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
VOLUME II
MARCH 20, 21, 22, 23, 25, 26, 27, 1946
Printed for the use of the Committee on Banking and Currency
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The committee reconvened at 10 a. m., Brent Spence, chairman, presiding.

The CHAIRMAN. The committee will be in order.

We will hear this morning from the National Association of Real Estate Boards.

The witness will identify himself before proceeding.

STATEMENT OF CALVIN K. SNYDER, NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

Mr. Snyder, Mr. Chairman and members of the committee. My name is Calvin K. Snyder. I am appearing today on behalf of the National Association of Real Estate Boards. Our headquarters are located in Chicago.

In appearing before your committee on H. R. 5270, I seek to speak for the real-estate business throughout the country, which is organized into 784 real-estate boards which are a part of our national organization.

Our members manage some 4,000,000 tenant units for owners and are, therefore, interested in behalf of owners and tenants alike. Many believe that we represent owners only. This is wrong. The tenants are also our customers.

Some 10,000 of our 30,000 firms build houses. An equal number are interested in mortgage finance as a part of their business. The whole housing picture is, therefore, an intimate part of our daily lives and of our thinking.

We are not, as many would have you believe, the representatives of greedy landlords who are seeking to take advantage of a shortage of housing. We are daily the recipients of thousands of applications from veterans and other worthy citizens for accommodations which clear through our offices. We get the first and greatest impact of the shortage. We receive the greatest amount of cussing out. We know how tough the problem is.

We are in entire sympathy with the difficult situation that confronts Government and especially Congress at this time. Consequently, you may be sure that the suggestions we have to offer are brought forward in good faith and with a desire to do the best for everyone concerned.
I come before this committee to pray for relief and justice. We are fully aware of the situation and do not want to add to the burdens of government or the public.

The National Association of Real Estate Boards has always recognized the need for wartime control. Our plea has always been, and continues to be, for justice, fairness, and decent treatment in its administration. This we do not always have.

The cost of operating properties has increased greatly since 1941 and 1942, when rents were frozen. Since 1939 rents have advanced only 4 percent, but all the elements of property operation—wages, taxes, and maintenance—have increased consistently. This we will show you in chart form a little later. There are many property owners who are in serious distress because of the rigid controls.

We are aware that the National Apartment Owners Association and the Metropolitan Fair Rent Committee has appeared before this committee and requested a 15 percent across-the-board increase in rentals. We believe this is justified as it represents no more than the proper recognition of increased costs.

If, however, the Congress is not disposed to accept such a recommendation, we have an interim amendment which we believe is a fair proposition.

We are submitting this amendment to the Price Control Act concerning rents. It can be summarized as follows:

This amendment will permit a property owner to file a schedule with the Office of Price Administration showing his increased monthly operating costs, including taxes, as of the present compared with his freeze date.

The property owner would file with this statement a schedule showing increased rents to cover dollar for dollar these increased operating costs; provided, however, that the increase in rents does not exceed 10 percent.

After 60 days the new schedule of rents would become effective unless in the meantime the Office of Price Administration could show that the property owner's statement about his increased costs was untrue.

This plan would permit fair adjustment in hardship cases. It would not mean a general horizontal rent increase throughout the country. Owners which do not have increased costs would not be entitled to increased rents.

It was the clear intent of the Price Control Act to direct the Office of Price Administration to make just such changes in rents. This amendment will compel the Office of Price Administration to treat owners fairly and as Congress intended.

Mr. Chairman, with your permission, I would like to introduce in the record at this point the phraseology of the amendment which is attached to the statement that has been passed around.

The CHAIRMAN. Without objection, it may be inserted.

(Proposed Amendment to Price Control Act)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 2 of the Emergency Price Control Act of 1942, as amended, is amended to read as follows:
“(c) Any regulation or order under this section may be established in such form and manner, may contain such classifications and differentiations, and may provide for such adjustments and reasonable exceptions, as in the judgment of the Administrator are necessary or proper in order to effectuate the purposes of this Act. Under regulations to be prescribed by the Administrator, he shall provide for the making of individual adjustments in those classes of cases where the rent on the maximum rent date for any housing accommodations is, due to peculiar circumstances, substantially higher or lower than the rents generally prevailing in the defense-rental area for comparable housing accommodations, and in those classes of cases where substantial hardship has resulted since the maximum rent date from a substantial and unavoidable increase in property taxes or operating costs. Any regulation or order under this section which establishes a maximum price or maximum rent may provide for a maximum price or maximum rent below the price or prices prevailing for the commodity or commodities, or below the rent or rents prevailing for the defense-area housing accommodations, at the time of the issuance of such regulation or order. The owner of any housing accommodations with respect to which a maximum price or maximum rent has been established by any regulation or order under this section may, at any time after the date of approval of this amendment, file with the Office of Price Administration a statement of the property taxes and operating costs in connection with such housing accommodations, showing the actual amount of increase, if any, in such taxes and costs, between the maximum rent date for such housing accommodations and the date of filing such statement, on a monthly basis, and may file at the same time or at any time thereafter a new rent schedule for such housing accommodations, to become effective at the beginning of the first rental period following the expiration of 60 days from the time of its filing, which new rent schedule may provide for rent increases not exceeding in amount the increase in property taxes and operating costs shown by such statement, and not exceeding in percentage 10 per centum of the maximum rents for such housing accommodations in effect at the time of filing such new rent schedule. Statements or property taxes and operating costs filed hereunder shall be supported by oath or affirmation of the property owner filing same. Any new rent schedule filed pursuant to this subsection shall become effective according to its terms unless, prior to the expiration of 60 days from the date of filing of such new rent schedule, the Administrator shall issue an order suspending the effectiveness of such new rent schedule on the ground that the statement upon which it is based is false or in error in one or more major particulars.”

Mr. Snyder. A word of comment on the proposed amendment. The registration of increased costs by the owner who desires to increase his rents will not be cumbersome. The Office of Price Administration has the machinery established for this operation. All of the existing rental units are already registered, together with their rents. The Office of Price Administration also has ample data in its files to check the owner’s statement of costs. It has been collecting this material for years.

The Office of Price Administration already functions in the way suggested with respect to many manufacturing operations. Manufacturers are permitted to file a schedule of increased prices based on increased costs and to go ahead unless the Office of Price Administration imposes a veto. This has been done in the shoe industry and several others.

The recognition of increased costs as a factor in determining prices has long been observed by the Office of Price Administration. In fact, the increase in the general level of the price of other factors in the cost of living has been due principally to adjustments which have been allowed by the Office of Price Administration because of increased costs. It is only just, therefore, that the same recognition be given to such increased costs in connection with shelter as is given in every other field.

It is true that the Office of Price Administration has long been under direction of Congress to do this. It has not done so. We,
therefore, feel it essential that Congress should adopt a specific amendment which will spell out in the law exactly what the Office of Price Administration must do in fairness to 8,000,000 small property owners. When a law is made it should apply to everyone. A public policy should apply to all. It is true that the only economic front which has been held by the Office of Price Administration is that of rents. When law and administration are administered against one group and in favor of others this is in itself a grave injustice.

Our amendment simply seeks a partial parity for rents. If the costs have increased even more than 10 percent, we, nevertheless, suggest that for the moment the allowable increase in rents be held to 10 percent. If the operating costs have increased 5 percent in any individual case, then, the increase in rents would be dollar for dollar in the same amount. Owners that do not have increased costs would not receive any increased rents. This certainly seems eminently fair and reasonable. In fact, it is leaning over backward in order to assist Congress in its difficult problem.

Mr. James C. Downs, Jr., of Chicago, is a specialist in research in the real-estate field. He has been an adviser to the Office of Price Administration on rents. He is the manager of properties in Chicago. He is president of the Real Estate Research Corp., Chicago. Mr. Downs will show you some charts which demonstrate the present injustice suffered by most of the small-property owners in the Nation.

May we show those charts at this time, Mr. Chairman?

Mr. BARRY. Yes.

Mr. Downs, will you give your full name and state whom you represent?

STATEMENT OF JAMES C. DOWNS, JR., PRESIDENT, REAL ESTATE RESEARCH CORP., CHICAGO, ILL.

Mr. Downs. My name is James C. Downs, Jr., I live in Park Ridge, Ill. I am president of Real Estate Research Corp., of Chicago, Ill., which does research for banks, insurance companies, housing authorities, and real-estate boards.

Whereas other groups have appeared before this committee and have asked for a horizontal rent raise which would impose a 15-percent blanket increase on the entire Nation, we have sought to come before you with a solution to the problem of rents which we believe is practical of attainment, and a practical job for the people of this country who own the Nation's properties.

Since the passage of the Price Control Act, the typical landlord in the United States has had no relief under rent control—of any kind or character. Whereas in Mr. Bowles' testimony he points out that a substantial number acted upon favorably, those petitions for grants of increase in rent were all petitions filed under the regulation, and under the regulation there are specific manners in which one can petition for an increase in rent, but those increases in rent can only result from the proof on the part of the landlord that he has either altered the premises or has suffered a hardship, or has had a property which was in peculiar circumstance, or several other remedies under the regulation.
However, unless there was a real right, under the regulation, for that petition to be filed, there is no chance for relief on the basis of increased cost, or of increased pay rolls, or of increased materials.

Now, we would like to point out a chart which shows the difference between the increases in rent and increases in the cost of living. These figures are all well known to members of this committee, and the 4-percent increase in rent and the over 30-percent increase in the cost of living are figures of the Bureau of Labor Statistics.

There is indication now that the cost of living will go a little higher. Mr. Bowles has estimated that it will go up 5 percent. Mr. Eccles has said that he believes it will go up 10 percent. Yet, under the present law, there is no possible relief for the real-estate owner, and none envisaged except under this amendment.

Now, there are certain things that I would like to point out about the condition which results from these wide factors:

1. The cost of living at 30 percent up is not a true statement of the hold-the-line by the Office of Price Administration, because if it were not for subsidy to the cost of living which is given by this 4-percent increase in rents only, that is, if rents were up a proportionate amount, the cost of living would be a great deal higher. One of the reasons why the cost of living has been held to that level is because rents, which were originally figured at 19 percent of the cost of living, have subsidized the cost of living by themselves being up only 4 percent.

Another interesting fact about this chart is that the very low level of rents in the economy is responsible for the tremendous sale of houses, and the great removal, from the rental market, of these houses by thousands of cases each month. The reason is that the houses are at such low levels of rent that many hundreds of landlords—thousands—have found it inequitable, in the light of their greatly reduced purchasing power in the economy, as a result of the rent being held at this level, while their expenses are at a higher level, that they have concluded to sell their houses because it is uneconomic to hold them.

Another interesting situation which has developed from the fact that rent is out of balance in the economy is that it has, strangely enough, been one of the reasons for the housing shortage. One fact that we all know is that when wages go up, as they have in both white-collar and labor groups, and rentals remain the same, great classes of people who never before in the history of our economy have been able to live alone, thus using up one rental unit for themselves, are now finding it possible to do so.

One of our affiliate companies operates a large number of apartment hotels. We, like other people, are doing everything possible to make those units available for veterans. We made a survey, in our building, last month, and we found that 39 percent of our apartments in this category are occupied by people living alone—girls who work in offices and who, for all the previous history of this economy, were forced to double up and live together, because that was the way they could get an apartment, because their salaries have increased substantially, and because rent is down at the low levels, find it now possible to use an apartment for themselves. A good thing for them; a bad thing for the use of apartments.
More than that, the price of articles is a great stimulation for production, as we heard in these hearings yesterday.

The fact that rentals are at their present low levels is a deterrent to the creation of rental housing, and all of our sources of information lead us to believe that one of the real needs in the economy at the moment is rental housing.

We would like to point out, for your consideration of this amendment, that the housing of the Nation is a national asset. The Government has, for a long period of time, believed that the farms of the Nation were a national asset. We have followed a policy whereunder we are trying to keep our farm lands in productive position. Yet when we look at the national asset which is presented by our housing, by our urban housing, we find that, under this rent regulation, owners are deliberately allowing this national asset to deteriorate, because they are not paid for keeping it up, they can rent their house without any care whatsoever, and there is no way, if they spent money on it, for them to get that money back.

We are dissipating, gentlemen, our national asset in urban housing, at a time when more people are interested in urban housing by a larger percentage than have ever been interested in it in the history of our country since a higher and higher percentage of our people are using urban housing, and yet at that time when we are worried over the entire problem of getting housing up, we are accelerating the depreciation of the housing plan of the Nation, by making it impossible for the owner to spend money to keep its property up, and get that money back.

Under our amendment, under the amendment proposed by Mr. Snyder, we are seeking merely to get back for the people who keep up these homes, the money which they put in it at least up to 10 percent of the rent. Many people will not be eligible to apply under this amendment for an increase in rent. Those not eligible will, of course, not apply.

Now, one of the general beliefs of the public is that the rented dwellings of the Nation are represented by large apartment buildings, that they are owned by large operators. They think in terms of apartment buildings which stand out, in New York, in Chicago, in Washington, in a few of our major cities. But this chart, which shows how the rental units of the United States are made up, is interesting in that 41.4 percent of all the units are in the single-family houses. 21.6 percent of all the units are two flats, 15.1 percent of all the rented units are in three and four flats. So that more than three-quarters of all the rented units in the United States are in four flats or less. There is no large operator in that group.

We might point out that there is no concentrated ownership of houses today in the United States. In the 1933-35 period, insurance companies, banks, trust companies, and others owned hundreds of houses. But if you were to make inquiry of Metropolitan Life or Prudential Life or any of the large life insurance companies engaged in the mortgage business who, in 1934, owned large bulks of houses, you will find that those houses have gone back into individual ownership.

Therefore, we believe that under our amendment, these people who are having increases in costs, which we shall discuss somewhat later,
can recover those costs, and in so doing, more than three-quarters of all the owners of this property will be the small property owners in the four flat and less category.

Now, one of the stereotype arguments with respect to the rent-control law is that the average property owner is making more money today than he ever made. There are some statistics applying to a small segment of the chart which we have just reviewed which indicate that gains in occupancy alone accounted for substantial amounts of net increases to the landlords. I would like to review that with you for just a minute.

In 1940, when the census was taken, in the early part of the year, the four-family and smaller homes in the United States had a vacancy of 7.86 percent. The buildings of larger than four families had a vacancy of 9.67 percent. That is always true, that the larger buildings have the higher vacancy. The smaller buildings have the lower.

Now, you gentlemen are familiar with what happened in our housing economy between 1940 and the time when you undertook to pass the 1942 Price Control Act. Between 1940 and that date, there was a sharp increase in urban occupancy, all over the United States. And that sharp increase probably resulted—nobody knows, but at least when area rent directors felt it was necessary to impose rent control, there was a presumption of an existing emergency and shortage. Therefore, I believe we can assume that the occupancy in four-family and smaller units had gone from 93-odd percent, where it was, up to about, let us say, 97 or 98 percent.

Now, suppose that is true. Here is the situation of the single-family home operator. Ninety-eight of these fellows have 100 percent occupancy. Two of them have 100 percent vacancy. To speak of the benefit to this man, for this man’s renting of his house does not make sense. The fact is that in the small units, the average small unit, or more than 95 percent, in any event, of all the small property, with 100 percent occupied on the rent freeze date have since had no increase of any form in rental, for occupancy or otherwise.

