made by the Washington office. Such ruling is communicated to you in subsequent paragraphs of this letter.

Since this August letter speaks of a further ruling by Washington we believe the March letter also was composed in Washington.

After receipt of the August 28 letter we made no further shipments of any gloves so long as there was a price controversy.

We have always believed and believe now that we complied with the intention of the Congress in our pricing. We read the regulation and the press releases of the Administrator. We counseled with the Office of Price Administration and others in determining whether our pricing was within the regulation.

Work gloves are for hand protection and are basically the same commodity. They vary slightly in construction to be more adaptable to a particular need. For example, we make a glove particularly adapted for use by corn huskers. Others can use the glove for general purposes, but it has a feature which makes it particularly adaptable for use in corn husking.

The regulation recognizes that many commodities are similar. As you gentlemen know, the regulation says one commodity shall be deemed similar to another commodity if the first has the same use as the second, affords the purchaser fairly equivalent serviceability, and belongs to a type which would ordinarily be sold in the same price line. I will show you samples of gloves to demonstrate that all work gloves are the same commodity having the same use, equivalent serviceability, and ordinarily sell in the same price line.

Two district courts, one in Indiana and one in Illinois, have said that all of the work gloves are essentially the same commodity. And that is the way work glove manufacturers have looked upon their product. We manufacture but one commodity: work gloves.

Since we have but one commodity, we have for many, many years; in fact, more than 25 years, in the work glove industry, had what we call in-line pricing.

This in-line pricing means only that we use an 8-ounce Canton flannel glove as the base glove for pricing purposes. If a glove is made of 6-ounce Canton flannel we subtract from the price of the 8-ounce glove a differential because of the lighter weight. If we make a 10-ounce glove, we add the differential to the 8-ounce price.

I spoke a moment ago of corn husking gloves. Husking gloves have two thumbs which makes it possible to reverse them and to be worn on either hand. The price of an 8-ounce husking glove is the price of an 8-ounce Canton flannel glove with a small additional amount to cover the cost of the additional thumb.

As I said, this in-line pricing is a practice and custom in the industry that has existed for many, many years. On March 21, 1942, our new price list was built on the in-line pricing practice.

During March 1942, we sold and delivered some of our models at the new prices. We believed, and at that time so did the Office of Price Administration believe, that to the prices of those models delivered in March 1942, at the higher prices we could apply our in-line pricing practice, just as we had done in preparing our March 21, 1942, price list and all prior price lists, and sell at those prices which appeared

on the March price list. In other words, we felt that we could continue to follow our established practice and custom. The Office of Price Administration thought so too, but for some reason changed its mind and sued us.

The contentions of the Office of Price Administration lead to some very strange situations. I have brought along one or two samples to illustrate my point.

Now, gentlemen, there are many uses for work gloves. Here [indicating] are two gloves. One is made with a fleece outside. That glove is used for handling metals, any substance where the surface is delicate—furniture, for instance, or silverware. The international Silver Co. uses a great many gloves of that type.

Here [indicating] is a glove with a fleece inside. That glove is used by everybody for almost every purpose.

We sold the glove with the fleece inside in the usual way and accumulated a backlog of orders for delivery in the months of January, February, and March; the glove with the fleece outside is not in such great demand, and delivery can usually be made the day the order is received. The result was that we were able to ship, during the month of March, all orders for the fleece-out glove, at the March 21 price list.

But we were unable to ship the orders for the fleece-in glove, for the reason that we were taking care of our previous contracts.

We brought that matter to the attention of Office of Price Administration representatives, and they said, "Of course, the gloves should be sold at the same price, regardless of the fact that you may not have made a delivery of the fleece-in gloves during the month of March or after the date of your new price list."

The application of that experience could be applied to a hundred other items.

Here are two [indicating] that are exactly the same, have always sold at the same price. The only difference in the world between them is that one has yellow stripes and the other is a plain white glove.

In the month of August we get a letter from the Office of Price Administration telling us that we are all wrong, and so they proceed to bring suit against us for hundreds of thousands of dollars.

The illustrations just given could be multiplied many times. They are typical of the absurd and ridiculous stand taken by the Office of Price Administration.

As heretofore stated, you see, each of these models is the same commodity. Each is a work glove used to protect a worker's hands, give equivalent serviceability, and sell in the same price line. They are the same commodity: work gloves.

The reasonableness of our position is further demonstrated by the fact that we have acted in complete good faith and nonwillfully and this has been admitted and stipulated by the Office of Price Administration. Yet, despite this record, we are threatened with a heavy penalty.

We believe we are being persecuted and turn now to you for a re-declaration of your intention in the proposed amendment to the Emergency Price Control Act.

Thank you.

Mr. SMITH. Mr. Stokes, chairman of the executive committee of the Boss Manufacturing Co., of Kewanee, Ill.

STATEMENT OF T. R. STOKES, CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE BOSS MANUFACTURING CO., KEWANEE, ILL.

Mr. STOKES. Mr. Chairman, my name is T. R. Stokes. I live in Kewanee, Ill., and am chairman of the executive committee of the Boss Manufacturing Co. which was established July 1, 1889. The company is the oldest in the industry and for the entire period of its existence has been engaged in the production of work gloves for use by manual laborers. We operate 12 factories in 6 States.

I have been connected with the company since its organization 57 years ago. During that period I have witnessed many changes and developments and have passed through many periods of adversity and prosperity. World War I created an unprecedented demand for work gloves in connection with the war effort. When World War II began, we knew that the demand would be even greater and endeavored to plan for that demand. The men and women employed in the war effort presented new problems, for most of them required work gloves in order to accomplish their tasks.

When the War Production Board and the Office of Price Administration were first established, our company was called upon for advice and counsel, and we loaned one of our important vice presidents to the War Production Board for upward of 4 years. Other executives acted as consultants to the Office of Price Administration.

My own sphere of activity in the industry has had more to do with manufacturing than with marketing, but I have had much to do with both.

I have heard the testimony of Mr. Parrick J. Smith given earlier today and am familiar with the customs, traditions, and practices of the industry which were detailed by him. I concur in his statements relative to the manner in which work gloves have been priced for more than a quarter century. For that period the industry has had established differentials for gloves in the same class, computed on additions and subtractions from base gloves.

When the Office of Price Administration was established and its regulations issued, I sought information and was reliably informed that the Office of Price Administration had ruled that those manufacturers who had issued new price lists on March 14, 1942, could regard such prices as their lawful ceilings under General Maximum Price Regulation which was issued in April 1942, to become effective in May 1942.

Mr. THOM. Could you tell us at that point who gave you the information from the Office of Price Administration?

Mr. STOKES. We got information from some of our competitors, Mr. Wells, Mr. Elsey, who have seen the Office of Price Administration. We got information by attending Office of Price Administration meetings, where Office of Price Administration rules and regulations were supposed to be given out, so we could understand them.

Mr. THOM. You personally did not have any conversation with the Office of Price Administration?

Mr. STOKES. No, I personally did not.

Our company had issued a revised price list in early March 1942, and we proceeded to sell our merchandise at those prices except that

we fulfilled outstanding commitments at lower prices where contracts were outstanding. In no instance did our company ever sell work gloves in excess of the prices which we had been assured represented our lawful ceiling prices.

More than a year later we were sued for damages by the Office of Price Administration. That suit is still pending and is being vigorously defended.

It is my conviction that Congress never intended that a businessman should be called upon to pay severe penalties for claimed technical violations of a law where that businessman had exercised prudence in obtaining all possible advice and had acted in entire good faith upon such advice.

Now it develops that the Office of Price Administration places a different interpretation on the law and regulations. I am here to add my support to the amendment submitted by Mr. Smith which, in my opinion, merely restates in unmistakable language, what the Congress originally intended.

Thank you for your courtesy.

Mr. SMITH. Mr. C. T. Houghten of the Good Luck Glove Co., of Carbondale, Ill.

STATEMENT OF C. T. HOUGHTEN, PRESIDENT, GOOD LUCK GLOVE CO., CARBONDALE, ILL.

Mr. HOUGHTEN. Mr. Chairman and members of the committee, my name is C. T. Houghten. I am president of the Good Luck Glove Co., Carbondale, Ill.

On March 20, 1942, we issued a new price list to our customers fixing the prices on a total of 234 models or styles of work gloves. This was before the general maximum price regulation was adopted. This price list reflected the increased costs in labor and raw materials which had taken place in 1941 and the early part of 1942. During that period, due to the increased cost of raw cotton, the cotton cloth used in making work gloves increased from 13 cents a yard to 19 cents a yard; leather increased from 8 cents a foot to 13 cents a foot; and labor costs increased an average of 15 percent.

The Office of Price Administration admitted in court that Good Luck never sold a work glove at a price higher than fixed in this March 1942 list. During March 1942, the company shipped a large number of its work glove models at the March 1942 prices and accepted orders at those prices for over \$100,000 worth of work gloves. The Office of Price Administration makes no complaint about the March prices being effective as to those work gloves which were shipped during March 1942 at the March prices.

Some of the glove models mentioned in the March 1942 price list were not shipped at all during March 1942, and the Office of Price Administration admits that the March prices may lawfully be charged as to these models.

However, during March 1942, the company was making deliveries against contracts made in 1941 at prices lower than their March price list, and, in a number of instances, the company did not ship these particular models at the March prices. When these contracts were completed, the company, in good faith, believed that it had a right

to charge its March 1942 prices on new orders accepted at those prices during March 1942.

A year later the Office of Price Administration claimed that our company had violated the law when we sold and delivered, at the March 1942 prices, those particular models of work gloves which had been shipped during March 1942 at lower prices only under preexisting contracts.

Then, in November 1943, the Office of Price Administration sued our company for \$300,000.

We are firmly convinced that the Office of Price Administration is not administering the regulation as per the intent of Congress.

The district court held that we had not violated the law or the regulation and that our company had, in good faith, complied with the law. This judgment was affirmed by the circuit court of appeals. (*Bowles v. Good Luck Glove Company*, 52 F. Supp. 942, affirmed 143 F. 2d 579.)

Later the circuit court of appeals felt compelled, under a decision of the Supreme Court, in a rock and gravel case, to reverse its previous decision. (*Bowles v. Good Luck Glove Company*, 150 F. 2d 853.)

The Office of Price Administration's own regulations caused the company to believe in good faith it could charge its March 1942 prices when its old contracts were completed. The regulation also caused two Federal courts to hold that the company was right.

Amendments 23 and 38 have already been mentioned by Mr. Smith. The Office of Price Administration told the public what these amendments meant in these words (press release dated December 5, 1942, Office of Price Administration 1223):

The effect is to allow one who, last March, delivered at prices established by a contract signed many months before and who raised his prices generally before April 1, to bring his prices on the expiration of the contract in line with the increased prices he was charging in March.

Notwithstanding all this, the Office of Price Administration is suing Good Luck Glove Co. for doing nothing more than charging its published March 1942 prices.

Furthermore, under the Office of Price Administration's claims from November 1942 to November 1943, higher cost work gloves must be sold for less than lower cost work gloves, if the lower cost work gloves happened to be shipped during March 1942, at the new prices, while the higher cost work gloves were shipped only under old contracts.

For example, the company shipped a 6-ounce weight white cotton work glove at \$1.27½ per dozen pair, the March 1942, price, but it shipped a 7-ounce heavier weight glove only under preexisting contracts at \$1.25 per dozen pair. The Office of Price Administration says that during 1942 and 1943 the 7-ounce work glove must be sold for less than the 6-ounce work glove.

It is inconceivable that the intent of Congress was to penalize citizens who had a bona fide price list in March 1942 and who never sold in excess of that price list, and who at all times tried in good faith to comply with all of the Office of Price Administration's regulations.

For these reasons the Price Control Act should be amended so as to provide that the seller shall not be liable if the seller proves that the violation of the regulation was neither willful nor the result of failure to take practicable precautions against the occurrence of the violation.

In our particular case, notwithstanding our good faith throughout, if the Office of Price Administration succeeds in its claims, most of the working capital accumulated through the last 37 years will be wiped out.

Now, Mr. Chairman, I would like to illustrate how the law is being administered on many of the 234 numbers of work gloves by just referring to 4 of them.

Here are two gloves, exactly the same, with the exception that this one [indicating] has a longer cuff than this glove [indicating]. This longer-cuff glove is always sold at 25 cents per dozen more—about 2 cents a pair more—than the short-cuff glove.

This short-cuff glove, in March 1942, was \$6 per dozen pair. We shipped some of these in March 1942, at \$6 per dozen pair.

But this glove, the one with the longer cuff, always higher priced, happened to be shipped in March under old contracts, at \$5.75. So the Office of Price Administration is suing us for 50 cents per dozen, plus triple damages, for every dozen of these long cuff gloves we have shipped during that time, for more money than they shipped this one.

Mr. THOM. May I ask a question, Mr. Chairman?

The CHAIRMAN. Mr. Thom.

Mr. THOM. The glove that you are holding up now, the long-cuff glove, was that given a price in your new-1942 price list?

Mr. HOUGHTEN. It is priced at \$6.25 per dozen pair in our March 1942 price list, but we did not happen to ship any at that price. All those we shipped were under the old contracts, at \$5.75. Do I make that clear to everyone? Just because we did not ship it, they are suing us for 50 cents a dozen plus triple damages for every dozen we shipped at the March prices over that period.

Mr. FOLGER. Mr. Chairman.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. Mr. Houghten, is the shipment made at \$5.75 done in fulfillment of previous contracts?

Mr. HOUGHTEN. Yes, sir; if we had ignored our low-priced orders when we got out our March 1942 prices, we would be all right. But we filled our contracts, and that is the fix we were in.

Mr. BARRY. What does the Office of Price Administration claim the Office of Price Administration ceiling should have been?

Mr. HOUGHTEN. Actual shipments in March.

Mr. BARRY. What is that?

Mr. HOUGHTEN. \$5.75, and this one, \$6.

Mr. BARRY. Well, you shipped for \$5.75.

Mr. HOUGHTEN. In March, on old contracts; yes.

Mr. PATMAN. But you had them priced at \$6.25.

Mr. HOUGHTEN. Yes.

Mr. BARRY. You shipped them lower than ceiling price, then.

Mr. PATMAN. On a previous contract.

Mr. BARRY. What does the Office of Price Administration claim the ceiling price should have been?

Mr. HOUGHTEN. \$5.75, because we shipped under an old contract in March.

Mr. BARRY. If the ceiling price is the same, and shipment was the same, what is the suit based on?

Mr. HOUGHTEN. We claim that the price is under our March prices, \$6.25, under our amendment.

Mr. BARRY. I cannot understand why you can get penalized for selling below the ceiling price.

Mr. HOUGHTEN. When we completed our contracts, we shipped these at \$6.25.

Mr. BARRY. But you shipped for \$5.75?

Mr. HOUGHTEN. In March, under the old contracts.

Mr. PATRICK SMITH. Mr. Barry, I can explain it to you, I think.

Mr. BARRY. I would like to find out why you are penalized for selling below ceiling.

Mr. PATRICK SMITH. The long-cuff glove had been ordered in 1941 by people who buy for delivery a long period in the future. The old price—that is, the price existing prior to the March 21, 1942, price list—listed the long-cuff glove at \$5.75 a dozen. These people, like many others, had commitments out with the trade, people with whom they had dealt for long periods of time. They stood by those contracts during all the period of time until the contracts were filled. So that in March of 1942, under a prior commitment, they delivered the long-cuff glove at \$5.75 a dozen.

The short-cuff glove was delivered under new contracts, at the new price, in March of 1942, at \$6 a dozen. So that when the prior commitments had been fulfilled for the long-cuff glove, then Good Luck Glove Co. began to deliver, under the March 1942, price list, namely, \$6.25 a dozen for the long-cuff glove.

Mr. BARRY. The suit is based on the \$6?

Mr. PATRICK SMITH. On the 50-cent difference between \$5.75 deliveries under the old contract and \$6.25 new price.

Mr. PATMAN. And the gloves are exactly the same, except in the cuff?

Mr. PATRICK SMITH. Yes.

Mr. HOUGHTEN. They are the same gloves.

Mr. PATMAN. In other words, the Office of Price Administration permits you to go ahead on the new pricing policy on the short cuff. You can go ahead and sell them for \$6.25?

Mr. HOUGHTEN. We are all right on that, because we shipped some in March.

Mr. PATMAN. But they are trying to make you sell the more valuable glove for 25 cents less?

Mr. HOUGHTEN. Yes.

Miss SUMNER. Is it not true the more valuable glove has a little heavier material?

Mr. HOUGHTEN. They are exactly the same. This cuff is a little longer for certain purposes, and this one is a little shorter.

The CHAIRMAN. You had a contract in 1941 as to price?

Mr. HOUGHTEN. We contracted for these in 1941, for the long-cuff gloves, at \$5.75, and we were completing our contracts in March.

Mr. BARRY. Is there any dispute about that contract?

Mr. HOUGHTEN. No. We are being persecuted.

The CHAIRMAN. They raise no question that you had the contract?

Mr. HOUGHTEN. Oh, no, no. I have all the decisions here, and I hope somebody will give me a chance to show them to you some time. I have all the decisions.

Now, then, I will show you two more numbers of gloves which constitute a good illustration of the trouble we are in.

Here are two gloves that are exactly the same, same cloth, same

weight of cloth, same number of stitches to the inch, and there is not one hundredth of a cent difference in the price of these two gloves. The only difference in these two gloves is that this glove [indicating], on the inside, has the twill of the lining against the palm of the hand.

This glove [indicating] has the fleece of the lining against the palm of the hand. The cloth is just turned over.

Now, both of them were priced, in our March 20 price list, at \$3.50 per dozen.

This one, with the nap of the lining against the palm of the hand, was shipped at \$3.50 per dozen in March, and that is all right.

But this glove, with the twill to the palm of the hand, happened to be shipped in March on a contract taken in 1941, at \$3.25 per dozen. Naturally, when we completed our old contract for this glove at \$3.25, we went into our March 1942 price list. So the Office of Price Administration is suing us for 25 cents per dozen pair for every dozen pair of these gloves we shipped, at \$3.50 after our old contract expired, with triple damages. And the only difference is that the fleece is turned inside out.

The CHAIRMAN. What has been the disposition of the suit, in which the circuit court of appeals entered a decision? The suit for \$300,000? What has been the disposition of that?

Mr. HOUGHTEN. The circuit court of appeals, in rendering their decision, when we went there from the district court, said, "We are in full accord with the decision of the district court."

But we have been back there a second time, since the rock and gravel case was decided, and the circuit court of appeals said they had to reverse their former decision on account of the rock and sand case.

The CHAIRMAN. They filed a petition for rehearing and in the meantime the Supreme Court decision was handed down and they reversed their decision under the authority of that decision?

Mr. HOUGHTEN. Yes.

The CHAIRMAN. Then, they remanded it to the lower court. What did the lower court do?

Mr. HOUGHTEN. It has not been to the lower court a second time.

Mr. PATRICK SMITH. I can answer that, if I may, sir. Both of these cases, the one that Mr. Houghten is interested in and the Indianapolis Glove Co. case, were taken on petitions for writs of certiorari to the Supreme Court of the United States and both writs were denied. It was remanded then to the district court, because in each case there was a reservation, initially, on the trial of the amount of damage; that is to say, we contended that we were not liable at all and we split the issue. So that they are both back now to the district court.

The CHAIRMAN. No decision has been rendered yet?

Mr. PATRICK SMITH. As to the amount.

Miss SUMNER. Mr. Chairman.

The CHAIRMAN. Miss Sumner.

Miss SUMNER. At present, and recently, it is a fact that there has been a shortage of work gloves, a very great shortage; is that not true?

Mr. HOUGHTEN. Work gloves were scarcer during the war than cigarettes, and after VJ-day the supply was not any better. And they are still short.

Miss SUMNER. Has the Office of Price Administration suit, to which you have testified, impeded or delayed in any way your production of gloves?

Mr. HOUGHTEN. Well, I would not want to say "yes" or "no" to anything that I am not sure of. You know, wars disturb things so much that I just would not want to say. I have never blamed the Office of Price Administration for our shortage of production, because there are so many other things that entered into it. I would not want to say "yes" or "no."

Miss SUMNER. It did not hold up your shipments of gloves in any way, this suit?

Mr. HOUGHTEN. We kept shipping all the while.

Miss SUMNER. Well, this suit, you say, is equal to a substantial amount of your capital. What is your capital?

Mr. HOUGHTEN. Well, since you bring that question up, I will say that our net worth, which is public property, on December 31, 1944, was \$614,000, counting buildings, equipment, and everything.

Miss SUMNER. In other words, about half of your net worth?

Mr. HOUGHTEN. About half of that, I would judge. I do not have the figure with me. But I would judge about half of that would be working capital and half physical assets.

Miss SUMNER. In view of the fact that there has been testimony here from several witnesses to the effect that a great many firms who have had Office of Price Administration trouble have either been taken over or had offers to merge with companies who wanted to take them over and operate them under higher ceilings, I will ask: Have you had any offer from anybody, since your trouble with the Office of Price Administration, to buy your factory?

Mr. HOUGHTEN. Would you repeat that question again?

Miss SUMNER. Have you had any offers, since this trouble with the Office of Price Administration started, to buy your factory, or your business out? Has anybody offered to buy you out, your business?

Mr. HOUGHTEN. Well, all I can say to that is I have been called up by a banker on different occasions wanting to know whether I would consider a price.

Miss SUMNER. Did he say there was an offer or an interested buyer for your business?

Mr. HOUGHTEN. Not that I know of, except that the banker called me up and said he had a client—he called me up on three occasions and wanted to know if I would put a price on the business.

Miss SUMNER. At the time of this suit, was there any newspaper publicity to the effect that the glove company had been sued by the Office of Price Administration?

Mr. HOUGHTEN. Well, I might bring that out. The Office of Price Administration came into our office and made quite a thorough investigation, and the first we knew about the suit was when a newspaper reporter looked me up, and said there was a flash on the wire that we had been sued for \$300,000. It went over the Associated Press wires the day they filed the suit, before we knew it.

Mr. THOM. How many suits are there? You mentioned one for \$300,000. How many more are there?

Mr. HOUGHTEN. I could not tell you exactly.

Mr. THOM. As against glove manufacturers, I mean.

Mr. PATRICK SMITH. We have four people here who are being sued.

There are possibly 10 suits that have been begun. I think there are six still pending, and perhaps three or four have been compromised.

Mr. THOM. Are they all based on the same principles?

Mr. PATRICK SMITH. Yes, sir.

Mr. HOUGHTEN. I might bring this out: That if the Office of Price Administration interpretation of the regulation is sustained, every work-glove manufacturer in the country is liable for a tremendous sum of money, excepting those who will be exempted because of this proposition. They cannot go back over a year, and we have had dollars-and-cents price ceilings, lately, so a lot of those cannot be touched now. But every work-glove manufacturer in the country would be guilty if they interpret the law in the way in which the Office of Price Administration interprets it.

Miss SUMNER. You mean new owners in the business would be held guilty?

Mr. HOUGHTEN. I had not thought of that, but you are right there.

The CHAIRMAN. Do they draw any of these orders to have a retroactive effect?

Mr. HOUGHTEN. Well, they can only go back 1 year.

The CHAIRMAN. I mean do they change the regulations and have the regulations have a retroactive effect? For instance, in March, do they make the regulation to be applicable in February, let us say?

Mr. PATRICK SMITH. May I answer that, sir?

The CHAIRMAN. Yes.

Mr. PATRICK SMITH. The general maximum price regulation was promulgated in April, becoming effective to May 11, as of March, as of prices for sales and deliveries in March of 1942. Does that answer your question?

The CHAIRMAN. Yes, sir; thank you.

Mr. HOUGHTEN. Thank you.

Mr. BARRY. How many of those suits have been passed on by the lower courts, Mr. Houghten?

Mr. HOUGHTEN. I do not know exactly.

Mr. PATRICK SMITH. We have one and Mr. Houghten has one with which we are very familiar. Do you mean passed on finally? Judgments entered?

Mr. BARRY. I do not mean a last resort. But where you have had trials.

Mr. PATRICK SMITH. No judgments have yet been entered. They are all pending in the courts. There have been some interlocutory appeals perfected, but no final judgment has been entered in any pending case. Some have been settled.

Mr. BARRY. Well, I understood that you were in the upper courts petitioning for a writ of certiorary.

Mr. PATRICK SMITH. That was on an interlocutory appeal.

Mr. BARRY. That had to be a decision of a lower court first. How did that go; against you?

Mr. PATRICK SMITH. It went for us.

Mr. BARRY. And the Office of Price Administration appealed?

Mr. PATRICK SMITH. Yes, sir.

Mr. BARRY. What happened in the court of appeals?

Mr. PATRICK SMITH. In the Good Luck Glove case on the first appeal to the circuit court of appeals the circuit court affirmed the lower court decision and went against the Office of Price Administra-

tion. They went back for a motion of summary judgment which was granted, and the Office of Price Administration took it again to the circuit court of appeals.

The Indianapolis Glove Co. case was decided by the District Court for the Southern District of Indiana. The Office of Price Administration took an appeal to the circuit court of appeals in Chicago. Both the Good Luck and the Indianapolis Glove were argued in the circuit court of appeals. Between the date of the argument, or subsequent to the argument in the circuit court of appeals, the United States Supreme Court decided the Seminole Rock and Sand case. The circuit court of appeals then felt itself bound by that decision, and so stated, on the face of the opinion.

It reversed both district courts and held in favor of the Office of Price Administration. Then both companies—

Mr. THOM. What is that sand and gravel case decision?

Mr. PATRICK SMITH. *Bowles v. Seminole Rock & Sand Co.*

Mr. THOM. What was it?

Mr. PATRICK SMITH. Under maximum price regulation 188. The Seminole Rock & Sand Co. had sold crushed stone. They sold it at 60 cents a cubic yard. In January they sold at the higher price—I believe \$1.20 a cubic yard.

In March of 1942, so far as that record is concerned, they sold nothing at a higher price than 60 cents, and those delivered were made to a railroad pursuant to a prior commitment.

The Rock & Sand Co. case contended under the proviso that since they had made deliveries at \$1.20 a cubic yard that that was their highest price charged, even though they had delivered in March of 1942 only at 60 cents. The Supreme Court said, "No, your ceiling price is 60 cents a cubic yard."

Now, I might point out—

Mr. THOM. Was that 60 cents on previous contracts or enlarged contract?

Mr. PATRICK SMITH. No, sir; previous contracts, contracts of long duration running back into March of 1941.

Mr. BARRY. That seems to be in point with your case; does it not?

Mr. PATRICK SMITH. No, sir; we do not believe it is. For several reasons: First, because it was under a different regulation, which speaks of article and not commodity; and second, because neither amendment 28 nor 30 were considered there which contain the proviso clause permitting you, if you made a rise prior to March 21, 1942.

Third, in the Rock & Sand case, they sold only crushed stone. And they sold only at 60 cents.

Now, we have a commodity, and it has been testified that we have in-line pricing. Where we base our prices are on 8-ounce flannel gloves. You tell a glove manufacturer a price of an 8-ounce flannel Canton glove is X cents per dozen and he can tell you then by adding or subtracting from that glove the established differentials which have been in existence for more than 25 years in the business the price of every other glove in that line, whether it is himself or his competitor.

Now, in the Rock & Sand case, they had only one commodity, which they sold at one price in March of 1942, 60 cents. It was under a different regulation, which used different language. It had no amend-

ments, no proviso clause, as we did in our case, so we feel it is clearly not in point, either factually or legally.

Mr. BARRY. The upper court thought it was?

Mr. P. J. SMITH. The circuit court of appeals did, and the Supreme Court did not grant us a writ of certiorari. That does not necessarily mean that they agreed with the circuit court of appeals, as you know, sir.

Mr. HOUGHTEN. I want to thank the committee for its attention.

The CHAIRMAN. We are glad to have your views.

Mr. PATRICK SMITH. We have one more witness, Your Honor, Mr. Mason, of Wells Lamont Corp., of Chicago.

STATEMENT OF A. H. MASON, EXECUTIVE VICE PRESIDENT, WELLS LAMONT CORP., CHICAGO, ILL.

Mr. MASON. My name is A. H. Mason. I am the executive vice president of Wells Lamont Corp., with its principal office in Chicago, Ill., engaged in the manufacture of gloves and mittens, including work gloves. The company has manufacturing plants in Oregon, Missouri, Iowa, Illinois, and Mississippi.

I have spent the last 31 years in the glove business and am familiar with its historical customs and practices. I heard the statement of Mr. Patrick J. Smith presented to this committee earlier today. That statement correctly describes the historical customs and practices of the work-glove industry relative to the manner of determining prices for work gloves based upon the cost of Canton flannel, leather, and other materials, with the addition and subtraction of differentials because of variations from base models.

Periodically, prior to, and on December 1, 1941, our company issued a price list in which the historical customs and practices of price differentials were applied. On January 11, 1942, because of the increases in material costs, we were obliged to write our customers, who are located in every State in the Union, withdrawing our December prices.

On March 17, 1942, we issued another price list covering 207 styles or models of gloves, again giving effect to the historical customs and practices of price differentials.

During the remainder of the month of March 1942, we sold \$250,000 worth of gloves at the March 1942 prices. Some styles were shipped in March 1942, at the December prices, but such shipments were made in fulfillment of firm commitments made before the withdrawal of those prices in January 1942.

In April 1942, general maximum price regulation was promulgated by the Office of Price Administration, effective May 11, 1942—in effect freezing prices at the March 1942 level.