We find that, in the rent, you have the only universally applied ceiling where no element of cost has been considered. It was a real freeze of the existing status on the date of the freeze, and since that time there has been no way for any increase to come to these people.

Now, turning our attention to factors of cost in the operation of rented dwelling units, I assume that many of you members of this committee live in houses which you own, and if you do, if you have had any decorating work done lately, as I did last month, where my bill for the identical same job that I had done in 1940 was 110 percent higher than it was in 1940, I assume that you have had the experience of the larger-than-average increase for isolated operations. By that I mean that these figures which we show here show that paint and paint materials are up 29 percent. That is a figure furnished to us by the Bureau of Labor Statistics. But the fact is that isolated jobs done by Joe Home-Owner, who must call a plumber, who may call a decorator in to do three rooms, are substantially more than the source industry pricing.

But as we look at this thing and see what the owners are up against, we find that in the repairs classification, plumbing and heating is up 18 percent; soft coal, which all of our northern buildings must use,
is up 23 percent; paint and painting materials and paint, 29 percent; general building materials, 30 percent; building trade wage rights, up 34 percent; and so on. Now, these costs which have increased, are in addition to other costs which all of you are certainly more familiar with.

Those costs of local taxes: There is no recognized compendium up to date of the trend of local taxes, but I think that our general experience will indicate to us that these things are true. Since VJ-day almost every one of our cities has added substantially to its police force.

Since the imposition of rent control, every one of our major cities has had substantial increases in municipal employees pay roll. The school program is seeing just at the moment, and has seen for the past 2 years, a very rapid rise in the salaries paid to teachers, maintenance employees, the costs of operating the school system.

In many cities our local governments are taking over local transportation systems and are putting additional revenues into them. They are all engaged, or will be, in veterans' housing programs of a temporary nature which are going to be borne out of the budgets of the cities.

Postwar planning is taking an increasing amount of city budgets, and is accounting for raises in taxes.

Airport bond issues are being floated all over the United States and airports are being installed. The net result is that local taxes in Chicago, in Detroit, in Utah, in little towns and big towns, are all increasing at a tremendously rapid rate, and have all increased already under rent control very substantially.

Now, we have presented before data with respect to the comparative condition of real estate under this law. We have shown that rents are the only single segment of our national economy where the original freeze principle was used, and has never been changed. That is the reason, gentlemen, why rents are up 4 percent during this period, whereas the cost of living is now up over 30 percent, and the anticipation is it will go from 5 to 10 percent higher.

Let us just take a look, briefly, at what has happened with wages as compared with rent in several of our major employment classifications. In all manufacturing classifications, the take-home pay was up 200 percent, dropped off at the end of the year under strikes down to about 100 percent, and we have reason to believe that now that the strikes are settled and that the wages are even higher, that this take-home pay will not recede a great deal from its wartime peak.

In anthracite coal, we have this situation: 225 percent as compared with 4.
In bituminous coal, over 150 percent as compared with 4.
In wholesale trade, 150 percent as compared with 4.
In retail trade, about 30 percent as compared with 4.
In hotels, 175 percent as compared with 4.
Insurance, 26 percent as compared with 4.
And in building construction, approximately 200 percent as compared with 4.

Mr. Barry, Mr. Downs, you were talking about school teachers and municipal employees before. The mayor of New York appeared here about 2 weeks ago and testified that the 175,000 city employees, firemen, policemen, school teachers, and so on, have received only an
increase of 15 percent since the war began, and a temporary one, at
that.

Mr. Downs. That may be true in the city of New York. I do not
believe it is typical of the country as a whole. I believe that the
school teachers' salaries in the country as a whole are up considerably
more than 15 percent since the maximum rent date.

Mr. Barry. Well, that is the biggest city in the country.

Mr. Downs. I appreciate that, but at least that is 15 percent. We
have nothing.

Mr. Barry. That is a temporary one taken out of special funds.

Mr. Downs. That is right. But I would imagine, in the light of our
studies of the economy, that it is not temporary.

Now, there is always the stereotype, also, which is given to owners
of real estate, that we must hold rents at their freeze level of 1941 and
1942, respectively, because, perhaps, other factors have not been held,
or because it would work too great a hardship on the economy if we
were to allow increases in rent.

Now, gentlemen, we have not come here and we are not urging, in
any sense, the abandonment of rent control. We have not come here
to ask for a horizontal increase in rents throughout the United States.
We have come here only to ask that you make an amendment to this law
which we believe is practical of attainment, which we believe will be
beneficial to the national economy and which we believe will in no
sense create a stir of inflation or add one whit to inflation.

Let us suppose that under this amendment, landlords, who had an
increase in taxes—a man owns a house out here, he has an increase in
taxes, he has some increase in decorating costs. He comes in under
this amendment, if he has an affidavit of those increases in costs,
comes up, and asks for a rent raise to offset those increases in costs.
We have no reason to believe that it will be typical of that man to get
the full 10 percent, because his individual condition may not justify it.
If it does not, he will not get it. But let us look at the two alter-
 natives. A 5-percent raise in rent would do what to the typical
renting public? Forty-five percent of the families in the United
States, if their rent was raised 5 percent, would be increased in rent less
than a dollar a month. Eighty-four percent of the families in the
United States, if we allowed a 5-percent increase in rents, or if this
amendment resulted in an average 5-percent increase in rents, would
get less than a $2 a month raise. Ninety-six percent of the families in
the United States now renting, or who were renting in 1940, would
get a rent raise of less than $3 a month.

Now, at a time when we are considering basic increases of 18 cents
an hour, it does not seem to me, and it does not seem reasonable in any
analysis of the economy which we can make, that a $1 raise of 45
percent of the people's rents, or a $2 raise of 84 percent of the people's
rents, would bring on inflation—especially when you realize that rent
control, with all of its controls as to occupancy, with all of its controls
as to the tenure of tenants, would still be in force in exactly the
method used now.

Finally, I would like to point out what a 10-percent raise would do.
This amendment would not result in a 10 percent increase in rent to all
the Nation's tenants, by any means. But suppose, just for the case of
argument, that it did result in a 10-percent increase in rents. Seventy
percent of the tenants in the United States would pay less than a dime a day or less than $3.10 a month in increased rents.

Twenty-six percent of the tenants would pay from 10 to 20 cents a day increase.

Only 4 percent would pay more than 20 cents a day as an increase in rent.

Now, it is our conclusion that it is not wise to allow rent control to go into another year in its present inflexible condition. There is no argument to the contrary of our statement that most owners today, who own the Nation's real estate, are in a considerably poorer position with that real estate than they were in 1942 or 1941, whatever the freeze date. There is no refutation of the fact that local taxes are going up and will go up more substantially, that local expenses of operation are going up and will go up again—probably in April, when this miners' adjustment is made again—and in all of those industries with which the landlord deals—for example, in the purchase of coal, every time the coal price goes up at the mine because of increased labor at the mine, a new price is given the mine, a new price is given the local dealer, dealer's margins are increased, and the whole thing is ultimately borne, to a large extent, by the people who heat the Nation's buildings, by the landlord.

I am not here to cry tears for the Nation's landlords. But I am here to plead for this amendment which is the evolution of 2 years of thinking on this problem, which we believe is realistic, which we believe is fair, and which we believe is not inflationary, and which we believe is practical of legislative attainment.

Thank you.

Mr. Snyder. Mr. Chairman, with your permission, we are having these charts reproduced and would like to insert them in the record.

The Chairman. They will be inserted in the record, without objection.

Mr. Monroney. Can we make cuts of the charts?

The Chairman. I do not know.

Mr. Downs. We can furnish members of the committee with the cuts.

The Chairman. Yes. Instead of putting in the charts, you may put in the information relating to the charts.

Mr. Monroney. It may be easier to print copies of the charts rather than going to all that trouble.

The Chairman. All right.

Mr. Snyder. We will furnish the committee with copies.

The Chairman. Very well. The information pertaining to the charts can go in the record. I do not think we can go to the expense of making cuts of the charts.

Mr. Snyder. In conclusion, I would like to point out that Congress has consistently held that the Office of Price Administration was not created in order to regulate profits. The various facts that are presented to Congress from time to time indicating that some properties are profitable always leave out of account the fact that today most properties are not. If profits were to be the basis of rent control, then, the rent on every property would have to be different because the investment is different and the operating costs are different. We do not ask for relief in order to show increased profits. We are only
asking for relief with respect to actual dollar increases in operating costs. For the great bulk of small property owners, this will only keep the situation level with what it was when rent control was originally imposed.

We wish to point out also that this Government has done much to encourage people to build and own property, especially housing. The Federal Housing Administration, the Veterans' Administration, and other agencies, have, for years, pointed out that millions of small property owners are the very backbone of our Nation. Now, 8,000,000 of these small owners, encouraged by Government in recent years to build or buy property, are asking for fair treatment.

The 8,000,000 small property owners who own rental properties and who are responsible for 79 percent of all our rental units today, are not alone. There are 3,000,000 owners of small commercial properties and 15,000,000 owners of owner-occupied homes who are sympathetic with the 8,000,000. The great majority of American families have a direct interest in the soundness and prosperity of real estate. They constitute the majority of the Nation.

We believe that Congress, in spite of the tub thumping by some groups that goes on here in Washington, still owes a great responsibility to these millions of small property owners and home owners and that it will desire to make sure that they are treated with equity and justice. We plead with you to do away with the present one-sided operation or rent control and to give millions of small property owners an increase in rents which is consistent with their actual increase in taxes and operating costs.

Mr. Wolcott. Mr. Chairman.

The Chairman. Mr. Wolcott.

Mr. Wolcott. Where does the amendment differ from the existing law?

Mr. Snyder. The point, about the third or fourth line from the bottom. The existing law is intact down to the third line from the bottom: "The owner of any housing accommodations with respect——"

Mr. Downs. May I answer your question?

Mr. Wolcott. Yes.

Mr. Downs. The existing law provides relief on the basis of hardship only in such instances where the increase in owner's costs—that is, where the decrease in owner's profit below the base period has resulted in an amount equal to 5 percent of the gross rents.

Mr. Wolcott. That is in the regulation now?

Mr. Downs. Yes; that is the present regulation.

Mr. Wolcott. That is the law?

Mr. Downs. I thought you meant the operation of the law.

Mr. Wolcott. No. We are dealing with the law, not the regulations. He has authority under existing law to do everything that has to be done.

Mr. Snyder. On the basis of substantial hardship, sir.

Mr. Wolcott. All right.

Now, if you go to the next page, you set up a procedure whereby you may make application for an increase, and you may file, at the same time, or any time thereafter, a new rent schedule, and he may provide for rent increases. Is that not so now?

Mr. Snyder. Except that it is not being done now.
Mr. Wolcott. Well, I am not asking about that. Under existing law, he can do it now. Under existing law, he may increase rents generally or in specific cases?

Mr. Snyder. In the decision of the Administrator, the local area administrator or the district administrator.

Mr. Wolcott. Yes, sir. Your amendment would make it permissive only.

Mr. Snyder. No, this is not permissive. This is a basis for making that effective. This provides that where you have increased—

Mr. Wolcott. What is the language in the amendment which compels him to do anything about it?

Mr. Snyder. Only that it does not leave it to the jurisdiction of a decision of an individual or group of individuals, but on the basis of the facts themselves. A new schedule of increased costs.

Mr. Wolcott. What do you intend to set up? Do you intend to lay some ground work for the fact that if he does not act, then his action becomes arbitrary and subject to legal review?

Mr. Snyder. The whole point of this, sir, is that it is arbitrary under the present plan, whereas this would make it an act of actual compulsion.

Mr. Wolcott. That it what I cannot understand, where the language is that compels him to do it.

Mr. Snyder. Merely that you file the taxes and increased operating costs, and, on the basis of those increased operating costs and taxes, you file a new schedule of rents which would cover, dollar for dollar, that amount of increased costs up to 10 percent of the maximum rent. And that is filed, then, with the Administrator, and if he does not take action to show that this is not true, that this schedule is untrue, in 60 days it automatically becomes effective.

Mr. Wolcott. Reading from the top of page 2:

* * * may file with the Office of Price Administration a statement of the property taxes and operating costs in connection with such housing accommodations, showing the actual amount of increase, if any, in such taxes and costs, between the maximum rent date for such housing accommodations and the date of filing such statement, on a monthly basis, and may file at the same time or at any time thereafter a new rent schedule for such housing accommodations to become effective at the beginning of the first rental period following the expiration of 60 days from the time of its filing, which new rent schedule may provide for rent increases.

Do you claim that that compels him to act in 60 days on your application?

Mr. Snyder. It makes the new schedule of rents effective at the expiration of 60 days, unless the Administrator proves that these costs are unfounded, or untrue, or incorrect.

Mr. Wolcott. So your contention is that this language authorizes you to make a certification, we will say, and that it must be under oath, a certification to the effect that your expenses have increased to that extent, and then, if he does not act within 60 days to prove that your statements are correct, the rents will be automatically raised?

Mr. Snyder. That is right, that the new rent schedule will then be in effect.

Mr. Wolcott. Is there any provision in here for framing an issue anywhere to review the question as to whether your expenses have actually increased? In other words, you come in with an affidavit
saying they have increased. He says they have not increased. What are you going to do about that?

Mr. Snyder. Well, on that basis, then, it is a matter of—

Mr. Wolcott. If he makes a statement based on your affidavit and certification, that he made an investigation and finds that the increases have not been sufficient to justify the increase in the rest, where are you then?

Mr. Snyder. They would not be effective, then. But the burden of proof is on the Administrator.

Mr. Wolcott. All right. Who does he present his proof to?

Mr. Snyder. Well, obviously it would go up through the line of appeal as it has been done before.

Mr. Wolcott. You have got to show, in order to take it up, that his action is illegal, or is arbitrary or capricious. That is the only way you can get into any court.

Mr. Snyder. That is right.

Mr. Wolcott. Then, is not the burden shifted to you to show that his action was arbitrary and capricious?

Mr. Snyder. If my statement filed as an affidavit is presented to the Administrator, and he chooses to say that it is not effective, that it is untrue or incorrect, then, it is a matter, I would assume, of arbitration—

Mr. Wolcott. You cannot assume that, because you cannot get into the Emergency Court of Appeals without a showing that his action was illegal. Surely, it would not be illegal for him to take issue with your affidavit. The presumption is that he is not acting arbitrarily or capriciously in taking objection to your affidavit and the burden is shifted to you to show that he did act arbitrarily and capriciously, so you are back where you started.

Mr. Downs. Under the law, as amended, the new rental schedule would go into effect, and then the burden would be on the Administrator to prove—

Mr. Wolcott. No. Wait a minute. I do not understand this.

Mr. Snyder. At the end of 60 days.

Mr. Wolcott. No. If he acted negatively on your certificate before 60 days, that would not be so.

Mr. Snyder. Well, the owner would come in with affidavits and books to show the exact increases that he has.

Mr. Wolcott. You are trying the case before the Administrator. He says "No." All right. You are in the Emergency Court of Appeals, and your only way to get into the Emergency Court of Appeals is to show he acted illegally, capriciously, or arbitrarily.

Mr. Snyder. I think it would be arbitrary.

Mr. Wolcott. You think so, but what would the court say about it? You have to frame an issue in order to get a determination on it. Of course, you would think so, but you would have to prove it.