There was substantial doubt as to what was embraced in the term “commodity” used in general maximum price regulation. After much study our president, Mr. W. O. Wells, went to Washington to learn if the prices quoted in our March 1942 list represented our lawful ceiling prices.

On June 3, 1942, Mr. Wells conferred at length with Mr. Martin J. Cardon, Acting Chief of the Work Clothing Unit Division of the

Office of Price Administration, and Mr. E. Glenn Elliot, his assistant. These gentlemen had been designated by the Office of Price Administration to deal with work-glove prices. Mr. Wells was advised by the two named officials that the lawful ceiling prices on the company's gloves were those quoted in its March 1942 price list.

Following that conference, the company proceeded to sell its various styles and models at the prices quoted in its March 1942 list and as approved by the two named officials. Mr. Wells also advised other work-glove manufacturers of the ruling made by Messrs. Cardon and Elliot.

Thereafter Mr. Wells was appointed a member of the Industry Advisory Committee of the Office of Price Administration and served in that capacity for several months.

Some work-glove manufacturers had not issued new price lists in March 1942. At the request of the Office of Price Administration, Mr. Wells, Mr. Elsey, of Indianapolis Glove Co., Mr. Waller, of Boss Manufacturing Co., and other members of the Industry Advisory Committee spent much time in an effort to prepare a schedule of dollars-and-cents prices, based on the average prices shown by the March 1942 price lists of those who had issued them. Such prices would be applicable to the entire industry and bring into balance the prices of those manufacturers who had not published new price lists in March 1942. Other service was requested of the company by the Office of Price Administration and the War Production Board, all of which was cheerfully and gratuitously furnished.

From and after June 3, 1942, when Mr. Wells was given the assurances by Messrs. Cardon and Elliott, our company proceeded to sell gloves at the prices approved by them and at no time sold gloves at prices higher than those Mr. Wells was assured were proper. At no time was any hint or suggestion received that the company's practice was improper until in July 1943, 13 months later, when a Mr. Epperstein of the Office of Price Administration visited our offices to investigate our prices.

Shortly thereafter we received a letter from the Office of Price Administration in effect repudiating the assurances received from Messrs. Cardon and Elliott, and asserting that in some instances we had sold gloves in excess of lawful ceiling prices. We promptly discontinued the sale of all questioned items. In October 1943, we were sued by the Office of Price Administration for substantial damages. The suit is still pending.

Mr. THOM. How much is that?

Mr. MASON. \$150,000.

We take the position that under the then-existing circumstances, when work gloves were in unprecedented demand in connection with the war effort, when much uncertainty, confusion, and conflict of opinion existed as to the proper interpretation of general maximum price regulation, and when we were being pressed to increase production, our company exercised sound judgment in seeking guidance from the very officials who had been designated by the Office of Price Administration to deal with work glove prices and in accepting and acting upon the assurances given by them.

To confirm my statements concerning the assurances received by Mr. Wells from the designated officials of the Office of Price Admin-

istration, I desire to read a copy of an affidavit furnished us by one of them. It follows:

The affidavit is set forth in full, but I will read only quotations from it.

(The affidavit in full is as follows:)

E. Glenn Elliott, being first duly sworn, on oath deposes and says that:

On June 3, 1942, affiant was employed by the Office of Price Administration in Washington, D. C., and on that date was assistant to Martin J. Cardon, then Acting Chief of the Work Clothing Unit Division of the Office of Price Administration, that subsequently, on June 15, 1942, affiant succeeded Cardon as Acting Chief and in December 1942 became Chief of the Work Clothing Unit division of Office of Price Administration, from which position affiant resigned on March 1, 1943.

On June 3, 1942, W. O. Wells, president of Wells Lamont Corp., called at the Office of Price Administration in Washington to discuss the application of the provisions of the general maximum price regulations to gloves manufactured and sold by that company. Wells was referred to Cardon and affiant.

Cardon and affiant examined samples of gloves from several classifications presented by Wells, the company's 1941 catalog (No. 33) and the December 1, 1941, and March 17, 1942, price lists, and reviewed the pricing principles employed by the company in establishing its price ceilings on all of its gloves.

Wells stated to Cardon and affiant that the separately numbered styles and the prices shown for them on the March 17, 1942 price lists represented only:

The highest prices at which the styles were shipped in March 1942;

The highest prices at which the styles not shipped in March 1942 were quoted to customers by means of the company's March 17, 1942 price list; or

The prices determined for the styles, shipped during March 1942 at the lower December 1941 prices by the application of traditional or customary price differentials with respect to the prices at which another style or other styles within the same class of gloves were shipped in March 1942.

At the conclusion of the discussion, Cardon and affiant stated to Wells that the provisions of the general maximum price regulation applied to all gloves manufactured and sold by the company; and that its ceiling prices on all of its gloves had been established, under the provisions of the general maximum price regulation, at the prices quoted on its March 17, 1942, price list. Cardon and affiant further stated to Wells that ceiling prices for its styles introduced for sale after March 1942, were properly established, under the provisions of the general maximum price regulation, where such prices were determined by the application of traditional or customary price differentials with respect to the prices at which another style or other styles within the same class of gloves were shipped in March 1942.

Up to March 1, 1943, the date of affiant's resignation from the Office of Price Administration, affiant did not, nor did anyone else on behalf of the Office of Price Administration make any change or communication with Wells-Lamont Co. regarding any change in Cardon's and affiant's interpretation of the provisions of the general maximum price regulation with respect to the gloves manufactured and sold by Wells-Lamont Corp.

And further affiant saith not.

Mr. MASON. We confidently assert that we took all practical precautions to avoid violating the act and relevant regulations, that our alleged violation was not willful or intentional, that we acted in utmost good faith and that the subsequent reversal of position by the Office of Price Administration and its suit for damages were unfair, unjust and inconsistent with the purpose and intent of Congress when it passed the Emergency Price Control Act.

For the reasons recited, our company supports the amendment presented by Mr. Smith. We appealed to the Office of Price Administration for guidance and acted upon the assurance given by its officials. More than a year later the Office of Price Administration repudiated the authority of the officials designated by it, and upon whose authority we had every reason to believe we had a right to, and actually did, rely. Further appeal to the Office of Price Administration would be

futile and an absurdity. Therefore, we come to Congress, which is the only body in position to right a serious wrong.

I thank you for your courtesy.

Chairman SPENCE. I thank you for your courtesy.

Mr. CRAWFORD. This, then, seems to turn upon this fact, that you were told that your prices would be those quoted in March 1942. Since then the Office of Price Administration has determined that your prices should be prices at which you actually sold gloves.

Mr. MASON. I answer that the officials in the Office of Price Administration, seeing the price list and the catalogue and recognizing the in-line pricing nature of the business in which there were small variations in gloves, on which there were standard differentials—a full leather finger was 25 cents extra, a full leather thumb was 25 cents extra, 25 cents difference for the different lengths of certain cuffs—recognizing that, as substantial sales had been made and shipments had been made, they ruled the price list did represent our ceiling prices.

Mr. CRAWFORD. If you had shipped no gloves of a certain quality or style in March 1942 but quoted a price on those gloves, that would be your ceiling price, but if you actually shipped gloves on that date, even though they were in fulfillment of prior orders, that would be your price?

Mr. MASON. That is their definition of "commodity." If you turn the thing over in a glove, it makes it a new commodity.

Mr. CRAWFORD. If you quoted a price but didn't deliver any gloves, that would be your price. If you delivered the gloves at a lower price, your lower price would be it, according to the recent interpretation.

Miss SUMNER. This lawsuit referred to in the district court was Judge Lindley. That is in Danville, Ill. That is in my district. Judge Lindley has had many years' service. He has the highest reputation. If he held these men were not guilty, either on the law or under the regulation, that is enough for me to show they were not guilty.

I also wish to call attention of the committee to the fact that this law, regardless of what Congress says, is a law applying to peacetime conditions, if we extend it, that it is an ex post facto law applying to things happening in the past; that these men have been sued for their savings over a period of years.

I consider it downright unconstitutional and un-American. In this criminal case, did these men have the burden of proof in establishing their cases?

Mr. PATRICK SMITH. This was a civil case. The burden was on them to prove nonwillful necessities, which burden was discharged.

Miss SUMNER. In spite of the fact that the damage asked was in reality a penalty, since it far exceeded the actual damage.

Mr. PATRICK SMITH. We think so.

Miss SUMNER. So in effect it was a——

Mr. TALLE. Mr. Chairman, the question of shortages came up in connection with the testimony made by Mr. Houghten, of Illinois. I happen to know that not a single merchant in my home town in northern Iowa had a work glove to sell last fall at the time when corn picking was very important. It represented a very serious hardship. Through the courtesy of Mr. Houghten, one merchant was furnished a supply, not all he could sell, but he was furnished as much as the manufacturer could spare.

Were any of you able to fill the orders that were brought to you?

Mr. MASON. No. The total supply of work gloves was far short of the requirements. According to our tabulation, it was relatively of what was required for the war effort. We are still short since the war.

Mr. TALLE. I know there was a shortage, a very serious shortage.

Mr. MASON. We are short in our yearly supply about 6 million dozen pairs.

Mr. PATMAN. May I ask a question? Have any of the glove manufacturing companies sold out to the large distributors, Mr. Mason?

Mr. MASON. Not to my knowledge, Mr. Patman.

Mr. PATMAN. I want to suggest you call on Mr. Porter and those lads of the Office of Price Administration to answer specifically these complaints about the gloves.

Mr. KILBURN. Are there any glove manufacturers that are not being sued by the Office of Price Administration?

Mr. MASON. Yes.

Mr. KILBURN. What proportion are being sued?

Mr. MASON. The glove manufacturers being sued represent a large percentage of the production of the industry, but only about 10 percent numerically. It is more like 20 percent numerically.

Mr. KILBURN. Aren't some of them being sued now?

Mr. MASON. Not under general maximum price regulation, because since that dollars-and-cents prices have been issued.

Mr. KILBURN. I understand there is just a case where they are going to start suing now.

Mr. MASON. I don't know of it.

Mr. TALLE. May I ask the witness, Is it not true that all of the manufacturers of work gloves who are being sued are old-established firms in the business?

Mr. MASON. That is true.

Chairman SPENCE. If there are no questions, you may stand aside.

Mr. PATRICK SMITH. May I have in the record a transcript of the case inquired about by Mr. Patman, together with two briefs that will give you a complete picture?

Mr. PATMAN. That looks like a rather voluminous document.

Mr. PATRICK SMITH. 227 pages.

Chairman SPENCE. Why don't you make a reference. Leave them with the clerk. Make reference in your record.

(The matter referred to is as follows:)

Appellee's brief in the United States Circuit Court of Appeals, seventh circuit No. 8692.

Transcript of record in United States Supreme Court, October term, 1945, *Indianapolis Glove Co. v. Bowles*.

Petition of Indianapolis Glove Co. for rehearing in United States Circuit Court of Appeals, seventh circuit, dated August 17, 1945.

Mr. PATRICK SMITH. All right, sir, thank you very much.

Chairman SPENCE. We are very glad you had the opportunity to present your case.

We will call the National Retail Lumber Dealers Association.

Mr. Smith, will you state your name and identify yourself.

**STATEMENT OF J. FRANCIS SMITH, THE NATIONAL RETAIL
LUMBER DEALERS ASSOCIATION**

My name is J. Francis Smith. I am president of the J. E. Smith & Co., Inc., of Waterbury, Conn., and I am appearing here at the request of the National Retail Lumber Dealers Association to testify as to the attitude of the members of that association toward the continuance of Office of Price Administration price controls as at present administered.

Under the Office of Price Administration the retail-lumber industry and the home-building industry are suffering from policies which have resulted in distortion of the methods of distribution, curtailment of production, and a virtual elimination from the normal market of most of the items necessary for an adequate home-building program. Testimony which will be presented to you will give specific examples of the manner in which our industry has been hampered, thwarted in its efforts to perform its proper function.

A recent survey of the stocks of home-building items in the lumber-yards of the State of Connecticut covered dimension lumber for frame houses, sheathing, millwork, flooring, siding, exterior trim, and other items. The typical yard had from zero to less than 5 percent of a normal supply of each of these items.

A further survey indicated that the yards were completely lacking in assurances of shipment of any substantial quantities of these materials within any reasonable time. As a matter of fact, in most cases, no definite assurance of shipment whatever could be obtained.

This lack of supply is not debatable. Any contractor or any home builder will tell you the same thing. The most casual investigation will confirm the evidence of this acute shortage.

This condition is not peculiar to Connecticut. It is common throughout the country.

It is on the question of the reasons for this condition that the argument starts. A major factor in the continuing and worsening shortage of materials has been the policy of the Office of Price Administration. The Office of Price Administration vigorously denies statements to this effect.

It contends that its pricing policies and its policies on distribution have nothing to do with the shortage. Obviously, this is a striking difference of opinion. It must be very difficult for you Members of Congress, as well as the general public to understand how two groups of people can come to such entirely opposite conclusions from the same set of observable facts.

There must be a reason, and, of course, there is a reason.

That reason lies in the over-all philosophy and ideology which controls the policies of the Office of Price Administration. I think it is time to stop shadow boxing. I think it is time to lay the policy of the Office of Price Administration on the line and to find out if that policy corresponds to the wishes of Congress and the American public.

The Office of Price Administration has been selling itself to the American public as the agency which is holding the line against inflation. It contends that it is protecting the public against a rise in the cost of living. It has contended that its policies are designed to assist in a reconversion of American business to a normal peacetime

economy by preventing runaway prices while war-caused shortages persist.

If it were actually pursuing such a policy, I do not believe any legitimate businessman would fail to offer full support to the continuation of price controls.

But, is the Office of Price Administration following any such policy? As a matter of common sense, if this were its real policy would not the Office of Price Administration be working toward the gradual reestablishment of a normal relationship between costs and prices?

We all know how prices are made in a normal competitive economy. The producer or distributor figures his costs. He then figures the prices which will yield him the maximum profit, having due regard for existing and potential competition and for the savings which may be achieved through greater volume.

That is the way that prices were made before controls, and it is the way that prices will be made when and if controls are removed.

I realize that there are some theorists who consider that an economy which is based on the profit incentive is a poisonous thing. However, it certainly is the economy under which American business has operated. It is the economy to which even the reformers pay lip service.

If, as a matter of national policy, we are going to abandon this economy of free, competitive enterprise and adopt a managed economy with all of its implications of Government control of wages and prices and the inevitable destruction of democratic government, it would seem that this is a decision to be made by Congress and understood by the people—not a decision to be made by a single agency or a single Government official.

Naturally, I do not make these statements lightly. I have known Mr. Chester Bowles for several years and I have for him the highest personal regard. I know that he is able, energetic, and sincere in his desire to achieve economic reforms which he believes will be beneficial.

However, I believe that these reforms should be debated. They should not be insinuated without the knowledge of the public or the permission of Congress as a byproduct of an alleged price-control policy.

A study of the policies of the Office of Price Administration and of the statements which Mr. Bowles has made indicate clearly that they point directly toward a permanent managed economy. The policies of the Office of Price Administration are inflationary. The Office of Price Administration is the most inflationary force in the country today.

As the forces of inflation are encouraged by the Office of Price Administration, the needs for controls more and more stringent and for Government subsidies increase steadily. At the same time, of course, the arguments against the removal of these controls at any future date are being strengthened.

I think that I can show you clearly enough why I believe as I do. In 1943 Mr. Bowles stated that prices could not be controlled unless wages were held in check. Certainly, that is equally true today, if not more so. Yet, today, Mr. Bowles is constantly and publicly urging increased wages, at the same time decrying price increases as inflationary.

This is a confusion of cause and effect. Prices are not in themselves inflationary but are the result of other inflationary factors.

Wage increases, on the other hand, contribute toward inflation in two ways. They increase purchasing power and they increase the cost of production.

Wage increases may well be desirable from other standpoints, but the effects on costs and prices are inescapable, and as someone said recently, "Wages and prices go together like ham and eggs."

Instead of recognizing this inescapable relationship, the Office of Price Administration has adopted a policy of profit control. It has determined that no business concern or industry can be permitted to earn more than was reported for the base period 1936 through 1939. The argument is offered by the Office of Price Administration that this is not profit control since it applies this policy only when we observe that wage increases advocated and promoted by Mr. Bowles are rapidly forcing every industry into the position where the formula must be applied.

I believe, in all honesty, that this is entirely deliberate. I believe that Mr. Bowles is dissatisfied with the wage-price relationship which would develop in a free economy with wages set by bargaining between management and representatives of employees, and that he has decided to create a new pattern for American economy.

One thing is dead sure. In a free economy you are not going to have 60,000,000 jobs, 1946 wage levels, 1946 prices, and 1936 profits. Such a completely distorted economic picture can be maintained only by a degree of Government control which is almost unimaginable to us.

There are two possibilities: Either we are going to continue controls or we are going to remove them sometime. Exactly to the extent that normal relationships are distorted instead of being restored under price control, the blow-off when controls are removed will be aggravated.

Since I do not believe that the American people will accept complete regimentation, I must conclude that the end result of present Office of Price Administration policies must be a greater degree of inflation than we will experience if the Office of Price Administration controls could be immediately removed.

It is futile to discuss the Office of Price Administration policies affecting a particular industry, except in the light of the ideology of those who are administering or controlling the Office of Price Administration.

Before discussing our own particular problems, I want to make abundantly clear that my opinions are not individual but are widely held by those representing both labor and industry.

I presume that you are familiar with the statements made by Mr. Green of the American Federation of Labor on March 14. Mr. Green proposed that "the present crazy-quilt stabilization program be scrapped and that the President invite representatives of labor, industry, and agriculture to confer with him on the drafting of an entirely new one which would be fair and just to the entire Nation."

Mr. Green clearly recognized that the Government is not going to control prices and profits without wages ceasing to be a problem for labor and management and becoming a problem of Government. He said, "the new stabilization policy places labor in an inescapable strait-jacket."

To show that these ideas are not held exclusively by representatives of labor, I would like to quote also from a speech delivered by Mr.

Lewis Brown of the Johns-Manville Corp. on February 11. Mr. Brown said:

Businessmen wanted to finish the reconversion job, first removing wartime price controls and then adjusting wages and prices into economic balance. The economic planners, those zealots who have been trying to bring about a socialistic economy in this country, wanted no such thing.

He said further:

If in order to avoid returning to regimentation in the achievement of full production and full employment, it is necessary to make a further 10-percent rise in prices to cover a 15-percent rise in wages, then it would be a cheap price to pay for both production and freedom.

If we, the American people, intend to be free, then we must adopt the methods of freedom. We must make our choice and make it now.

Now I am perfectly aware of the fact that anyone who opposes Office of Price Administration policies is answered by being accused of representing "greedy and reactionary interests." It is a mark of certain bureaucrats that they answer the criticism by attacking their critics and the motives.

I may as well say now that I do not consider myself a reactionary. I was chairman of the Democratic State Central Committee of Connecticut for 6 years. I was reelected for a fourth term in 1940; although I had indicated that I would be unable to serve.

Any political bias that I have is for, not against, the present Democratic administration. I believe that the Government does have an over-all responsibility for economic welfare and for the individual citizens, and I have supported Government policies to that end in many speeches during political campaigns.

What I am opposing now is a particular policy which I consider to be damaging and dangerous—a policy also for which congressional approval has never been sought or obtained.

The retail lumber industry has grievances as an industry. It has no more and no less right than any other industry to plead its case for its own interests. There are about 23,000 retail lumber dealers in the United States. They are typical of so-called small business.

In practically every community in the United States the lumber dealer is a responsible local businessman. He is not entitled to Government favors, but he is entitled to try to make a profit without undue interference by Government subject to such restraints as may be in the public welfare. He is suffering from policies of the Office of Price Administration which have severely curtailed the production of the items which he ordinarily handles.

He suffers further from a distortion in the channels of distribution also as a result of Office of Price Administration policies. And further, he is a victim of the Office of Price Administration policy of absorption and profit control.

This absorption policy is unfair in theory and in practice. Mark-ups were established by the Office of Price Administration in accordance with industry custom. Wages and the cost of doing business have gone up for the retail lumber dealer as for everyone else.

Taxes take a larger share than hitherto. The remaining profit is taxed if paid as dividends and finally the residual dollars will buy less of everything.

Here is the actual Office of Price Administration policy. It has calculated the average profit of the industry for the base period as 2.7 percent of sales. Incidentally, the figure offers an amusing contrast

to the statements of Mr. Bowles in his Saturday Evening Post article about the "high-price, high-profit tradition" of the industry.

Then, when a manufacturer's price is increased the Office of Price Administration does some arithmetical gymnastics. It calculates that only a certain percentage of the dealer's volume is involved in the particular price increase and solemnly proclaims that the dealer can absorb the resultant "317/1,000 of 1 percent" less profit on over-all sales.

Even the Office of Price Administration boys are amused with this one. They know that their figures are meaningless. As the Office of Price Administration was informed by the Industry Advisory Committee, hardly any two dealers operate in the same way. Various dealers sell coal, oil, grain, paint, hardware, farm equipment, appliances, furniture, even cut-glass flowers. Some operate mills, do contracting, make boxes, boats—yes, and prefabricated houses.

Furthermore, some dealers are organized to do a large-scale wholesale type business and others are practically retail stores. Naturally, the price structures and percentage of profit must vary—depending on the relation of volume to the required capital investment.

These policies are unfair to the dealer and are an important problem to him. They have a public importance similar to the problems of any other segment of American business.

Far more important, however, is the effect of the Office of Price Administration policy upon the entire home-building industry and upon the public which is suffering from a lack of adequate housing facilities.

Before considering what the Office of Price Administration policies have done for or to the housing shortage, it may be constructive to consider briefly the nature of that problem.

We do have a housing shortage, as everybody knows, because of a low level of new home construction for many years, the curtailment of building during the war, and the recent increase in new families. Naturally, we are all acutely aware of the particular effect of the housing shortage upon the returning veteran.

Nevertheless, the housing shortage cannot be considered to be peculiarly a veteran's problem. Conversely, the veteran's housing problem cannot and will not be solved until and unless the over-all housing shortage is overcome.

Housing is a peculiar commodity. Unlike clothing, food, or other necessities, a shortage cannot be overcome or absorbed by each person or family getting along with a little less than its normal needs.

If 95 percent of the families are housed with reasonable housing and 5 percent cannot find acceptable accommodations of any sort, that 5 percent is bound to desperately seek places to live at almost any cost. Conversely, it may be noted that a 5 percent oversupply of housing has equally striking results with landlords offering free rents and premiums, paying moving expenses and otherwise desperately trying to get some return for a vacant apartment. The present situation has resulted in great pressure for occupancy of existing dwelling units.

Single family houses and even apartment houses are bought for the sole purpose of securing occupancy. Veterans are bidding up old housing far beyond their reasonable value or their replacement value by making use of their GI guarantee loans. The shortage is dangerously inflating residential real-estate values.

The one and only answer to curbing this inflation is the prompt increase in the available supply of dwelling facilities. That is elementary common sense. Price controls on existing houses would merely further reduce the already inadequate supply of houses offered for sale.

Whether or not such control is the lesser of two evils, the real point is that it is utterly unimportant. Almost everyone interested in the real estate or home-building industry would agree that there is only one solution. That is the prompt construction of enough new dwelling units to overcome the immediate actual shortage.

I should think that our problem in the city of Waterbury is fairly typical. We have an active and prosperous community. We have about 12,000 returning exservicemen and women. We have every indication of an acute shortage in rents. People are hunting, begging, and advertising for apartments and, yet, in a city of over 100,000 about 500 new dwelling units would remove most of the real pressure and housing would be no more of a problem than many other shortages resulting from current conditions. About 1,000 were built in the Waterbury area in 1925.

Five hundred houses for Waterbury would mean between six and seven hundred houses nationally on a population basis. This number would by no means fill our legitimate needs. Several thousand more will be needed over a period of several years to give us the improved housing conditions which everyone in the country and certainly in the building industry hopes to achieve in the postwar period.

The point is that a relatively modest supply of new housing would immediately remove the housing problem from the category of national emergency. The real question is why we have not made more progress since VJ-day in getting started on the job of overcoming the immediate problem. The answer, we believe, is to be found principally in the policies of the Office of Price Administration price control.

These controls have continued to place a premium on the production of lumber items other than those used in home-building. They have distorted the methods of distribution, and they have forced large quantities of home-building items into the black market.

The evidences of these practices will be presented in other testimony both by distributors and manufacturers. What I want to do is to point out to you the reasons why this apparently incredible situation has been allowed to develop.

The apparent fact is that the Office of Price Administration has been more interested in an effort to reorganize an important segment of the American industry into a Government-controlled, subsidy-supported activity than it has been to assure the veteran and others of a prompt solution of the housing problem.

The record is pretty clear on this. On September 22, 1945, when the home-building industry was crying for the adjustments necessary to get materials for home-building, Mr. Chester Bowles published an article in the Saturday Evening Post. This article portrayed Mr. Bowles' conviction that the home-building industry must be reorganized.

It contained a large number of inaccuracies and confusions principally based upon mixing up the period immediately after the war with the period of active building from 1923 to 1929. However, the important thing is this statement:

The conclusion is obvious. To satisfy the mass demand for homes and keep up full employment in the building industry, homes must be built on the low-cost, mass-production principle.

To further illustrate the philosophy which has controlled prices of building materials and consequently controlled home-building activity, I quote from a newspaper report at a conference which Mr. Bowles had with members of the Connecticut society on January 9.

Traditional methods cannot be used, Bowles said, and cited prefabrication construction on a much greater scale than formerly as a means of approach. The problem, he said, cannot be met by "sitting back and talking about it" and warned that if traditional methods are attempted, "the mess" will continue for 2 or 3 years and the situation will be acute for quite a while.

In the light of this attitude, it is understandable that the Office of Price Administration could sit back for 7 months and watch the housing-shortage problem build up to the climax that produced the so-called veterans' emergency housing program.

I would not say that the Office of Price Administration, under Mr. Bowles, has deliberately promoted the crisis; but I can say with absolute assurance that it watched the crisis develop with perfect equanimity.

We must not forget that the control of prices, in a price economy, means ultimate control of all business activity. We have here a situation in which a governmental agency with a means of correction in hand has withheld steps absolutely essential to the correction of an acute national problem.

That these steps were and are necessary is fully admitted by the fact that they are now being taken or proposed in connection with the program of Mr. Wyatt. The plain, unmistakable fact is that a program to reform the home-building industry was dressed up as "something for the boys" and launched with terrific urgency as soon as the problem had become acute.

I shall not deal at length on the merits of the housing program. Actually, it is a long-range reform measure with implications affecting every business and the entire economy, which has been launched as an emergency measure. As a long-range solution, it has elements which are highly debatable. As an emergency solution, it is thoroughly unnecessary.

The actions necessary to overcome the immediate shortage have been within the existing power of Government agencies since the end of the war. I would like to quote to you a letter addressed to Mr. Wilson Wyatt by Mr. Donald A. Campbell, the former Deputy Administrator of the Lumber and Lumber Products Division of the War Production Board.

Mr. Campbell told Mr. Wyatt that "the No. 1 problem is to break the bottleneck in the flow of housing construction items." After listing six suggestions as to how to do this, all of which had to do with adjusting Office of Price Administration prices and policies, Mr. Campbell summed up his attitude as follows:

I am sorry this has not been as brief as I would like to have had it, but before I can close I must mention to you the personal skepticism I hold for PR 33.
* * * You must get production. If you get it, then you will not need PR 33.

Mr. Campbell's comments are significant for two reasons: First, he has intimate knowledge of the situation which he is discussing. Second, his opinion corresponds exactly with that of everyone, as far as I know, who is actively engaged in the home-building industry.

The retail lumber industry has observed the impossibility of securing production under Office of Price Administration policies. It has observed the distortions in normal business procedure which the Office of Price Administration has created in the business of distributing building materials. It has observed the efforts of the Office of Price Administration to force a completely novel philosophy of price absorption and profit control upon all industry. It has observed the destructive effect of Office of Price Administration policies upon industry's efforts to take care of the housing needs of our veterans and other citizens.

With all due appreciation of the theoretical benefits to be derived from an intelligent and constructive system of price controls to be maintained during the period of conversion into normal economy, we are convinced that the Office of Price Administration price policy, as administered, is a destructive and dangerous force and we recommend the complete abandonment of price controls on building materials as the quickest and surest way of restoring normal price relations, securing adequate production and providing an adequate supply of housing.

Because I know that any industry objecting to price control is accused of selfish motives, I feel that I must refer to a discussion that I had early in January with Office of Price Administration Officials concerned with building materials and with housing.

I made three suggestions. The first was that a wholesale differential be immediately established. The reason for this was that the Office of Price Administration policies had virtually eliminated the wholesaler, resulting, particularly in the last 6 months, in grave distortions in the channels of distribution.

The second suggestion was that immediate and realistic readjustments be made in prices to favor the production of home-building items; and the third was that the retail mark-up formula be reviewed.

The reason for this was the question of absorption has been complicating every proposed adjustment designed to increase production and I felt that the dealers should be anxious to clear up this problem once and for all.

Those in the Office of Price Administration familiar with the lumber problem indicated substantial agreement with these policies but they indicated also their doubts as to their adoption because of conflict with the Office of Price Administration philosophy on absorption.

This was over 2 months ago and I believe that it indicates that we, as an industry, have been perfectly willing to accept controls that are reasonably fair and reasonably workable.

It indicates also why we have been forced to the conclusion that no workable system of price control is possible under the present Office of Price Administration philosophy.

Mr. BROWN. Do you have extra copies of your statement?

Mr. FRANCIS SMITH. Yes, sir.

Mr. BROWN. Mr. Clerk, will you pass them around?

The most important thing about building material is to get production as quickly as possible. Your theory is that to take off all ceilings you will get production quickly, is that right?

Mr. FRANCIS SMITH. You will certainly get production very much quicker.

Mr. BROWN. Suppose ceilings are not taken off? Would you have subsidies or higher prices?

Mr. FRANCIS SMITH. I do not believe in subsidies. If price controls

are to be continued, drastic chances must be taken. They will be more drastic than those necessities last fall.

Mr. CRAWFORD. This might not be a fair question. Some thought should be given to this: A frame house which they are building now which might sell for \$6,000, what would be the increase that you might expect in the price of that house if you raised the price of lumber sufficiently to get sufficient production?

Mr. FRANCIS SMITH. A \$6,000 house, the lumber items would run \$1,500 at retail, or substantially less than that in wholesale. A 10-percent increase in the manufacturer's cost would amount to a little over \$100.

Mr. CRAWFORD. A little over \$100?

Mr. FRANCIS SMITH. Yes. I would like to say, though, it is wrong to assume that houses are being built in accordance with the apparent prices under the ceilings. There are all sorts of extra costs and entirely apart from black market. I indicated the shortage of various items of building materials.

Just as one legitimate expense, contractors will run all over the State picking up a thousand feet here, a thousand feet there. Those are excessive costs that would be removed if higher ceilings were established. If lumber became obtainable at those ceilings, the actual present cost of houses would be drastically reduced.

Mr. CRAWFORD. After you got production?

Mr. FRANCIS SMITH. Yes.

Mr. CRAWFORD. Let us get to the meat of this problem. You think an increase of 10 percent on lumber, retail price on lumber, that is, the price the builder has to pay for it, an increase of 10 percent would be sufficient to get adequate production?

Mr. FRANCIS SMITH. I do not feel competent to answer that question. Lumber manufacturers and manufacturers of other building materials can testify how much of an increase is needed. Retailers do not want any more money. Manufacturers should obtain more money so they will get supply. They are perfectly satisfied in their present differentials or even to have their differentials reviewed. They object to the establishment of this 1936-39 formula with constant individual assurances of absorption that are highly disrupted.

Mr. CRAWFORD. About \$1,500 worth of lumber would run what?

Mr. FRANCIS SMITH. I just took 10 percent. I don't say definitely that 10 percent would do it, although it might. I gave you a guide to show a 10 percent increase in lumber.

Mr. CRAWFORD. If there was an increase in 20 percent of the price of lumber, that would be reflected in sufficient lumber to build sufficient homes, and the price of those homes would go up, the average home, about \$200?

Mr. FRANCIS SMITH. That is my opinion. I do not mean I am recommending a 20 percent increase. I am recommending an increase that I think may be required.

Mr. CRAWFORD. I am taking something that I think is the maximum. You think 20 percent would be the maximum?

Mr. FRANCIS SMITH. Yes.

Mrs. WOODHOUSE. If the increase was had on lumber, would there be other items of building that would need an increase.

Mr. FRANCIS SMITH. The other items of building material are applying for increases. Which ones do you mean, Mrs. Woodhouse?

Mrs. WOODHOUSE. I was thinking of any other building material, roofing materials. I wondered, if you give an increase, you have good reason for another. I was wondering if there are other items.

Mr. FRANCIS SMITH. I do not think the problem is quite so acute in the other items. The asphalt roofing industry is under pressure for increased wages. Each industry should be treated on its merits. There must be full production.

Mrs. WOODHOUSE. I was wondering if lumber came up \$200, I wonder how much more we would have to add on our \$6,000 house.

Mr. FRANCIS SMITH. I can't answer that except to say that if all of the materials in the house were increased and you got full production, the cost of the house, if you could obtain the materials at the then prices, will be less than it is now.

Mrs. WOODHOUSE. There would be great savings in this running around and waiting periods?

Mr. FRANCIS SMITH. Not only that, they buy on less favorable terms than they could buy on in volume. They buy a great deal in the black market, too.

Mrs. WOODHOUSE. That is all.

Chairman SPENCE. Mr. Monroney?

Mr. MONRONEY. No questions.

Chairman SPENCE. Mr. Riley?

Mr. RILEY. No questions.

You believe the readjustment in the price of materials would come nearer solving the situation than Government subsidies?

Mr. FRANCIS SMITH. Definitely. I would like to point out one thing I neglected to say in answer to these questions. A large part of this question has nothing to do with price increases. We still have the differentials in favor of the non-home-building items which should have been straightened out immediately after the end of the war. A calculated increase being put into effect for west coast lumber, the Office of Price Administration figures that the over-all increase is very much less, because it is reducing now, the non-home-building items. It is not just a flat increase.

Mr. RILEY. I am glad you brought that out. It would not necessarily mean an over-all increase in building materials. It would be, rather, an adjustment for wartime production into peacetime production.

Mr. FRANCIS SMITH. That is definitely the most important angle, although some increase will also be required.

Mr. RILEY. The increase would not be as much as has been indicated?

Mr. FRANCIS SMITH. I did not indicate a figure. I indicated they should be increased enough to obtain full production. It should not be that much.

Chairman SPENCE. Mr. Hays?

Mr. HAYS. What percentage of the lumber moves directly to the retailer from the producer? I am asking that because some of my wholesalers have complained about the ceilings on lumber being too low has given the retailer who has access either through the black market or otherwise an advantage and has obstructed the usual wholesale operations.

Mr. FRANCIS SMITH. That, of course, is true. There are gross distortions. The wholesaler has been knocked out. Certain retailers

have made direct connections. Certain retailers have suffered very much. Some wholesalers have gotten an advantage out of it by having the necessary connection and by shipping lumber that would have flowed in carloads from retail to wholesale distribution lots. They distribute to dealers who had been accustomed to buying in carloads. It works both ways. The whole system is badly distorted.

Mr. HAYS. That isn't altogether due to price policy?

Mr. FRANCIS SMITH. Very largely. Just as they cut the log to fit Office of Price Administration specifications, so does the distributor try to adjust his method of operation, not to the needs of the consumer, but to the Office of Price Administration's pricing policies.

Mr. HAYS. To what extent, before the Office of Price Administration came in, was there a trend toward integration—that is, the elimination of this middleman?

Mr. FRANCIS SMITH. Not very much. The wholesaler has a definite part in the picture. So has the retailer, because of the nature of the business.

Mr. KUNKEL. Mr. Smith, Mr. Riley's question suggested this to me; that is, could you take five representative items and could you put in five of the non-home-building items as of August 1, 1945, and March 1 or 15, 1946, and five non-home-building items and five home-building items so we could see the differentials?

Mr. FRANCIS SMITH. I cannot, but one of our later witnesses could.

Mr. KUNKEL. I would like to have that. If you could do that, I believe it would be very helpful. Also, one of your witnesses is going to comment on practices in the lumber trade as affected by the Office of Price Administration regulations. I would suggest that before he comments on that, that he read the speech Mr. Lesinski, of Michigan, made in the March 4 Congressional Record. I do not remember the page. I would like to have your man comment on his statements. He was a lumber dealer.

Mr. FRANCIS SMITH. I am sure that he would.

Chairman SPENCE. Could we refer to that? We have a lot of small speeches this afternoon.

Mr. KUNKEL. If they do not have time, of course.

Mr. FOLGER. I believe your suggestion was that one of these gentlemen read that speech and consider it, if he wants to make any comments on it during his testimony.

Mr. KUNKEL. That is exactly it.

Chairman SPENCE. Thank you very much, Mr. Smith.

Mr. FRANCIS SMITH. Thank you very much.

Mr. BROWN. Who is your next witness?

Mr. FRANCIS SMITH. Mr. John Alexander.

STATEMENT OF JOHN ALEXANDER, JR., NATIONAL RETAIL LUMBER DEALERS ASSOCIATION

Mr. ALEXANDER. My name is John Alexander, Jr. I am president of the Alexander Lumber Co. of Aurora, Ill., which operates a number of retail lumberyards in Illinois and Wisconsin, most of them in smaller communities. I am here today, however, to try to give you the viewpoint of the thousands of retail lumber dealers situated all over the United States who are represented by the National Retail Lumber Dealers Association and its affiliated State associations.

There are between 23,000 and 25,000 of these dealers, and from talking with geographical representatives of the industry, I am certain that the statements I have to make have the approval of an overwhelming majority of these dealers.

Retail lumber dealers, prior to the war, planned, built, or financed over 70 percent of the new homes constructed in the United States. They play a vital part in our economic system even though most of them operate small businesses. These dealers located all over the country are dealers in every movement for civic and social improvement in their communities and are not speculators in any sense of the word. They are proud of the part they play in their community life and, only after mature deliberation, do they oppose the extension of the Emergency Price Control Act of 1942. In taking this position they are well aware that charges will be made that they are motivated by a selfish desire for profits.

These dealers, like all other good citizens, recognize the necessity of getting the housing program under way, particularly to meet the needs of our returning veterans. They are most anxious to do their proper part in filling these needs. They cannot do this, however, until they obtain the necessary materials.

On January 1, 1941, the stocks of manufactured lumber in the United States consisted of about 18 billion board feet, with about 6 billion feet in the hands of retail yards. On January 1 of this year, those stocks had dropped to about 4½ billion feet, with a little over 1 billion feet in the hands of retail yards. These figures are based on statistics supplied by the Civilian Production Administration. Some of us think there is even less lumber than that in the hands of dealers now. In the case of our own company, our stocks of lumber are about 7 percent of what they were in 1941. This shortage is further aggravated by the fact that what inventories we do have are badly assorted as to grades, sizes, and species and there are very few retail lumberyards in the United States today who have on hand sufficient lumber and other materials of the right sizes, grades, and patterns to furnish a single house. I am told that a recent survey made here in Washington among 10 yards, which are, of course, larger than the average yards throughout the country, disclosed that not 1 yard out of the 10 could furnish the requirements for a single house.

Lumber production in the United States in 1942 was 36½ billion feet. In 1943 it dropped to 34½ billion feet. In 1944 it dropped another 2 billion feet to 32½ billion feet; but in 1945 it dropped 5 billion, to a total of about 27½ billion feet, the greater part of this drop occurring in the last half of 1945. The best figures we are able to obtain for the first 2 months of 1946 show this drop continuing at an accelerated pace, and indicating production so far this year of at least 25 percent off from even the 1945 figures. The Forest Service recently estimated 5.6 billion production for the first quarter of this year and, if this trend is not reversed, we will be fortunate to get 24 billion feet of lumber this year.

Mr. John Small, Administrator of the Civilian Production Administration, stated, and I quote, "A kind of paralysis has seized the industry." This industry is not paralyzed; it is hamstrung and stymied, but if present conditions continue, paralysis is likely to develop.

We call ourselves retail lumber dealers because in the early days

lumber was the principal commodity we handled. We have a tendency to think and talk in terms of lumber. The facts are, however, that even before the war most of us had increased our sales of other and newer items to a point where the total of these other items far exceeded our total sales volume of lumber.

The situation on these other items is substantially the same as in lumber. Sash and doors and other items of millwork are the most acute and it is along this line that we see the least hope of improvement in production. Brick and tile, wallboards, roofing, paint, hardware, and the other items are also in increasingly short supply, and, as a matter of fact, about the only commodity that we are able to buy when we want it is cement.

Obviously, there must be a very sizable increase in the production of building materials if we are to fill the needs of the housing program as well as the farmers and others. Naturally, those of us in the industry have given serious thought and study to the causes of this curtailed production, and it is our confirmed belief that the Office of Price Administration is more to blame than all other causes combined. The Office of Price Administration, in its attempts to control prices, has only succeeded in creating shortages and stimulating black markets.

Manufacturers of building products have had to meet increased costs both for labor and numerous other items in the past few years, and except in those rare instances where they were already making a large profit, these increased costs immediately called for an increase in selling prices. When they applied to the Office of Price Administration for increases, they were met invariably with a policy of resistance and delay.

I would like to mention a few examples of shortages that have been created, and the results.

Since VJ-day, the manufacturers of fir doors have been attempting to get an increase of less than 75 cents in the price of doors to offset increased manufacturing costs. The Office of Price Administration has consistently refused to allow this justified increase and, as a result, doors are not being produced in volume. The few doors available are being made by small custom plants at high cost, or by carpenters on the construction site at a cost several times the price requested by the door manufacturers.

When the price of glass was increased, the millwork manufacturers asked for a price increase of 8 cents to 12 cents on sash to offset this increase in the cost of the glass. This increase has not yet been granted, with the result that the home builder has to buy sash without glass, then buy the glass and hire local glaziers to put it in on the job, with the total cost to him of 10 to 20 times the increase requested by the millwork manufacturers.

Even when price adjustments are granted by the Office of Price Administration, they seem to have a confirmed and established policy of delaying the change as long as possible. Time and again we have been advised that a proposed regulation was practically at the publishing stage and would be out in a few days, only to learn a few days later that it was right back at the beginning.

It required 2 years and 8 months after the producing industry appealed for a ceiling price on moldings rather than the General Maximum Price Regulation before a regulation was approved and published. Then when the regulation did come out, it did more harm

than good. In our part of the country, at least, the new MPR 601 just about dried up our few remaining sources of supply for moldings. As a matter of fact, one of our principal suppliers has now discontinued the production of moldings entirely and is devoting his plant to producing work benches for those whose hobby is making things in their basements.

During the war, price schedules on Douglas fir lumber were set up to encourage the production of timbers needed by the Navy and to discourage the production of dropsiding, flooring, and similar items ordinarily used in house construction. It took until last week, nearly 7 months after VJ-day, to get any changes whatever in these particular provisions, even though it was brought to the attention of the Office of Price Administration many times. This obviously has worked to the detriment of the veterans housing program, in which everyone is so vitally interested. These changes that took 7 months to get are still not adequate to achieve the desired production.

Mr. Bowles, when he testified before this committee, made a great point of the increase in brick production which resulted from an adjustment made 6 months after negotiations with the Office of Price Administration were started by the brick producers. He did not tell the committee, however, that the brick and structural-tile industry was still operating at only 34½ percent of capacity. The manufacturers of plywood have been attempting for 8 months to get a price adjustment so that they could make suitable grades for home construction.

During the war they haven't been making those grades. They have been working on items which the Army and Navy needed.

This adjustment was not made until a few days ago and was made then, as far as we could see, only because the manufacturers of prefabricated houses requested it. It is accompanied by an Office of Price Administration order, which is designed to channel most of this plywood away from the retail dealer and his customers and into the hands of the prefabricator.

I could go on with similar examples in hardwood flooring, both oak and maple, in northern hemlock, in western pine, in wallboards and insulation, asphalt shingles and many other items needed to build a house.

Faced with this difficulty in getting price increases where needed and with the extreme delays even when those prices were finally granted, there have been several courses open to the lumber manufacturer.

One course was to shut down his plant and go out of business, or to run only half-heartedly and without any real attempt to make as much lumber as possible. The fact that many of them have followed this course is amply proven by the production figures I have already given you.

Another course was to stop making the normal and usual items and divert as much as possible of his productive capacity to some new items on which he could get a more reasonable price. Many of the manufacturers, from whom we used to buy, now have nothing to sell us because they are making box shoo, furniture, and various and sundry other items which we cannot use in home construction. Others are selling their production in the form of timbers and plank, instead of completing the production and turning out 2 by 4's, boards, drop-

siding, flooring, and so forth, so as to hold their labor costs per thousand feet of production to a minimum and stay within the ceilings. These timbers and plank have to be remanufactured into usable items, either at a remanufacturing plant or in the retail lumberyard at a much higher cost than would have been required had the manufacturing been completed at the mill as it should be and as it was in normal times.

The Office of Price Administration has encouraged southern pine mills to disregard their old retail lumber dealer customers by giving the mill a \$6 per thousand higher price in cases where the lumber is sold to a consumer within a radius of 25 miles. Under this regulation, trucks from all over the country appear at the site of the sawmill and buy lumber at the mill price, plus the \$6, and the sawmill operator makes it a practice never to ask any embarrassing questions as to where the lumber is going. At least, many of the trucks show up in Indiana and Iowa.

Mr. BROWN. Are you from Iowa?

Mr. ALEXANDER. Illinois.

Mr. BROWN. You haven't completed your statement, have you?

Mr. KUNKEL. May I ask a question?

Mr. BROWN. Go ahead.

Mr. KUNKEL. Is it not a well-known fact that rail transportation is far cheaper than truck transportation?

Mr. ALEXANDER. On a question of cost, lumber was never trucked from sawmills for any great distance in normal times when you could get it done any way you wanted it, which I assume, proves it was the economic way to do it. Of course, now, when you are desperate, you do lots of things. The black-market situation has a bearing, too.

Mr. CRAWFORD. The point is that these trucks buy it at a price at which it is to be sold in a 25-mile area. If they assigned it over a railroad, then they could not sell it at that price.

Mr. ALEXANDER. The intention of the order was to give the southern pine manufacturer a little higher price when he sold some locally. They would charge a higher price to somebody who came in and wanted a few boards.

Mr. CRAWFORD. It is being trucked out into the black market?

Mr. ALEXANDER. That is correct. If they shipped it out by rail, there would be ample proof that they knew where it was going. They can give it to a trucker; he gives them the money.

Mr. CRAWFORD. Mr. Patman brought out they loaded up the truck and got the highest price for it.

Mr. ALEXANDER. Many of those truckers come up into Indiana, Iowa, and Illinois and sell it after they get there. Many of them do not have a customer until they get there. The prices we have found them asking are far in excess of the retail ceiling price.

Mr. MONRONEY. Who buys it, the legitimate lumber dealer?

Mr. ALEXANDER. In some cases the lumber that is trucked out is bought by lumber dealers after it gets in the North.

Mr. MONRONEY. They know they are violating the law when they buy it.

Mr. ALEXANDER. They pretty nearly have to.

Mr. MONRONEY. Most of it goes to builders who are not under any resale ceiling?

Mr. ALEXANDER. Most of it goes to builders or farmers or possibly

someone who is building a house, or himself. The price he pays is no more a violation than if I go down and pay too much for a pair of shoes.

Mr. MONRONEY. It would be a violation for a legitimate lumber dealer.

Mr. ALEXANDER. Very few dealers have bought from these truckers. Most of them have paid so much that they charged way over the ceiling, although the Office of Price Administration has had some enforcements in that area.

Mr. MONRONEY. You stop to resaw and rechip it, is that not the way you get around the ceilings on lumber?

Mr. ALEXANDER. The bill has a ceiling on timbers and plank, for example, which is much more attractive than is the price on drop siding. It takes a good deal more labor to make the drop siding or floor or even 2 by 4's than it does to slide these timbers through his mill. As long as the Office of Price Administration ceiling is on the two items, the mill just sells the timbers; he can sell anything. He forces the dealers to sell them. He has them cut up to what he wants. The cost is a great deal more than had the work been done in the first place at the manufacturer's plant where it should be.

Mr. MONRONEY. How much does that cost?

Mr. ALEXANDER. I think the fir lumber we have bought that at what has cost us an average of \$9 to \$12 or \$14 a thousand more than it would have cost us had we bought the 2 by 4's and boards in the first place. It is entirely legitimate, you understand.

Mr. MONRONEY. How much of it is moving in that channel?

Mr. ALEXANDER. Substantially all the boards that our company has had in Illinois the last 2 years has been produced by buying these fir timbers and cutting them up into boards, and the cost of those boards to us has been about \$12 more than it would have been had we bought fir boards from the mill in the first place.

Mr. MONRONEY. A substantial amount of lumber you receive has to come through that uneconomic process?

Mr. ALEXANDER. A very large amount.

Mr. MONRONEY. Over 50 percent of the siding and 2 by 4's?

Mr. ALEXANDER. Over 50 percent of the lumber we bought last year was bought in ways that should not have been done, uneconomic ways to do it, ways you would not have done in times when you could buy the kind of items you wanted to buy.

Mr. MONRONEY. But in an uncontrolled period, there was a small percentage of the stuff that did move that way, was there not? Evidently, that rule was not put in to help get around the ceilings. There must have been some reason for permitting this.

Mr. ALEXANDER. There never was very much of it done, a few small mills in the West had no facilities for manufacturing anything except timbers. They would just take a log and chop it up a little bit. Most mills did have the facilities to make their lumber into the items that customers wanted. The ceiling prices led those people who had the facilities in many cases to follow the practice previously followed by these few small operators.

Mr. MONRONEY. That had been that kind of operation, but now your producers are driving their operation now?

Mr. ALEXANDER. Those operators who did not have facilities sold their lumber to railroads and manufacturing plants that could use it. Now almost everyone does it that way.

Mr. MONPONEY. If you chip big timbers and then saw them up, is there not a little bit more wastage than there would be if they were processed at the first mill? In other words, you have to have a pretty good piece of wood to make the timber?

Mr. ALEXANDER. Yes.

Mr. MONRONFY. But you can get siding and flooring from more imperfect pieces of wood that would utilize a greater part of the actual lumber supply in the mill?

Mr. ALEXANDER. There is a lot of lumber wasted in that process.

Mr. MONRONEY. It takes a pretty doggone good log to make a timber.

Mr. ALEXANDER. By and large, there has been a lot of lumber wasted that way that was chopped out of those timbers into common boards which if it had been done in the proper sawmills would have been made into flooring or dropsiding. But these little remanufacturing plants do not do that. They just cut it up. There has been a good deal of butchering of wood.

Mr. KUNKEL. In addition, there has been a good deal of extra transportation cost, has there not?

Mr. ALEXANDER. Yes. Some of ours would be bought in Oregon and shipped way down to some point in southern California for remanufacturing and then head back to us. In some cases, it was even worse than that. Those fir prices that were in effect during the war which were deliberately intended to encourage—

Mr. BROWN. I suggest you finish your statement.

Mr. Riley, you wanted to ask a question?

Mr. RILEY. The question I wanted to ask, under the present pricing formula you develop large-dimension timber. In order to get your supply, you have to buy that and have it milled. There would be extra weight to shipping it. It contributes to the transportation costs. At the same time you do not get the lumber footing if the mill finished the footing. You could ship more finished timber than you can unfinished. It costs you more at your destination. That contributes to the trucks going to the mills and getting it, because they can afford to haul long distances at those high prices, call it black market or what you will, because of the fact that the railroads have to charge more for the large amounts of timber.

Mr. ALEXANDER. That is correct. It is a very wasteful process. I might mention that this \$12 to \$14 added cost that I mentioned a few minutes ago that fell on us through this method of getting lumber, in the case of the dealer who carefully complied with Office of Price Administration rules. That cost did not go on to the consumer. The dealer who bought large timbers, for example, cut them into boards, when he got all through, those boards cost him \$12, let us say, more than they would have cost him had he bought them as boards in the first place and absorbed this \$12, if that happened to be the correct figure in that case. So the consumer has not paid for this extra cost to the extent that there has been no compliance with the rules.

Mr. BROWN. You did not violate the law?

Mr. ALEXANDER. We did not. We did not add that \$12 onto our customer's price. It was a large absorption for the dealer to swallow.

Mr. MONRONEY. If your dealers are strong enough, if they recognize that is an uneconomic, wasteful process, could they in any way

influence the manufacturers to stop shipping these timbers, or is it just a matter of bidding for the short supply?

Mr. ALEXANDER. It is partly a case of bidding for a short supply and partly a case of the Office of Price Administration ceiling price that manufacturer has being an unsatisfactory one and he is forced to do things he would not ordinarily do. In other words, if he has got a satisfactory price on timbers and unsatisfactory price on boards, he is going to make timbers.

Mr. MONRONEY. If the more satisfactory price were taken away from him on timber and the retail lumber dealers say, "We are tired of absorbing this \$12 and tired of wasting trucking and handling; we want it shut out," would there be any chance of that being reduced? In other words, I think a part of the blame for permitting this thing to grow up must rest somewhat on the retail lumber dealers themselves.

Mr. ALEXANDER. They are desperately trying to get something to serve their customers. If they cannot get it one way, they will get it another, most of them within legal limitations.

Mr. MONRONEY. If they practice that same thing, they just add to this uneconomic practice that you so well outlined.

Mr. BROWN. I suggest that you go ahead with your statement.

Mr. ALEXANDER. I have given two courses that are open to manufacturers and which have been followed by many of them. The third alternative, of course, has been to go into the black market.

In most cases during the war there was very little excuse for a businessman to engage in black-market operations. Wages and operating costs were held relatively steady and in most cases the ceilings permitted a fair return on a business venture. However, the situation is somewhat different now with the Office of Price Administration attempting to hold ceilings at the war or prewar level in the face of rising wages and operating costs. As soon as the operating costs equal the realization from sale of the product manufactured, the businessman has four alternatives—go out of business—operate at a loss—resort to sharp practice—or engage in black-market operations. Maybe you and I would prefer to operate at a loss or close our business. However, all men are not financially situated the same nor are all men possessed of the same moral fibers. Human nature being what it is, some men, driven more and more by exasperating, inflexible rules, make the error of violating once or twice, and the usual result is that they finally find themselves engaged willfully in full-fledged violations of all regulations.

This is the only way that you can explain away the fact that at least 50 percent of southern yellow pine lumber is now being sold at black-market prices. This statement has been made by the Civilian Production Administration and so far as I know, it has never been denied by the Office of Price Administration. About the first of the year the black market began to develop in the west coast woods and is now reaching alarming proportions there as well.

What scares us the most—as long as it was just in the South it did not bother us so much—now it is getting everywhere.

I want to point out to you that you will not find among those voicing their objections to the Office of Price Administration rules the black-market sawmill operator nor the dealer who is buying from him and

selling at black-market retail prices. They are getting along very nicely under the monopoly given them by the Office of Price Administration and are making no objections to their position.

The position of the retail lumber dealer who is complying with the rules and who is slowly being put out of business by his black-market competitor is a desperate one, and he is the one who is asking for relief and who desires it.

It may well be asked why we believe that the only cure for the situation is to eliminate the Office of Price Administration entirely and why we do not believe that improvement could be accomplished by more workable rules and by proper enforcement. We believe that 99 out of 100 men from industry who have worked with the Office of Price Administration believe that it would be impossible to accomplish any improvement in their regulations, because—

(1) The Office of Price Administration is far more interested in profit controls than it is in price controls, as evidenced by the absorption policy both at production and distribution levels;

(2) The Office of Price Administration in its attempt to control profits has no regard for the position of the small businessman as evidenced by the 75 percent bulk-line theory and the absorption policy;

(3) The Office of Price Administration in dealing with its industry advisory committees starts off with an assumption that businessmen are not to be trusted, as evidenced by its disregard of suggestions of the committees and by its total disregard of the hue and cry for relief;

(4) The Office of Price Administration firmly believes that it can prove once and for all that industry can pay higher wages and still market its products with a return below the figure which it normally requires to induce people to invest in a business venture, as evidenced by the 1936-39 base for determining profits.

Congress itself is well aware of the dilatory tactics employed by the Office of Price Administration. It seems that every time Mr. Bowles appears before this committee requesting an extension of the Emergency Price Control Act, or every time he is called before Congress to explain why some changes should not be made, he uses the stock answer, "We just changed our procedures in the Office of Price Administration and everything will be all right now." You do not need to be reminded that he used it once again in connection with these hearings, and the truth is the procedures have not been changed one single bit. The same people are still in the organization and the same philosophy still prevails there.

The industry has no hopes of the Office of Price Administration changing its philosophy or of gearing itself to peacetime needs. Therefore, we say that price controls in peacetime will not work.

Mr. BROWN. Do you have extra copies of your statement?

Mr. ALEXANDER. Yes, sir.

Mr. BROWN. Pass them around, Mr. Clerk.

You may be excused.

Our chairman asked me to announce that Mr. Holman will be here at 2 o'clock.

**STATEMENT OF GEORGE H. ZIMMERMAN, VICE PRESIDENT OF
WILLIAM CAMERON & CO.**

Mr. ZIMMERMAN. Mr. Chairman and gentlemen of the Committee: My name is George H. Zimmerman. I reside at Waco, Tex. I am vice president of William Cameron & Co., which company is engaged in the retail lumber business in Texas with a few yards in Oklahoma and a few yards in New Mexico. Our company is also engaged in the manufacture of sash, doors, and stock woodwork items, operating a factory at Waco, Tex.

I regret that I do not have a manuscript to speak from. Therefore, I will bring our position to you from some notes I have here.

The situation with reference to the retail lumber industry has grown so serious and terrible in our section of the country that we find it necessary to come to Congress to plead for some relief. Our lumberyards are empty.

Mr. BROWN. Will you pardon me just a moment? We did not hear all the witnesses this morning. The real-estate witnesses will be called after Mr. Holman this afternoon; and if you gentlemen do not complete before we adjourn, you will come back this afternoon.

Proceed.

Mr. ZIMMERMAN. Our lumberyards are substantially empty of lumber and other building-material items. Our sash and door plant has had to reduce its operating time from 54 hours per week to 40 hours per week, and within a very short time we will have to reduce the hours to a lower figure. This is because of production of lumber and our inability to obtain lumber.

There is a small trickle of lumber going through our lumberyards and our sash and door plant as relating to the amount that would be necessary to take care of our customers. We are down in Texas. We are getting part of this small trickle of lumber from old Mexico, which is a very expensive operation. This Mexican pine lumber comes into Texas in the rough. Then we have to take it through our manufacturing plant at Waco and manufacture it into items suitable for home construction, and then we must get it out to our lumberyards for sale.