Mr. Snyder. Well, perhaps we will have to frame that additionally.

Mr. Wolcott. Well, you leave that to us. You have made your point.

Miss Sumner. Mr. Chairman, I do not want to take the time of succeeding witnesses in order to ask questions, but I do have a couple of questions I would like to ask Mr. Snyder.

Mr. Snyder, would you mind getting in touch with me in my office later?
Mr. Snyder. I will be glad to, Miss Sumner.

Mr. Monroney. Your 10-percent maximum increase, because of increased operating costs and taxes, would not necessarily be the maximum rent increase that could be secured, provided the hardship of the original ceiling was challenged? This is in addition to provisions already in the act for the adjustment of the original ceilings under the hardship clause?

Mr. Snyder. That is correct, sir.

Mr. Hull. In renting real estate, like apartment houses, they are now all fully rented generally. How do you arrive at your costs—on the basis of fully rented, partly rented, or what?

Mr. Downs. The cost would apply to the increase in the cost of the operation of that particular property without respect to its occupancy status since the maximum rent date.

Mr. Hull. All right. But, now, 10 years ago, suppose the apartment building was 70-percent rented. Now it is 100-percent rented. You are making a lot more money.

Mr. Downs. You might find that there are some instances which would prove to be in that condition. However, they would be extremely rare—they would be isolated. It is one of the unfortunate facts about a universal freeze principle that when you freeze a lot of people into a bad position you freeze some people into a good position, but those people are a very small percentage of our total group, as we point out.

Mr. Hull. Well, is it not true that now apartment buildings are fully rented, generally speaking?

Mr. Downs. That is correct.

Mr. Hull. Ten years ago, supposing they were 70 percent rented.

Mr. Downs. That is not true.

Mr. Hull. If they are 100 percent rented now, you are making an awful lot more money, regardless of costs?

Mr. Downs. That is one of the stereotypes that we would like to disabuse, and that is that in 1940, the large apartment buildings in the country were less than 10 percent vacant, average. They were not 40 percent vacant. That is one thing. That was in March of 1940. The regulation did not go into effect, in most of our rent areas, until March of 1942. Between that period of 1940 and 1942 the housing shortage became so acute in that particular area that rent control was imposed.

For example, in New York, where there was a high vacancy, they did not put rent control on. And it is just not true that this terrifically great increase in occupancy has resulted in increased profits.

Mr. Hull. The point is that the percentage of occupancy enters into the profits.

Mr. Downs. That is correct.

Mr. Hull. I do not see how you can tell unless you take that factor into consideration in any pricing.

Mr. Downs. It enters into it in a small number of cases, and as I say, that is one of the difficulties of the broad freeze principle.

The Chairman. If there are no further questions, you may stand aside, Mr. Snyder and Mr. Downs.

We will next hear from the United Fresh Fruit and Vegetable Growers Association.

Proceed, Mr. Kitchen.
STATEMENT OF C. W. KITCHEN, EXECUTIVE VICE PRESIDENT, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

Mr. Kitchen. Mr. Chairman and members of the committee, my name is C. W. Kitchen, executive vice president, United Fresh Fruit and Vegetable Association.

For the information of the committee and by way of identification for the record, the United Fresh Fruit and Vegetable Association is a national organization with headquarters in Washington, D.C., and has a membership of more than 2,000, consisting of grower-shippers, cooperative marketing associations, wholesalers, jobbers, and brokers, all engaged in the marketing of fresh fruits and vegetables.

Fresh fruits and vegetables constitute an important part of the Nation's food supply with a farm value of more than $2,000,000,000 annually. This industry is vitally concerned about the continuation of price control.

The fresh fruit and vegetable industry is a highly competitive industry. It is made up primarily of comparatively small business units. This is evidenced by the fact that the United States Department of Agriculture has in effect approximately 21,000 licenses issued under the Perishable Agricultural Commodities Act, which act requires that all commission merchants, dealers, and brokers engaged in the marketing of fresh fruits and vegetables in interstate commerce shall be licensed by the Secretary of Agriculture.

Effective and equitable control of prices for fruits and vegetables at all levels of distribution is a complicated and difficult undertaking. There is a sharp distinction between them and staple foods or manufactured products. Fresh fruits and vegetables are highly perishable.

Only a few, such as late potatoes, pears, and apples, can be stored in quantity for any length of time.

In all instances, storage is possible for only short periods. All must be disposed of within a definite marketing season. They must be sold at the market price. There can be no carry-over from one season of production to another. Prices of fresh fruits and vegetables, therefore, are subject wholly to the influence of supply and demand.

The imposition of price control on such highly perishable commodities as fresh fruits and vegetables, despite the best intentions and efforts of the Office of Price Administration working under severe handicaps, operates to disrupt long-established practices of this fast-moving business.

It has interfered with the marketing of these products on the basis of grade. Unavoidably complicated regulations, often difficult to understand even by experienced analysts, seasonal price changes to conform to historical price patterns, seasonal adjustments for storage allowances, threatened roll-backs in both prices and margins, requests for complicated cost data, suspensions for short periods with reinstatement on little or no notice, delays in the announcement of price ceilings until after marketings have begun, long and expensive conferences over the necessity for equitable allowances for increased labor and other costs, and the constant fear of prosecution are a continuing source of confusion and uncertainty in this industry.

Many feel that price control, especially at the retail level tends to operate as a magnet and causes retail prices to respond less rapidly
to increased supplies. The inability of the Office of Price Administra-
tion strictly to enforce its regulations encourages the unscrupulous
and places the law-abiding merchant at a serious disadvantage.

Notwithstanding these difficulties, the United Fresh Fruit and
Vegetable Association has cooperated with the Office of Price Ad-
ministration, believing that any inconvenience or hardship in the
public interest should be borne if it would help to win the war. Many
of its members have served on advisory committees and several
have served as special consultants to the Office of Price Administra-
tion.

We believe the situation is now entering a new phase and that price
control of fresh fruits and vegetables should be removed as rapidly
as possible, and in accordance with a more definite formula. During
the war, production of fresh fruits increased about 7 percent and
vegetables nearly 37 percent.

Consumption also increased and we earnestly hope it will continue
at a level substantially higher than prewar. The reconversion prob-
lem of the fresh fruit and vegetable industry, as we see it, is to press
for consumption substantially above prewar, or be forced to adjust
production downward to a demand at prices which will enable pro-
ducers to produce. Some of our important fruits relied heavily upon
export markets before the war. Prospects for export trade are not
promising.

The situation confronting this industry was brought out recently
in the hearings on the agricultural appropriations bill before the
House Committee on Appropriations.

A statement was inserted in the record by the Department showing
that it might be necessary to use nearly $42,000,000 of section 32 funds
in price-support operations during the fiscal year 1947. This sum
would be in addition to such expenditures as might be necessary
from Commodity Credit Corporation funds to carry out the obliga-
tion to support prices on potatoes and sweetpotatoes under the Steagall
amendment.

It was stated that there had been a rapid increase in the production
of both deciduous and citrus fruits and that the Government might
be called upon for extensive price-support operations. With respect
to vegetables the statement pointed out that there might be a reduc-
tion in demand for fresh vegetables, owing to the greater availability
of processed products, but that it is doubtful there will be a cor-
responding reduction in production. Even during the war years,
the Department of Agriculture has spent substantial sums on price-
support operations for fresh fruits and vegetables.

Government buying for military needs has been greatly reduced.
Thus, continuation of wartime high production, without the assured
continuation of wartime abnormal demand, is likely to result in many
periods of below-cost markets for producers. The natural offset is for
producers to be permitted to avail themselves of prices higher than
present ceiling levels when they occasionally occur for short periods,
due to low yields or to transportation and container shortages.

Such conditions need not be alarming to consumers because the long
list of commercial fresh fruits and vegetables will provide cheaper sub-
stitutes for temporarily higher priced items. Moreover, farm and
packing charges have risen which require an increase in present ceilings to be in line with the announced wage-price policy of the Government.

Despite the difficulties inherent in price control for such highly perishable commodities as fresh fruits and vegetables, the United Fresh Fruit and Vegetable Association does not come here today to urge that price control be ended entirely on June 30 of this year, even for fresh fruits and vegetables.

At its annual convention at Chicago, in January of this year, this association adopted a resolution urging that the Office of Price Administration—

proceed with a progressive and final removal of price ceilings on all fresh fruits and vegetables as rapidly as is consistent with a sound national economy, with the specific request that such removal on each item or group of related items be properly timed to go into effect during a period of adequate supply, so that the danger of sharp market changes upon such removal, and unfavorable public reaction thereto, may be minimized.

Directive No. 68. issued by the Office of Economic Stabilization on July 25, 1945, authorized the Price Administrator to suspend price control with respect to any commodity—

whenever in his judgment such action will not result in an increase in prices above the general level of existing ceilings for the commodity.

The directive also authorized the Price Administrator to revoke suspensions if prices rise, or even threaten to rise above preexisting ceilings. We still have price ceilings on 21 fresh fruits and vegetables—apples, apricots, cherries, grapefruit, lemons, oranges, peaches, pears, plums, prunes, tangerines, berries, grapes, string beans, carrots, lettuce, onions, spinach, peas, cantaloup, and watermelons.

Suspension of the ceiling on potatoes was continued recently for another 30 days, until April 10, with the prospect that should potatoes sell above previous ceiling prices they will be reinstated, even though large quantities have been sold below ceiling prices and the Government has spent more than $12,000,000 to support prices during the past year. Informal indications are that plans are underway to continue ceilings another season on various fruits and vegetables at approximately the present level regardless of increased cost.

We believe this is too indefinite a policy for this industry to work under. With the increased production now available, we believe the time has come to relieve the fresh fruit and vegetable industry of the uncertainties under which it now operates. We believe the Congress would greatly assist the Price Administrator and the Director of the Office of Economic Stabilization in discharging their duties with respect to price control on fresh fruits and vegetables by including in the law a more definite guide for them to follow, assuming that everyone agrees that price control is not to become a fixture in our marketing system for these commodities.

Therefore, we suggest a new subsection (h), under section 3 of the Price Control Act, to read substantially as follows:

No officer or agency of the Government shall establish a maximum price or issue a price regulation, or continue in effect, after the passage of this act, any maximum price or price regulation with respect to any fresh fruit or vegetable, except as the Secretary of Agriculture shall find, based upon official estimates of the Department of Agriculture, that the prospective production for the usual marketing season of any fresh fruit or vegetable is at least 10 percent less than the
average of the official estimates of production for the three marketing seasons immediately preceding the season for which such finding is made, or that prospective production for the usual marketing season for any fresh fruit or vegetable is less than the average production for the 10-year period 1934-43, inclusive.

Such a provision recognizes a production of some commodities substantially above prewar, but provides for price control in cases of comparative scarcity.

In 1944, the Congress included in the Emergency Price Control Act, the so-called crop disaster provision, under which it is mandatory that the Price Administrator increase the shipping point ceiling on any fresh fruit or vegetable whose supply is substantially reduced by unfavorable weather or other causes.

The purpose of this provision was to insure producers adequate financial returns by recognizing the unusual hazards in this industry. We believe this provision should be retained in any future price-control legislation. Crop damage also reduces the volume available to distributors and, therefore, when shipping point ceilings are increased under the "disaster" provision, distributive margins also should be increased proportionately.

In 1944, an amendment was also included, requiring the Price Administrator to give growers of annual crops at least 15 days' notice of his intention to establish or lower shipping point ceilings. We believe this amendment should be retained, but we urge also that similar notice should be given to the distributive trade with respect to new ceiling prices, lowering ceiling prices, and reinstatements of suspended regulations. As such commodities are in transit often as long as 15 days, we recommend that a 15-day notice be given to distributors, as well as to producers.

Brokers perform an important function in the marketing of fresh fruits and vegetables. Despite increased operating costs, many of which have resulted from congressional action such as the excise taxes on communication and transportation, the broker's compensation was frozen in RMPR-165 to what he received on a certain date in 1942. We recommend that when ceilings are suspended or removed, they also be removed with respect to brokers' charges. We ask that brokerage be considered not merely as a service occupation, but as an aid and means to distribution. The Price Control Act prohibits the Price Administrator from interfering with aids and means of distribution and we request that the Congress strengthen this provision by specifying that when ceiling prices are not in effect for any fresh fruit or vegetable the regulation of charges for brokerage also be inoperative for such product.

We recommend that a provision be included in the act making it mandatory that ceilings be adjusted to include added costs since 1943.

The United Fresh Fruit and Vegetable Association is closely associated and cooperates with several regional and local groups. Some agree with the recommendations made herein. Others favor complete removal of price control from fresh fruits and vegetables. We request that the record of this hearing show the views of the other groups named below and that they receive the careful consideration of this committee:

Western Growers Association, Los Angeles, Calif., representing producers of 90-95 percent of all commercial shipments of vegetables
from California and Arizona, totaling approximately 150,000 car-
loads per year, by a resolution of its board of directors on February
15, 1946, requests—

That such price ceilings as remain on fresh fruits and vegetables be removed
at the earliest date possible and that no extension of the present pricing act
be passed that carries price ceilings on any fresh vegetables or melons.

Florida Vegetable Committee, Orlando, Fla., in a resolution by its
board of directors recommends:

That the Office of Price Administration be urged to immediately remove price
ceilings from perishable fruits and vegetables, so that the law of supply and
demand may restore normal relationships between the producer and consumer
prices, to the benefit of each.

Kern County Potato Growers Association, Bakersfield, Calif., recommends against a continuation of the Emergency Price Control Act of
1942.

California Grape and Tree Fruit Association, Fresno, Calif., states:

We believe all perishables should be exempted, but for the time being standing
on position comparable under Chicago resolution 2 weeks ago.

Texas Citrus and Vegetables Growers and Shippers Association, representing the commercial shippers of citrus and vegetables from
the Texas lower Rio Grande Valley, states:

We request that congressional committees take necessary steps to amend the
Office of Price Administration laws to provide for the exemption of the handling
of fresh fruits and vegetables from any and all provisions of the act.

Mr. Kitchen. Now, Mr. Chairman, we have several other gentlemen
here who have brief statements to make. Mr. O. D. Miller, our past
president, came here from Phoenix, Ariz. But, as he is now engaged
in the shipping of lettuce and we were unable to make our presenta-
tion to the committee yesterday afternoon, he had to return last night.
So, with your permission, I should like to have Mr. Lamonte Graw, who
is secretary of our committee at Orlando, Fla., present Mr. Miller’s
statement and supplement it with such remarks as he may care to make.

Mr. Graw. Mr. Chairman, my name is Lamonte Graw. Due to Mr.
Miller’s inability to be here, I just waived any opportunity of pre-
senting a brief myself, and I am going to present his in his language,
and do the best I can with it.

STATEMENT OF O. D. MILLER, PAST PRESIDENT, UNITED FRESH
FRUIT AND VEGETABLE ASSOCIATION WITH HEADQUARTERS
IN WASHINGTON, D. C., PRESENTED BY LAMONTE GRAW

My name is O. D. Miller. I live at Phoenix, Ariz. My business is the com-
mmercial growing and shipping of vegetables and melons from Arizona and
Florida. My experience with these commodities covers the last 22 years as a
producer and shipper in those States and also California, New Mexico, and
Colorado; and prior to that time I worked as a marketing assistant in the
United States Department of Agriculture, assigned to reporting marketing in-
formation on these commodities in producing districts all over the country.
I am immediate past president of the United Fresh Fruit and Vegetable
Association, which maintains its headquarters here in Washington, but in my
appearance here today, I speak especially for the growers and shippers of vege-
tables and melons in Arizona and California. I believe I may also say that our position regarding the extension of the Office of Price Administration, so far as it affects these commodities, is shared by the producers in the other so-called winter-garden areas of Texas and Florida.

I can certainly confirm that as to Florida.

Our position is that, regardless of what action is taken on the extension of the Office of Price Administration beyond next June 30, vegetables and melons—indeed, all fresh fruits and vegetables—should be dropped from the list of controlled items. Our industry accepted the mandates of the Emergency Price Control Act for just what the name implies: A price control for the period of the emergency—a necessary evil of wartime.

Price control is particularly an evil in our industry because of the essential nature of our commodities—their high perishability, and the speculative risk which goes along with producing them. They have no fixed value, but are worth only what supply and demand conditions dictate during the short period when they have just matured and are ready for market. For this reason, it often happens that during the periods of our heaviest output, market prices are considerably less than enough to return production costs. So we must be able, at some time during the season, to realize offsetting periods of above-cost sales, if we are to come out with an average price which will keep us producing.

Our industry not only accepted these emergency mandates, which we understood were only for the period of actual warfare, but our organization and many individual members actively assisted the Office of Price Administration in the formulation of the regulations for implementing them, to the end of making them as workable as possible. The matter of the sudden and wide fluctuations of prices which I have mentioned was brought out to show the necessity of an adequate cushion being included along with costs and margins in the structure of any ceilings established—an allowance to compensate for the price peaks and valleys and provide a reasonable chance that the average of returns would justify a continuation of production.

The cushions which eventually were included by the Office of Price Administration were considerably less than those originally recommended, set so on the theory that wartime demands would largely erase the subcost market periods of normal times, and that the ceilings which the Office of Price Administration established would result in adequate average returns to growers.

Fortunately, this did work out fairly well as planned during the time of our all-out military activity.

With the aid of the crop-disaster clause, added in 1944 to provide compensatory higher ceilings in cases of disastrous weather losses, most of the vegetable producers did receive reasonable returns under ceiling control during the war years; and the growers, on their part, did a fine job of maintaining and even increasing their output to meet production goals in the face of all sorts of shortages and restrictions.

From 1941 to 1944 this country's production of vegetables was increased 37 percent. This, of course, was not because of but in spite of price controls. It was entirely due to a supernormal demand which resulted from the Nation's high industrial employment, heavy Army-Navy buying, and the shortage and rationing of other living-cost items, so that buying power was funneled in our direction. This wartime demand absorbed our increased production so readily that during that time there were comparatively few subcost market periods. Prices, while limited at the top by fixed ceilings, did not go disastrously low, and the averages were reasonably satisfactory.

Now, however, the circumstances which created this abnormal demand are fast disappearing. No peacetime situation will create the full employment that this country experienced in 1942 through 1945; and there are now hundreds of insistent and growing demands upon the family living budget which did not exist or could not be filled during the war. But we still have our 1937 production increase, and without our erstwhile overdemand that means we have a serious overproduction.

Our periods of subcost markets are with us again, and our country's large population of vegetable growers will be mighty lucky if we are able to readjust our supply to postwar demand without passing through a period of high mortality—even if all wartime restrictions on our operations were ended right now.

Vegetable grower and shipper organizations in all of the districts I have men-
tioned, recently have gone on record as demanding immediate and final removal of price controls on this class of commodities.

While I realize, of course, that it is not the function of your committee to administer the present law, but that you are, rather, studying the facts which should determine whether or not this Emergency Price Control law should be extended beyond next June 30, and, if so, what modifications should be made in it, still, these producers' arguments for immediate removal of ceilings on vegetables, which are sound and urgent now, will be all the more so a few months from now. So I would like to summarize briefly the position of our producers. It is this:

In any extension of the Office of Price Administration beyond its present life, price control on fresh fruits and vegetables should be eliminated because:

First, the highly speculative risk involved in the production of our products, their high perishability, and the sensitivity of their market prices to immediate supply and demand, place them in a category distinct from any other commodities so controlled, and make them especially unamenable to price regulation.

Second, our volume of production, greatly increased by wartime goals and supported until recently by a decidedly supernormal wartime demand, now is recognized as an always potential oversupply, so that workable average prices now cannot possibly be realized under ceiling control. To compensate them for periods of subcost markets, and especially in view of a wartime 20 percent increase in their costs even since ceilings were established, growers must be free to avail themselves of prices higher than present ceiling levels, when such prices occasionally occur for short periods of light supply. The consumer may always find cheaper substitutes for temporarily high-priced items.

Third, the high perishability of our products, and their bountiful aggregate supply, is assurance of a very practical and automatic self-control of prices. Even in the event of the most extreme situation imaginable, it should be noted that the average expenditure for the fresh vegetable and melon items now under control represents probably less than 2 percent of the Nation's total cost of living.

Fourth, finally, price control came into existence for a specific period and for a particular situation, neither of which now exists: (a) the war is over, and (b) our products are in oversupply, rather than in undersupply. The only possible need or excuse for extension of the Office of Price Administration would be to apply on items of which the production is short of the demand.

Mr. KITCHEN. Mr. Chairman, we would like to have Mr. S. B. McCubbins from Oklahoma City, who is chairman of the brokers division of the United Fresh Fruit and Vegetable Association, make a brief statement.

STATEMENT BY S. B. MCCUBBINS, CHAIRMAN, BROKERS DIVISION, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

Mr. McCUBBINS. For the purpose of identification, my name is S. B. McCubbins, of Oklahoma City, Okla.

I am an independent broker of fresh fruits and vegetables, operating in Oklahoma and the Panhandle of Texas. I am a member of the advisory board of the United Fresh Fruit and Vegetable Association, and chairman of the united brokers division. I have taken a poll of a representative group of the brokers division who indicate that they do not object to an extension of price control with the stipulation, however, that controls be eliminated item by item as quickly as production and general economic conditions will justify. We, therefore, concur in the recommendations of the United Fresh Fruit and Vegetable Association.

Speaking specifically for fresh fruit and vegetable brokers I would like to say that our rates are more or less established by custom and that they are so small as to have little or no bearing on the con-
sumers' cost. Under RMPR 165 we are frozen at rates which we were using as of March 1942. Yet since that time our operating costs have increased in the form of higher salaries, traveling expense, and communication taxes—the latter being 25 percent.

In addition to the freeze order RMPR 165, we are also governed by rates as fixed under most of the commodity directives and we must use whichever is lower. This seems a little unjust.

However, speaking for myself and my colleagues, all we wish to ask of this body is that when the Office of Price Administration suspends or eliminates a certain commodity from control that brokerage rates on that same commodity also be suspended from control, and that the law so require. I can assure you gentlemen that this would not contribute to inflation as the average brokerage fee per carload of fresh fruit and vegetables is only about $25 which is approximately 1 percent or less of the average wholesaler's cost of the merchandise.

Finally, I think the price agency should be required to issue uniform interpretation of any directives which may be continued after June 30. Our business is of such a nature that a broker in Oklahoma City negotiates a sale between a shipper in Florida and a wholesaler in Kansas.

If uniform interpretations are not recognized, the buyer in Kansas or the broker in Oklahoma might be considered in violation by his district officers, whereas the shipper in Florida who makes the invoice might be in strict compliance under the interpretation of his own district.

If this committee should be interested, I can cite specific instances of such occurrences which have cost law-abiding and legitimate operators a very considerable amount of money to defend their position and where the district enforcement officer received definite recommendations from the Office of Price Administration headquarters that his actions were ill-advised.

Uniform interpretations which must be followed by district officers can prevent this sort of unnecessary harassment and expense.

On behalf of the many brokers in the various States I wish to thank this committee for allowing me to appear here and make this presentation.

Mr. KITCHEN. Mr. Chairman, we would like to have Mr. E. J. Blalock, from Fort Worth, Tex., president of our association, speak with specific reference to the functions of the service wholesalers.

The CHAIRMAN. Mr. Blalock.

STATEMENT OF E. J. BLALOCK, PRESIDENT, UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION, FORT WORTH, TEX.

Mr. Blalock. My name is E. J. Blalock, vice president of Ben E. Keith Co., whose principal office is Fort Worth, Tex. Ben E. Keith Co. are service wholesalers of fresh fruits and vegetables. We buy in carlots from producers and distribute to approximately 3,500 first-class retail grocery stores. I have been in this business more than 25 years. I am also president of the United Fresh Fruit and Vegetable Association, a national organization which has a membership of more than 2,000, consisting of growers, shippers, cooperative marketing associations, wholesalers, and brokers.
Early in the war period I was appointed a member of the fresh fruit and vegetable industry advisory committee and early in 1943 was made a consultant to the Office of Price Administration. In the capacity of an adviser and consultant I attended every meeting called by the Office of Price Administration and assisted as much as possible in formulating the regulations governing the fresh fruit and vegetable industry.

I feel, therefore, that I have an intimate knowledge of the industry I represent, as well as that part of the Office of Price Administration which controls the industry. Service wholesalers of fresh fruits and vegetables distribute from 55 to 65 percent of the total production. Our position in the industry affords us the opportunity of observing closely the operations of all wholesalers and retailers. The Office of Price Administration was fortunate in having the desire to comply with its regulations by the service wholesale industry, and this industry played a very important part in keeping prices within the levels set by the Office of Price Administration.

We also had an opportunity to observe first-hand the lack of enforcement by the Office of Price Administration, both at wholesale and retail levels—and we assisted as much as possible in obtaining compliance. All of this was done voluntarily and willingly to meet the wartime necessity, but now that the war is over it is more difficult to get compliance or to enforce price ceilings. In addition, production of vegetables and melons during the period 1941 to 1944 increased 37 percent, and the production of fruit increased 7 percent.

Primarily, service wholesalers are sales and service organizations, but during the war period the unprecedented demand for fresh fruits and vegetables reduced the necessity for sales promotion. Our problem was the proper allocation of the merchandise we received. The industry did a fine job.

Now, we are faced with the job of returning to our original place in the picture and that is selling and distributing to independent retailers this enormous production of fresh fruits and vegetables. Under the Office of Price Administration regulations such a selling program cannot be successful—with one exception, price control eliminated the necessity for grades and no selling program can be successful behind mixed or irregular grades of merchandise.

On the other hand, if price control were removed from fresh fruits and vegetables growers and shippers would be anxious to go back to grades with the assurance that top grades would bring top prices and other grades would sell according to their value and usefulness.

I cannot emphasize too much the big job ahead of the distributive industry, if we are to move at prices which will preserve sound economy for our producers, the enormous production of fresh fruits and vegetables which now confronts us. Admittedly, we can no longer lean upon the abnormal demand of wartime.

The industry as a whole recognizes this problem and the United Fresh Fruit and Vegetable Association has this year inaugurated in the States of Kansas and Missouri its first merchandise institute, which has as its sole purpose the proper merchandising of fresh fruits and vegetables, to the end that the consumer may purchase these commodities in as near farm-fresh condition as possible, and with a minimum of waste and expense.
We are confident that we can accomplish these purposes only if we are unhampered by governmental regulations.

I do not know how to emphasize that any more, but if there are some questions as to how the regulations might hamper a selling program, I think we have members here who can give you the information you would like to have.

Thank you.

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

The Chairman. Yes.

Mr. Kilburn. I would like to ask if you agree with Mr. Miller or with Mr. Kitchen. Mr. Miller, as I understand it, is in favor of discontinuing all price controls on fresh fruits and vegetables, whereas Mr. Kitchen is not. He is in favor of continuing it under certain conditions.

Mr. Blalock. Personally, I am in favor of the removal of price controls altogether. As president of the United Fresh Fruit and Vegetable Association, the resolution adopted is for the progressive removal, and, as a representative of that association, I must agree with that policy.

Mr. Kilburn. Do you personally agree with it?

Mr. Blalock. Yes, I do now, yes, because of that resolution.

Mr. Kilburn. Mr. Miller is the only representative of the association here who is against continuing it beyond June 30.

Mr. Blalock. He is a producer.

Mr. Kitchen. Plus those others quoted in my statement, at the end.

Mr. Blalock. That is right.

Mr. Kitchen. Now, Mr. Chairman, our next witness is Mr. Thomas B. Sheahan, Kansas City, who wishes to speak briefly on the operations of the terminal market handlers.

The Chairman. Mr. Sheahan?

STATEMENT OF THOMAS D. SHEAHAN, COMMISSIONER OF MARKETS, KANSAS CITY, MO.

Mr. Sheahan. My name is Thomas D. Sheahan. For the past 5 years I have been commissioner of markets for the city of Kansas City, Mo. In that capacity I have had the responsibility of keeping abreast of the many regulations which have been imposed upon the fresh fruit and vegetable industry under the Emergency Price Control Act. Previously I was engaged actively in the wholesale receiving and distribution of fresh fruits and vegetables on a rather large scale. My experience in the industry dates back to 1924 when I became associated with the Packer, one of the recognized trade journals devoted to the production and marketing of perishable commodities.

My purpose here is to represent terminal market operators on behalf of the United Fresh Fruit and Vegetable Association with respect to price controls on perishable commodities under the Emergency Price Control Act.

Spurred on by the necessity of fighting the world's greatest war, the fresh fruit and vegetable industry has produced perishable commodities beyond all previous records. And, with the return of thousands of young men who have made farming a vocation, this increased production unquestionably will continue.
Throughout the period of the war our commodities found ready sale to Army and Navy procurement offices and to a consumer trade greatly augmented by increased buying power because of full and lucrative employment in war plants. Thus, in spite of price controls, the terminal market operators had opportunity to make a reasonable profit on virtually every item they handled.

But we now are faced with an entirely different situation. Army and Navy requirements have been substantially reduced. So also has been the civilian demand following the closing of many war industries throughout the country. At the same time, heavy production of fresh fruits and vegetables still goes on. Bear in mind that in our particular type of business we must move these highly perishable commodities without delay. From time to time we will have an overage of some items which we must, of necessity, sell below cost. So, if we are to continue to function as an integral part of this distributive system we should not be denied the opportunity to make a reasonable profit on temporarily scarce items to offset these losses. This cannot be accomplished so long as our industry is shackled with price controls on the various items the terminal market operators normally handle.

Throughout the war we have tried as best we could to comply with the myriad of regulations which govern our industry, intricate and complicated as they are. Believe it or not, there have been no less than 165 amendments to MPR 426 which governs the shipping and distribution of fresh fruits and vegetables; and no less than 46 amendments to RMPR 271 which governs the shipping and distribution of potatoes and onions. Virtually all of these regulations and amendments are so complex that unless one has a fair knowledge of law it is virtually impossible to interpret them. It therefore is readily understandable why some of our people, sincere and honest as they may be, have been charged with violation of these regulations.

Our business is by its very nature fast moving. Our products are highly perishable and our people just have to do the best they can to comply with complicated regulations and at the same time move these fresh fruits and vegetables with dispatch.

Give free enterprise a chance in our industry and you may rest assured the law of supply and demand will bring about a lower average of prices to consumers than all the laws Congress may enact.