There is quite a volume of lumber moving in Texas from the Texas sawmills. You have two kinds of sawmills in operation. You have two kinds of retail lumber dealers in operation down in our country, the legitimate operator and the illegitimate operator. As stated by Mr. Alexander, the legitimate operators are here seeking relief.

The legitimate operator is the operator who is doing his best to live up to the rules and regulations as prescribed by the Office of Price Administration. We have literally hundreds of rules and regulations in the lumber business. It is a very confusing and complex set-up in connection with the pricing of lumber. We have different species; we have different grades. It requires our company something like 2 to 3 weeks to compile a new price list by reason of a few minor changes.

That is not true with reference to some building-material items, such as nails or items of that character which are easily recognized as to price. But these manufacturing problems mentioned by Mr. Alexander, the Office of Price Administration describes the manufacture in transit. You build up a price, and you sometimes must go into a number of price lists in order to build your prices.

We have been resorting in our retail lumber business to the sale of most any kind of an article that we could obtain in order to continue our business. It is becoming worse every day. We are having a very difficult time. I have checked one of our yards a short time ago, a retail lumberyard. I found it was selling cosmetics and hair straightener. That seems like an unusual situation. We cannot get any relief from the Office of Price Administration. We feel that the ceiling price as administered by the Office of Price Administration is causing most of the troubles and all the ills that exist in the production of lumber and the retail lumberyard unable to obtain lumber for its customers.

About the first of the year, 1946, the Civilian Production Administration came out with a program for building houses for veterans and other low-cost housing. There is no difference between any of us, I am sure, on the question that there is a tremendous housing shortage in the United States. We all agree that such a housing situation exists.

When this program came out by the Civilian Production Administration, they issued what was called PR 33, an order which was designed to set aside and obtain 40 percent of the production of lumber to be used to take care of this emergency housing program. A great amount of publicity was given to this order, and the Civilian Production Administrator stated that we would need 400,000 houses in the year 1946. This estimate was later changed to 2,700,000 houses for 1946 and 1947.

The Civilian Production Administrator then issued his directive No. 1 to PR 33 and also other directives dealing with building materials other than lumber, but directive 1 to PR 33 deals with lumber.

A lot of publicity was given to this directive and the fact that it would obtain lumber. The first PR 33 was issued on January 11. The first directive was issued on January 15. The retail lumber dealers throughout the country have been endeavoring to comply with this order and the directive, but there is only a small trickle of lumber moving under this order, because this order cannot get production, and then this order cannot force the mills to change their methods of distribution.

So now we are in March 1946. We are not getting those houses built. I want to say this: As soon as this order came out with all of the publicity, the retail lumber industry immediately accepted the challenge and said that it could build these houses, whether they wanted 400,000 houses in 1946 or 2,700,000 in 1946 and 1947.

Retail lumber industry connected with the builders in each community have an economic and industrial set-up for the construction of these houses.

There is at least one lumberyard in every community in the United States, except where the sawmills operate, and sawmills take care of the situation at those points. Therefore, the retail lumber industry and the builders can build these houses. They have the plants, the facilities, the trained personnel, and the know-how in building residential construction jobs.

The best job that the retail lumber industry can do is the building of low-cost residences.

The retail lumber industry is ready and anxious to build these houses. They can do the job if there is some way of getting the

materials to them, but we are stymied at this time and have been ever since the order was issued, because we cannot get production—the production of lumber. We cannot get the materials.

Out of the lumber that is now being produced a large percent of it is being diverted to other uses by reason of the fact that the Office of Price Administration is controlling the channeling of lumber through the price method.

It has been our understanding throughout the war that the War Production Board, and since the war the Civilian Production Administration, would have the power to control the allocation and priority of lumber, but we find that the Office of Price Administration is controlling the channeling of lumber through the price method.

They have put into effect and are maintaining at this time premium prices for lumber to go to railroads, export, and then fractional cuttings which can be used by certain favorite industries; and then certain grades have been changed on which premium prices apply, and today only a small percent of the lumber being manufactured is going into home-building lumber.

In the building of homes, we need floor joists and ceiling joists. We need drop siding for the outside of the house. We need shiplap for the interior, and we need finishing lumber as well as sheeting for the roof, making up a great number of items necessary for the building of a house.

In the manufacturing of lumber for the railroads on which premium prices are provided by the Office of Price Administration, the sawmills are manufacturing a great number of items like car siding, which could be used as siding for a house. But under the rules and regulations of the Office of Price Administration, we cannot buy these car materials. The sawmills naturally operating on a low basis—and I want to say my company is not engaged in the sawmill business—naturally these mills are going to put their output, such as they have, into the items which will bring them the greatest amount of profit.

We find in connection with ponderosa pine, the Pacific for our sash and for plant, for instance, that new grades of lumber are being manufactured on which the Office of Price Administration provides a different price, which favors concerns who are engaged in certain types of manufacture of lumber products other than sash and door plants.

We are not able to obtain, except just a very small quantity of ponderosa pine from the Pacific coast. In our desperation we have been able and have worked hard to obtain a small amount of pine from old Mexico.

Frankly, I admit it makes an inferior product to the production which could manufacture out of ponderosa pine from California or Oregon.

Therefore we come before this committee seeking relief from the policies and methods promulgated by the Office of Price Administration, which makes it impossible for us to do this job of building these houses.

We hear so much and read so much about other methods that will be employed to build these houses.

I want to emphasize that the retail lumber dealers of this country, together with the local builders, can do a better job of building these houses than any other agency that can be set up in the United States;

do the job quicker and give to the people a better house than they will obtain through any other method.

We know, of course, that there are some who want the Government to take over the building of these houses. That would, of course, result in spot building in certain localities, particularly the more populated areas, where they might go in and build temporary houses of some character; but the retail-lumber industry, if it is given the job, can handle it throughout the entire United States, because it is established in every community in the United States.

We are opposed to any kind of subsidies that would foster some agency to be set up at certain spots throughout the United States to build temporary housing of a type which would not last as long as the mortgage on the house.

Production is decreasing in the sawmill business under the policies promulgated by the Office of Price Administration. There has been a slight increase in price recently granted to the yellow-pine manufacturers, generally the southern-pine manufacturers; just a slight increase, which is typical of the Office of Price Administration; a slight degree, which is producing progressive inflation without stimulating production.

This kind of a pricing policy causes the sawmills of our country to hold back production, waiting for another increase.

They also are in the position to show that their profits are low and their problems are many. But piecemeal pricing and increases will not get production of southern pine lumber, and the same is true with reference to fir lumber on the Pacific coast.

It is our position that the sawmills are entitled to a price, a reasonable price, which will put them back into maximum production. That amount, whatever it would be, can easily be obtained from the manufacturers of the lumber, of all species. They know what their problems are.

We say to you here, as retail lumber dealers, that we must have production at the source in order to build these houses.

The Office of Price Administration comes before this committee and publicizes their theories that price increases will bring about inflation.

I want to state to you that we already have inflation in the lumber business. Particularly is that true down in Texas, where there are sawmills operating in east Texas and where the black market exists in a substantial way, and where a large portion of the lumber being manufactured is moving through the black market.

There are a great number of small mills located in Texas. During the war our company was able to buy lumber from almost all of those mills. When VJ-day rolled around, they stated to us: "We are not in the position to sell your company any more lumber." The war is over. Patriotism was a great factor during the war in holding back the black market. Patriotism has ceased to be a factor since the war ended.

The black market is being extended from day to day in the lumber business by leaps and bounds.

It is very difficult for us to obtain accurate facts as to the exact amount of lumber that is moving through the black market. The Office of Price Administration could obtain these figures with the powers they have.

I have asked the Office of Price Administration in its Dallas regional

office to make spot checks of some cities in Texas where you will find four or five houses under construction—to determine from whom the lumber is being purchased and the price that is being paid. They have not made any such check. They claim they do not have the manpower.

It would only take a small amount of manpower for a few of these spot checks in order that we might be able to determine what it is about.

Therefore, we must resort to estimates of lumber moving through the black market. It has been estimated all the way from 50 to 80 percent. The 80-percent figure, I am sure, is being used in connection with lumber moving into residential construction as distinguished from lumber moving to all sources of construction, to all outputs or outlets.

All kinds of prices are being charged in the black market for lumber. These prices are just as high as the public will pay. Therefore, you have an inflation today, on say something like 50 or 60 percent of the lumber being moved; an inflation equal to that which the public is willing to pay.

If the price, for instance—I am not recommending a \$20 increase in the price of southern-pine lumber, because they will be able to tell this committee what price they need in order to be able to get into full production, but if the prices of southern pine were increased to the extent of \$20, over and above their present prices, which is an enormous figure, then, in Texas, in my opinion, after operating in this business for over 35 years, and being familiar with the lumber situation in that State, my opinion is that with a \$20 increase in the price to the southern-pine manufacturers of lumber, that the average price to the consumer would still be far below what it is today.

These black-market prices range from \$50 per thousand feet upward. That is over and above the ceiling prices. We have got a scarce market. There is a scarcity of lumber. For that reason the consumer will pay these high prices.

If we can bring production up, then, of course, we will bring down the price. Furthermore, it will place the legitimate dealer and the legitimate sawmill into the picture of supplying lumber for residential construction.

Therefore, when we consider the price angle, we know we have inflation in lumber at this time, and that a substantial increase in the price of lumber for the legitimate operator would have the effect of reducing the price being paid by the consumer today.

Mr. BROWN. Can you come back?

The CHAIRMAN. Are you the last witness?

Mr. ZIMMERMAN. Yes.

Mr. BROWN. We don't want to stay here until 2 o'clock.

The CHAIRMAN. How much longer would you like to present your case?

Mr. ZIMMERMAN. I would like to have 30 minutes. I will be very glad to come back.

The CHAIRMAN. We have such a long docket this afternoon, I am afraid you cannot come back. Couldn't you shorten it up a little bit and put the whole thing in the record?

Mr. ZIMMERMAN. I haven't got a written statement.

We cannot emphasize too strongly the matter of getting production in lumber.

A great number of the southern-pine mills have reduced their production to 50 percent. A number of those mills have not only reduced their over-all production 50 percent, but they are cutting a class of timber that would bring very little money in the market during normal times.

Under a scarce market it is profitable for a sawmill to cut timber of a low-quality type which would not have any market on a profitable basis during normal times.

Then with the situation as I have explained it, of these premium prices being maintained by the Office of Price Administration, there is a very small quantity of lumber that we may look forward to for relieving the emergency housing problem throughout the United States until the things are done that are necessary to be done, and most of these things are under the control of the Office of Price Administration.

With these slight increases which have recently been made, for the southern-pine producers, and for the fir producers, they have been very slight indeed. The Office of Price Administration has adopted a policy to the effect that the retail lumber dealers of this country must absorb these increases in prices.

I want to state that during the year 1943 the Office of Price Administration conducted a survey and investigation dealing with the prices or the mark-up being obtained by the retail lumber dealers for lumber over a base-period.

And based on such prices, the Office of Price Administration put into effect retail lumber prices throughout the United States based on the prices which they found should be the proper prices for the retail lumber dealer to afford him the proper mark-up.

We find that irrespective of the fact that the Office of Price Administration had these mark-ups for the retail lumber industry, they are now granting slight increases to the sawmill operators and saying that the retail lumber shall absorb these slight increases. That is throwing another heavy burden upon the retail dealer.

The last increase granted the southern-pine mills, \$3.25 per thousand, and on some items less, the retail lumber dealer is supposed to absorb this increase out of his prices. If we can get production of lumber on a substantial scale, I want to point out what the result will be.

Production will bring about a situation where there will be lumber to meet the emergency housing program.

Chairman SPENCE. Mr. Zimmerman, I do not want to cut you off. I want to give you every opportunity to be heard. We are behind our schedule. We have another body to be heard at 2 o'clock. Could you develop your thoughts and put them into the record? Would that be satisfactory to you? Would you make a written report to be submitted in the record?

There are not many members here to hear you, Mr. Zimmerman.

Mr. ZIMMERMAN. I will be glad to accede to your wishes, Mr. Spence.

Chairman SPENCE. I do not want to cut you off in your argument. I am sure the committee will give every consideration to your remarks. Continue for 10 minutes more. Then you can put the balance into the record. Will that be satisfactory to you?

Mr. ZIMMERMAN. Yes. I will be glad to agree with your desire.

Chairman SPENCE. A good many of the members have not had

their lunch. We were supposed to adjourn at 12 and meet, again, at 2 o'clock. Now we will have only 20 minutes between the time of adjournment and 2 o'clock.

Mr. ZIMMERMAN. Would it be possible to come back, Mr. Spence?

Chairman SPENCE. If you desire to extend your remarks in the record, you may do so.

Mr. ZIMMERMAN. I would be glad to come back.

Chairman SPENCE. There would not be time for you to come back. We are overcrowded now.

Mr. ZIMMERMAN. All right, Mr. Chairman, There are many advantages to accrue from obtaining production which will offset this idea of inflation. Production, of course, will be obtained through the increasing of prices to the sawmills in a reasonable sum that will enable them to produce the lumber. We will then be able to build the houses needed so badly at this time, and we will be able to give to the public a different character of lumber from that which it is buying at this time.

It will take care of a large part of the excess cost. People are buying, today, green lumber. They are putting it into houses. They are buying low-quality lumber. They are buying the wrong species in many instances. They are buying any kind of lumber they can obtain with the result that in most cases they are obtaining a very low-grade home, a very low grade completed home.

Chairman SPENCE. Are you in favor of removing all ceilings on lumber?

Mr. ZIMMERMAN. We are in favor of removing ceilings on lumber and building materials because we have no hope of obtaining any equitable adjustment from the Office of Price Administration.

Chairman SPENCE. You do not favor allocations or priorities?

Mr. ZIMMERMAN. I am sorry, Mr. Spence, I did not hear you.

Chairman SPENCE. You do not favor allocations or priorities?

Mr. ZIMMERMAN. We would not, in my opinion, need to have many allocations or priorities if the ceiling prices were removed.

Chairman SPENCE. And you are opposed to the premium payments or subsidies?

Mr. ZIMMERMAN. Yes. I am of the opinion that the retail lumber dealers should be permitted to pay as high prices as any other person in the world.

Chairman SPENCE. Are you in favor of the removal of those controls immediately or gradually?

Mr. ZIMMERMAN. I would be in favor of removing them immediately because we have an emergency existing. We are not able to meet that emergency with the situation as it exists today. The only alternative I can think of would be something that would have the same kind of an effect, which would be to increase prices sufficiently to obtain production.

The order, as it is now written, of course, does not require any sawmill to increase its production. It is very doubtful, if, under any order, you can require any sawmill to produce lumber. He holds lumber out there in the woods as a hedge against inflation and as a hedge against increased prices. His timber is growing in the woods. He would rather have it there, in my opinion, than anywhere else unless he can get a price which is profitable. If we can get production, we will create competition for the black market. We will give the

legitimate mills a chance to operate on a profitable basis. We will bring about more completed homes. There are a lot of homes today that are partially completed. They cannot obtain all of the items necessary to complete their home. In many cases a lot of materials are lacking. It takes such a variety of materials that it is almost impossible to complete a home unless a person will shop over miles of territory in order to obtain the materials.

We have in the retail lumber business what we might call idle facilities. We are not operating at capacity in our retail lumber business. That is true with reference to the building industry which goes with the retail lumber industry.

We have the equipment. We have all of the necessary set-up and yet we are operating on a curtailed basis. There are so many of these rules and regulations governing the operation of our business, restricting us that, today, we are not able to do the job we have an economic set-up to do. There is almost every kind of scheme that the mind can conceive of today to try to obtain lumber. We find that the sawmills are endeavoring to get into the retail lumber business in order that they might get the retail lumber ceiling price.

We find a lot of retail lumber dealers endeavoring to buy sawmills in order that they might obtain some lumber. We find almost every kind of a situation you can think of in that regard, people trying to get lumber, people trying to obtain lumber.

It all goes right back to production. During normal times there is a surplus of lumber. The black market, of course, is one of our great problems. We have a situation, in the Office of Price Administration, where they say they do not have the manpower. But the Office of Price Administration is not distinguishing today between the legitimate concern that is doing its dead-level best to try to live up to the Office of Price Administration prices on the one hand, and on the other hand, the man who is openly engaged in the black market.

A large part of the force which the Office of Price Administration has today is out checking and endeavoring to find technical violations on the part of those who are doing their best to live up to those regulations.

I was in the office of the Office of Price Administration in Dallas a few days ago. I was told by the attorney that they had instruction to file suits and ask for injunctions on every case, regardless of whether or not it was a technical violation or whether it was an intentional violation.

That is their procedure today. There is a tremendous amount of manpower being wasted trying to deal with the man who is endeavoring to do his dead-level best to get his ceiling prices on lumber.

The black-market folks are operating out in the open with very little attention being given to their operations.

My time is just about up, Mr. Chairman.

Chairman SPENCE. You may extend your remarks if you wish.

Mr. ZIMMERMAN. My oral-testimony time is about up now. I would like to sum it up by saying that we must have production. That is the greatest cure in the world for inflation. There is a method of obtaining production in the lumber industry. The Office of Price Administration will not cooperate with the lumber industry to obtain production. Therefore, we are here, before this committee, praying

for relief. The retail lumber industry throughout the country prays for relief. We are bottlenecked. We cannot get lumber to do the job.

If the Government takes over this proposition, of course, I presume, it will issue whatever kind of priority is necessary to furnish itself with lumber. It refuses to give the retail lumber dealer or make it possible for him to have the lumber. It takes about 8,000 to 9,000 feet of lumber for the average low-cost dwelling.

That is the basis upon which calculations can be made with reference to inflated cost or with reference to the amount of lumber that would be required to do the housing program throughout the United States. We are asking for at least 8,000,000 feet of lumber in the country to build a million houses.

The retail lumber industry can build those houses and give the people a good job. We are asking to be placed in a position whereby we will be able to meet the black-market situation, to compete with the black-market man, and to deter his activities.

Under the rules and regulations there are thousands upon thousands of items. No doubt the confused state of mind leads a lot of people into the black market because there are many people today violating the rules of the Office of Price Administration unintentionally. The first thing they know is that they find themselves in court. The next thing they are in the black market. They have lost all reason and moral persuasion for remaining on the basis of Government compliance.

Chairman SPENCE. You may extend your remarks, Mr. Zimmerman.

The committee will adjourn to meet again at 2 o'clock. If you desire to incorporate anything in the record, you may do so.

Mr. ZIMMERMAN. How long will I be given to so do? May I wait until I get home?

Chairman SPENCE. You can send anything you desire to put into the record. I do not know just when the record will be completed. You will have at least a week, Mr. Zimmerman.

(Whereupon at 1:40 p. m., the hearing adjourned to reconvene at 2 p. m., March 19, 1946.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

We will hear the representatives of the National Cooperative Milk Producers Federation. I believe Mr. Holman is our first witness.

You may proceed as you please, Mr. Holman, and you may call the witnesses as you want them to appear.

Mr. HOLMAN. Thank you, Mr. Chairman.

STATEMENT OF CHARLES W. HOLMAN, SECRETARY, NATIONAL COOPERATIVE MILK PRODUCERS FEDERATION

Mr. HOLMAN. My name is Charles W. Holman. I am secretary of the National Cooperative Milk Producers Federation. My office is at 1731 I Street, this city, and I am appearing in opposition to continuation of the Government's price control and subsidy program, with respect to milk and its products, as provided for in H. R. 5270.

My authority is based on a resolution passed by the last annual

meeting of our federation in Chicago, December 4, 5, and 6, 1945, and a resolution adopted by a special delegates' meeting of the organization held in Washington, D. C., February 18 and 19, 1946. I am asking permission to file copies of these resolutions, together with a list of our officers, directors, and voting member associations.

The CHAIRMAN. They may be incorporated in the record.

Mr. HOLMAN. Thank you, Mr. Chairman.

(The document above referred to is as follows:)

EXHIBIT A

THE NATIONAL COOPERATIVE MILK PRODUCERS' FEDERATION,
Washington 6, D. C., February 12, 1946.

MEMBER ASSOCIATIONS

- Akron Milk Producers, 194 Carroll Street, Akron 4, Ohio.
- Arrowhead Cooperative Creamery Association, 227 North Fifty-seventh Avenue West, Duluth 7, Minn.
- Central Grade A Cooperative, Appleton, Wis.
- The Central Ohio Cooperative Milk Producers, Inc., 12 North Third Street, Columbus 15, Ohio.
- Challenge Cream and Butter Association, 929 East Second Street, Los Angeles 12, Calif.
- Chattanooga Area Milk Producers Association, Chattanooga, Tenn.
- Cheese Producers Marketing Association, Monticello, Wis.
- Coastal Bend Milk Producers Association, Box 3216, Corpus Christi, Tex.
- Connecticut Milk Producers' Association, 990 Wethersfield Avenue, Hartford 6, Conn.
- Consolidated Badger Cooperative, Shawano, Wis.
- Cooperative Pure Milk Association of Cincinnati, Plum and Central Parkway, Cincinnati 2, Ohio.
- Dairy Cooperative Association, 1313 Southeast Twelfth Avenue, Portland 14, Oreg.
- Dairy Farmers Cooperative Association, Inc., Kentwood, La.
- Dairy Farmers Cooperative Association, Arcadia, Tex.
- Dairy Producers Cooperative, 703-713 South McDonough Street, Montgomery 5, Ala.
- Dairymen's Cooperative Sales Association, 451 Century Building, Pittsburgh 22, Pa.
- Dairymen's League Cooperative Association, Inc., 11 West Forty-second Street, New York 18, N. Y.
- Denver Milk Producers, Inc., 810 Fourteenth Street, Denver 2, Colo.
- Des Moines Cooperative Dairy, 1935 Des Moines Street, Des Moines 16, Iowa.
- Enid Cooperative Creamery Association, 402 West Walnut Street, Enid, Okla.
- Evansville Milk Producers' Association, Inc., Evansville 8, Ind.
- Falls Cities Cooperative Milk Producers Association, 229 Bourbon Stock Yards Building, Louisville 6, Ky.
- Farmers Equity Union Creamery Co., 169 Grove Avenue, Lima, Ohio.
- Georgia Milk Producers Confederation, 661 Whitehall Street SW., Atlanta, Ga.
- Golden Guernsey Dairy Cooperative, 2206 North Thirtieth Street, Milwaukee, Wis.
- Guilford Dairy Cooperative Association, 1700 West Lee Street, Greensboro, N. C.
- Indiana Dairy Marketing Association, Muncie, Ind.
- Indianapolis Dairymen's Cooperative, Inc., 729 Lemcke Building, Indianapolis 4, Ind.
- Inland Empire Dairy Association, 1803 West Third Avenue, Spokane 2, Wash.
- Interstate Associated Creameries, 624 Southeast Division Place, Portland 14, Oreg.
- Inter-State Milk Producers Cooperative, Inc., 401 North Broad Street, Philadelphia 8, Pa.
- Keosauqua Cooperative Creamery, Keosauqua, Iowa.
- Knoxville Milk Producers Association, Knoxville 17, Tenn.
- Land O'Lakes Creameries, Inc., 2201 Kennedy Street NE., Minneapolis 13, Minn.

- Lehigh Valley Cooperative Farmers, 1026 North Seventh Street, Allentown, Pa.
 McDonald Cooperative Dairy Co., 617 Lewis Street, Flint 3, Mich.
 McLean County Milk Producers Association, 103 North Robinson Street, Bloomington, Ill.
 Madison Milk Producers Cooperative Association, 29 Coyne Court, Madison 5, Wis.
 Manchester Dairy System, Inc., 226 Second Street, Manchester, N. H.
 Maryland and Virginia Milk Producers Association, Inc., 1756 K Street NW., Washington 6, D. C.
 Maryland Cooperative Milk Producers, Inc., 810 Fidelity Building, Baltimore 1, Md.
 Miami Home Milk Producers Association, 2451 Northwest Seventh Avenue, Miami, Fla.
 Miami Valley Cooperative Milk Producers Association, Inc., 136-138 West Maple Street, Dayton 2, Ohio.
 Michigan Milk Producers Association, 406 Stephenson Building, Detroit 2, Mich.
 Michigan Producers Dairy Co., 1315 East Church Street, Adrian, Mich.
 Mid-South Milk Producers Association, 1497 Union Avenue, Memphis 4, Tenn.
 Mid-West Producers Creameries, Inc., 224 West Jefferson Street, South Bend 2, Ind.
 Milk Producers Federation of Cleveland, 1012 Webster Avenue, Cleveland 15, Ohio.
 Milwaukee Cooperative Milk Producers, 1633 North Thirteenth Street, Milwaukee 5, Wis.
 Nebraska Cooperative Creameries, Inc., Fifteenth and Webster Streets, Omaha 2, Nebr.
 Nebraska-Iowa Non-Stock Cooperative Milk Association, 402 North Twenty-fourth Street, Omaha, Nebr.
 New Bedford Milk Producers Association, Inc., 858 Kempton Street, New Bedford, Mass.
 New England Dairies, 142 Cambridge Street, Charlestown, Mass.
 New England Milk Producers Association, 73 Cornhill, Boston 8, Mass.
 The Northwestern (Ohio) Cooperative Sales Association, Inc., 2221½ Detroit Avenue, Toledo 6, Ohio.
 Paducah Graded Milk Producers Association, Inc., Route 1, Paducah, Ky.
 Peoria Milk Producers, Inc., 216 East State Street, Peoria 2, Ill.
 Pure Milk Association, 608 South Dearborn Street, Chicago 5, Ill.
 Pure Milk Producers Association of Greater Kansas City, Inc., 853 Live Stock Exchange Building, Kansas City 15, Mo.
 Pure Milk Products Cooperative, 20 Forest Avenue, Fond du Lac, Wis.
 Richmond Cooperative Milk Producers Association, 516 Lyric Building, Richmond 19, Va.
 St. Joseph (Mo.) Milk Producers Association, Inc., 1024 South Tenth Street, St. Joseph, 26 Mo.
 Sanitary Milk Producers, 511 Locust Street, St. Louis 1, Mo.
 Sioux City Milk Producers Cooperative Association, Inc., 511 Warnock Building, Sioux City 15, Iowa.
 South Texas Producers Association, Inc., 3600 Center Street, Houston, Tex.
 The Stark County Milk Producers Association, Inc., 212 Canton Building, Canton 2, Ohio.
 Tillamook County Creamery Association, Tillamook, Ore.
 Twin City Milk Producers Association, 2402 University Avenue, St. Paul 4, Minn.
 Twin Ports Cooperative Dairy Association, 6128 Tower Avenue, Superior, Wis.
 United Dairymen's Association, 635 Elliott Avenue, West Seattle 99, Wash.
 United Farmers Cooperative Creamery Association, Inc., 86 Cambridge Street, Charlestown 29, Mass.
 Valley of Virginia Cooperative Milk Producers Association, Harrisonburg, Va.
 Vigo Cooperative Milk Marketing Co., Inc., 414 Mulberry Street, Terre Haute, Ind.
 Wayne Cooperative Milk Producers, Inc., 340 East Berry Street, Fort Wayne 2, Ind.
 Wisconsin Cheese Producers Cooperative, Plymouth, Wis.
 Rochester Dairy Cooperative, Rochester, Minn.

Elected officers, 1946.—John Brandt, president; W. P. Davis, first vice president; W. J. Knutzen, second vice president; George W. Slocum, treasurer; Charles W. Holman, Secretary.

Executive committee.—W. H. Austin, John Brandt, Leon Chapin, W. P. Davis, C. W. Hibbert, W. J. Knutzen, R. C. Mitchell, M. R. Moomaw, W. S. Moscrip, W. J. Swayer, B. H. Welty.

Directors.—W. H. Austin, Memphis, Tenn.; John Brandt, Minneapolis, Minn.; W. W. Bullard, Andover, Ohio; Leon Chapin, Malone, N. Y.; J. W. Collins, Dayton, Ohio; W. P. Davis, Boston, Mass.; B. B. Derrick, Washington, D. C.; C. F. Dineen, Milwaukee, Wis.; Malcolm Dougherty, Kentwood, La.; Henry Hagg, Portland, Oreg.; A. N. Heggen, Des Moines, Iowa; C. W. Hibbert, Los Angeles, Calif.; F. W. Huntzicker, Greenwood, Wis.; D. H. Kellogg, Superior, Wis.; Albert Klebesadel, Shawano, Wis.; W. J. Knutzen, Burlington, Wash.; Melvin Mason, Whitewater, Wis.; William L. Mays, Bloomington, Ill.; John McDonald, Flint, Mich.; Fred W. Meyer, Fair Haven, Mich.; R. C. Mitchell, Southbury, Conn.; M. R. Moomaw, Canton, Ohio; W. S. Moscrip, Lake Elmo, Minn.; E. P. Mulligan, Kansas City, Mo.; Marvin E. Neumann, Le Grand, Calif.; John L. Pearson, Lima, Ohio; R. D. Pennewell, Palmyra, Mo.; Otto Pfeiffer, Omaha, Nebr.; H. H. Rathburn, New Hartford, N. Y.; I. W. Reck, Sioux City, Iowa; Robert Schiering, Mt. Healthy, Ohio; Howard Selby, Charlestown, Mass.; R. W. Shermantine, Baltimore, Md.; B. E. Stallones, Houston, Tex.; Fred Suhre, Columbus, Ind.; Milo K. Swanton, Madison, Wis.; W. J. Swayer, Gurnee, Ill.; B. A. Thomas, Louisville, Ky.; E. W. Tiedeman, Appleton, Wis.; E. S. Trask, Idaho Falls, Idaho; B. H. Welty, Waynesboro, Pa.

Honorary directors for life.—N. P. Hull, Lansing, Mich.; John D. Miller, Susquehanna, Pa.

A DAIRY POLICY FOR 1946

(The following resolutions were adopted by the delegate body at the twenty-ninth annual convention of the National Cooperative Milk Producers Federation at the Morrison Hotel, Chicago, Ill., December 4, 5, and 6, 1945.)

American dairy farmers face a complicated and uncertain postwar adjustment period. We may foreglimpse with reasonable certainty the economic environment of 1946; beyond that the future is but a dim vista permeated by a fog of uncertainty. It is generally agreed that we may have an over-all production of milk on the farms of slightly under 122,000,000,000 pounds next year, if present or better dairy incomes are maintained. All of that milk will be consumed in some form and even more will be needed if American buying power remains at present levels and European needs can be supplied in part.

To reach this estimated production will continue the strain on dairy farmers. They will begin the year with 2 percent less of dairy cattle on farms. They will have to wrestle with problems of a feed supply of poor quality. They may be even more distressed in finding enough labor to help perform the necessary farm tasks; for VJ-day did not bring farm labor relief to dairy farmers. The contrary has been true to date. Many farm workers held on farms by draft boards have left for other employment. Whether the Federal Government's policy of importing farm labor and assigning prisoners of war to farms will continue is now unknown. How many discharged veterans of World War II will accept farm employment remains to be seen.

Dairy farmers also are fearful as to the continuation of even their present low price levels, plus subsidies, which have been paid to them in lieu of fair prices. They are without present assurances of price ceiling increases at the proper times, and they have no assurance from the Government that the dairy production payments will be continued beyond March 31, 1946, despite the fact that the Congress has made available sufficient money to carry these payments through June 30.

Dairy farmers also must face the problems of temporarily unmarketable surpluses of certain manufactured dairy products in the spring-summer flush production period together with the possible shortage of other consumer-needed products such as butter, fresh milk, and cream.

This convention meeting at this time faces the most solemn obligation in the history of the Federation which, from its organization 29 years ago, has had to carry the major burden of dairy farmers' national problems and to speak for them, since it is the only national organization exclusively representing dairy farmers. Conscious of this obligation we now make the following recommendations based upon long experience, close study, and common conference:

A TEMPORARY PRICE-STABILIZATION POLICY

As we predicted 2 years ago, dairy farmers, almost alone among farm groups, face the end of the war and reconversion with a price in the market place which is at least 20 percent below fair value.

November 1 or December 1 of 1945, was the proper time to remove the subsidies and price ceilings that brought about this condition—after proper notice, so as to allow time for markets with State or Federal price orders to hold proper hearings and make price adjustments coincident with the end of subsidies.

This was not done. If it can be done within the next few weeks we urge that an immediate announcement be made and plans to that end be started immediately throughout the Nation.

If it cannot be done within this time limit, with the start of the spring flush just beyond, we must insist that the Federal Government help us to get out of this dilemma which was of its making, by continuing subsidies at not less than this year's rates until June 30, 1946, with ceilings to be removed at that time and proper provision to be made for fair prices in the market place.

Instead of the present policy we recommend a temporary price stabilization policy for milk and its products based upon modernized parity price and income standards.

RESOLUTION ADOPTED AT THE SPECIAL DELEGATES' MEETING, NATIONAL COOPERATIVE MILK PRODUCERS FEDERATION, FEBRUARY 19, 1946

With its resulting disastrous effect on the health of the adults and youth of our Nation, the Government's postwar price control and subsidy policy has angered and disillusioned American dairy farmers. They are now well aware that OPA price control of dairy products is disintegrating. Black markets are rampant. In all parts of the Nation, according to reports to our special meeting, countless good dairy farmers are selling their cows. Dairy prices are in a jumble and out of relation to each other and to production costs. The OPA has not held and cannot hold the so-called dairy price line.

Dairy farmers cannot maintain production with increasing costs of labor and high prices for decreasing quality of feeds, and meet other costs resulting from the President's new bulge-the-line Executive order. This inflationary order which will increase the income of consumers by \$10,000,000,000 a year—an amount equal to half the total yearly income of agriculture—will add to the production costs of millions of dairy farmers who must have higher price returns to stay in business.

Last year the national income exceeded \$145,000,000,000, but Congress still authorized consumer subsidies amounting to \$2,416,000,000 in this the one year in history when people were best able to pay for what they eat and wear. Of this amount \$694,000,000 was authorized for the benefit of consumers of dairy products which is about 20 percent of the wholesale market value of all dairy products at the farm. Continuation of the subsidy policy leaves dairy farmers subject to the shifting winds of administration policy with a price structure resting in the sand. Dairy farmers are threatened with a permanent regimentation and dependence upon Government if the President's policy to maintain ceilings and subsidies until the cost of living turns downward is sustained by Congress.

The Dairy Branch in the Department of Agriculture has predicted the greatest drop in history in dairy production for 1946. This is proof of the ineffectiveness of the subsidy and ceiling system and a warning to consumers of much more drastic shortages to come. If Congress considers that consumers still need subsidies in a time of highest wages and highest employment, let the subsidies be paid direct to those whom Congress feels are unable to pay.

Prices of milk and its products can now only be brought into proper relationship by removing price ceilings and letting these commodities find their natural levels. Price ceilings and subsidies intensify and perpetuate inequalities and become a device for holding down farm prices and production.

Dairy farmers must have relief now. Therefore the National Cooperative Milk Producers Federation, meeting in special delegates session February 19, 1946, demands because of these distressing conditions that all subsidies and price ceilings on dairy products be abolished, and instructs the officers and directors of the federation to pursue this end with every resource at their command.

Mr. HOLMAN. I will take up separately the topics of subsidy removal and termination of price ceilings on dairy products.

Subsidies are fundamentally a dishonest Government device; they do not diminish the real basis of inflation and their use threatens agriculture with bondage to the Government.

The dishonesty of food subsidies is the deliberate creation of the illusion that the cost of food is being kept down. In truth, the cost of food is the prices of things farmers must buy for use in food production, and the wages of farm laborers. The cost of food rose because the onset of the war ended a fool's paradise where cheap food resulted from exploitation of an underpaid, underprivileged farm population. When the war came, giving every farmer a chance to find urban employment, farm prices quickly rose to reflect a decent return for farm labor.

Subsidies then were used with the excuse that they would be temporary. Proponents of subsidies apparently think that farm wages will quickly sink to a subsistence level now that the war has ended. In that event, an exploited agriculture would once more serve up cheap, unsubsidized food. Indeed, the difference between administrative income policies for urban and farm people betrays a definite plan to fatten the urban larder on a lean, austere farm-life standard.

We desire an end to this delusion that food can and should be sold to all comers at a subsidized price which is less than enough to afford the farmers a living approximating that of urban labor.

Food subsidies have been imposed on us under the guise of preventing inflation. We were told that rising food costs would touch off wage demands, higher wages, higher costs, higher prices—the much-abused patter about the inflationary spiral.

By now we should be disillusioned regarding this notion that food subsidies could buy off labor leadership. Labor refused subsidized wages, knowing full well the loss of freedom which subsidized wages would entail. Instead, it bargained for higher wages from a wage level already out of relation to farm incomes.

Labor took no heed of its wartime gains of vanished unemployment, its overtime hours, and its responsibility for sharing the cost of the war out of its peacetime level of income. When it could, it bargained for higher basic wage rates, using a specious cost-of-living argument and ignoring increases in take-home pay resulting from a longer work-week and overtime rates of pay. Lately, we have seen the argument switch to take-home pay, and a further rise in basic wage rates to offset declines in weekly hours of work.

No doubt we shall experience a resurgence of cost-of-living propaganda for further wage increases when we awaken and find that current food prices must be raised by the amount of the present subsidies, or more, in order to maintain farm incomes comparable with the incomes of ordinary factory workers. But does anyone think that increased wages will not be asked merely because there has been a spurious stabilization of the cost of living? The choice lies between an honest facing of the facts about food costs, on one hand, or brazen acceptance of an agriculture subsidized in perpetuity so others can have their food for nothing while taxes foot the bill in this new share-the-wealth vision.

Fundamentally, we do not believe that the consumers of this country want a food-subsidy program. We believe that the integrity of the American working man will not permit him to accept this gratuitous pandering to misguided labor leaders. We believe that

an honest facing of facts will win consumer support for necessary food prices without danger to a sound, stable wage-price policy.

This drummed-up hysteria over living costs and wage stability is the only argument which can be advanced for food subsidies. Actually, the spending of subsidy money is more inflationary than the spending of an equal amount by consumers. To illustrate, the Government, to spend a billion dollars on subsidies, must borrow a billion dollars, thereby increasing the public debt. This is a net increase of the Nation's purchasing power, and is inescapably inflationary. When consumers spend a billion dollars, it is spent out of their incomes, and is an expenditure in lieu of additional savings or frantic bids for scarce consumer goods.

We must remember that in 1945 consumers spent \$105,000,000,000, and saved 35 billions, out of \$140,000,000,000 of disposable income. Normally, only about 14 to 15 billion dollars would have been saved. Thus there was, in 1945, an inflationary gap of \$20,000,000,000. This gap would have been \$2,000,000,000 smaller if consumers had paid their grocery bills in full.

Removal of subsidies and resultant price increases would be of some concern to a few people in this country whose individual incomes did not increase \$1,100 from 1939 to 1945 as the average industrial worker's income did.

For this small segment of our population—smaller now than at any time in our history—adequate protection can be afforded by Government aid on an individual basis.

The National Cooperative Milk Producers Federation has endorsed the food-allotment plan, now before Congress, and we submit, sir, that if there is a type of people in the United States who must be subsidized, it surely is not the great body of farmers like cotton farmers, livestock producers, dairy farmers, but it is that class of people who live in the towns and in the cities, and to some degree, in the country districts—of very tiny incomes, of stationary incomes, who may, perhaps, for as long as they live, need some supplement from public sources, county, State, or Federal, or all three, if necessary, to aid them to come to something like a decent standard of living.

This program is planned mainly to alleviate the suffering of mass unemployment. If immediately enacted, however, it will cushion the adjustment of milk prices to a sound economic level. There would be an end to the Government's contributing as much to the grocery bill of the multimillionaire as to the poorest victim of economic mischance, and the present subsidy policy does subsidize the millionaire as well as the poor man.

The effect of subsidies on inflation was illusory. But subsidies have an effect on agriculture which is not illusory; they have the effect of enmeshing agriculture in a tightening web of bureaucratic fetters.

The dairy subsidy program put a Government paymaster in every county seat in the Nation. Before long, if this is permitted to continue, the individual dairyman will be unable to move without fear that innocent transgression of some bureaucratic edict will subject him to economic ruin.

To illustrate, there had developed before the war a soil-conservation program. This involved the making of payments to farmers as compensation for carrying out various specified soil-conserving practices. The farmer retained the privilege of choosing whether or not to carry

out such practices, and his choice was the freeman's choice based on whether or not the amount of the payment and other benefits from a given practice equaled the cost of carrying it out.

Now we hear suggestions on postwar farm price policy to the effect that all production be subsidized—and I hear it almost every week, it is being talked about by important people in Government circles—but that production subsidies be withheld where the farmer does not carry out the soil-conservation program. This is how enormous penalties can be imposed to enforce bureaucratic decisions which run contrary to individual rights.

As recently as 2 years ago, it was necessary for Congress to act specifically to curb this abuse of administrative power. War agencies were depriving individuals of every privilege of rationing, priorities, and so forth, in addition to specific penalties supposed to be adequate for minor infractions of administrative regulations. The subsidization of agriculture would multiply the potential growth of this evil power.

Last fall, we were told that a schedule for subsidy removal had been agreed upon within the administration. Under that program, butter and cheese subsidies were ended. Then the administration took fright and abandoned its schedule. Now we have only "bigger and better" subsidies offered. The subsidies that were taken off were being paid through manufacturers. Hardly had the butter subsidy ended when it was proposed to reinstate it, paying it to farmers directly via the county seat.

The Secretary of Agriculture supported our plea for removal of subsidies. He stood out in opposition to the temporizing policy of waiting for some prices to get soft before ending subsidies. But stronger powers broke him down.

The Office of Price Administration talks about removing subsidies when there is "elbow room" in the cost-of-living index. Gentlemen, by then it will be too late. When elbow room appears in the cost-of-living index the farmer stands to lose both subsidy and price together. The subsidized farm products—dairy products, meat, flour, oilseeds, sugar, and so forth—accounted for at least 52.3 percent of agriculture's cash income in 1944. Where could the remaining 47.7 percent possibly make "elbow room" to replace \$2,000,000,000 of subsidies?

Two years ago we proposed to Congress a schedule for ending subsidies. That was pretty well known as the "double escalator" provision. The war was still on and peace seemed in the distant future; so we recommended legislation requiring gradual periodic reductions. And you gentlemen recall that that recommendation went through the Congress, both Houses, but was vetoed by the President when he vetoed one of the price-control bills.

Had this policy been adopted, all subsidies would have been ended before June 30 of this year.

Now the war is over, and we request that no dairy subsidies be authorized beyond June 30, 1946.

I turn now to our recommendation on price control of dairy products. Under the spur of a desperately muddled situation we are forced to recommend that price ceilings on dairy products be terminated on June 30. Never before during this war has our federation asked for exemption of dairy products from price control. We would

not take this step now, except that to end price control on milk and its products is the only remedy for a viciously snarled price-ceiling structure that is wrecking dairy production and dooming American consumers if not to a milk famine at least to a milk shortage.

Throughout the war, the National Cooperative Milk Producers Federation has, from time to time, recommended amendments to the Price Control Act. These amendments reflected our best thinking on ways to achieve maximum production for war needs with the least serious aftermath for peace. Had they been adopted, and faithfully administered, we would not be in our present predicament.

In the early days of the war, we fought for a stabilization program that would give farmers treatment equal to that accorded to labor. Grudgingly, the administration put some checks on labor, but not until industrial take-home pay had increased substantially. Agriculture carried on as best it could despite the handicap of unattractive farm incomes as compared with urban incomes. The farm labor force dwindled steadily. Farmers and their families and hired men left the farms by the hundreds of thousands to earn factory wages far surpassing their possible incomes under unreasonable farm price-ceiling policies.

Now, in recent months, wage control has been virtually abandoned. We are now forced to ask for a price ceiling action that will give some courage to those who stayed behind, producing at a sacrifice the dairy products needed for victory.

We know that higher factory wages will raise the parity index. The parity formula fails in two respects, however, as a guide to adequate minimum ceiling prices. And I am speaking of the old parity formula, the one now in operation. It is based on price relationships of 35 years ago, and it does not include any allowance for farm-wage costs. Omission of farm-wage costs explains why with all farm prices averaging 16 percent above parity the farm labor supply has been dangerously depleted. The obsolete price relationships upon which parity prices of individual commodities are determined explain why feed supplies have been approximately balanced with livestock production on crop prices below parity and dairy returns—prices and subsidies together—nearly 40 percent above parity. We previously have recommended that the parity formula be modified to make it a more suitable minimum standard for price ceilings.

In part, because we did not get a closer tie-in of industrial wage and farm price policies and revision of parity as minimum protections against heedless administration of price control, we asked for and obtained legislation requiring the Price Administrator to modify price ceilings to reflect cost increases. The will of Congress thus expressed in the Price Control Act has been deliberately flouted by the Price Administrator with the help of certain other Government officials. I refer to the sophistry that construes the requirements of this law to have been met when the increase of prices covers only the increase in "cash costs."

Economists analyzing the behavior of producers in response to changes in cost do distinguish between cash costs and fixed costs. This distinction is based on differences between short-run and long-run conditions. In the short run, production may be continued, or even increased provided prices cover cash costs or increases in cash

costs. But reputable economists recognize that in the long run fixed costs also have to be covered if production is to be maintained.

We do not have the exact figures on which the Department of Agriculture calculate cash costs. The Department's data are circulated within the Government in the form of documents marked "confidential" or "for administrative use only."

I will admit we have peeked at them once in a while. But cost indexes calculated by Cornell University will demonstrate how this method is defrauding us of a fair consideration of our needs.

I have attached to my statement a table and supporting comments on this subject, which I ask permission be filed for the record.

The CHAIRMAN. That may be done.

(The document above referred to is as follows:)

EXHIBIT B

CASH AND NONCASH COSTS IN DAIRY FARMING

The costs of operating a given dairy farm can be grouped into two classes: Costs which must be met by out-of-pocket expenditures from month to month and year to year, and costs which may require no out-of-pocket expenditures during a period of 1 or more years. These can be called "cash" and "noncash" costs.

Results of cost-of-milk-production studies in New York illustrate the approximate expenditures in each class on an average dairy farm. In the following table the published data on dollars of expense per farm by items have been converted to percentages of the total expense, and the items further classified into cash and noncash portions. The latter classification is only approximate for some items.

Cost of producing milk in New York, farm basis

Items	Total costs		Cash costs, percent	Noncash costs, percent
	Dollars	Percent		
Feed bought.....	1,463	23	23	
Operators' labor.....	1,296	20		20
Other labor.....	877	14	14	
Interest ¹	734	11	5	6
Other expenses ²	2,054	32	16	16
Total.....	6,424	100	58	42

¹ The division into cash and noncash here is arbitrary, and probably overstates the cash part. The cash cost would be interest on borrowed capital. Noncash cost would be the charge imputed to the owner's equity.

² Would include seed, fertilizer, and other cash operating expenses in producing crops used by the dairy herd, plus noncash costs such as rental value of the operator's own share of the farm. The division here into cash and noncash is arbitrary.

Source: Total costs from The Cost of Producing Milk, 1942-43, L. C. Cunningham, Cornell Agricultural Experiment Station Bulletin 818, March 1945.

It will be appreciated that prices too low to cover cash costs will tend to curtail production on any farm immediately. On the other hand, production is likely to be continued for some time even though noncash costs are not fully covered. Dairymen have a considerable investment in dairy barns, and so forth, which are not readily usable for any other purpose. They may continue to produce milk until the barn is no longer usable, even though the income from milk production does not give an adequate return on the investment in the barn.

These averages hide such facts, for example, as the considerable number of dairymen needing new barns in any one year. Current and prospective dairy prices must be favorable to induce these men to make the investment or to make other similar decisions between dairying and some other activity. For some dairymen in every year, prices must cover all costs or they will go out of business. The noncash cost has become a cash cost. Prolong the period sufficiently and all costs become cash costs.

The foregoing illustration used the dairy barn as an example of a noncash cost. To a tenant farmer the whole of his land rent is a cash cost. The dairyman's rent may be raised if some prospective tenant wanting to raise cash crops can outbid the dairyman.

The labor of the farm operator and his family is considered to be a noncash cost. The farm operator may be slow to follow the hired man into other employment at higher wages. Yet the longer an income disparity continues the greater will be the number of farm operators responding, as though their labor were a cash cost.

According to the Cornell figures, 58 percent, approximately, is the share of dairy farm costs which are cash costs. Total costs of dairy farming in New York increased 77 percent from January 1941 to January 1946. The average price received by farmers for milk in the State increased 66 percent—far from enough to cover the increase in total costs. By falling back on the cash-cost theory, the Office of Price Administration would prove that only 58 percent of the total cost increase was intended to be covered by increased price. On this basis the cost increase was 45 percent (77 percent by 58 percent), which is more than covered by the increase of price. So we lost.

Now it is our contention that Congress never meant a distinction to be made between cash-cost and fixed-cost increases as a basis for raising ceilings. The only valid economic basis for inclusion merely of cash-cost increases is that prices which cover only such increases will tend to maintain production for a short time.

Five years is not a short time. And the foolhardiness of applying price policies valid for the short-run to the long-run reflects itself in the greatest decline of dairy production in history, now facing us.

Thus, the Administration stands accused of thwarting the intent of Congress in the first instance, and of incompetent application of its own principles in the second instance.

Against the twin evils of bad faith and incompetence we can only ask that price controls be suspended on dairy products and that the law of supply and demand again be permitted to function freely.

The inability of the Office of Price Administration to adjust price relationships within the dairy industry is another demonstration of the break-down of price control in that sector of our economy. Under price control maladjustments have been created as between dairy farmers in one part of the country and another. Maladjustments have been created between prices of one dairy product and another. Finally, OPA price ceilings have completely obliterated the freemarket price mechanism which evened out supplies of dairy products between the seasonal peaks and valleys of production. (The gravity of these maladjustments has been aggravated in many respects by the application of the dairy subsidy programs. This is a further factor substantiating the request for removal of subsidies which I have previously analyzed for you.)

Maladjustments of dairy prices between areas are exceedingly numerous, but I will cite only a few cases as illustrations. Within New England, a fairly substantial increase in returns has occurred in Vermont, which is part of the Boston milkshed. This was due largely to a reduction of the amount of surplus milk, so that, as we say, Vermont dairymen benefited from a higher utilization as well as from increased class prices. In southern New England, on the other hand, producers always have sold most of their milk for the highest value uses. Thus, their prices did not increase in proportion to the

increases in northern New England. The hardship thus caused is reflected in the United States Department of Agriculture report on livestock numbers showing that on January 1, 1946, cow numbers in Vermont were unchanged from a year earlier, while in Massachusetts and Connecticut cow numbers were 2 percent lower and in Rhode Island 4 percent lower this year.

Let me cross the continent for another illustration of indefensible price-ceiling administration in a local area. In November 1942 the class I price of milk, the price paid to producers for milk for fresh fluid use, in the Seattle, Wash., market was set at \$3.15 per hundredweight. Northwestern condenseries were paying an average of \$2.42 per hundredweight at that time. Class I milk, therefore, was bringing \$0.73 per hundredweight more than manufacturing milk. By March 1943 the margin narrowed to \$0.64 instead of widening as it normally would between those seasons of the year. Efforts were being made to correct this maladjustment, when suddenly the Federal Government's "hold the line" order brought a halt to the relief proceedings. Ever since March 1943 producers in the Seattle area have had almost continuous petitions before OPA, which persistently refused to grant the needed adjustment. The margin of class I over manufacturing milk prices, which stood at 73 cents in November 1942, dropped to 55 cents in November 1943. No relief was granted. It dropped to 50 cents in November 1944 and no relief; to 44 cents in November 1945—still no relief.

With many manufacturing plants paying above average prices, many producers found themselves receiving a smaller check for their milk delivered to Seattle than they would have gotten for milk delivered to a country manufacturing plant.

I might explain to members of the committee who are not familiar with dairying that it is customary for a plus differential to be paid to producers who supply milk for fluid consumption in the markets, because it costs a good deal more to produce that milk in conformity with health regulations.

Last month, producers arranged to shift on a large scale from the Seattle market to country manufacturing plants.

That meant the diverting of every drop of milk from surrounding Seattle and surrounding other cities into manufacturing plants.

Only then did the Office of Price Administration grant an adjustment which restores about the price relationships of 3 years ago, but which still is inadequate to cover increased costs of production in that area.

Finally, there is a broad area—including fluid milk markets of the Southern States particularly—where vast quantities of milk are being imported. The cost of this milk, shipped from Wisconsin or Minnesota and laid down in Florida, or Memphis, or Alexandria, La., or Houston, Tex., is fantastic.

On top of these fancy costs, consumers find themselves being served uninspected milk. But the Office of Price Administration sits on an arbitrary price line and holds local production down so that increasing amounts of milk must be brought in from outside—at high costs to local distribution and at the cost of decreased production of manufactured dairy products.

I am told that all the way from \$1.25 to \$1.45 a hundred is being paid for this imported milk, which includes transportation costs, above the prices in some of these southern markets that the Office of Price Administration will allow the local producers to have.

Our member associations report that in Washington 20 percent of the market's requirements are being imported; Memphis, 30 percent; Atlanta, 30 percent; Houston, 40 percent; and Knoxville, 55 percent. If the Office of Price Administration would permit local producers to be paid a price approaching that paid for imports, there would be more milk produced locally. Conceivably, the cost of the total milk supply free on board the point of its final distribution might be smaller than it now is.

In the South most dairymen do not have the ready alternatives to dairying that exist in other parts of the country. Cash crops or hogs or beef cattle are not profitable enough to pay for idle dairy barns and the cost of deserting the milk market. Dairymen must continue to produce milk even though costs are not fully covered or else not produce milk at all.

If a policy of no price adjustments is pursued to its logical conclusion, dairying in such markets will be done for when existing production facilities are used up.

In this connection, we find that city health departments, far from tolerating the deterioration of dairy buildings and equipment, are asking for improvements, and improvements mean extra costs.

Quality programs were suspended during the war for practical reasons and now are being revived and expanded. This means increased costs and requires price adjustments in many markets.

The effects of price ceiling maladjustments between one dairy product and another are familiar to everyone. On everyone's lips is the question "Where is the butter?" The flippant answer, "We drank it up," tells only part of the truth. The real truth is, prices were fixed so that anyone who wanted milk in any form besides butter could take over the butterfat before it got to the churn. This price fixing also left farm separated cream prices so low that increasing numbers of producers have reduced or dispersed their dairy herds in favor of more profitable livestock enterprises.

It may not be constructive here to debate whether wartime objectives could have been as well met with better protection of the normal balance of production. There can be no question, however, but that every effort should have been made since the end of the war to restore a normal balance of production among the various dairy products.

Instead, the Government abandoned all controls except price. Thus unloosed, the perverted structure of dairy price ceilings has demonstrated fully its tragic misalignment.

In order to meet suddenly released demands, the supply areas of eastern fluid-milk and cream markets have been expanded astonishingly. For 4 consecutive months of this last fall and winter Boston imported large amounts of fluid milk from Minnesota. Cream sales blossomed out to record volumes, practically all of the increase being drawn from the Midwest. Ice-cream production in the last 3 months

of 1945 increased about 50 percent over the corresponding months of 1944.

The result of the westward expansion of fluid markets and increased ice-cream production has been declines in butter production unlike anything the industry has ever experienced.

Production in January of 1941 and of subsequent years was as follows:

<i>Production</i>			
	<i>Pounds</i>		<i>Pounds</i>
1941.....	135, 143, 000	1944.....	104, 368, 000
1942.....	119, 685, 000	1945.....	99, 003, 000
1943.....	122, 661, 000	1946.....	68, 995, 000

We are facing a flush production season of 3 or 4 months, and then the expected seasonal decline. Because price ceilings have not been increased to compensate for storage costs, we are in danger of eating up all the butter produced during the flush, and having even less to eat next winter than we had during the winter just past. This is another of the price maladjustments perpetrated in the name of price control. Butter and other dairy products will swing from feast to famine unless normal price relationships are restored.

The picture I have painted here is a picture of gross maladjustments in the dairy industry. These maladjustments are sometimes feebly defended by folks who try to tell us we are better off to sell fluid milk instead of butter. We would agree wholeheartedly if it were not that most of the wartime increase in milk consumption rests on an illusory foundation. We would be foolish to accept complacently the diversion of milk from butter to fluid uses which results from a system of price control permitting consumer preferences to be expressed in one way only.

This price system does not ask Mr. or Mrs. Consumer, "Would you prefer a little more milk or a little more butter?" It does not ask, it dictates, "Everybody who wants milk comes ahead of anybody who wants butter." On top of that, a subsidy program aggravates the demand for milk by deluding everybody into believing that 15 cents per quart is the price of milk, when production cannot be maintained for less than 17 cents a quart.

Creamery butter has become a rare commodity. The Office of Price Administration boasts about holding the line so that butter is only 55 cents a pound at retail—when you can get it.

Mr. Bowles in 1944 stated that during World War I millions of people had forgotten the taste of butter. Let us keep the record straight. Under no price control per capita consumption in 1917 was 16.1 pounds, in 1918, 14.1 pounds; and in 1919, 15.7 pounds.

Now, look at the picture Mr. Bowles did not draw. American per capita consumption in 1941, the year preceding price control, was 15.9 pounds; in 1942 15.6 pounds, in 1943 and 1944 under rationing 11.8-9 pounds. But in 1945 our per capita consumption had dropped to 10.5 pounds. And current butter production is now running 30 percent below a year ago.

Now what has the Office of Price Administration to say about the cost of living when consumers buy cream for churning into butter at

home. Such butter costs \$1 a pound or more, making no allowance for the butterfat wasted by home churning methods, or the inconvenience to the housewife.

In the Washington market a housewife may purchase a pint of 30 percent cream for 56 cents. At that price, it costs her only \$1.42 per pound of home-made butter.

I think it is well to point out to the committee that this method of butter-making is becoming more popular daily. As a matter of fact on the Woman's page of the March 13 edition of the Chicago Daily News a half column story appeared which instructed readers on how to "Whip up your own butter at \$1.50 a pound." I have attached a copy of the article to my statement as an exhibit for the convenience of anyone who may wish to see just how to go about making home-made butter.

What excuse is there for continuing a price structure that fosters such dislocations? What excuse is there for allowing a price structure under which we know millions of pounds of cream are disappearing from the market and going into the black market?

There is dead certainty that this will have to be corrected before long. It is flouting all common sense to fail to stop these shifts now before they go so far that the road back will be littered with the debris of bankrupt dairy farmers and marketing agencies.

We will be charged with seeking inflation as a result of this request for removal of dairy price ceilings. Such is far from our minds. We assert that consumers who pay retail prices for cream to be churned into butter are already victims of an insidious form of inflation which the Office of Price Administration is powerless to prevent. This is an inflation which fattens on such effects of price ceilings as last year's million-cow liquidation of dairy herds.

The over-all rise in dairy prices, if ceilings were removed, would not be greater than the average consumer's ability to pay. We have studied the relation between consumer incomes and consumer expenditures for dairy products in the past.