I thank you.

Mr. KITCHEN. Mr. Chairman, we have one more witness who wishes to make a statement with specific reference to citrus fruits.

STATEMENT OF KARL D. LOOS, CALIFORNIA FRUIT GROWERS EXCHANGE

Mr. Loos. Mr. Chairman and members of the committee, I am Karl Loos, traffic counsel of the California Fruit Growers Exchange, of Los Angeles, Calif. I have been working for the California Fruit Growers Exchange ever since September 1914.

The exchange is a cooperative agricultural marketing association which markets the citrus fruits produced by its members, and its members produce about 70 percent or more of the total oranges, grapefruit, and lemons produced in California and Arizona. They are marketed under the Sunkist brand which may be familiar to some of you.
Mr. Kitchen referred to the increase in the production of all fruits and vegetables compared with the prewar years. I would like to refer specifically to citrus as a separate commodity, because in the case of citrus the increase in production is so marked.

Taking the five prewar years—and by that I mean preceding our entry in the war—the average production of oranges for the United States as a whole was 73,721,000 boxes. During the last 3 years, including the current year, the average production is 109,849,000 boxes, an increase of slightly over 49 percent.

On grapefruit the increase is even greater. The prewar average was 36,694,000 boxes. The average of the last 3 years is 57,017,000 boxes, an increase of 55 percent.

On lemons, which is, of course, a much smaller proportion of the total, the increase was not so great from the prewar average of 11,442,000 to a present average of 12,594,000, an increase of something over 10 percent. Citrus, as a whole, has increased its production during the past 3 years by 50 percent above the prewar production.

If every industrial and agricultural commodity were being produced in this country at a rate of 50 percent in excess of prewar production, I don't think there would be the slightest thought of price control. During the war we made no requests for exemption of citrus fruit from price control. We recognized the necessity and still recognize the necessity of price control during the war, even though our production was large.

There were many demands on it for infant feeding in Europe and for the Army and Navy and the large demands for citrus fruit because of the shortage of other foods. All of those things made it necessary, we recognize, for price control during the war.

We think, however, that the time has come when we must recognize that if we are not to have price control as a permanent part of our economy, and I hope we may all assume that is the intention of everyone that it will not be a permanent part of our economy, we have come to the point now where we should begin to remove the controls, particularly when production is adequate and ample.

So we support the proposal presented by Mr. Kitchen that price controls should be forbidden unless the Secretary of Agriculture finds that the prospective production is less than 10 percent below the average of the past 3 years. Let me say that average of the past 3 years in the case of citrus and in the case of most fruits and vegetables is way above the prewar average, and therefore this amendment would not operate to remove price controls unless the production of that particular commodity were well above the prewar production.

I want to say something about the citrus prices during the period of November and December when citrus ceilings were suspended. I imagine you have all heard more or less about that. It has been held out as a horrible example of what would happen when price controls were removed, even though production was substantial.

Of course, production of citrus for the current year is substantial and was at that time, although we must recognize that November and December is just in between the California-Arizona season and the Florida season. At that particular time of the year supplies are short and prices tend to rise no matter how great the production may be for the season as a whole. You probably have the impression that
citrus prices went way up, way through the ceiling and two or three stories above during that period of suspension. I must say from what I read in the newspapers and heard over the radio, I was convinced that prices had gone way up and they were way out of line.

But the figures don't support that. I have a table that I would like to hand to the members of the committee which shows the average prices in relation to the ceiling price on citrus during the entire period of suspension, which continued from November 19, 1945, to January 3, 1946. I would like to have it incorporated in the record.

(The table mentioned above is as follows:)

10 auction average prices compared with average ceiling prices for entire period of suspended ceiling Nov. 19, 1945, to Jan. 3, 1946

[Each weighted by number of cars sold in each market]

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<th>Actual price</th>
<th>Ceiling price</th>
<th>Differential (cents)</th>
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<td>$4.59</td>
<td>-10</td>
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<td>5.09</td>
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</tr>
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<tbody>
<tr>
<td>Florida, Interior</td>
<td>154</td>
<td>3.68</td>
<td>3.39</td>
<td>+39</td>
</tr>
<tr>
<td>Texas</td>
<td>619</td>
<td>3.33</td>
<td>3.28</td>
<td>-25</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>773</strong></td>
<td>3.40</td>
<td>3.38</td>
<td>-18</td>
</tr>
<tr>
<td>Florida, Indian River</td>
<td>502</td>
<td>4.95</td>
<td>4.10</td>
<td>+85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,333</strong></td>
<td>4.05</td>
<td>3.80</td>
<td>+25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Combined oranges and grapefruit:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All except Indian River grapefruit</td>
<td>4,220</td>
<td>4.83</td>
<td>4.78</td>
<td>+05</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>4,788</strong></td>
<td>4.85</td>
<td>4.70</td>
<td>+15</td>
</tr>
</tbody>
</table>

Mr. Loos. That table shows average prices and ceiling differentials for each commodity, separating oranges between the various producing districts and in Florida between interior Florida and Indian River, Fla. Let me explain that separation.

The Indian River fruit is a special premium fruit and has always been so recognized. It is sold principally in the eastern seaboard cities and goes largely to the hotel and restaurant trade. It has always had a large premium. It has a premium in the ceiling. The Indian River fruit does not represent what the great majority of the people buy for food purposes. It is something that will go into the Waldorf-Astoria, and if you go in there and eat breakfast, you will pay 50 cents for half a grapefruit.

The price rise in that kind of fruit shouldn't alarm anyone. The prices did go up. There were lots of cases where small lots sold at $10 or $12 a box. That got all the publicity.

The Florida interior oranges, which I buy and which most of us would buy, sold on the average for the whole period of price suspension at 10 cents below ceiling.

Let me say this about this table: We have in the first column of figures the number of cars, in the second column, the average actual price as reflected by the auction markets. There are 10 auction markets in the country where a large volume of fruit is sold, probably
Mr. MONRONEY. Could you give us the retail prices, also?

Mr. Loos. I will come to that later. These are wholesale prices. These are the prices the growers got. The ceiling price is shown in the next column. That is the ceiling price as computed by the Department of Agriculture, averaging the ceiling price at the different markets in proportion to the total amount of fruit sold through those markets over a period of 2 or 3 years.

The last column shows the differential above or below ceiling. As I said, the Florida interior oranges sold on the average at 10 cents below ceiling. Florida Indian River, 35 cents above; California oranges, 18 cents above. That was the end of the California summer season. There were very few California oranges on the market, although in these particular weeks the total number sold at auction was in excess of Florida. Florida interior were selling a large amount of their fruit in private sales.

Mr. MONRONEY. What were the Florida prices before the ceilings were put on?

Mr. Loos. Let me finish my reference to this table, then I will take that up.

The Florida interior grapefruit averaged 9 cents above ceiling. Texas grapefruit averaged 25 cents below ceiling. All of the grapefruit and oranges, with the exception of Indian River, averaged only 5 cents above ceiling for this entire period of suspension of price ceilings.

Mr. MONRONEY. Do you have lemons on there, too?

Mr. Loos. I can give you that. I don't have it in the table.

Mr. MONRONEY. Is that in the same kind of category?

Mr. Loos. The lemons during the period of suspension were somewhat more above ceiling, I believe, although they declined earlier than the other fruit.

Mr. BROWN. Take the Texas grapefruit. Why is the Texas grapefruit lower?

Mr. Loos. Because there was a greater supply. There was a delay in maturity in Florida.

Mr. BROWN. I do not think there is any comparison between the grapefruit that comes from Texas and the grapefruit that comes from Florida.

Mr. Loos. I have my own views on it. I am glad to eat citrus fruit wherever it is produced.

I do not have before me the prices immediately before the suspension of ceilings.

Mr. MONRONEY. What is the most recent date you have?

Mr. Loos. November 19, the first day of the suspension.

Mr. MONRONEY. That would probably start off pretty close to ceiling?

Mr. Loos. No. All of the fruit except Indian River fruit was below ceiling immediately before price-ceiling suspension, and it remained below ceiling for the first few days. It was not until the
Thanksgiving holiday that it began to go above ceiling. The jump came 2 or 3 days after suspension.

Mr. Monroney. To be useful to us, I think we ought to have some place what point it hit before price ceilings were put back on, because you average out a price over several weeks there. You get the advantage of what the ceiling had been holding down.

Mr. Loos. I intend to give you that. I will try to give you an analysis of the whole period.

Before price ceilings were suspended, we were in the period toward the close of the California summer season. That is the only source of supply of oranges in the summertime. We had in California a very large crop. There was a very heavy supply in July, August, September, and October. During those months the prices were very low, much below ceiling.

The Florida season begins in October. Of course, the first shipments of any new fruits on the market always are small in number and always get high prices. The Florida volume was just beginning to move when the price controls were removed.

Mr. Brown. When do the Texas grapefruit go to market?

Mr. Loos. They start in October, also. Normally, by December we would have had a very large volume of fruit from Florida and Texas in the market. We had the volume from Texas, but we did not have the volume from Florida that was anticipated either on oranges or on grapefruit, because Florida had a very unusual situation this past year in that their early bloom came in the period of drought. It was very limited. The greatest late bloom they ever had in the history of the State was slow in maturing.

It cannot be shipped until it reaches a certain standard. There was a flurry a few days after the removal of price ceilings. They went up considerably. They averaged down for the week—for the first week, Florida interior oranges and even Indian River oranges were below ceiling. California oranges were 8 cents above ceiling for the average of that first week. Taking the first 4 weeks, a table similar to the one I have handed you shows that the average price of all fruit, except Indian River, was 11 cents below ceiling for that first 4 weeks. Including Indian River for the first 4 weeks, the average price was 1 cent below ceiling.

The bulge in the price came the week before Christmas and during Christmas week. That was probably the time to which most of the publicity refers. Even then, the average prices were not nearly as much above ceiling as I am sure the publicity at the time led most people to believe.

The highest weekly average that was reached by the several fruits was, in the case of Florida interior oranges, $5.28 for the week ending December 28. That was Christmas week. That was 69 cents above ceiling.

Mr. Monroney. That would not reflect Christmas buying because there is a week or 2 weeks' transit between the time they are auctioned?

Mr. Loos. These are the prices as they are auctioned.

Mr. Monroney. We are laymen. Those oranges would not reach the market until sometime in January.
Mr. Loos. You are mistaken on that, I am sorry. The auctions sell the fruit in the large cities to the wholesale trade. Those auctions are held early in the morning. That same day much of that fruit is on the retail stands. It is all on the retail stands by the next day or the day following. Out of these auction markets, when you go out to some of the service wholesalers who serve sparsely settled areas and large rural areas, it does take a few days to a week or maybe 2 weeks before they dispose of all of their fruit.

These prices reflect the market price for the week in which this fruit was also sold at retail. The Indian River oranges averaged $6.51 for that same week. That was $1.52 above ceiling. California oranges averaged $6.41 against a ceiling of $5.36. That is $1.05 above ceiling. Florida interior grapefruit was down below ceiling by Christmas week. The supplies had caught up. They reached their highest point the second week of price suspension. It was 42 cents above ceiling. By Christmas week they were down to $3.37, which was 3 cents below ceiling. Indian River grapefruit reached its peak on Christmas week, also, at $5.29, compared with $4.10 or $1.19 above ceiling.

Mr. TALLE. Was there any comparable movement in the prices of fruit juices?

Mr. Loos. No. The fruit juices were low at that time. They were considerably below ceilings. Shortly after, or about this time, price ceilings on citrus juices were suspended. They have continued to be suspended.

Texas grapefruit also reached its peak in the second week of price suspension because that was the time when their supplies were short. They had a highest average for that week of $3.54, which was 4 cents below ceiling. On Christmas week they were $3.29, which was 29 cents below ceiling.

So you see that even in this highest week, while the prices were substantially above ceiling, they were not many times ceiling price or anything of that sort. When you remember that each box contains around 200 or more oranges—almost 20 dozen oranges—even a rise of $1.50 does not mean very much per dozen.

A question was asked about retail prices.

Mr. MONRONEY. And lemons. Have you got those figures for lemons?

Mr. Loos. I am sorry. I have not got those figures for lemons. They did not figure much in the publicity. The price of lemons was on a few sizes very high. On the majority of the fruit the prices were below ceilings. As I recall it, except for Christmas week and the week before Christmas, the prices of lemons were considerably below ceiling. The reason I haven't the figures is that that was not a part of the discussions we were having with the Office of Price Administration about the restoration of ceilings. The whole thing centered on oranges and grapefruit. It was the high prices during Christmas week and during the week before that caused the Office of Price Administration to restore those ceilings.

Perhaps I had better continue with this discussion of the wholesale market.

Mr. MONRONEY. Would you put in the record a corresponding table for lemons?
## Weekly average prices—10 auctions, California oranges and lemons, June 16, 1945, to Mar. 22, 1946

<table>
<thead>
<tr>
<th>Week ending</th>
<th>Oranges</th>
<th>Lemons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate ceiling</td>
<td>$5.89</td>
<td>$7.11</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Season</th>
<th>(cents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summer</td>
<td>$0.95</td>
</tr>
<tr>
<td>Winter</td>
<td>$0.38</td>
</tr>
</tbody>
</table>

- **June 16**
  - Approximate ceiling: $5.85
- **June 23**
  - Approximate ceiling: $5.85
- **June 30**
  - Approximate ceiling: $5.85
- **July 7**
  - Approximate ceiling: $5.84
- **July 14**
  - Approximate ceiling: $5.80
- **July 21**
  - Approximate ceiling: $5.34
- **July 28**
  - Approximate ceiling: $5.33
- **Aug. 4**
  - Approximate ceiling: $5.79
- **Aug. 11**
  - Approximate ceiling: $5.61
- **Aug. 18**
  - Approximate ceiling: $5.65
- **Aug. 25**
  - Approximate ceiling: $5.75
- **Sept. 1**
  - Approximate ceiling: $5.73
- **Sept. 8**
  - Approximate ceiling: $5.68
- **Sept. 15**
  - Approximate ceiling: $5.42
- **Sept. 22**
  - Approximate ceiling: $5.45
- **Sept. 29**
  - Approximate ceiling: $5.47
- **Oct. 6**
  - Approximate ceiling: $5.59
- **Oct. 13**
  - Approximate ceiling: $5.51
- **Oct. 20**
  - Approximate ceiling: $5.49
- **Nov. 3**
  - Approximate ceiling: $5.40
- **Nov. 10**
  - Approximate ceiling: $5.48
- **Nov. 17**
  - Approximate ceiling: $5.56
- **Nov. 24**
  - Approximate ceiling: $5.55
- **Dec. 1**
  - Approximate ceiling: $5.52
- **Dec. 8**
  - Approximate ceiling: $5.52
- **Dec. 15**
  - Approximate ceiling: $5.51
- **Dec. 22**
  - Approximate ceiling: $5.50
- **Dec. 29**
  - Approximate ceiling: $5.51
- **Jan. 5**
  - Approximate ceiling: $5.50
- **Jan. 12**
  - Approximate ceiling: $5.50
- **Jan. 19**
  - Approximate ceiling: $5.50
- **Jan. 26**
  - Approximate ceiling: $5.50
- **Feb. 2**
  - Approximate ceiling: $5.50
- **Feb. 9**
  - Approximate ceiling: $5.50
- **Feb. 16**
  - Approximate ceiling: $5.50