On the basis of those studies it is our belief that the normal response of consumers to the present level of dairy supplies would be a price increase equivalent to about 2 cents per quart of milk. This is approximately the present rate of subsidy payments.

Present prices and supplies of the various dairy products are badly out of balance. During the interval of adjustment, prices are likely to fluctuate erratically for a month or two as a result.

This should cause no apprehension, for it is inevitable in any event, and a retribution to the administration for the deplorable state into which the Office of Price Administration price policies have led us.

The benefits to be derived from following our recommendations on subsidies and price ceilings are numerous and substantial. Replacement of subsidies with full prices will take down the Damoclean sword, the threat of which has withered every impulse toward increased dairy production.

Ending of price ceilings and restoration of the finely balanced free market mechanism will replace today's frustrations and thwarted necessities with a balanced flow of milk and butter to every doorstep in the land.

Mr. Chairman, that ends my direct statement.

The CHAIRMAN. You have some other witnesses, I believe.

Mr. HOLMAN. There are some other gentlemen here. I do not know who is the first in line.

Mr. BROWN. I would like to ask him some questions.

The CHAIRMAN. Would you rather proceed with your other witnesses and then subject yourself to interrogation?

Mr. HOLMAN. It is entirely immaterial to me. It is entirely up to the pleasure of the committee.

The CHAIRMAN. I think we can expedite matters if we can get the statements in and then submit to interrogation.

Mr. HOLMAN. If Mr. Brown wishes to defer, I can present the other witnesses and then we can be interrogated.

The CHAIRMAN. All right, bring on your next witness.

Mr. HOLMAN. Mr. Hurtz is the next witness in the dairy group, Mr. Chairman.

(Documents referred to in the statement of Mr. Holman are as follows:)

EXHIBIT C

(From the Chicago Daily News, Wednesday, March 13, 1946)

WHIP UP YOUR OWN BUTTER AT \$1.50 A POUND

With stocks of butter going into black market channels and retail supplies disappearing as quickly as avid shoppers can reach for a share, many homemakers are turning to the old custom of home churning of the scarce stuff.

Made from either sweet or sour pasteurized cream, the home-churned product is by no means up to creamery standards. It is less solid, lighter in color unless color is added, does not keep as well—and costs about \$1.50 a pound to make.

Churns provide the easiest method, but local shops report “no stock” on this item. A mason jar with a tight-fitting cover will do the trick—some women use a cocktail shaker.

One pint of pasteurized cream will make about one-half pound of butter—the hard way.

Allow the cream to sour, which can be accomplished by permitting it to stand eight or so hours at room temperature. Pour into the jar and shake until large curds being to form.

As shaking continues, the curds will have a tendency to mass together. The whole process of shaking will take 2 to 5 minutes of steady work.

It will be necessary to pour off the liquid, which is the buttermilk. Then turn the “butter” into a bowl and work with a wooden spoon to remove excess liquid.

Washing under running water will carry away the last of the liquid and tend to harden the butter so that it can be molded.

Add salt, about one teaspoon to the pound, and vegetable coloring if desired. (Creamery butter has color added many months of the year.)

Mold by pressing into a dish of convenient size or use a margarine mold. This butter needs the same care and refrigeration as any dairy product.

STATEMENT OF L. E. HURTZ, CHAIRMAN OF THE DAIRY INDUSTRY COMMITTEE

Mr. Chairman and members of the Banking and Currency Committee:

My name is Leonard E. Hurtz, of Omaha, Nebr. I am chairman of the Dairy Industry Committee, which is composed of official representatives of the following organizations: National Cheese Institute,

American Dry Milk Institute, Evaporated Milk Association, International Association of Ice Cream Manufacturers, International Association of Milk Dealers, Dairy Industries Supply Association. These are all national trade associations, representing manufacturers, processors, and distributors in the dairy industry.

The dairy industry is a top-ranking industry in the United States, having a far-reaching effect upon the health and prosperity of this Nation. There are 5,000,000 farm families engaged in the production of milk. Nearly 20 percent of the farm cash income comes from the sale of milk and milk products. One-fourth of the diet of the average American family is made up of dairy products, which they purchase at one-seventh of the cost of all foods. Nutritionists agree that the consumption of dairy products in the United States although increasing has never been adequate. At least one-third more dairy products should be consumed in order to provide a diet containing a minimum of the recommended protective foods.

In the comprehensive report made this month by the Select Committee of the House of Representatives to Investigate Supplies and Shortages of Food, known as the Pace committee, their survey of existing conditions in the dairy industry clearly shows that the answer to the entire problem lies in attaining greater production of milk. With this we agree.

Increased production of milk is the primary necessity until sufficient volume is attained to meet our domestic and world dairy food needs. But dairy farming is a long-time, not a day-to-day, operation. It fluctuates up and down in a matter of years, not months or weeks. It takes years to rebuild a dairy herd. Hence prompt action is necessary.

The position of the Pace committee that price controls of dairy products be eliminated a year hence is pointed in the right direction, but quicker action is needed. After careful study of that report we reiterate the position which we took before that committee in February of this year and strongly recommend to you that price ceilings on all dairy products be removed on or before July 1, 1946. We say this because we are convinced that the removal of price controls on dairy products is the best and surest means for increasing milk production.

Price controls of milk and other dairy products at artificially low levels have created a lack of balance between production and demand. Now that the war is over, this lack of balance between production and demand of milk and dairy products serves no further purpose. The only sound and enduring solution is to eliminate price ceilings on dairy products. This will permit free-market prices to achieve and maintain a balance between production and consumption of milk in all its forms, on the basis of the prevailing level national income. To fail to do this, is to accentuate the current disastrous shrinkage in milk production, the destructive increasing slaughter of milk cows and heifers, the gross inequities among farmers selling milk and butter fat to the several branches of the industry and the unbalanced consumer supplies of dairy products.

It is argued by some that price ceilings should not be removed until supply is in balance with demand. In the dairy industry this day

may never be reached if artificially low prices discourage production. This day will never be reached as long as Government policies cause reduction in the number of milk cows.

We believe that the present production and production potentials in the dairy industry are such that the removal of price controls on or before July 1, 1946, will not result in runaway prices. Total milk production increased from an average of 105 billion pounds during the prewar period, 1936 to 1940, inclusive, to 122.2 billion pounds in 1945. This wartime increase was at a much more rapid rate than the long-time upward trend in total milk production. This increase in milk production has more than kept pace with the increase in population.

Government purchases for armed services and lend-lease were the equivalent of 20 billion pounds of milk in 1945. It is anticipated that similar purchases by the Government will approximate only 5 billion pounds in 1946, leaving larger supplies for domestic consumption. In the case of dairy products, unlike the situation which exists for certain industrial materials there is no long-time cumulative backlog which would need to be satisfied, such as for automobiles, radios, refrigerators, and so forth. No housewife is waiting to buy 100 quarts of milk which she had been unable to obtain under controls and limitations. Accordingly, a moderate increase in the price level in a free market may be expected to bring supply in balance with demand.

But we direct your attention to the alarming pattern emerging with the continuation of price control since VJ-day. Milk cows in the United States were down 3 percent on January 1 under a year ago. Heifers, potential milk producers, were down 6 percent. The greatest decrease in milk cows has occurred in the States which normally produce farm-separated cream for butter manufacture: Minnesota and Iowa, 4 percent; Missouri, 6 percent; the Dakotas and Kansas, 9 percent; Nebrasks, 10 percent. Hundreds of butter factories and cheese factories have closed and a number of evaporated milk plants curtailed their production. Creamery butter production is currently 28 percent below last year. Cheese production is now 13 percent below last year. Evaporated milk production is down 28 percent from last year. Total milk production on farms is significantly below the same months of 1945. This shrinkage in production of dairy products and of total milk has been taking place since last September under Office of Price Administration price control.

The Department of Agriculture established a goal for milk production in 1946 of 120.8 billion pounds. A month ago, before the Pace committee, the Department of Agriculture estimated that the 1946 production would be 118 billion pounds. But when the Pace committee reported on March 9, it stated that production may not exceed 112 billion pounds.

Production is going down; with the stimulus of production for war gone, the Government's milk production goal will not be met under price controls. The only way that we can see to reverse this downward trend is to eliminate price controls in the dairy industry. Prompt action is necessary.

Before July 1 milk production will be at its season's peak for the year.

After that, in the months immediately following, storage stocks of dairy products will accumulate to their maximum quantities. This position of the supply of dairy products assures an orderly price adjustment if price controls are eliminated at the flush this year. With free pricing production will respond to need, as it always has. But if this action is delayed, even for 6 months, production will fail to such an extent that the transition from controlled to free pricing cannot be made at a later date without severe shock to the economy; and in the meantime maladjustments, caused both by inadequate supply and inequitable pricing, will grow and multiply to the serious injury of this necessary food industry and to the detriment of farmers and consumers.

In conclusion: For the foregoing reasons it is the considered judgment of the Dairy Industry Committee that Congress should not extend maximum price controls on dairy products after July 1, 1946.

The CHAIRMAN. Call your next witness, Mr. Holman.

Mr. HOLMAN. Mr. Howe is the next witness, Mr. Chairman.

The CHAIRMAN. Mr. Howe.

Mr. HOWE. Mr. Chairman, members of the Banking and Currency Committee, my name is D. K. Howe, of Omaha, Nebr.

**STATEMENT OF D. K. HOWE, OF OMAHA, NEBR., REPRESENTING
THE AMERICAN BUTTER INSTITUTE**

Mr. HOWE. I represent the American Butter Institute. I have a prepared statement, copies of which can be furnished you for inspection as I read from it, but before beginning to read the statement, I would like to say that we think the report of the special committee for the investigation of food shortages, shows careful analysis and understanding of the dairy problem on their part, and we agree with their conclusion that increased production is essential and that the surest and quickest way to get it is by higher prices to dairy farmers.

The American Butter Institute, whose members in 1945 churned over one-third of the Nation's butter, submits herewith a statement and recommendations for the House Committee on Banking and Currency on the question of extending price controls on dairy products, particularly butter.

The commercial butter industry has given willing and patriotic cooperation to the war food program, even though that compelled drastic changes in operation and forced many companies out of business. Almost 1 billion pounds of butter were transferred to the armed forces and other Government agencies during the last 4 years. Butter was one of the essential foods needed for the war. Butter was drafted for war. The war is over, but butter has not been released.

Price freezing in October 1942 and subsequent changes left the butter price low compared to other dairy products. The object was to divert production from butter into other dairy products, for war purposes.

Exhibit A shows that the butter price is about 11 cents lower than it should be in comparison with the prices of American cheese and evaporated milk.

I might say in passing, that that conforms to the finding of the special committee for the investigation of food shortages, to the extent

that the price was 6 to 12 cents below what it should be in relation to other dairy products.

The wartime price of butter was based on a fallacy, the "butter powder formula." This was a price formula whereby the butter price was held sufficiently low so that butter plus nonfat dry milk solids would bring the same return to the producer as would evaporated milk, cheese, and whole-milk powder.

The American Butter Institute has never before requested permission to appear at your hearings. However, after repeated presentations to the Office of Price Administration which were fruitless, the grave situation as to the production and supply of butter, and its effect upon cream producers, creamery operators, and consumers, makes it important that you learn the facts, and that every effort be made to immediately correct the inequities forcing butter off the market.

First a few words as to the importance of butter.

As you know, butter is not a luxury, but a really essential part of the consumer's diet. It is important in the American standard of living. Its value has long been recognized, as it was one of the first of the manufactured dairy products. Butter is, and has been, the keystone around which the arch of the dairy price structure has been built. Government has always recognized this in the formulation of the price policies for bottled milk and cream in Federal milk marketing orders. It has been a cushion for the dairy industry in times of surplus.

Now a few words of historical interest.

The pricing theory does not conform to actual practices, because over 85 percent of the butter is made from farm-separated cream which leaves the skim milk on the farm where it cannot be made into dry-milk solids. The result was to price butter too low.

Most manufacturing plants making nonfat dry-milk solids did not churn the cream into butter, but sold the fat in the form of sweet cream due to the higher price obtainable. Exhibit B shows the relationship between prices obtainable for cream for fluid and manufacturing purposes as compared to the price of churning cream.

With the price of butter held down as compared with other dairy products and farm products, with labor scarce and costs rising, there could be only one result. In spite of an increase in milk production from 1941 to 1945 of about 7 percent, the production of creamery butter declined 28 percent, or 501,000,000 pounds. Nothing like that has ever happened before in the history of the butter industry. The greatest decline in butter-make previous to this was from 1933 to 1937, when the decline was about 139,000,000 pounds.

The creamery industry is the only dairy-products industry which was forced by Government controls to go through the war with less than normal volume. During this same period, other major branches of the dairy industry have operated with substantially higher volumes. Butter production declined to the lowest figure since 1920. Instead of using 33 percent of the Nation's total milk production as in 1940, butter took only 2½ percent of the milk production in 1945.

Due to the decrease in volume of butterfat available and the diversion of butterfat from churning to fluid milk and other dairy products, almost 20 percent of the creameries operating in 1941 have ceased to

operate. Many of them were forced to close in order to avoid financial disaster due to the fact that when volume decreased, costs mounted rapidly. Aside from those plants which closed, others are faced with increasing costs due to the lower volume, so that all are operating under a heavy financial burden.

The trend toward lower production and closing of creameries has been accelerated since the removal of controls on cream, ice cream, and fluid milk in the fall of 1945. Many creameries have been offered for sale or for lease. In some States the butter manufacture has practically ceased. The cream is going to other products, not butter.

Information from the National Stockyards in East St. Louis reveals that during 1945 the percentage of milk cows being sold as beef was approximately 40 percent of the total number sold. This is the highest ratio of milk cows to beef that has been reported marketed through the East St. Louis yards. The number of cows in the country in 1946 is estimated by the Department of Agriculture to be from 3 to 4 percent under last year.

I might say there that the livestock statistics for January 1, this year, indicate that the percentage of reduction in cow numbers is not uniform in the country and that one of the greatest declines in cow numbers occurs in the Central States where diversified farming is practiced and where much of the butter is produced and where other dairy products look to their reserve in times of shortage.

Due to the low ceiling on butter, creameries cannot compete for raw material against other manufactured dairy products and farmers producing churning cream cannot afford to maintain production in the face of rising costs for farm labor, feeds, and so forth.

In recent months, the situation has become progressively worse. This may be seen from the following tabulation showing the percentage by which the butter manufactured has declined in the months indicated below the same month 1 year previous:

	<i>Percent</i>
November 1945.....	20
December 1945.....	23
January 1946.....	30
February 1946 (estimated).....	30

As a result, the supply is far below the demand.

Added to that is the poor distribution that has developed since elimination of rationing and various controls. Consequently, we have black markets, tie-in sales, and diversion through price-evasion practices, which result in severe hardships in some districts. Consumers in metropolitan areas have only one-third the butter supply that was available in 1941.

It is general knowledge that the feed situation is much worse than last year. In some areas production has already been affected by dry weather. A few dust storms have occurred in the western portion of the Plains areas. If we should have a season of only fair pastures and less rain, production of butter is bound to be even lower than the 30 to 35 percent reduction under 1945 which is now indicated.

The effect of these facts upon supplies for civilian consumption is shown by the following tabulation:

Creamery butter churned:	
1941.....	1, 872, 000, 000
1945.....	1, 370, 000, 000
1946 (estimated).....	900, 000, 000

Government requirements:	
1941 (net) -----	81, 000, 000
1945 (net) -----	312, 000, 000
1946 -----	60, 000, 000
Remaining for civilians:	
1941 -----	1, 791, 000, 000
1945 -----	1, 058, 000, 000
1946 -----	840, 000, 000
Civilian population:	
1941 -----	132, 700, 000
1945 -----	130, 700, 000
1946 (estimated) -----	139, 000, 000

This means a reduction in creamery butter supply per capita from approximately 14 pounds per year before the war to approximately 6 pounds per year in 1946.

Do these figures show that the mandate of Congress has been conscientiously carried out in the administration of price control?

The Emergency Price Control Act of 1942, section 2 (h), states:

The powers granted in this section shall not be used or made to operate to compel changes in business practices, cost practices, or methods or means or aids to distribution established in any industry, except to prevent circumvention or evasion of any regulation, order, price schedule, or requirement under this act.

The Stabilization Extension Act of 1944 (I), section 2 (h), has practically the same language.

In testimony before the House Committee on Banking and Currency on February 18, 1945, Mr. Chester Bowles is reported to have said:

Office of Price Administration's policy has been to make only such price increases as are necessary to meet the standards set up by Congress and Executive orders * * * to encourage essential production and maintain generally fair and equitable prices. These policies have proved themselves in the outstanding success of wartime production and the almost complete absence of hardship in the business world.

It would appear that the conditions and practices which have been developing and are getting worse in the butter industry are not consistent with the intent of the act, "not to compel changes in business practices," and Mr. Bowles' statement of the Office of Price Administration's policy to encourage essential production and to avoid hardship to business.

In the testimony given by the Deputy Administrator for Price, Office of Price Administration, for the recent Special Committee To Investigate Food Shortages for the House of Representatives, it was stated in part:

If we have a price ceiling pattern which simply does not permit supply to come up to what the production goal should be or is, then it seems clear that we cannot insist that controls be continued. We must have our controls up to the point where they fully reflect the needed supply of milk products, since otherwise we can go on for 5 years and say, "No, we cannot remove the ceilings."

If we would await the removal of ceiling prices from butter until a sufficient supply is available, we would always have price control on butter, since production is being discouraged continually to a lower degree.

The price control on butter has depressed production and in many sections of the country farmers are discontinuing production and accelerating radical changes which are nothing short of alarming. The theory that price control will not be eliminated until supply is adequate is absurd in the case of butter because it is price control which is responsible for the very small supply.

If the price is kept at the present low level, thus discouraging production, the supply of butter will never be adequate. That would mean perpetuation of the price control for an indefinite period. The only satisfactory solution to the problem is to remove the price ceilings on dairy products, but particularly on butter, and encourage production before it is too late.

The percentage of cows on the farms being milked has been decreasing constantly and has been at the lowest point on record except for the drought year of 1934.

What is the reason for this?

The lack of price incentive to producers has caused the milking period to be shortened either by drying cows off early or turning calves with the cows to save the labor of milking.

The Crop Production Report released by the United States Department of Agriculture March 11, 1946, states that the count of cows milked in relation to all milk cows in herds kept by crop reporters on March 1, 1946, was 65 percent for the United States, the lowest level on record for that date except the drought year of 1934. A recent survey conducted by the Secretary of Agriculture of the State of Nebraska among 50 farmers in southeastern Nebraska shows that one-third less cows were being milked during February 1946 than a year earlier.

I might say that I have other illustrations but I will not take your time to give them.

It is vital that this condition be remedied immediately so that the trend will be reversed and we retain in production all of the cows now in milk. This is one way by which we can realize immediately a prompt reversal in the downward trend of milk production.

Decrease of production is especially noticeable in the marginal type of producer. The history of the butter industry has been that a good share of the product comes from farms of six or less cows, which may be regarded as marginal producers.

Reference has already been made to the slaughter of dairy cows. It takes from 2½ to 3 years to replace a dairy cow with another of producing age, so already much harm has been done, which cannot be remedied for over 2 years. It is therefore important to take immediate measures.

There is no question about the demand for butter. Consumers want it and many are obtaining it at any price. The black market in butter is so widespread and continuous as to leave no question as to the insistence of the demand.

In many cities consumers stand for hours in a butter line to buy only a quarter of a pound of butter.

It is reported that a substantial part of the demand for fluid cream is from householders who pay the fluid cream price and churn it into butter, where it costs from a dollar to a dollar and a quarter per pound in addition to the inconvenience.

Almost every creamery of any size receives daily in the mail letters and enclosed checks, currency, and so forth, begging for shipments of from one to several hundred pounds, with no arguments as to cost.

In February 1946 a survey conducted by the American Butter Institute covering 5,000 families of various economic levels in 15 cities from coast to coast revealed that approximately 70 percent of the people were not getting as much butter as they wanted, and that almost 100 percent of these would be willing to pay substantially more

for butter in order to stimulate its production so that they could get more butter.

There are some who contend that production of butter should not be encouraged because it returns less to the producer than milk used for other products. If, however, the butter price was permitted to find its economic relationship in a free competitive market, the farmer selling farm-separated cream for butter-making would receive as high a return for the milk going into butter-making, including the value of the skim milk fed on the farm, as he would get for whole milk being sold for processing into other manufactured products such as cheese, evaporated milk and so forth.

The keen competition within the industry for the farmer's cream has always returned to the producer the greatest possible share of the consumer's dollar, so that any increase in the retail price of butter would directly go to the producer. Approximately 84 percent of the consumer's butter dollar goes to the producer—and by producer, I mean the farmer—a greater percentage of return than from any other food product. (Bureau of Agricultural Economics, U. S. Department of Agriculture, August 1945.)

As it is difficult to regulate ceilings now due to the discrepancy between supply and demand, it will be even more difficult a year from now due to the continuing decrease in production and the expected increase in purchasing power. It is expected that cow number will continue to decline and that labor, feed and supplies will cost the farmer more. It is anticipated that employment in the cities will be better than now and that wages will be higher, thus increasing purchasing power of consumers. If farmers have to plan for their dairy program 2 years in advance, they need definite encouragement, and they need it now.

An increase in the price of butter now in a free market would give the producer of churning cream a return for his milk comparable to that obtained by producers of milk for other uses. It would encourage farmers to maintain and increase their dairy herds and produce more milk instead of selling off their cows. It is expected that there would be an immediate reaction in the nature of increased production of cream for churning from the diversified grain and livestock farms in the Central States. Prices of butter would also tend toward leveling out the distribution of butter as between the producing areas and the consuming areas.

Now, as to our recommendations.

In line with the principle expressed by the Deputy Administrator for Price, Office of Price Administration, the time has come to remove dairy products from price control inasmuch as present ceiling prices fail to call for sufficient milk production to meet the goal set up by the United States Department of Agriculture. It would seem proper that controls not be continued if the price ceiling pattern does not permit supply to meet the production goal.

We therefore conclude that the only really workable and prompt solution to the problem of the butter shortage is to remove all dairy products, particularly butter, from ceiling-price control.

(The above-mentioned exhibits are as follows:)

EXHIBIT A

HOW FAR OUT OF LINE IS THE PRESENT CEILING ON BUTTER PRICES?

In order to determine the degree to which the present ceiling price of butter is out of line, it is necessary to establish a valid bench mark.

Such a bench mark is at hand in the February 15, 1944, directive from the Office of Economic Stabilization to the Office of Price Administration. This directive authorized and directed the OPA to establish maximum prices for manufactured dairy products. " * * * to permit the manufacturers of different dairy products to pay substantially the same price for their basic raw milk and cream supplies." The Office of Price Administration has specifically set up a criterion of \$2.65 per hundredweight for 3½ percent butterfat milk for manufacturing purposes at the factory level, as the paying price to be reflected by ceiling prices on manufactured products.

This concept was enunciated with clarity and precision by OPA in the statement of considerations which accompanied amendment No. 15 to MPR 289, the maximum price regulation covering dairy products. In this amendment, which established specific dollars-and-cents ceiling prices for Italian type cheese, it was stated, "The maximum prices provided by this amendment are calculated to return to milk producers a generally fair and equitable price of \$2.65 per hundredweight for 3½ percent butterfat milk used in the manufacture of each of the Italian cheeses priced and will result in a balanced relationship at the factory level with other manufactured dairy products."

Prices for 3½ percent butterfat milk have averaged very close to \$2.65 since the February 15, 1944, directive of the Office of Economic Stabilization. With \$2.65 for 3½ percent butterfat milk as the pivot point, how do the various dairy products line up at the present time? A careful study shows that with \$2.65 for 3½ percent butterfat milk as the pivotal price, a normal relationship would call for the following prices for manufactured products. These prices are compared with present prices shown in the second column.

	Normal price based on \$2.65 for 3½ percent butterfat milk	Present price
Evaporated milk United States average, per case ¹	\$4.18	\$4.14
Cheese, Plymouth, Wisconsin, per pound ²	Cents 27.2	Cents 27.0
Butter, Chicago, per pound ³	56.9	46.0

¹ At distributing points. Present price is latest available—December 1945 average. Data from U. S. Department of Agriculture.

² Cheddar cheese, Grade A or No. 1 twin and Cheddar styles.

³ Grade A or 92 score.

It will be noted that the present prices of evaporated milk and cheese are very fractionally under the prices normally associated with \$2.65 milk. Butter, however, is 10.9 cents below the price normally associated with \$2.65 milk. If butter were raised to 56 cents it could fairly be considered that the three manufactured products were in normal relationship on a \$2.65 milk-price base.

EXHIBIT B

Price of plant-separated cream primarily for fluid use, compared with price of farm-separated cream primarily for butter,² butterfat basis

{Cents per pound}

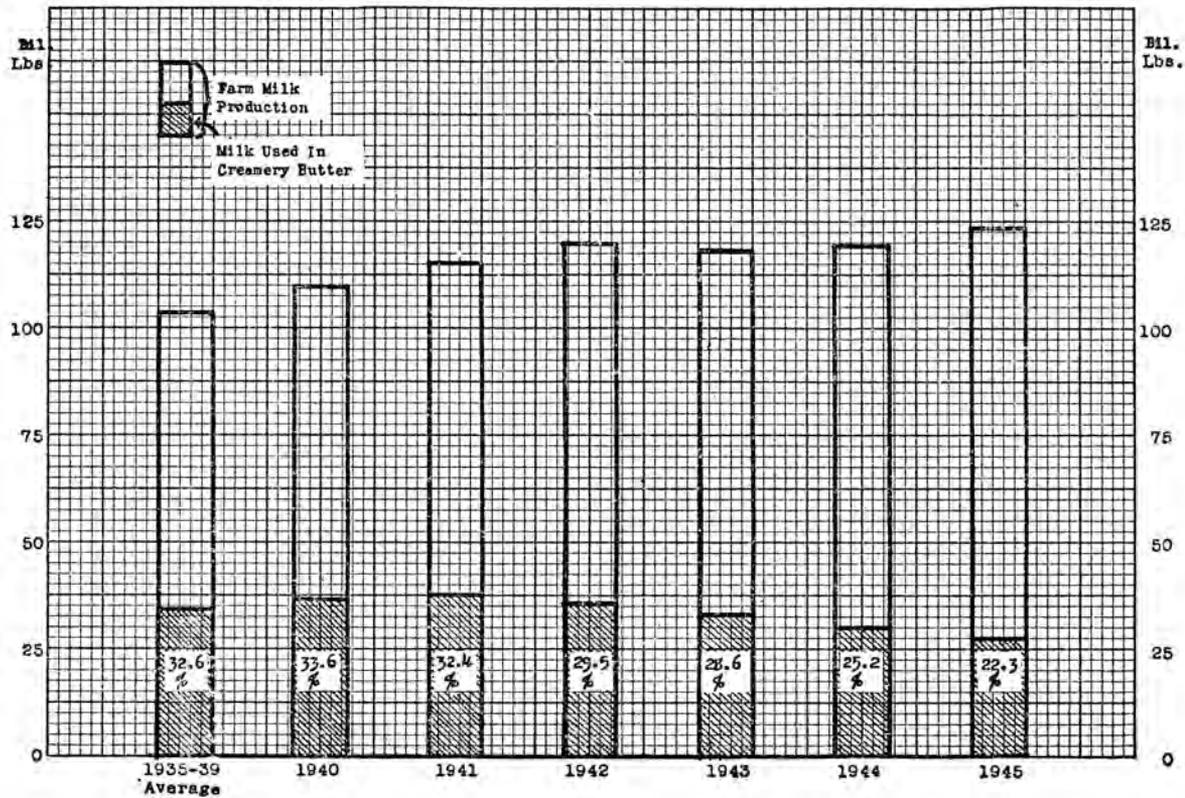
	Price of plant-separated cream primarily for fluid use ¹	Price of farm-separated cream primarily for butter ²	Amount plant-separated cream is over farm-separated cream
1933.....	27.0	18.8	+8.2
1934.....	30.3	22.7	+7.6
1935.....	35.1	28.1	+7.0
1936.....	38.3	32.2	+6.1
1937.....	39.8	33.3	+6.5
1938.....	32.1	26.3	+5.8
1939.....	30.7	23.9	+6.8
1940.....	34.0	28.1	+5.9
1941.....	43.3	34.2	+9.1
1942.....	48.7	39.6	+9.1
1943.....	60.5	49.9	+10.6
1944.....	60.9	50.5	+10.4
1945.....	60.9	50.4	+10.5
1946.....	⁴ 75.6	⁴ 50.7	+24.9

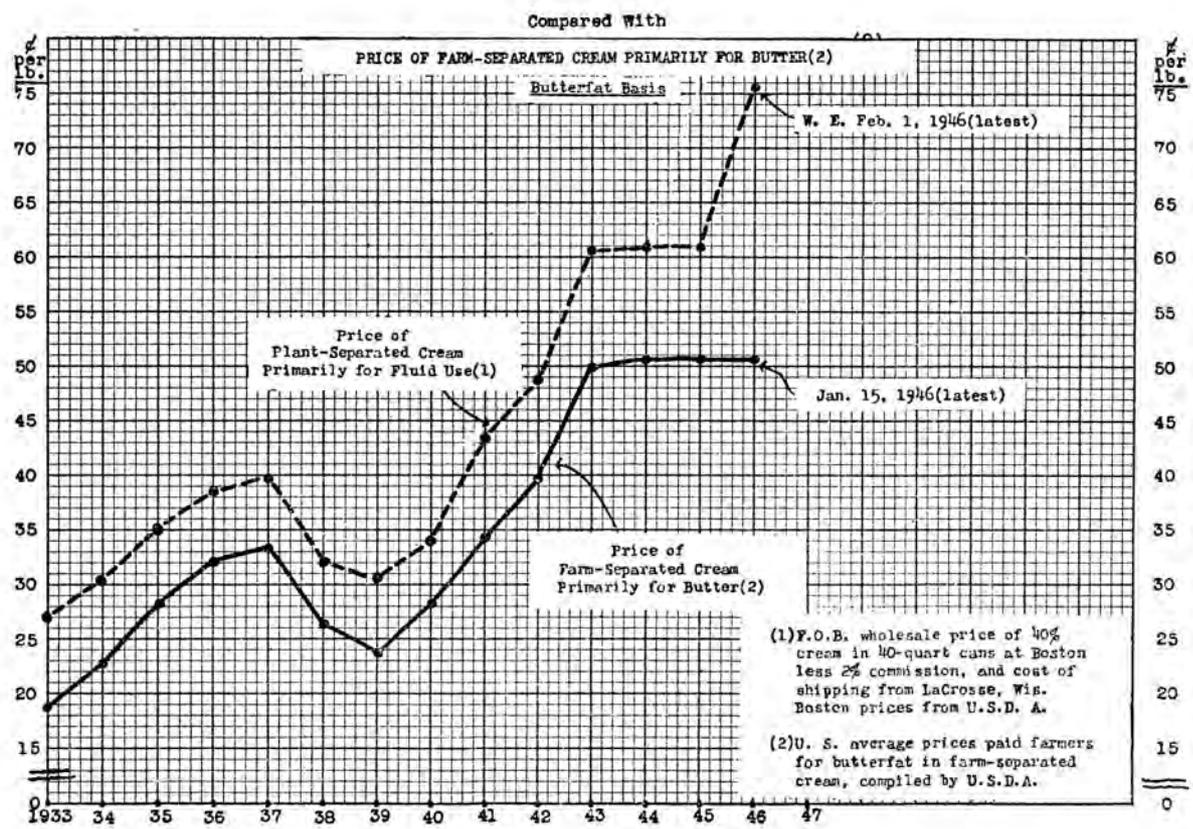
¹ F. o. b. wholesale price of 40 percent cream in 40 quart cans at Boston, less 2 percent commission, and cost of shipping from LaCrosse, Wis. Boston prices from USDA.

² United States average prices paid farmers for butterfat in farm-separated cream, compiled by USDA.

³ Week ending Feb. 1, 1946.

⁴ January 15, 1946, price.





Estimated utilization of milk—1945 compared with 1944

Dairy product	Use in 1940			Use in 1945			1945 versus 1940	
	Quantity	Milk equivalent	Percent to total	Quantity	Milk equivalent	Percent to total	Milk equivalent	Percent of increase or decrease
	<i>Pounds</i>	<i>Billions of pounds</i>		<i>Pounds</i>	<i>Billions of pounds</i>		<i>Billions of pounds</i>	
Fluid milk and cream.....		45.6	40.5		55.0	45.7	+9.4	+20.6
Butter: Creamery.....	1,840,000,000	37.0	32.8	1,400,000,000	28.0	23.3	-9.0	-24.3
Farm.....	400,000,000	8.0	7.1	300,000,000	6.0	5.0	-2.0	-25.0
Cheese: American.....	607,000,000	6.0	5.3	888,000,000	9.0	7.5	+3.0	+50.0
Other.....	179,000,000	1.7	1.5	237,000,000	2.3	1.9	+6	+35.3
Evaporated.....	<i>Cases</i> 54,000,000	5.3	4.7	<i>Cases</i> 90,000,000	9.0	7.5	+3.7	+69.8
Ice cream.....	<i>Gallons</i> 318,000,000	4.7	4.2	<i>Gallons</i> 470,000,000	5.0	4.1	+3	+6.3
Other farm use.....		4.0	3.5		4.0	3.3	(¹)	(¹)
Sweetened condensed... Whole milk powder.....	<i>Pounds</i> 62,000,000 29,000,000	.4	.4	<i>Pounds</i> 146,000,000 210,000,000	2.0	1.7	+1.6	+400.0
Total.....				112.7				

¹ No change.

The CHAIRMAN. Does that conclude the testimony of all the witnesses for this group?

Mr. HOLMAN. Mr. Chairman, there is another dairy witness, Mr. Walter Page, who would like to be heard.

The CHAIRMAN. Very well. Proceed, Mr. Page.

STATEMENT OF WALTER PAGE, EVAPORATED MILK. MEMBER OF THE DAIRY INDUSTRY COMMITTEE

Mr. PAGE. Mr. Chairman, and gentlemen of the committee, my name is Walter Page.

For many years I have produced evaporated milk throughout the United States. I am a member of the Dairy Industry Committee and I wish to endorse fully all that Mr. Hurtz has said.

In fewer than a hundred words, the Pace committee, reflecting their thorough inquiry into the uncertain outlook for dairy production under continuing Office of Price Administration controls, recommended immediate upward adjustment of the present Office of Price Administration price ceiling on evaporated milk by this statement calling for immediate action:

Strong evidence has been introduced, and the Department of Agriculture has recommended, that price ceilings on evaporated milk need to be raised in order to get necessary production.

The committee recommends that price ceilings on evaporated milk at the manufacturers' level be revised upward immediately. The Office of Price Administration should not delay one moment in taking this action, as reports to the committee indicate that in many sections the present supply is not sufficient for even feeding babies.

No doubt as a result of the House committee's recommendation for immediate action, the Office of Price Administration communicated with me and other members of the Government's Office of Price

Administration—Industry Evaporated Milk Advisory Committee, relative to the advisability of their suspension of the price ceiling on evaporated milk, because of their recognition of the downward trend of evaporated-milk production which must be reversed quickly before the supply falls to a point far below visible needs.

I have replied, declaring that the Office of Price Administration should, in fairness to the evaporated-milk industry, simultaneously with the suspension of price ceilings, announce publicly that evaporated-milk prices may be expected to advance. Such advance would apply on increased costs of production which have occurred while ceiling prices stood unchanged since established by the Office of Price Administration more than 3 years ago.

During wartime, supplies of evaporated milk delivered by manufacturers on Government procurement requirements permitted higher price recovery than domestic sales by manufacturers at the Office of Price Administration ceiling prices. This amounted to a temporary indirect subsidy of underpriced domestic sales.

But since VJ-day, this indirect subsidy has become unavailable; therefore, manufacturers are not in any position to continue absorbing the loss which the Office of Price Administration should fully recognize exists on manufacturers' domestic sales.

Immediate action is urged to correct the trend toward sharply reduced output. Already, small packers have been forced to reduce their pack and some manufacturers have either sold out or discontinued their evaporated milk operations.

Appropriate action, without delay, by the Office of Price Administration, should reflect full recognition of the recommendation of the Pace committee, which has properly urged such action "without one moment's delay."

Evaporated-milk manufacturers realize their obligation to meet the daily needs—without interruption—of millions of consumers who have always relied upon this safe, essential, and economical product.

These needs have increased steadily, and now are further increased to answer the problem of infant feeding requirements of our national high record baby population.

The dairy industry is one that is characterized by its necessity for swift adjustments.

Its successful operation does not lend itself to the static policies of wartime pricing agencies which are remote from the direct responsibility for the maintenance of adequate production and orderly distribution of common foods.

This industry, striving to maintain an adequate volume of primary production, needs freedom of action—now.

Mr. PAGE. I would like to make an oral statement, Mr. Chairman, if you would permit.

The CHAIRMAN. You may proceed.

Mr. PAGE. I think it would be well to give the committee some idea of the size of the evaporated-milk industry. We have 158 plants in the United States operating in 29 different States. We produced, in 1945, 86,500,000 cases of evaporated milk—4,000,000,000 cans. In terms of cars, 86,000 railroad cars. If these cars were placed end to end we would have enough to reach from Chicago to Albany on the New York Central.

It is by far the largest of any canned food packed in normal times.

You might ask the question: "Who uses evaporated milk?"

Last year, 38,600,000 cases went to the armed forces of this country. Millions of homes, particularly where an economical milk supply is necessary, use this product. In the past 25 years it has become the universally accepted baby food.

"Why is it economical?" might be another question. Evaporated milk is economical because the plants are placed in areas where dairying can be readily operated, and where it can develop to the point where we have very large operations. We have plants today that produce more than three-quarters of a million cases in a single plant.

Another advantage is that we have a product that is safe to transport by freight rather than by express or some other method, and in this way we have also a very economical distribution, as every grocery store in the United States sells evaporated milk.

Another question that may be asked is "Can we reduce our costs in order to live under the present Office of Price Administration ceiling price?" The answer is, "No." First we must pay the going price for milk, or we would not have a decent supply, and surely nobody today in this country would have the courage to talk about lower prices to the farmer, and I am sure I will not, because we must have more milk, not less milk.

Now, look at the other items: Cans, labels, boxes, freight, and labor. These represent 92 percent, gentlemen, of the selling price that we have under the Office of Price Administration ceiling today.

We cannot do anything about that. The Office of Price Administration sets the price on cans, labels, and boxes. Interstate Commerce sets the price on freight. And you know the present tendency in the country on the labor policy. That is taken care of.

And please bear in mind that, in addition to these costs, we have the items of fuel and power, repairs, sundry supplies, insurance, depreciation, and taxes—not Federal, selling expense, cash discounts, and general administrative overhead. These might well represent 45 cents per case.

What is causing the reduction in the production of evaporated milk? I told you a moment ago that the production last year was 86,500,000 cases. A conservative estimate this year is that we will need, to take care of our civilian requirements in this country, including those who regularly use evaporated milk, plus the infant feed users, plus the milk that will go to foreign countries under the UNRRA program, and in export, and replenishing our depleted stocks, about 73,500,000 cases. That would mean a reduction this year, against last year, of 15 percent.

The figures for January and February, of the industry, show a reduction of 27 percent, which shows that we are 12 percent behind the proper pace now.

With the small manufacturers it is even more serious, because they do not have the large financial backing, or the strong financial structures, and they must move in ways where they can save this terrific loss.

Their production today is running worse than that of the industry generally. As a matter of fact, in January, they were 43 percent behind a year ago, for the month of January, and for the month of February, 51 percent.

The group that I represent—14 small manufacturers produced last year approximately 10 percent of the 86,500,000 cases. And I say to you gentlemen, without fear of contradiction, that unless the Office of Price Administration pricing policy is straightened out, that you will drive the business away from the small manufacturers and into the hands of the larger companies, who are in a diversified production, as far as dairy products go, and even outside the dairy field. I do not believe that the Office of Price Administration law could have been set up with any such intent and I am sure if the lawmakers of this country knew what was going on they would correct it in a very short time.

You might ask me also if the ceiling price of evaporated milk was removed would prices skyrocket or run away? I do not think you need to worry about that, gentlemen. I have spent my entire life in the evaporated milk business, and I have never seen a time, in considerably over 45 years, when the price of evaporated milk was exorbitant, and there is a very plain reason for it.

It is a highly competitive market. It has a type of man in it who believes that it is better to build a large business on a small margin than a small business on a large margin.

I thank you.

Mr. HURTZ. Mr. Chairman, may I add one paragraph of my testimony for the dairy industry committee. I was requested to add this paragraph by the dairy supply and machinery organization. They are the people who manufacture machinery for the dairy industry.

During the war dairy equipment was used for long hours by poorly trained help, and was not too well maintained. Therefore, it is badly in need of repairs and replacement.

All dairy production and processing plants are seriously handicapped by their inability to secure repairs and new equipment. Manufacturers of dairy machinery and equipment claim that they are unable to deliver even a small percentage of the necessary equipment, partially because of low ceiling prices on component parts—that is, parts they buy on the outside.

Today many dairy plants are terribly handicapped on account of their inability to secure enough glass bottles, paper milk bottles, cans, strainers, buckets, and other small supplies, as well as the necessary items of complicated dairy machinery. The dairy manufacturers supply association thinks that the ceiling should be taken off the supplies.

Mr. THOM. May I ask a question?

The CHAIRMAN. Mr. Thom.

Mr. THOM. How about the ceilings on other products? Do you want them all taken off?

The CHAIRMAN. We are going to call the committee.

Mr. HURTZ. I would be glad to answer it if I am permitted to.

The CHAIRMAN. Well, now, we were going to wait until the testimony had been concluded and then we were going to call on Mr. Holman for interrogation of the witnesses. This concludes the testimony does it?

Mr. HOLMAN. Mr. Chairman, I understand that concludes the direct statements; yes, sir.

The CHAIRMAN. All right. Now I understand some of the members want to interrogate Mr. Holman.

What is the present subsidy on fluid milk, Mr. Holman?

Mr. HOLMAN. The present subsidy authorized on it, that is what we call dairy production payments, was \$568,000,000. That is paid at the county courthouse, as I have described, and it is paid in a relationship of 1 to 4, as to whether it is a butterfat payment or a whole milk payment. If for example the payment was 70 cents per hundred pounds of milk, then it would be one-fourth of that for a cream shipment.

The CHAIRMAN. Has all of that subsidy been used?

Mr. HOLMAN. I understand that practically all of that has now been authorized to be used by the Department. Only within the last 2 weeks they issued a proclamation that they would use it up at the rate of the same payments in April, May, and June which they paid in 1945, and that will just about take all of that \$568,000,000—maybe a little less. That, of course, is only one of the subsidies.

There is also, out of what is called the noncrop subsidy authorized by this committee, about 14 to 17 million dollars which is paid to distributors in certain milk sheds—14 or 15—in lieu of price rises. Or, let me put it this way: under certain Federal orders, and under certain Office of Price Administration orders, producers in certain milksheds were allowed to have price rises. Then the Government, to compensate distribution, since distribution was not permitted to raise the retail prices in those markets, has paid out approximately that amount of money in these various milksheds.

That constitutes the principal subsidies that are now active. There was, in addition to that, the chairman will recall, an appropriation that went through the Congress, for Reconstruction Finance Corporation to pay \$100,000,000 for roll-back butter subsidy payments. And there was another appropriation out of this noncrop fund used to pay a cheese subsidy, under the British plan of buying all of the product and reselling it back to the makers of the cheese at a loss—and in this instance the loss was 3¼ cents per pound.

The CHAIRMAN. Of the hundred million dollars of the Reconstruction Finance Corporation subsidy, it is my recollection that only \$25,000,000 of that was used.

Mr. HOLMAN. I do not recall how much of it was used, but it was authorized and a considerable amount was used before the roll-back was taken off.

The CHAIRMAN. Has that subsidy been uniform throughout?

Mr. HOLMAN. The payments?

The CHAIRMAN. Yes; the payments.

Mr. HOLMAN. Yes, sir; I think it has been a uniform payment, so far as I know. That particular subsidy was paid through the creameries, at so much per pound of butter, and, so far as I know, there have been very few complaints about what the farmers in that instance were paid in subsidies.

The CHAIRMAN. You think the farmers got it?

Mr. HOLMAN. I think so. There have been a great many complaints about the meat subsidies, but I do not hear very many complaints about the farmers not having gotten the butter and cheese subsidies.

The CHAIRMAN. The slaughterer is further away from the farmer than the creamery?

Mr. HOLMAN. Much further away and under a very different kind of marketing, sir.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Holman, what is the ceiling price on milk in the States of Minnesota and Wisconsin?

Mr. HOLMAN. Mr. Brown, I would have to have our tabulation here. You are speaking of retail prices, I presume?

Mr. BROWN. Yes.

Mr. HOLMAN. They would range around 13 or 14 cents a quart, in that territory.

Mr. BROWN. What is the ceiling price in Georgia?

Mr. HOLMAN. They should range down there around 18 to as high as 20 cents. I think you will find some markets paying as high as 20 cents, and even higher in Florida.

Mr. BROWN. You stated in your testimony that percentage in Atlanta. What would that milk cost the consumer in Atlanta, Ga., with respect to what it would cost him in Minnesota?

Mr. Holman. Well, there are 46 quarts of milk in a hundred pounds. We would have to multiply that by 13. I cannot work it out quite that fast in my head, but I can tell you that it would be—

Mr. BROWN. Well, you made the statement, as I understood you, that when you shipped milk from that area to Atlanta, Ga., that milk cost the consumers a great deal more than he would pay the local people.

Mr. HOLMAN. It costs distributors a great deal more although they are obliged to sell it at the same price to consumers.

Mr. BROWN. I thought that was a good point.

Mr. HOLMAN. I would be glad to furnish the exact figures.

Mr. BROWN. Because if that is true, the consumer down there would have to pay more than if he was producing his own milk unless the ceiling was high enough?

Mr. HOLMAN. That is correct. My point was that our producers in the Atlanta district, or the Memphis district, would deserve much higher ceilings. In the case of Memphis, I am more familiar with the situation, because I have just been through a milk struggle there where the producers need to maintain 77 cents a hundred pounds increase over what they are now getting, which would bring them up to around \$5.25 a hundred pounds.

The Office of Price Administration has allowed them, yesterday, about 39 cents increase.

Mr. BROWN. Let us take an area where milk retails at 13 cents a quart. How much subsidy per quart do we give the producer?

Mr. HOLMAN. The production subsidy, of course, varies sectionally, and varies seasonally.

Mr. BROWN. Well, let us take the months of January and February.

Mr. HOLMAN. That would be considerably higher than it would be in the summer. That is the winter subsidy, and it will range in the East up to as high as 70 cents per hundred pounds, and when you get along to Ohio there is a dividing line there and it becomes much smaller, and I think it becomes the lowest in the territory just west of Ohio, in Wisconsin and Minnesota. I wish I had brought along those particular schedules because we have them in our files.

Mr. BROWN. Well, I want to find out how much more cost you have got to give producers of milk, how much more you have to raise the ceilings, before they can make a fair profit and produce milk.

Mr. HOLMAN. I can easily answer that, sir. It will average, depending upon the section of the country, from around a cent and a half to as high as 2½ cents per quart.

Mr. BROWN. 2 cents on the average?

Mr. HOLMAN. That is about the average, to maintain present standards of production without allowing for the increased costs of labor.

Mr. BROWN. A family of four would consume not over 2 quarts of milk a day. Is that about the average?

Mr. HOLMAN. That is about the average, I think, sir.

Mr. BROWN. Well, that would be 4 cents.

Mr. HOLMAN. Yes, sir.

Mr. BROWN. Now, you want ceilings and subsidies taken off. Suppose the committee does not see fit to take ceilings off. Do you prefer a raise in the price in order to be able to produce a sufficient quantity of milk, or do you prefer subsidies?

Mr. HOLMAN. We prefer a raise in the ceilings to the continuation of the subsidies.

Mr. MONRONEY. Two cents per quart of milk, would that make up for the producer's needed increase, with the subsidy being done away with, too?

Mr. HOLMAN. No; that would just about compensate—you see this would be variable, it might be less in one market and more in another, but I am giving you a national average—it would just about compensate for the lost subsidies.

Mr. MONRONEY. But you are contending, I understand, that you need about 2 cents a quart increase to make up the producer's cost of production, in addition to the 2 cents for the loss of subsidies.

Mr. HOLMAN. No. Two cents approximately, we will say, for the loss of subsidies, and some unknown figure, not very great, to make up for the other. That would be a matter of computation and cost studies in each community, the technique of which is well worked out and it would present no great difficulty. It might be half a cent, it might be three-quarters of a cent. It certainly would not be very much.

Mr. MONRONEY. Not in any case over 1 cent?

Mr. HOLMAN. I do not think so. Of course, I am speaking now projecting it rather than on the basis of study.

Mr. MONRONEY. Frankly, do you think that if you took ceilings off dairy products completely, that milk would only go up 3 cents a quart?

Mr. HOLMAN. Yes, I think that is about it. The factors of milk pricing are very well understood by those of us who have lived in it. The biggest factor in holding down the price of milk would be my friends who have just testified. They represent distribution, for years, and they are our good friends, and they have always followed the philosophy of volume distribution to the extent they could get it. Naturally, they are slightly bearish in their attitude toward basic prices.

The second factor that will affect them will be that as the price of retail milk goes up, the labor's commissions for distribution of the milk on the wagons also increases, and, therefore, it takes something from their spread. So that always there is a bargaining factor there between the producer and the consumer, which is quite important in finding a price range, and, finally, where producers are organized, they are not anxious to have any undue advance in the prices of milk or other dairy products. They only want fair prices, and enough to get along. I think that that is a pretty well-established and well-recognized policy among the dairy cooperatives of the country.

Mr. BROWN. How much increase would it take to get butter on the market? Personally, I have not had any for a long time.

Mr. HOLMAN. Well—

Mr. BROWN. Per pound, that is.

Mr. HOLMAN. You would have to have about an average, throughout the year, of 13 cents rise—I hope these gentlemen correct me if I am wrong—

Mr. BROWN. That is my understanding.

Mr. HOLMAN. —rise on the price of butter to compensate for the subsidies. You have then the competition of cream going into ice cream, or cream for black-market butter, with cream that is going into legitimate manufacture of butter, to be consumed as butter, and in the case also of cream going into fluid consumption. In these cases you will run into as high as \$1 to \$1.10 a pound in the winter for fat, whereas I can only get, say, 57 cents per pound for fat if it goes into butter. Somewhere between 57 cents and \$1.10 you will find a price of butter ranging about 78 cents a pound retail.

Mr. BROWN. Now, you are a good fellow. I want you to help me get butter on the market.

Mr. HOLMAN. I would be glad to.

Mr. BROWN. Suppose we take off the tax? Certain kinds of butter are taxed; is that right?

Mr. HOLMAN. Yes, sir; renovated butter is taxed.

Mr. BROWN. It is mighty good butter to me when I cannot get any other kind. It seems to me, in this emergency, if we want butter, that we ought to take the tax off this butter. Oleomargarine tastes mighty good to me. I wish I could get a pound tonight.

Mr. HOLMAN. We do not object to you eating all the oleomargarine you want to as long as it is not sold in the guise of butter.

Mr. BROWN. If you would help us get butter, we might help you get a little raise in milk. We ought to have some butter in this emergency.

Mr. HOLMAN. Seriously, Mr. Brown—

Mr. BROWN. I am serious about this butter proposition, too.

Mr. HOLMAN. Under a free market for all dairy products that would soon adjust itself, and you would not have any prices for butter that would range for very long even as high as 78 cents a pound.

Mr. OUTLAND. Will you yield, Mr. Brown?

Mr. BROWN. I yield.

Mr. OUTLAND. Mr. Holman, on the second page of the statement made by Mr. Howe, it is brought out that the trend for lower production has been accelerated since the removal of controls on cream, ice cream, and so forth, in the fall of 1945. Might it not have helped butter production if the ceiling prices had been maintained on certain of those products for another year or two?

Mr. HOLMAN. I am sure that Mr. Howe was referring to the controls—what we call the limitation orders. There was a time during the war when it became necessary for the dairy branch of the Department to say, "So much milk can go as fluid milk; so much for butter; and so much cream can be sold as cream." Those are the controls, I am sure, he is referring to, and not price controls because we have had no price control on cream. That is one of your troubles, with one commodity out from under control and the other under control, your

milk flows toward the highest price. That is one of the difficulties, and it is in such a snarl that I do not believe any system of social control can ever untangle it.

Mr. OUTLAND. The point has frequently been raised, though, that controls should not be put on so-called luxury articles, and only upon necessary articles. But the inevitable result of that is that where the same materials can go into the production of either necessary or luxury articles, they will go into the luxury commodities.

Mr. HOLMAN. Well, we do not have luxury commodities in the dairy industry.

Mr. OUTLAND. Would you not say ice cream is luxury in comparison to butter?

Mr. HOLMAN. I would say it is a very valuable food.

Mr. OUTLAND. But in comparison to butter?

Mr. HOLMAN. I would not say that. Ice cream is a combination of milk fats and milk solids and some sugar and other things. I do not know with particularity of all the ingredients, but it ranks very high in the medical world as a food.

Mr. BROWN. About a year ago I told Mr. Fred Vinson that if a small raise was granted on milk, it would satisfy everybody. But I am not going to be satisfied unless I get some butter, too.

That is all, Mr. Chairman.

The CHAIRMAN. You spoke of the black market in dairy products. To what extent is there a black market?

Mr. HOLMAN. That is what we understand, sir. Butter does not disappear. I do not know whether it is going this way now, because the Office of Price Administration just issued a ruling 2 or 3 weeks ago, but here is one of the ways in which butter can disappear:

A gentleman walks into a creamery and pays cash for a tank load of good cream, and he drives that tank load down the road and, as far as the creamery is concerned, it has made a legitimate sale. He will take it to another creamery and for 2½ to 3 cents can have it churned into butter. And that creamery has also performed a legitimate transaction.

Then he loads that product up in a truck and that disappears, and somebody, somewhere, gets that butter. I have noticed that most of the hotels and restaurants are supplied with butter. I do not know where else it goes, or whether they are the people who buy it. But I do know that that is one of the methods used.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. Mr. Holman, in the entire milk industry I consider you the top man—

Mr. HOLMAN. I thank you, sir; but I am just a farmer's hired man.

Mr. CRAWFORD. —in the matter of fair presentation and honest dealing. I do not mean to disparage any others by that statement. Now, let me ask you a question, in all seriousness—and I am not going to press you for an answer. Do you believe that this Congress will remove the price ceilings from milk and milk products? Regardless of the shortage which you are up against?

Mr. HOLMAN. Do you want an answer on the record or off the record?

Mr. CRAWFORD. Either way you want it.

Mr. HOLMAN. Off the record.

(Discussion off the record.)

Mr. CRAWFORD. I will say for the record that I have no idea on earth that this Congress will do one single thing about removing the ceilings for milk and milk products. I think you have made a fine statement here, and I think you have presented facts.

Mr. HOLMAN. I think that is a tragic situation, at this time.

Mr. CRAWFORD. So do I. And let the responsibility for the shortage of butter and milk and milk products be on the Congress of the United States, where it belongs. That is the way I feel about it.

Now, let me ask you this question: What do you and your associates think is the prime reason for the payment of these subsidies on milk and milk products? Let me enlarge on that for a moment: What, in your opinion, is the prime reason for those subsidies in the minds of the administration and the Congress? The prime reason in their minds, not the reason you have for it. What do you think is the prime reason for those subsidies, in their minds?

Mr. HOLMAN. I think the answer is divided into two parts. I think the payment of the dairy production subsidies is distinctly for the primary purpose of maintaining a political machine of 40 or 50 per diem farmers in every county in the United States.

I think the payment of the other subsidies combines into the dairy payments to this extent: That there is a desire to give labor as high a real wage as labor can get.

And if there is a third one, the third answer is this: That the only way in which food prices can be controlled is by the combination of the subsidy plus the ceiling. A great many people do not realize that the subsidy itself is as important an instrument in holding down prices as a mechanism of price control, as the ceiling itself.

Mr. CRAWFORD. And perhaps more so.

Mr. HOLMAN. For this reason, Mr. Crawford: The Congress itself annually uses the principles of limitations and says there shall be a billion and a half or two billion dollars worth of subsidies—no more, unless somebody comes through with a deficit plea, as was done in the case of meat recently.

Now, the producer of food faces the Department, on the one hand, which handles this limited supply of subsidy money, and the Office of Price Administration, on the other hand, which says, "We will not raise the ceilings, you raise the subsidies," and between the two of them, we have been suffering considerably.

Mr. CRAWFORD. And the goods grow scarcer?

Mr. HOLMAN. Yes, sir. There are at least three factors in it.

Mr. CRAWFORD. And the goods grow scarcer?

Mr. HOLMAN. Yes, sir.

Mr. CRAWFORD. Would you go so far as to say, in addition to these elements or forces which you have pointed out, that subsidies give an administration, Republican or Democrat—it makes no difference, any major party which is in power—a more or less economic control over the people?

Mr. HOLMAN. I think they give them not only an economic control, but I think they have a tendency to give them a psychological control.

Mr. CRAWFORD. Would you go so far as to say that such practices tend to corrupt the electorate?

Mr. HOLMAN. Our leaders have said that from the time they began fighting these subsidies, that they feared that might become the result.

Mr. CRAWFORD. Let me be even more frank. This the time to be frank.

Mr. HOLMAN. Yes. I am going to do my best to be frank, too, gentlemen. Take the situation right in our own ranks. We have 75 honest farmer-owned and farmer-controlled dairy cooperatives, which represent about 365,000 dairy families in 45 States. Almost all of those dairy families have been recipients of subsidies. Some have refused to take them, even during the war.

We have seen the sentiment go up and down, up and down. "Shall we take off the subsidies?" And then, in conferences—or "Shall we try to get them off?" Let us put it that way, and then in conferences, they would say: "Well, after all, you know, it is a low price, and this subsidy is a sure thing, and if we take them off, maybe that fellow who was out here from the Government the other day making a speech in your community was right when he said that if you take them off, the dealers are so strong that they will not let the prices come up and you will lose your subsidies and you will not get a price increase." All of which was hooey. But a great many of the farmers have been led to believe that. A great many of our leaders, at times, have preferred to take a sure chance.

But I think, Mr. Crawford, that they have undergone a spiritual revolution in the last 90 days or so. Certainly, the meeting which was held here in Washington on February 18 and 19, which passed the resolutions which I have put into the record, revealed to me at least as united a body of leaders as this country has, trying to get rid of this evil system.

Mr. CRAWFORD. On page 12 of your testimony, you have said this:

We assert that consumers who pay retail prices for cream to be churned into butter already are victims of an insidious form of inflation which the Office of Price Administration is powerless to prevent.