---

**ALL CITRUS INCLUDING LEMONS**

<table>
<thead>
<tr>
<th>Oranges: Florida Interior</th>
<th>1,192</th>
<th>$4.49</th>
<th>$4.59</th>
<th>+10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida Indian River</td>
<td>502</td>
<td>5.35</td>
<td>5.00</td>
<td>+35</td>
</tr>
<tr>
<td>California</td>
<td>1,759</td>
<td>5.55</td>
<td>5.37</td>
<td>+18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,453</td>
<td>5.16</td>
<td>5.05</td>
<td>+11</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grapefruit: Florida Interior</th>
<th>154</th>
<th>3.68</th>
<th>3.59</th>
<th>+99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>619</td>
<td>3.33</td>
<td>3.58</td>
<td>-25</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>773</td>
<td>3.40</td>
<td>3.58</td>
<td>-18</td>
</tr>
<tr>
<td>Florida Indian River</td>
<td>662</td>
<td>4.95</td>
<td>4.10</td>
<td>+85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,335</td>
<td>4.05</td>
<td>3.89</td>
<td>+25</td>
</tr>
</tbody>
</table>

| Lemons                       | 737   | 6.78  | 6.48  | +30 |

| Combined oranges, grapefruit, and lemons: All except Florida Indian River grapefruit | 4,963 | 5.12  | 5.03  | +09 |

| All                           | 5,925 | 5.11  | 4.94  | +17 |

---

**10 auction average prices compared with average ceiling prices (each weighted by number of cars sold in each market) for entire period of suspended ceiling Nov. 19, 1945, to Jan. 3, 1946**

**Ceiling price**

<table>
<thead>
<tr>
<th>Oranges: Florida Interior</th>
<th>$4.49</th>
<th>$4.59</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida Indian River</td>
<td>5.35</td>
<td>5.00</td>
</tr>
<tr>
<td>California</td>
<td>5.55</td>
<td>5.37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5.16</td>
<td>5.05</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grapefruit: Florida Interior</th>
<th>3.68</th>
<th>3.59</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>3.33</td>
<td>3.58</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3.40</td>
<td>3.58</td>
</tr>
<tr>
<td>Florida Indian River</td>
<td>4.95</td>
<td>4.10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4.05</td>
<td>3.89</td>
</tr>
</tbody>
</table>

| Lemons                       | 6.78 | 6.48 |

| Combined oranges, grapefruit, and lemons: All except Florida Indian River grapefruit | 5.12 | 5.03 |

| All                           | 5.11 | 4.94 |

---

(The following was later received for the record:)

10 auction average prices compared with average ceiling prices (each weighted by number of cars sold in each market) for entire period of suspended ceiling Nov. 19, 1945, to Jan. 3, 1946.
### Weekly average prices—10 auctions, California oranges and lemons, June 16, 1945, to Mar. 22, 1946—Continued

<table>
<thead>
<tr>
<th>Week ending</th>
<th>Oranges</th>
<th>Lemons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 22</td>
<td>5.24 - .13</td>
<td>4.86 - 1.62</td>
</tr>
<tr>
<td>Mar. 1</td>
<td>5.08 - .29</td>
<td>4.92 - 1.56</td>
</tr>
<tr>
<td>Mar. 8</td>
<td>5.00 - .16</td>
<td>5.27 - 1.21</td>
</tr>
<tr>
<td>Mar. 15</td>
<td>4.91 - .16</td>
<td>5.19 - 1.29</td>
</tr>
<tr>
<td>Mar. 22</td>
<td>4.86 - .11</td>
<td>5.25 - 1.23</td>
</tr>
</tbody>
</table>

**Note:** Summer ceiling: Oranges from May 1 to Nov. 15; lemons from May 1 to Oct. 31.
Winter ceiling: Oranges from Nov. 16 to Apr. 30; lemons from Nov. 1 to Apr. 30.
Winter ceiling for oranges computed on basis of sales during period of price-ceiling suspension in the 10 auction markets.

### Weekly average prices—10 auctions, Florida oranges, Nov. 1, 1945, to Mar. 22, 1946

<table>
<thead>
<tr>
<th>Week ending</th>
<th>Interior</th>
<th>Indian River</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate ceiling</td>
<td>first</td>
<td>second</td>
</tr>
<tr>
<td>Nov. 9</td>
<td>$3.66 - $0.15</td>
<td>4.57 - $0.42</td>
</tr>
<tr>
<td>Nov. 16</td>
<td>3.73 - .91</td>
<td>4.36 - .53</td>
</tr>
<tr>
<td>Nov. 23</td>
<td>4.23 - .10</td>
<td>4.61 - .08</td>
</tr>
<tr>
<td>Nov. 30</td>
<td>4.27 - .12</td>
<td>4.84 - .15</td>
</tr>
<tr>
<td>Dec. 11</td>
<td>4.36 - .19</td>
<td>5.16 + .17</td>
</tr>
<tr>
<td>Dec. 18</td>
<td>4.34 - .15</td>
<td>4.96 - .03</td>
</tr>
<tr>
<td>Dec. 25</td>
<td>4.51 - .16</td>
<td>5.15 + .16</td>
</tr>
<tr>
<td>Jan. 1</td>
<td>4.55 - .14</td>
<td>4.94 - .05</td>
</tr>
<tr>
<td>Jan. 8</td>
<td>4.67 - .38</td>
<td>4.53 - .46</td>
</tr>
<tr>
<td>Jan. 15</td>
<td>4.21 - .18</td>
<td>4.82 - .17</td>
</tr>
<tr>
<td>Feb. 1</td>
<td>4.48 - .11</td>
<td>4.95 - .04</td>
</tr>
<tr>
<td>Feb. 8</td>
<td>4.12 - .17</td>
<td>4.56 - .03</td>
</tr>
<tr>
<td>Feb. 15</td>
<td>4.02 - .17</td>
<td>4.91 - .06</td>
</tr>
<tr>
<td>Feb. 22</td>
<td>3.97 - .12</td>
<td>4.79 - .20</td>
</tr>
<tr>
<td>Mar. 1</td>
<td>4.12 - .17</td>
<td>4.74 - .25</td>
</tr>
<tr>
<td>Mar. 8</td>
<td>4.66 - .23</td>
<td>5.06 - .05</td>
</tr>
<tr>
<td>Mar. 15</td>
<td>4.41 - .18</td>
<td>5.04 - .07</td>
</tr>
<tr>
<td>Mar. 22</td>
<td>4.99 - .70</td>
<td>4.81 - .30</td>
</tr>
</tbody>
</table>

**Note:** First period ceiling, from Sept. 1 to Feb. 29.
Second period ceiling, from Mar. 1 to end of season.
Winter ceiling computation basis of sales during period of price-ceiling suspension in the 10 auction markets.

Weekly average prices are as reported by Department of Agriculture.
### Weekly average prices—10 auctions, grapefruit, Nov. 9, 1945, to Mar. 22, 1946

<table>
<thead>
<tr>
<th>Week ending</th>
<th>Florida</th>
<th>Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interior</td>
<td>Indian River</td>
</tr>
<tr>
<td>Nov. 9</td>
<td>$3.59</td>
<td>$4.10</td>
</tr>
<tr>
<td></td>
<td>3.85</td>
<td>4.26</td>
</tr>
<tr>
<td>Nov. 10</td>
<td>$2.79</td>
<td>$3.56</td>
</tr>
<tr>
<td></td>
<td>$0.80</td>
<td>$0.54</td>
</tr>
<tr>
<td>Nov. 16</td>
<td>3.13</td>
<td>3.65</td>
</tr>
<tr>
<td></td>
<td>$0.49</td>
<td>0.45</td>
</tr>
<tr>
<td>Nov. 23</td>
<td>3.84</td>
<td>4.78</td>
</tr>
<tr>
<td></td>
<td>+0.25</td>
<td>$0.68</td>
</tr>
<tr>
<td>Nov. 30</td>
<td>4.02</td>
<td>4.81</td>
</tr>
<tr>
<td></td>
<td>+0.43</td>
<td>$0.71</td>
</tr>
<tr>
<td>Dec. 7</td>
<td>3.97</td>
<td>5.69</td>
</tr>
<tr>
<td></td>
<td>+0.38</td>
<td>+0.99</td>
</tr>
<tr>
<td>Dec. 14</td>
<td>3.50</td>
<td>4.62</td>
</tr>
<tr>
<td></td>
<td>$0.99</td>
<td>$0.72</td>
</tr>
<tr>
<td>Dec. 21</td>
<td>3.42</td>
<td>5.12</td>
</tr>
<tr>
<td></td>
<td>$0.17</td>
<td>$1.02</td>
</tr>
<tr>
<td>Dec. 28</td>
<td>3.37</td>
<td>5.29</td>
</tr>
<tr>
<td></td>
<td>$0.22</td>
<td>$1.19</td>
</tr>
<tr>
<td>Jan. 4</td>
<td>3.14</td>
<td>4.53</td>
</tr>
<tr>
<td></td>
<td>$0.45</td>
<td>$0.43</td>
</tr>
<tr>
<td>Jan. 11</td>
<td>2.94</td>
<td>4.05</td>
</tr>
<tr>
<td></td>
<td>$0.45</td>
<td>$0.65</td>
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<tr>
<td>Jan. 18</td>
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<td>3.75</td>
</tr>
<tr>
<td></td>
<td>$1.05</td>
<td>$0.35</td>
</tr>
<tr>
<td>Jan. 25</td>
<td>2.89</td>
<td>3.87</td>
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<tr>
<td></td>
<td>$0.79</td>
<td>$0.25</td>
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<tr>
<td>Feb. 1</td>
<td>3.13</td>
<td>3.81</td>
</tr>
<tr>
<td></td>
<td>$0.44</td>
<td>$0.20</td>
</tr>
<tr>
<td>Feb. 8</td>
<td>3.02</td>
<td>3.52</td>
</tr>
<tr>
<td></td>
<td>$0.57</td>
<td>$0.58</td>
</tr>
<tr>
<td>Feb. 15</td>
<td>3.73</td>
<td>3.52</td>
</tr>
<tr>
<td></td>
<td>$0.84</td>
<td>$0.58</td>
</tr>
<tr>
<td>Feb. 22</td>
<td>3.16</td>
<td>3.53</td>
</tr>
<tr>
<td></td>
<td>$0.43</td>
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<td>Mar. 15</td>
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<td>Mar. 22</td>
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<td>$0.54</td>
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**Note:** First period ceiling prices, from Sept. 1 to Feb. 29, are averages computed on basis of volume sold in the auction markets during period of suspension of price ceilings. Second period ceilings, from Mar. 1 to end of season, are the first period plus the f. o. b. differentials as shown in MPR-426.

Weekly average prices are as reported by Department of Agriculture.

Mr. Loos. I can give you the average prices at the auction market on lemons just as I have here on oranges and grapefruit. I will be glad to furnish that table.

When price control was restored—first let me say again, this may be a little repetition, as to the reason for these high prices in Christmas week and the week before. We had a combination of unexpected circumstances. First was the Florida maturity, slowness in getting to maturity, especially the oranges. There were rains in Florida that interfered with the picking, and then along Christmas week, and the week before Christmas, everybody in the Florida groves quit working and took a holiday, the first Christmas after the war. That is easy to understand. The volume from Florida fell down to low proportions in those 2 weeks.

California was at the end of its season and had very little fruit to ship. It was impossible to ship what it had because of the car shortages that developed in November and December. It developed about the first of November and continued until sometime in February. The car-shortage problem is solved for the present. I am not optimistic enough to think it is solved permanently. We will have more. They will not be as severe as they were in December and January, I am sure.

Mr. Talley. I think you said you had been with this organization since 1914.

Mr. Loos. Yes, sir.
Mr. Talle. What change have you found in the American diet insofar as fresh fruits and vegetables are concerned?

Mr. Loos. The per capita consumption has greatly increased in many fresh fruits and vegetables. In the case of oranges, it has increased probably more than any other fresh fruit that is in large volume. Apples have remained fairly stationary, but the American people are certainly eating a far larger proportion of fresh fruits and vegetables in their diets than 25 or 30 years ago.

Mr. Talle. Is it not true there was a considerable increase in 1920?

Mr. Loos. Yes.

Mr. Talle. With the dropping off of meat, there was an increase in the use of fruits and vegetables.

Mr. Loos. There has been right through the twenties. It even continued through the depression, but not at such a rapid rate.

Mr. Talle. It has become a habit.

Mr. Loos. I hope it has. It would be indicated from the large volume consumed now that it has become a fixed habit.

Mr. Talle. If it had not been a habit, you probably would not have heard much about it in December and January.

Mr. Loos. No; as I say, there was this combination of circumstances that tended to reduce the supplies, and the supplies the week before Christmas and Christmas week were very, very short. However, that situation was just about to right itself when price ceilings were restored.

For example, the week of December 28, when most of these fruits reached their peak, total sales in the New York auction for that week were only 25 cars. The California Fruit Growers Exchange often has of its own fruit in the New York auction market 75 or even 100 cars in 1 day. So you can imagine how short the supplies were when we had only 25 cars in the whole New York auction market for a whole week. On January 2 we offered 54 cars for sale in the New York market, twice as many as we had the whole preceding week.

The price for oranges on that day came down from an average of $8.42 of the week ending December 28 to $5.42. It dropped $3 two days before price ceilings were restored. At the same time, curious as it may seem, the prospect of putting back the ceiling, the prospect of removing that suspension tended to reduce the price in Chicago and St. Louis on California fruit and increase the price in New York and the other eastern cities, because the growers were getting scared and were putting their fruits into the first markets they reached from California, and that contributed to the shortage in the eastern markets.

So we have the curious situation of the week ending December 28, prices in New York averaged $8.42, Boston $7.51, Philadelphia $6.65, all a dollar or two above ceiling, and in Chicago they averaged $5.36, which was 2 cents above ceiling, and in St. Louis, 18 cents below ceiling. In Chicago and St. Louis they had an adequate supply for those markets in that week ending December 28, and they were right at ceiling. In the other eastern markets the situation was much like New York.

On January 2 there were adequate supplies. Prices in Philadelphia dropped $1.10 a box; in New York, the prices dropped $3 a box from the preceding week, and I believe that if the suspension had been continued the supplies would have been ample to take care of the situation, although we did run into very severe car shortages in January and the first part of February.
We are not complaining that the price ceilings were restored at that time. We are just simply trying to point out to you the factors that existed during this period of price suspension in an attempt to convince you that if price ceilings were removed on citrus following June 30, so long as we have ample supplies—and that was what our proposed amendment would contemplate—that there would be a leveling of prices so that the average would be at or below ceilings. I do not want you to think that I am contending that there would not be some fruit that would sell above ceiling. The scarce sizes, the premium grades, would go materially above the present ceilings, but there are very, very few boxes of those compared with the total. There are probably 5 or 10 percent of that type of fruit. As I said before, it is like the Indian River fruit. It goes to the hotel and restaurant trade where the price they pay for a box of 200 or more oranges does not affect much the profit they make when they sell it at 40 or 50 cents a glass for orange juice or 50 cents a half a grapefruit.

Now, to refer to the retail prices, there was unquestionably a considerable number of retail outlets during this period of scarcity in Christmas week and the week before where prices were high and where prices were very much above ceiling, but our review of advertisements of the stores published in the newspapers all over the country shows at no time, except possibly during Christmas week, was it impossible to find some stores and important stores in almost every city in the country where oranges could be bought below the previous existing retail ceiling.

Mr. MONRONEY. Was it not true that A & P went under normal margins in order to combat that rapidly rising cost?

Mr. Loos. It may be in some cases they did, but not in many cases, because they were selling the medium grades, the sizes that were in plentiful supply. They did not try to buy 120-size oranges when there were only maybe 2 or 3 boxes in 10 cars. They bought the sizes that were in supply. They sold those. They may have reduced their margin somewhat in those 2 weeks, but they did not have to reduce them very much.

Mr. MONRONEY. But you had an extremely irregular level in retail prices throughout the country.

Mr. Loos. Yes. We had that even during price control, because people will insist on going into the black market and buying fruit at higher prices than ceiling prices. You have that same irregularity.

I have seen figures of the Office of Price Administration showing that during the periods of price control, a year or so ago, at the end of the California summer season and before the Florida and Texas fruit had come into the market, when fruit was very, very scarce, showing there were more violations of price ceiling at that time than there were higher prices during this Christmas week and the week before Christmas with no regulation. That is an extreme example.

The retail markets were very irregular. There were plenty of markets selling considerably above ceiling. We have come to a point now, I believe, where the American housewives are not going to pay the fancy prices for premium fruit at a store on this corner when they can go down the street a half a block and get the medium fruit that has just as good juice and just as good food value at reasonable prices. I think that is what the situation will be if our proposed amendment is adopted, and as long as we have adequate supplies
so much above prewar production, price control certainly should not be continued.

Mr. Talle. When you use the term "medium grade," what does that refer to? Not the quality of the meat or juice?

Mr. Loos. I tried to avoid using technical terms. I do not know too much about them myself. I would confuse everybody if I tried to use them, I am sure.

By "medium grade" I mean something that would still be classified as "U. S. No. 1." It is good. The difference between that and premium grade is the matter of size and the matter of exterior appearance. Fruit to sell at high premium prices must be perfectly clear, the kind you can cut a slice of and put in an old-fashioned, and it will look pretty. The juice is not better or the food value is not any better than you can get at a peddler's fruit stand or a grocery store, and buy at a lower price.

Mr. Outland. What would have happened if they removed prices on all food at one time?

Mr. Loos. I think some foods would have gone up, those in scarce supply. I think the food supply was sufficient so that there would have been adequate substitutes at reasonable prices.

Mr. Outland. You do not think it would be a general rise in everything?

Mr. Loos. No.

Mr. Outland. Is it not a tendency when you take the ceiling off to jack the price up?

Mr. Loos. There is to a certain degree. One man in the New York trade said it is like a colt that has been in the barn all winter; he runs down to the end of the pasture and then walks back. They overbid the market.

Mr. Brown. Thank you, very much.

Mr. Talle. May I ask a question?

Mr. Brown. Yes.

Mr. Talle. I think this should be referred to Mr. Blalock. I am interested in the Merchandise Institute you refer to. What do you expect to do with that institute?

Mr. Blalock. The institute was sponsored by the United Fresh Fruit Association. We chose the area of the States of Kansas and Missouri with the purpose of improving the merchandising methods of all the handlers of those products from the car door to the consumer. Before a wholesaler can participate in the plans, he must first agree to certain principles which we think are sound. He must employ a retail merchandiser in the wholesale business, a man who is thoroughly conversant with retail merchandising. They have done that.

Secondly, he must employ a man who is capable of going to the retailer and laying out the plan to the retailer on how best to merchandise fresh fruits and vegetables. To acquaint the consumer with production at the peak of their goodness and low price, they should encourage heavier purchases at that time. That brings in store management, equipment, preparation of the merchandise for display, proper displays, proper sales records, and, naturally, the results, the increase in the sale of fresh fruits and vegetables.

It is going to take that to move the crops we have.
Mr. Talle. I have been interested for several years in what the Department of Agriculture has done in the way of combating pests and diseases both as to vegetables and fruits. You probably would not have any recommendations from your institute about those matters?

Mr. Blalock. I am sure Mr. Kitchen could answer that.

Mr. Talle. I have one question for Mr. Kitchen.

Mr. Brown. We have one more witness.

Mr. Talle. On page 5 of your statement, I wanted to ask how you arrived at the figure 10 percent.

Mr. Kitchen. That is just an arbitrary figure.

Mr. Talle. That is just what I wanted to know. How did you arrive at the 10-year period?

Mr. Kitchen. That is based on the statistics of the Department of Agriculture. If the supply was below the 10-year period, we would not ask that price control be discontinued.

Mr. Talle. You thought that was a good base period to take?

Mr. Kitchen. That is all.

Mr. Brown. Thank you.

Mr. Chairman. Proceed, Mr. Cook.

STATEMENT OF T. G. COOK, MANAGING DIRECTOR, TWIN CITIES APPAREL INDUSTRIES ASSOCIATION

Mr. Cook. Mr. Chairman and members of the committee, I have not prepared a special brief. I will make my remarks as short as I can. My name is T. G. Cook. I am managing director of the Twin Cities Apparel Industries Association, with headquarters at Minneapolis, Minn. Our association is composed of 92 members, 65 of whom are manufacturers and produce every type of apparel from infants' robes and underwear to all types of lingerie and outer apparel for men, women, and children.

I am not a lawyer but a former manufacturer for 20 years. Our association office is set up to help our industry in every possible manner. We issue bulletins on Government regulations. We try to explain the provisions of fabric and price control and negotiate labor contracts.

I am proud of the compliance records of our members from our largest manufacturer employing some 2,400 workers to the smallest manufacturer with 6 or 8 workers.

I am proud of the quality merchandise produced in our modern plants. You will find no sweatshops in the Twin Cities market of Minneapolis and St. Paul. Ours has never been a mass-production market.

We are justly proud of our friendly labor relations. We are proud of the intelligence of our workers whose background is mostly Scandinavian.

This is only the second trip I have made to Washington in behalf of our members since the inception of price control and fabric and supplies controls have been in effect.

We have never been members of or are not now part of any national pressure group. The members of the Twin Cities apparel industries
have made every possible effort to live within all governmental regulations.

My association now feels that their problems should be brought to Congress. Some of our members are in such despair, they have asked me to lay these problems before your committee, representing Congress, as the only method of getting relief.

In my capacity as managing director, it has been my privilege to represent a number of our members when they have been investigated by an investigator from the Office of Price Administration.

I am happy to say that not one of our members has ever been found in violation of his highest price limitation according to his price chart filed with the Office of Price Administration—but only because his cost accounting did not agree with the definition of "costs" as defined in the price regulation under which he was to operate.

In most cases these price regulations are so complex and cumbersome that even "price specialists" in district offices are unable to interpret them themselves. I cite, for instance, the new clothing regulation MPR 607. It is 82 pages long. Seventy-eight pages, I think, are devoted to definitions of costs. Orders such as this are written in such language that many Office of Price Administration representatives are unable to fathom or explain them.

Is it any wonder that some small manufacturer employing a handful of workers is unable to understand them or fathom their purposes?

If one of these smaller manufacturers were to do nothing else but try to keep the required records in such regulations as the men's clothing order, he still would not be able to understand what was required of him.

We have just recently completed a union contract for seven of our overcoat manufacturers in which they are required to pay a 15-cent-per-hour increase; 3-percent payroll contribution to supplement Federal social security, plus a 2-percent payroll contribution they have been paying for 2 years for sick and death benefit funds; plus six paid holidays; plus 65 cents minimum wage; plus union dues and assessments check-off.

The new clothing order is supposed to afford some price relief, but the manufacturer is still subject to MAP which, as you know, is an average price based on 1943 operations.

Now when low-priced fabrics are not available and manufacturers are forced to give wage increases totalling in some instances as high as 30 percent, and are required to meet an average price based on 1943 operations; is it any wonder industry is alarmed?

Oh, yes; labor rates in some regulations are frozen at 1942 levels, and in the clothing order just released, at August 18, 1945 levels.

In our lingerie division, we have three of the country's top producers of branded knitted lingerie. They are Munsingwear, Inc., Winget-Kickernick Co., and Strutwear, Inc.

I know it to be true that at least one of these firms produced and sold the same undergarment made of the identical fabric, with identical trim, at the same price as he did in March 1942, under general maximum price regulation. This garment retailed at the same price as it did prior to the war. Still, when the lingerie and pricing regulations became effective on March 15, 1945, this manufacturer was required to take a 15-percent roll-back on his 1942 mark-up and prostituted a relationship that his retailer had with the consuming public.
I would like to explain that just briefly. If this garment sold at $2.95, retail, prior to the war, and prior to the time the general maximum price regulation came in; with this 15-percent roll-back, he might be required to sell at a lower price and possibly retail at $2.49. Some lady who had been buying this slip at $2.95 would see it at $2.49 and she would then feel the store had been cheating her and she might go to another store and pay a larger price for an inferior garment.

I would like to cite, also, an instance of one of our other lingerie houses, Strutwear, Inc. They have been in business for 29 years in Minneapolis. They produce hosiery and underwear. They manufacture full-fashioned hosiery. They have 20,000 pairs of nylon hosiery that they are unable to sell because the Office of Price Administration refuses to give them a license. They claim even though they were in the business of purchasing and resale for 29 years, that they do not qualify under 602, the nylon hosiery order to get a license as a wholesaler. Their primary business is small stores throughout communities in the Northwest. These smaller stores will have no method of securing this hosiery, if they are refused this license. If they are refused this license, then all of the supply from this hosiery mill which produces these goods, will go to large distributors and chain outfits. Again, the small store in the small community would not have an opportunity to share in goods that are already on their shelves and have been for some time past.

I am appearing before your committee to register a strong objection to the continuance of supplementary maximum price regulation order.

The most simple way to give you an idea is to read a few excerpts from several letters our office has received. We do not ask for complete abolition of price controls, but let us have them simple and workable. These letters will tell a story of why the country is faced with shortages of essential apparel.

It is our contention that MAP has defeated the very purpose for which it was intended; and if it is permitted to continue this country will be faced with a greater peacetime shortage.

With your permission, may I read a few excerpts from some of these letters?

Mr. BROWN. Go ahead.

Mr. COOK. This is a telegram received yesterday morning from Minneapolis. Minneapolis Knitting Works has been manufacturing children’s underwear for 60 years. There is a combination of two things here [reading]:

Direction 9 to Priorities Regulation 32 throws another monkeywrench into production; under this order we cannot build stock boys’ underwear for fall, and cannot ship now under MAP, and unable to get fine cotton yarn for lightweight production. What is the answer?

I do not know the answer.

Here is a letter from Martin Bros. Co. They have been in business since 1903. They manufacture garments for children and infants. [Reading:]

We have come to the conclusion that it is impossible for Congress to control the Office of Price Administration under the present administrative set-up. Maximum Price Regulation 007, just released, appears to be one of the most voluminous that the Office of Price Administration has issued to date. It imposes still more burdensome, tedious, expensive bookkeeping and accounting records on an industry which is already loaded down with so much red tape, in an effort to comply with various Office of Price Administration regulations.
that the overhead cost of this type of business has increased sharply. This is the final act which convinces us that a continuation of the Office of Price Administration under the present set-up cannot be controlled by Congress and that the continuation of that Office will only lead to still greater confusion, increased shortages of badly needed wearing apparel, and open the road to more prosecutions by the Office of Price Administration for variations of regulations which cannot be understood or followed by the average businessman.

Mr. Brown. You may insert those in the record.

Mr. Cook. I would like to leave these with Congressman Judd. Congressman Judd will see that you get a copy of them.

This is a letter from a manufacturer of dresses in Minneapolis. They have been in business for some 25 years. [Reading:]

Our problems are no different than those of thousands of other manufacturers throughout the entire country. Please understand we are not in favor of the elimination of the Office of Price Administration in the immediate future, but do want to see its regulations administered with reason and judgment and relaxed here and there where necessary to increase production. Our biggest current problem is maximum average price. It is ridiculous that we should be expected to average out to our 1943 prices when our fabric costs, our labor rates, our supplies and equipment, our rents and our entire overhead have steadily increased. In our estimation, maximum average price, is the biggest single factor and almost the only cause for the retarding of production, throughout the entire industry. We, for example, have been working for a long time under RMPR 287 and would like to go back to the slight leeways of price lines we were permitted under this regulation as the first step toward operating under more normal conditions. There is, however, the objectionable feature to RMPR 287 which does not permit us to include the increased cost of labor and operation in our cost controls. We must be permitted to include all operational costs, as we are no longer able to absorb the great percentage of increase we have been unable to avoid.

MAP has:
1. Reduced the supplies of fabrics available to us.
2. Made it impossible to use fabrics (due to our price set-up) that have been offered us, and which we would normally use in our operation.
3. Taken many items we use in the general manufacturing process off the market entirely.
4. Has made it impossible to merchandise, produce, and deliver our product to the best advantage of the consumer. We are today performing the above services to comply with regulations and quarterly periods, instead of timing our operations to conform with consumers' normal buying.
5. Compelled us to reduce the tangible value of our product, due to increased cost.
6. Caused us to lose a reputation for quality, styling, and workmanship we have been 30 years building.
7. Has added a burden of bookkeeping, records, and filing of reports to an already unbearable burden.

OPA, MAP, CPA, and all the rest of the Government alphabetical agencies will achieve the purpose we are working for if they will:
1. Issue regulations well before the effective dates, with an eye to ample time for compliance and seasonal considerations.
3. Consult with industry before regulations are put into effect or eliminated.
4. Establish a policy of reasonable and justifiable interpretation of regulations.
5. Establish a policy of prompt consideration in issuance of relief in justifiable distress cases.

Here is a letter from D. B. Rosenblatt, Inc. They have been manufacturing men's overcoats and women's overcoats for some 25 or 30 years. [Reading:]

It has been our experience in operating under SO-108, the MAP order, that we have incurred a surcharge in every quarter due to the following reasons:
1. Our inability to procure low-priced materials used in the basis period.
2. Our prices in the basis period were not a true reflection of current market replacement cost, but rather a liquidation of prewar merchandise.
These two factors have made it impossible for us to come within our MAP in any one of the three categories manufactured by our firm. This is true despite the fact that we have been given a tolerance allowed by the OPA.

It is our firm conviction unless this order is lifted or a considerable change is made, we will be unable to continue shipping merchandise after May 1, despite the fact that the items we manufacture are badly needed by the public.

That one firm is probably as large as all the other seven put together.

Here is a letter from Straus Knitting Mills in St. Paul. They have been in business for a great many years. [Reading:]

Anything that we might have to say regarding MAP has already been repeated a thousandfold and you are familiar with all phases of it. We have found it virtually impossible to operate under and have been forced time and again to withhold much needed items from consumers simply because of this ridiculous regulation. To cite one instance of which we have many, we manufacture an all wool knitted soaker for infants which is very much in demand. The Office of Price Administration has classed this soaker in the same category as infants' training pants or underwear which gives industry an exemption level of $2.70 per dozen under MAP, whereas our average price is $6 per dozen. It is obvious that here a much needed item cannot be produced in sufficient quantity by us as a manufacturer because we simply cannot comply with regulations.