Now, either I do not understand your statement, or perhaps you should enlarge on that.

Mr. HOLMAN. Well, I was talking about price inflation there.

Mr. CRAWFORD. If cream, moving into the market, by reason of a disparity in price relationships, goes on to the consumer's kitchen to be churned into butter—if that is caused by rules and regulations of the Office of Price Administration, wherein does not the Office of Price Administration have the power to correct that? Do you see what I mean?

Mr. HOLMAN. I think I understand. The Office of Price Administration would be tackling the most impossible task it has ever tried to do in trying to put price ceilings on cream. Cream is worse than the cotton market ever was in the days without control. It has a different price every 15 minutes of the day.

Mr. CRAWFORD. But suppose—

Mr. HOLMAN. And there is no standardization of cream. So they could not possibly control it.

Mr. CRAWFORD. I did not make my point clear.

Mr. HOLMAN. I am sorry.

Mr. CRAWFORD. Suppose the price of butter is properly adjusted, through a regulation of the Office of Price Administration, and butter then comes back on the market through that proper price adjustment then, the necessity for purchasing cream and churning it in the kitchen becomes unnecessary.

Mr. HOLMAN. That is right.

Mr. CRAWFORD. Do you see what I mean?

Mr. HOLMAN. Yes. That is correct.

Mr. CRAWFORD. So I think the record ought to show that the Office of Price Administration has the power to make a correction to prevent the consumer from being victimized through the purchase of cream and conversion of that cream into butter.

Mr. HOLMAN. A number of times we have urged that policy on the Office of Price Administration without avail.

Mr. CRAWFORD. Yes; I think that is what you wanted to say there.

Mr. HOLMAN. That is correct.

Mr. CRAWFORD. Now, there is a statement in Mr. Page's remarks, on which I would like to ask a clarifying question.

On page 2, where he refers to the Government producing evaporated milk, and paying therefor the higher price per case or can or carload than the producer of evaporated milk was allowed to charge the regular trade, all under the Office of Price Administration ceiling prices. That is what happened, is it not? In other words, the Government paid a higher price for evaporated milk than the producer of that evaporated milk was allowed to charge the regular trade under the Office of Price Administration ceilings.

Mr. HOLMAN. I would like Mr. Page to answer that, but may I comment that that is analogous to the cheese situation.

Mr. PAGE. I will answer that this way: What we were prevented from doing was to sell our domestic trade at \$4.10 in zone 1. We were also permitted, on the recommendation of the Office of Price Administration, to charge the Government \$4.10 f. o. b. to plant. This gave us an additional price because we had no freight, no cash discount, no selling expense, except in the general overhead selling expense.

Mr. CRAWFORD. Now, Mr. Page, you make a keen observation there. This amounted to a temporary indirect subsidy of under-priced domestic sale.

Mr. PAGE. Yes, sir.

Mr. CRAWFORD. I think you are correct in that. And I think you can carry it a step further: In the event there was a domestic producer of evaporated milk who was not selling to the Government a portion of his production, that policy on the part of the Government was putting him out of business because he was having to sell at a lower price.

Mr. PAGE. May I explain that point?

Mr. CRAWFORD. Just a minute. To the extent that that assumption would be right, that would be a correct conclusion, would it not?

Mr. PAGE. No. I want to give you just what happened, that is, the actual facts.

In World War I and World War II, the evaporated milk industry, by a voluntary allocation plan, each manufacturer gave a proportion to the Government's requirements as it applied against its own production, so that all shared equally in the extra price and also shared equally, if they wanted to, in the domestic market.

Mr. CRAWFORD. But that did not prevail in World War II, that policy, did it?

Mr. PAGE. No, that was put in—I can give you the letter—I can read from a letter here, if you will give me a moment to get it—

The CHAIRMAN. I suggest we go on.

Mr. CRAWFORD. Well, now, Mr. Chairman, if the committee could ever meet your policy of interrogation, we would know what to do. I do not know how to proceed here when we mix up four or five witnesses.

The CHAIRMAN. We will call the others to the stand, if they need to be interrogated. That is certainly not a very scientific way to interrogate, calling witnesses out of the audience. I suggest you defer your interrogation until we are through with Mr. Holman's testimony.

Mr. CRAWFORD. Mr. Holman, I do not think we have the record clear on the line of interrogation which Mr. Brown was pursuing with respect to a necessary increase in the price of milk, and a necessary increase in the price of butter. Assuming that the Office of Price Administration came along here and completely cleaned this proposition up, so far as butter is concerned, what would the price of butter probably be, roughly?

Mr. HOLMAN. I think it would be very difficult to make any predictions unless you take all of the dairy price ceilings off at once.

Mr. CRAWFORD. That is what I mean.

Mr. HOLMAN. Let us take that situation.

Mr. CRAWFORD. That is what I mean, clean up the whole thing at once. Then butter would sell at what price?

Mr. HOLMAN. Well, there would be the usual period of readjustment.

Mr. CRAWFORD. Yes, sir.

Mr. HOLMAN. Probably prices would go up a little higher immediately. As soon as some butter came back onto the market, they would go down. We have been working on that for 2 or 3 months, trying to make some projections, and, after taking various factors into consideration, we think that butter would settle down in the late summer to about 78 cents a pound. For the factors that are used in that, I would have to go back to my associates, who are economists, to be able to give that answer. But that is one of the problems I considered when preparing this testimony.

I might say, Mr. Crawford, that that is not any higher than butter went shortly after the last World War, when the buying power of the country was considerably less than it is at the present time.

Mr. CRAWFORD. I am not worried so much about that price. What do you people in the industry figure it takes, in terms of time, to produce a pound of butter: one hour? 2 hours?

Mr. HOLMAN. We have Mr. Howe here who can answer that.

Mr. CRAWFORD. Well, the chairman objects to that, so I will have to ask him later.

Mr. HOLMAN. You ask Mr. Howe that. I could procure that for you, but that is a matter of bringing cost accounting down to the time factor. We will make a pound of butter for you for 2½ to 3 cents, I can tell you that.

Mr. CRAWFORD. On that point, a cooperative creamery located at Coldwater, Mich., in the southern part of the State, has been running ads in the Detroit Free Press, and I have copies of those ads, if you want to see them. You may have them.

Mr. HOLMAN. I know I have one in my office. I may have one here. No, sir; I took it out this morning. It was given to me at Grand Rapids last week.

Mr. CRAWFORD. Well, this is correct; is it not? They advertised that they had so many pounds of butter on hand, which they would like to trade for a truck, or an automobile, and if anybody wanted to bring the butter, to bring the tangible goods and effectuate the trade at \$1 per pound for butter, the butter representing 1 hour's labor—or was it \$1.30 per pound?

Mr. HOLMAN. It must have been more than \$1.

Mr. CRAWFORD. \$1.30 per pound, I think, representing 1 hour of labor. Personally, I have no objection whatsoever for the people who produce productive labor obtaining the same hourly wage as the man who works in the factory and performs productive labor—stoop labor. That is just as flat as I can make it. And I think it is time for the Congress of the United States and the Administration, not only to give some consideration to it, but to act to the effect that the farm people of this country draw as good a wage as is set by the Congress and by the Administration for the man who works in the city. So your 75-cent pound of butter does not scare me, because I have produced enough pounds of butter to know how many minutes it takes to produce one. But I did want to have you help me develop the facts on these underpaid wages which the butter producers are getting, and the sins of omission on the part of the Congress and the Administration for not correcting the situation.

Mr. HOLMAN. Particularly the producer of gathered cream, that is, the cream that is separated, he would be in a pretty bad way if he had to depend entirely upon the sale of his cream. In many instances, of course, he may have some hogs or something else.

Mr. CRAWFORD. In lining up your opinions as to the purposes or reasons for subsidies, I noticed you did not mention the element which has to do with the prevention of inflation. In other words, you do not attach much importance to that phase of it, do you?

Mr. HOLMAN. Well, perhaps that escaped me because I have been going on the philosophy that subsidies themselves are far more inflationary than a somewhat higher balanced scale of prices and wages.

Mr. CRAWFORD. Let us develop that a little further—and I think you are correct in that statement: I think the record will show that in the last bond drive the banks of this country assisted the Treasury Department and the Administration in inflating our currency a fraction over \$11,000,000,000 in that one bond drive. In other words, about 50 percent of the demand deposits which we had at previous times, when there was considerable activity in this country; not the demand deposits which we have at the present time. So while it is said to us that we must pay subsidies to prevent inflation, we follow a fiscal policy of first selling bonds to the banks direct from the Treasury, and, secondly, permitting the banks to finance other people in the purchase of bonds—which is just as bad as if the banks bought the bonds—and, third, in permitting banks to go into the market and bid up the price of bonds by reason of the interest rate being lowered from time to time, which places a premium on the outstanding bonds, and in that way eventually getting the bonds into the portfolio of the banks, which is just as bad as selling the bonds to the banks originally, in the first place, so far as inflation is concerned. So all of those things we do constantly to promote inflation, but the public knows nothing about them.

Mr. HOLMAN. That is correct. I think that is correct.

Mr. CRAWFORD. Well, I know it is correct, because I have demonstrated it. Now, the payment of subsidies further expands the debt and causes more bonds to be sold.

Mr. HOLMAN. That is correct.

Mr. CRAWFORD. If the Government will come along and establish a policy preventing that type of inflation, you would be more sympathetic to some of these practices, would you not?

Mr. HOLMAN. Well, I am not so sure that we would be sympathetic to these practices at all.

Our opposition to subsidies goes back far beyond the period before we had inflation, and before we had any threat of inflation. It goes back to the subsidies to the banks, and railroads, and to other types of industries that profited by these gifts from the Treasury.

Mr. CRAWFORD. Have you any reason to fear that unless a correction is made in this butter-milk relationship, that certain creameries in this country, in order to preserve their capital structure to maintain their economic existence, are going to break out of harness and proceed to do some things regardless of consequences of the law?

Mr. HOLMAN. I would not want to apply that exclusively to creameries, but I do want to say this: That Mr. Bowles' price control even if you extend it, has broken down around his ears, and the seeds of its dissolution are apparent to anybody with any intelligent eyes to look, and it will be abandoned whether you extend it or not, because it will have broken down. The limitation orders that were referred to by the gentleman over here were not abandoned until they had practically broken down. Government never abandons controls until Government cannot continue to exercise controls, and I think you will find that before long there will be an admission that we have got to get rid of this because we can no longer control it.

Mr. CRAWFORD. If we go back into full production in this country, with wages and salaries being what we think they are going to be, based on recent agreements, how much liquid milk do you think our people would consume? 118,000,000,000 per year or 125,000,000,000 per year, or 140,000,000,000 per year?

Mr. HOLMAN. At what wage levels?

Mr. CRAWFORD. At the wage levels that we have reason to assume will govern within the next 18 months.

Mr. HOLMAN. Well, assuming full employment and the present wage levels, we would consume a great deal more of dairy products than it would be possible for us to produce.

Mr. CRAWFORD. Yes. We have a shortage with respect to feed supplies, have we not?

Mr. HOLMAN. Yes, sir.

Mr. CRAWFORD. Is it not reasonable to assume that if all of this encouragement which you have pleaded for was granted, we would still be short of the demand that our people will put forth for milk and milk products?

Mr. HOLMAN. During that 18-month period, between our demand and the demand abroad; yes.

Mr. CRAWFORD. I think it is important to develop that, because if through some means or other controls are removed and prices go up, I do not want you to be charged with the full responsibility for it.

Mr. HOLMAN. And may I make a comment flowing out of the thought you have just raised? I hear now a new school of thought advocating this: Let us have a formula by which we can get rid of subsidies and price controls, or price controls alone. And when production gets to a certain percentage, or gets up to par, we will remove the price control. Well, what are you going to do, Mr. Crawford, if 3 weeks later, or 5 weeks later something happened and production went down again? Are you going to put price controls right back on? That is no answer to the question of trying to set up a committee formula or a legislative formula based upon the relationship of price control to total production of the food supply.

Mr. CRAWFORD. Have we any sound reason to assume that we will ever balance supply with demand as long as we exercise price controls which prevent production?

Mr. HOLMAN. I think we have every reason to believe the opposite to be true. Price controls and subsidies tend to shorten production, if our observations have any value. That does not mean over a short term, but over something like a normal period of years.

Mr. CRAWFORD. Thank you, sir.

Now, Mr. Chairman, if I may refer to——

Mr. OUTLAND. Will you yield, Mr. Crawford?

Mr. CRAWFORD. With this witness?

Mr. OUTLAND. Yes.

Mr. CRAWFORD. All right.

Mr. OUTLAND. Is it your contention that over a period of years price control does definitely hamper production?

Mr. HOLMAN. That is our contention.

Mr. OUTLAND. When did price control start in the milk industry?

Mr. HOLMAN. Price control started in the milk industry in 1943, I believe.

Mr. OUTLAND. The reason I ask that is because in the statement of Mr. Hurtz, at the top of page 3 of that statement, he says:

Total milk production increased from an average of 105,000,000,000 during the prewar period 1939-40, inclusive, to 122,200,000,000 pounds in 1945.

In other words, that increase took place during the period of price control. How would you account for that?

Mr. HOLMAN. That turn has come. I said that for a very short period you might get it, but you cannot continue it very long. Already the factors of decreased production have showed themselves in the decreased number of cows. Price control, and subsidies together, some of our economists believe, do not equal the national average cost of production of milk for any purpose. Others qualify it and say that the price controls plus the subsidies are not sufficient to maintain production. I think I would be conservative and use the latter view on the matter. But we are no longer able to maintain production under this system of rigidity which takes the heart out of the man before he starts milking his cows.

Mr. OUTLAND. How would you then account for that increase during that period? I have not quite understood the answer to my question. How would you account for that increase which amounts to, I should say, about 10 or 11 percent, during that price-control period?

Mr. HOLMAN. Principally patriotism.

Mr. OUTLAND. Principally patriotism?

Mr. HOLMAN. Yes, sir.

Mr. OUTLAND. And did the patriotism decline with the end of the war?

Mr. HOLMAN. Patriotism for war purposes means getting out, when your boys have gone, and your hired hands have gone, using your wife, using your invalid sister, and working day and night, and breaking yourself down. That is how you got your milk production.

Mr. OUTLAND. Well, I think that the milk producers of America deserve a great deal of praise for that increased production, and I think the factor of patriotism which you mentioned deserves the thanks of all of the American people, consumers especially, but if I might just make this one observation, Mr. Crawford, and I thank you for yielding to me, it seems that the emergency does not terminate just with the ending of the war, and as long as we still have a great many men in the armed services, as long as they are going to have to come back and they are going to have to buy milk and milk products, it seems to me that it is up to all of us, whether producers or consumers, to just carry over that patriotism even if it means tightening our belts and using a little less in the meantime.

Mr. HOLMAN. Well, I happen to have been in the Food Administration in the old World War. We did not have any of this stuff. We did not have any price controls, in the sense that we are talking about them today. There was only one commodity in which prices were fixed at all. That was wheat, and that was not a maximum price, that was a minimum price authorized to be levied, and the minimum price was \$2.22 for a bushel of wheat at Chicago. We did not have, by any means, all of these peculiar maladies of maladjustment which have come from trying to run the country by twenty-five or thirty thousand men, most of whom are not entirely too familiar with the multiform problems they settle day by day, or do not settle at all.

So when you say that the farmers should continue—and I believe they are patriotic—they are tired. And the boys are not coming back to the farms to amount to anything at all, up to the present time, at any rate. It is only a week or two ago when I sat over in the committee presided over by Mr. Pace, and I heard one of my own directors, who lives on a farm of about 162 acres, in Oregon, describe how he and his wife and his sister, carried on during this period, how for the last 3 weeks, at the time of this testimony, they had had an ad in the paper for a good farm hand to come and live with them, for the house, the usual hog, and \$150 a month. And they had the application in at the county employment service. They had not been able to get a single taker. So you see there are other factors besides price controls or incentives which would cause this rise. But also the other factor, which I failed to mention, is that during this period costs have been overtaking the farmer and we have now gotten to the point where the down turn is on the way.

Mr. OUTLAND. Thank you, Mr. Crawford.

Mr. CRAWFORD. Mr. Holman, I think at the top of page 11 of your statement, you made another quite conclusive statement, where you show that the production in January of 1941 was 135,000,000 and successively on down through January 1946, it dropped to 68,935,000. That was all under price control, was it not?

Mr. HOLMAN. Yes, sir.

Mr. CRAWFORD. There is no increase there, is there?

Mr. HOLMAN. I would not think so.

Mr. CRAWFORD. I yield to Dr. Talle for a question.

Mr. TALLE. Mr. Holman, I can assure you that you are 100-percent right, when you say that the dairy people are very tired. I know that from my personal acquaintances in the dairy business which are very important in my district in Iowa. That is not all. They are a good deal older than they were a few years ago.

Mr. HOLMAN. That is true.

Mr. TALLE. This hard work has not only made them tired, but has made a good many of them physically unfit to carry on any longer, and the other fact you mentioned plays a part, namely, if the boys do not come back to assist them on the farms now, it is just not physically possible for them to produce what they turned out during the war years.

Mr. HOLMAN. That is correct, sir.

Mr. TALLE. Thank you, Mr. Crawford.

Mr. CRAWFORD. Now, Mr. Chairman, if I may have Mr. Page.

Mr. PATMAN. Let us get rid of this witness first.

Mr. CRAWFORD. Wait a minute. I understood from the Chairman that I could complete with my examination.

Mr. PATMAN. Let us get through with the witness.

Mr. CRAWFORD. I am through with the witness, and I want to question another witness.

Mr. Chairman, I make a point of no quorum.

Mr. PATMAN. Well, let us see what the situation is.

Mr. CRAWFORD. I make a point of no quorum.

Mr. PATMAN. There is no point in doing that.

Mr. CRAWFORD. I make the point of no quorum.

Mr. PATMAN. Suppose you call up some of the members, Mr. Clerk, and see if you can get them up here.

Mr. CRAWFORD. If you want to let me go ahead with the witness, I will withdraw the no quorum, otherwise it sticks.

Mr. PATMAN. All right. I will yield.

Mr. Folger.

Mr. FOLGER. I was going to try to compose the difference.

Mr. CRAWFORD. I only have a few questions.

Mr. PATMAN. It is composed. That is all right.

Mr. CRAWFORD. Mr. Page.

Mr. PAGE. Mr. Crawford, I have this letter. It is dated May 9, 1944, and written to the Honorable Alexander Wiley, United States Senate, and it is signed by Chester Bowles.

I will just read the place wherein they make this statement:

It is true that a number of evaporated-milk manufacturers' petitions for an increase was denied in April 1943. However, in lieu of this, the evaporators were given, to sell to the Government, on an f. o. b. plant basis, which was equivalent to 15 to 18 cents per case increase in the price of evaporated milk. This increase in the price of evaporated milk sold to the Government agencies permitted the evaporators to continue to pay \$2.60 to \$2.65 for 3.5 milk. I am sure that Mr. Kinzer recognizes this relief was given to the evaporated-milk industry by the Office of Price Administration.

Now, it was not really denied, gentlemen. It was vetoed. I hold here Maximum Price Regulation 289, amendment 14, which was all

printed, and which you know looks like the Federal Register. And down here it says: "Zone 1, \$4.25." That is up 15 cents. And that was dated June 1, 1943.

Now, is it not hard for men who voluntarily agreed, without any force, to supply our Government with milk, even though they had to sacrifice some of their domestic business, which, after all, is the greatest market in the world, when they knew in 1943, early in 1943, that the price was inadequate, and that we are still going on with the old prices, is it any wonder that the small manufacturers are going to divert milk into other channels? And only last week one of the small manufacturers sold out. And he sold out because he could not make a return on his capital. He had to go to one of the large, strong financial outfits, that could take his loss for a period, if necessary.

Mr. CRAWFORD. That was the only way the small fellow had to economically survive, was it not?

Mr. PAGE. Yes. Now, I would like, if I may—I am sorry Mr. Outland is gone—correct one feature that Mr. Outland was laboring. In 1940, we produced, in this country, 55,000 cases of evaporated milk; 1,836,000,000 pounds of butter; 321,000,000 pounds of dry skim milk; 602,000,000 pounds of cheese.

In April 1941, Milo Perkins called the dairy industry to Washington—I think it was the 6th day of April—and asked us to step up production. Dairymen were represented, processors of all types. The result: 1941, evaporated milk, 74,000 cases; butter, 1,872,000,000 pounds; dried skim milk, 366,000,000 pounds; cheese 553,000,000 pounds.

1942—and, mind you, 1942 was accomplished when Leon Henderson stepped before the evaporated milk industry and said, "Make an orderly retreat," and I think they did the same thing to some of the other industries.

Still, at the end of 1942 we had packed 81,000,000 cases, we had 1,764,000,000 pounds of butter, we had 565,000,000 pounds of dried skim milk, we had 916,000,000 pounds of cheese. That was without control. Control came on, as I recall, late in 1942.

Mr. CRAWFORD. What happened after control came on?

Mr. PAGE. I will give you the production figures: Milk, 1939, 109,000,000,000 pounds; 1940, 112,000,000,000 pounds; 1941, 115,000,000,000 pounds; 1942, 119,000,000,000 pounds; 1943, 118,000,000,000 pounds. I think that tells the story.

Mr. CRAWFORD. Thank you.

Mr. PAGE. This country will respond to voluntary operations if given an opportunity, and the dairy industry has always done it.

Mr. CRAWFORD. Thank you.

Mr. PAGE. I have been in the business all my life, and I know it.

Mr. PATMAN. Mr. Folger.

Mr. FOLGER. No questions.

Mr. PATMAN. Mr. Holman, will you come back on the witness stand?

Mr. HOLMAN. Yes, sir.

Mr. PATMAN. Mr. Talle.

Mr. TALLE. Just a word about subsidies, Mr. Holman, I opposed them at the time when we began paying consumer subsidies, and my argument was this: That, in the first place, they are inflationary. In the second place, they are so very hard to get rid of. I think the

words I used were these: "That they harbor within themselves a spark of life that seeks not only survival but expansion as well."

Mr. HOLMAN. Yes, sir; they are like the germs of the yeast.

Mr. TALLE. That is right. Suppose we run into difficult days, and the standard of living of the American people is threatened. Is it not likely that a demand would come for an increase in subsidy payments?

Mr. HOLMAN. If subsidies are to be the policy, that demand is before us as I am speaking now. The present requests made by Mr. Brownlee, before this committee, are far out of line with what the dairy farmers will have to have if you are going to continue subsidies after the 1st day of July. And if disaster comes on, we will ask to be continued to be taken care of, and to continue to be wards of the Government, because more and more this evil corruption will be spreading through the system, and there will be practically no way in which we can get out from under its entanglement.

Mr. TALLE. And if consumer subsidies become an institution in our economy, is it not logical to suppose that the dairyman's income from subsidies will probably rise and his income in the market place go down?

Mr. HOLMAN. That is correct.

Mr. TALLE. Following that to its logical conclusion, the time might well come when his total income would all be subsidy?

Mr. HOLMAN. Or almost his total income.

Mr. TALLE. Yes. In that situation, of course, we would not have a republic any more, would we?

Mr. HOLMAN. We would be back to the days of the Gracchi. We have almost reached that at times in certain of our distribution today.

Mr. TALLE. Just one other point. Historically, in our country, we have had free trade within our continental limits, and within our possessions; is that not right?

Mr. HOLMAN. Yes, sir; that is correct.

Mr. TALLE. We practice free trade within our 48 States?

Mr. HOLMAN. Yes. There are a great many natural sanitary restrictions of that kind, which protect the health of animals and plants; yes. That is facilitating trade rather than anything else.

Mr. TALLE. That is right. And while we were proceeding that way, we had tariffs in our international trade?

Mr. HOLMAN. That is correct.

Mr. TALLE. Now, have we not switched completely around, because the burden of Bretton Woods—and I went along with that because I wanted nobody to say that I did not do my part in establishing good commercial relations throughout the world—but the argument then was that we must get rid of all of these various controls and devices that would be obstructions to the flow of international commerce and trade?

Mr. HOLMAN. I recall that that was the general argument, not only at Bretton Woods.

Mr. TALLE. So we have turned completely around, and we are for free trade in international commerce, and we have set up all of these controls and regulating devices within our 48 States.

Mr. HOLMAN. Now that you have raised the question, one of our greatest fears in our organization is that in the forthcoming conference

of the 14 nations, which are going to meet with us, most of which I think are the sterling bloc nations, that the policy of continuing to cut the tariff on foods which are competitively produced with American foods may be tied in privately, so far as our rulers here are concerned, with a policy of continuing subsidies. I did not place that in my written statement because I had no intention at this time of raising this issue, but that is one of our deepest fears, and I think it is one of the real arguments for abandoning the subsidy program at the earliest date possible. I do not hesitate to make those statements when I speak on this question outside of a committee.

Mr. TALLE. It would seem to me that we are sort of stricken with a kind of economic creeping paralysis, and if we do not do something about it pretty soon, we will not ever be able to hope to get back to normal.

Mr. HOLMAN. Well, I believe it is the author of History of Western Civilization who refers to the fact that one of the finest indications of deterioration of a democracy is the increasing rigidity of its internal controls.

Mr. TALLE. That is right.

Thank you very much.

Mr. PATMAN. Mr. Riley.

Mr. RILEY. No questions.

Mr. PATMAN. Mr. Thom.

Mr. THOM. You said something about the main purpose of the administration in setting up subsidies was to effect greater control. Will you explain how, and whom, do you accuse of that?

Mr. HOLMAN. I referred, in answer to a question from Mr. Crawford, I spoke of the dairy production subsidies and I had reference to the ambitions of the Agricultural Adjustment Administration and its desperate attempt to maintain itself over the years, since it was started, and it is getting into a rather difficult position, out of which they were bailed by being able to utilize the costs of paying the checks through what we refer to as the county seat systems. I did not want to name names, because I do not think that is a good idea in hearings. But that is just who I meant.

Mr. THOM. I gathered from your statement, then, that you have been opposed to the Agricultural Adjustment Administration originally?

Mr. HOLMAN. No; I was one of those who helped draw up the original act in 1933. I served on one of Mr. Wallace's committees.

Mr. THOM. With all controls in the Agricultural Adjustment Administration, you were for it?

Mr. HOLMAN. The controls that were exercised then were largely of a voluntary character.

Mr. THOM. I know, but when taxes——

Mr. HOLMAN. The controls under the Soil Conservation Act have been of a voluntary character.

Mr. THOM. We taxed people under the original Agricultural Adjustment Administration Act to pay higher prices for meat, and for cotton, and you were a proponent of that?

Mr. HOLMAN. Yes, we had to do something in those days, and we had to pay some taxes also to help stabilize some butter in 1935. But there is a distinction here between the two.

Mr. THOM. I got the impression that you said it was one of the means to assert Government. Now, you were a proponent of that. You think the Agricultural Adjustment Administration was setting up a political dynasty?

Mr. HOLMAN. Yes, sir; there are many of us who believe that.

Mr. THOM. Do you believe they use their power politically?

Mr. HOLMAN. As to elections, I would not say, but as to legislation—

Mr. THOM. Well, you participate in elections a good deal. You ought to know.

Mr. HOLMAN. I would not be a bit surprised.

Mr. THOM. Well, how would you explain the fact that they do not have an appreciable number of Congressmen from the various districts, except from the South? Can you explain that?

Mr. HOLMAN. I cannot give you that answer.

Mr. THOM. You ought to be able to answer that, you have made the charge of political control, and, following your statement, I came to the conclusion that you felt that this administration has used the dairy program to entrench itself in power.

Mr. HOLMAN. Well, now, I do not want to get into politics.

Mr. THOM. Well, we are in politics.

Mr. HOLMAN. Well, but a hearing is not necessarily politics. This is legislation.

Mr. THOM. Well, just answer my question. You made the charge that it was for political control.

Mr. HOLMAN. You asked the question.

Mr. THOM. Yes.

Mr. HOLMAN. I have answered you as far as it would be becoming of me as a witness to answer it.

Mr. THOM. Well, I should like to know the answer to it. You have been very frank here, and you have made the very broad statement that this was for political control. I do not think the farmers have been supporting the administration in the elections, and I think you know that.

Mr. HOLMAN. Well, being a southerner myself, the reasons why they voted down South are the same reasons why we voted that way all the time.

Mr. THOM. But in the North, take the northern districts, the agricultural districts, they have uniformly been voting against the administration, so I do not see that these subsidies get you any votes. And I think I know about my own district.

Mr. HOLMAN. I see. Well, I hope you are right, sir.

Mr. THOM. Well, I know I am very right in that, and I am willing to say what I think. You do not seem to be willing to answer the question.

Mr. HOLMAN. As I said before, there are some questions which I think should be, with all due respect to the gentleman, should not be raised in a discussion of a legislative problem.

Mr. THOM. Well, you raised the question, and you made the accusation, sir, and you have not substantiated your position, I do not think.

That is all.

Mr. PATMAN. Mr. Wolcott, do you have any questions?

Mr. WOLCOTT. No, I do not want to get into this argument. I understand Mr. Holman was expressing his own opinion on the matter, anyhow.

Mr. PATMAN. All right, Mr. Holman.

We cannot proceed any further gentlemen, because it is nearly 5 o'clock, and we have a roll call and we do not get back here until 5:30, which would be too late.

The witnesses that were not heard this afternoon will be heard tomorrow morning, and we will hear them at that time.

Without objection, the committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5 p. m., the committee adjourned, to reconvene at 10 a. m., Wednesday, March 20, 1946.)

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