We are not for the abolition of price controls. We are, however, strongly opposed to the Gestapo-like methods used by the Office of Price Administration and their unbending, unyielding attitude towards recognizing the problems confronting manufacturers. Our Representatives should see to it that in reenacting the price regulation, amendments be added compelling the Office of Price Administration to adjust prices upward under certain conditions, for as long as the manufacturer does not receive relief in the form of price increases to offset labor and material increases since 1942, the threat of inflation will continue to grow.

I would like to read one or two others. This is from the Minneapolis Knitting Works making children's underwear. For 55 years they have been in business. I will cite only the part about price control.

Aside from the tremendous amount of clerical work involved, this order affects our production seriously in the following ways:

1. In a given category, we are frozen with our 1943 maximum average price. At that time, yarns were fairly free, and we could buy in most any count we needed. Today, with yarn shortages, we have to take what we can get when we can get it, and to keep our production going and our people employed, knit it and finish into garments. In the first and second quarter of 1943, we shipped lightweight underwear, made from fine-count yarns, and our price was fairly low. We are unable to buy fine-count yarns today, and consequently our production is on heavier-weight garments at a higher price—and this, of course, throws us out of line with our MAP charge.

2. In 1943, on infants' training panties, for example, we had three styles: One at $3; one at $3.60; and one at $4 a dozen. At that time, about 50 percent of our sale was on the $3 number. If we were to follow the requirements of our retail store customers today, we would make less than 25 percent on this style, and these stores don't want it, and their customers won't take it if they can buy either of the other styles, and, yet, to keep within our MAP charge, we still have to ship about the same 50 percent on this cheaper number.

3. Before any revisions can be made in any other pricing orders, it will be necessary to eliminate MAP, which is still in effect, any other orders would be useless.

I have several others which I want you to see, however I will not take up any more time.

We find in our midst out there, where we have some very fine manufacturers, that maximum price regulations is one factor that has retarded production. That is why there is such a definite shortage.

The Chairman. Thank you very much.
Mr. Folger. The letters that you have not read, do you desire for them to be a part of the record?

Mr. Cook. I will leave them with Dr. Judd. When may I have them returned to me if I put them into the record?

The Chairman. About 10 o'clock in the morning.

Mr. Cook. I will be glad to leave them.

Mr. Folger. I thought you would like to have them in the record.

Mr. Cook. There are more here.

Mr. Brown. You can get them back tomorrow morning. Just see the clerk.

Mr. Cook. All right. Thank you.

Mr. Talley. As I understand your testimony, if you can get only one thing done, then that thing is the removal of maximum price regulation?

Mr. Cook. That is right. We are not asking for removal of price control. We feel that maximum average price has retarded production instead of increasing it.

I have other letters which show that production has gone down 15 or 20 percent already this year. Some of our people are working only on a part-time basis. We are alarmed over the fact that we are facing an unemployment situation. That will occur before too long. That will occur if this thing continues.

Mr. Talley. How are stocks?

Mr. Cook. Our people have no inventories. Try to buy a white shirt. Try to buy lingerie at a reasonable price for your wife. You can buy lingerie produced in other markets from new firms who have had allocation of materials and who have been given price ranges much higher than our people, much higher prices than what we produced.

They showed men's gym pants at $6 a dozen. That was quite superior to the competitor's item shown at $10.50 a dozen.

Mr. Talley. How about underwear for the summer season?

Mr. Cook. Munsingwear manufactures women's, men's, and children's underwear. The most tragic part of this whole picture is the shortage of underwear for children who live in these rural districts. They have to wait for the school busses when it is 15° and 25° below zero. There is no warm underwear available for those children. We try to give a service to merchants all over the United States. We try to see that they are directed to places where merchandise can be had. These people need heavy underwear, work clothes, and work socks.

Mr. Brown. Thank you very much.

We will reconvene this afternoon at 2 o'clock.

(Thereupon, at 12:50 p. m., a recess was taken until 2 p. m.)

AFTERNOON SESSION

The Chairman. The committee will be in order. Our first witness this afternoon is Mr. Linder, commissioner of agriculture for the State of Georgia. I will ask Mr. Brown, of Georgia, to preside.

Mr. Brown. Mr. Linder is an eminent citizen of the State of Georgia, and has been commissioner for a good many years—about 10 years, I believe, Mr. Linder?

Mr. Linder. Yes, sir.
Mr. Brown. I think he is one of the ablest commissioners of agriculture in the country, and we are very glad to have his testimony. You may proceed, Mr. Linder.

STATEMENT OF TOM LINDER, COMMISSIONER OF AGRICULTURE FOR THE STATE OF GEORGIA

Mr. LINDER. First, I would like to read, for the record, a telegram addressed to me by Mr. Zack B. Cravey. It reads as follows:

Hon. Tom Linder,
Care of Congressman Paul Brown, House of Representatives:

I have been in 30 central and south central Georgia counties recently; clothing commodities, food, farm implements and accessories of every kind frightfully scarce and getting worse; third of families here in Atlanta have not had butter in the past 3 weeks; they say OPA is to blame and I agree; they attempt to put ceiling on raw cotton; with surpluses on hand this is ridiculous; authority of OPA must be curbed or this country is ruined; hope you impress Banking and Currency Committee. Regards to Paul Brown.

(Signed) Zack B. Cravey.

Now, I would like to call to the attention of the committee certain facts having reference to cotton dealings on the exchange, and futures of cotton.

Recently I have been asked as to what is the attitude of the farmers toward the various agencies in Washington. I am here to say that the farmers of the South look with suspicion on many regulations of the Office of Price Administration.

Mr. Brown. I wish you would explain how the exchange works.

Mr. LINDER. I was leading up to that. In the first place, the commodity exchanges are under the direct control of Government. Under the commodity futures bill Congress set up a Board for supervision and control of futures exchanges, which is composed of the Attorney General, the Secretary of Commerce, and the Secretary of Agriculture. All rules and regulations must be either made or approved by that Board.

As you know and everyone knows, last fall we had a bear market in cotton. A man by the name of Wade Armstrong has been sending out news releases from Washington. I have received several releases from him. On January 21 of this year Mr. Charles S. Kennedy, head of the Feeds Section of the Food Price Division, wrote to Mr. Armstrong as follows:

Dear Mr. Armstrong: Your several wires to the Administrator of this Agency sent in November have been referred to this section for reply. * * *

We wish to thank you for your comments and suggestions and appreciate receiving them. The regulations covering the several grains you list establish also ceiling prices for grain futures and deliveries on such futures. This Office has no jurisdiction over margins for future contracts on any grain.

In November, under the bear market, Armstrong and others interested in higher price ceilings applied to OPA and asked increased margin requirements on people who sold the market short. With the result as given in the above quotation from Mr. Kenney's letter.

As long as the heavy trading was on the bear side of the market, the Office of Price Administration took the position that they did not have any legal authority to change the amount of margin required.
Mr. Brown. Was that letter dated the 21st of January 1946?

Mr. Linder. This year.

Mr. Crawford. And in answer to telegrams sent as far back as November?

Mr. Linder. That is right.

Now, as soon as the cotton trade realized that they had a cotton famine on hand, which is the case now, Mr. Chairman—we have had a lot of figures and statements about a great surplus of cotton, a great carry-over, but, as a matter of fact, there is very little carry-over of ordinary spendable grades of cotton. The cotton crop in 1945 amounted to 9½ million bales, of which a large part has never been gathered, and a large percentage of what has been gathered stayed in the field and the rain and bad weather until it was very low grade.

I do not think anybody would be able to stay just how many bales of spendable cotton came out of the 1945 crop. My own estimate would be not in excess of 6 million bales.

Well, as soon as it became evident to the cotton trade that there was a famine on cotton, they quit selling the market short and they began to buy. And as soon as they began to buy, naturally, the price of cotton started up. And just as soon as it started up, then, the Office of Price Administration comes in and decides that they have got authority to regulate the amount of margins required on those contracts and issues a rule, which is not yet in effect, but still they issued the rule, which would provide, in effect, that for every cent or fraction of a cent that cotton went above 25 cents a pound, there would be a marginal deposit required of an additional $10 on each bale of cotton.

Well, now, from 25 cents to 30 cents is 5 cents a pound. And 30½ cents would be 6 cents a pound, insofar as this order is concerned. That would be $60 a bale. With a basic deposit of $10 on each bale, it would require $70 put up in cash on each bale of cotton that was purchased.

But, mind you, that rule does not apply to the man who sells cotton. It only applies to the man who buys. I can still sell at the minimum marginal deposit, but if he wants to buy a bale, then, he has got almost a prohibitive marginal requirement to keep him from buying.

Now, I would like for the committee to think about this for a minute. That the short selling of cotton, corn, wheat, and other American crops, is not confined to people who live in the United States. At least some, if not all, of these exchanges are international in their character. The cotton spinners, for instance, of England, France, Holland, Italy, any nation with whom we are at peace, the cotton spinners in those countries who are interested in cheap raw cotton can come in and sell the American cotton farmer short to any extent they see fit.

Now, if they came in and sold this cotton short and their contracts were valid under the law, so that delivery could be demanded of them, they would not sell it short, because what they want is to buy actual cotton. They do not want to sell actual cotton. They want to buy actual cotton. But they want to sell future contracts short to force the price of actual cotton down.

In order to show you the international character of this whole set-up, including the Office of Price Administration, in order to fix it so that the short seller cannot get squeezed himself, the exchange, with the
approval of the Board, which is the United States Government, have written into their rules what is known as the seller’s choice, and if this bearer, who has sold this cotton short, if someone calls him for the delivery of the cotton, then he can elect to exercise the seller’s choice, and when he does that, under the rule, he can deliver any grade of cotton that is recognized by the United States Department of Agriculture. For instance, if a cotton man in Massachusetts had bought cotton and demanded delivery of the cotton, if he used a 15- or 16-inch staple of strict middling cotton, he could be forced to take low middling cotton of 7- or 8-inch staple. Or he could be forced to take low middling cotton of an inch and a quarter staple. He can be forced to take any grade, recognized by the United States Department of Agriculture.

Now, if he bought it on the New York Exchange, this cotton mill man in Massachusetts, if he decided to accept just any grade that the seller might elect to give him, he would not get it in New York, where it would be close to his mill, but he would get it wherever the seller elected to deliver, in any of the ten markets or in all of them. He could be forced to take it in Houston, Tex., or he could be forced to take it in New Orleans. Or, if it was a 100-bale contract, he could give him 10 bales in Houston and 10 bales in New Orleans and 10 bales in each of the 10 markets. He could give him 10 different grades in 10 different staple lengths.

Consequently, the cotton miller cannot buy that cotton to protect his own spinning needs, and the bearer who wants to raid the market and force the price down on the American farmer, who produces that cotton, is protected against his offer to sell being taken up by a spinner, who might use the cotton.

Now, the fact of the matter is that the Department of Justice, of which one of the members of this Board is a member—the Attorney General—would bring suit—possibly would prosecute—anybody that did exactly what the Department of Justice itself is doing to force down these farm prices, because it absolutely amounts to a conspiracy against the American farmer who produces these crops, which are sold to these futures exchanges, which are under control of the Attorney General, the Secretary of Commerce, and the Secretary of Agriculture.

Now, as you know, under the act provided by Congress, known as the Agricultural Adjustment Act, and its amendments, the Secretary of Agriculture is empowered to determine what is legal parity on these basic farm crops. In addition to that, the Commodity Credit Corporation, which is also a part of the Department of Agriculture, is empowered to make loans to farmers on these basic farm crops, and to fix the differentials between grades.

Now, in the matter of cotton, 25 years ago I bought a great deal of cotton. At that time the maximum variation in price between the lowest grades and the highest grades of cotton was around $10 a bale, or 2 cents a pound. Today, under the operation of the Commodity Credit Corporation’s power to fix differentials, this maximum difference in the price of cotton goes as high as $35 and $50 per bale.

In addition to those powers, as I have already said, the Secretary of Agriculture is a member of the Board which controls futures exchanges. Now, last fall, when the cotton trade began to suspect that there was a shortage of cotton, the market showed a tendency to
go up, and the Commodity Credit Corporation came out and said that they were going to sell a large amount of their holdings of cotton. They threatened to dump it.

That was not sufficient to break the market, and before very long they threatened to sell, if I recollect correctly, a million and a half bales. And then just a short time later, they threatened to dump a tremendous amount—I do not remember exactly, I think it was 3½ million bales. That is a part of the Department of Agriculture.

In August of last year, the Department of Agriculture estimated the 1945 crop at 10¾ million bales of cotton—that is, in round figures. Everyone who knows anything about the cotton market would realize that the actual market for cotton during the fall was greatly influenced by this Government estimate of the prospective supply of 10¾ million bales.

Along about the 1st of December, or maybe January, they got that estimate down to 9 million bales. It gradually came down every time they came out with an estimate they made a lower estimate than the one they had previously made. They finally got down to 9 million bales, which showed the prospective supply of 1½ million bales less than the August estimate.

Nevertheless, during those fall months, when the farmer was picking and ginning his cotton, the cotton trade was under the impression that there was a million and a half bales more of cotton being produced than actually was being produced.

Of course, we do not expect anyone to be perfect, and we do not expect anybody to be able to guess in August how many bales of cotton there are going to be. But, certainly, an error of one million and three-quarters bales on a 9-million-bale crop is almost a 20-per-cent error, and with all the men that the Department has throughout the Cotton Belt, available to get information on the crop, I think they ought to be able to guess closer than that. Almost any individual citizen who is familiar with cotton growing and cotton yields in various States could guess closer than that without any Government machinery set up for the obtaining of that information.

The effect of all this control—and you cannot separate what the Office of Price Administration is doing from what the other governmental agencies are doing, because it all works together—

There has been a lot of talk about the farmer making money: What the farmer has and what he ought to have. I have right here a quotation, also by Mr. Armstrong, under elate of March 13, which happens to be exactly 1 week ago today.

He says: “Argentine corn is selling at $1.83 a bushel and the freight on it to the United States is 50 cents a bushel. Oats are 94 cents, freight 25 cents to the United States.”

I understand, not from Mr. Armstrong, but from news releases, that next to the United States, Argentina is the largest producer of corn in the Western Hemisphere. I also understand that corn is cheaper in the Argentine market than it is anywhere else in the world except in the United States.

The Office of Price Administration ceiling on corn—it has several different ceilings, different kinds of corn and in different places, different uses and so on—my understanding is that the Office of Price Administration ceilings on the American farmers’ corn average about
$1.16: $1.16 in the United States against $1.83 in the open market in Argentina.

Now, we all know that the United States is a country of high-cost production, because the American farmer has to use American labor, he has to use American industrial products, which are protected by tariffs, he is supposed to have a higher standard of living than farmers of other countries, and it costs him more to produce corn in the United States than it does anywhere in the world in corn countries.

But on the other hand, the price of that expensive corn is lower than it is anywhere else in the world.

So, it seems to me that that is self-evidence, that the American farmer, who produces corn, is being penalized. I understand further that this Government is buying corn in Argentina, or has been, and I presume still is, and shipping it lend-lease to the countries of Europe.

I have no objection—in fact, I am in accord with the idea of trying to help feed people who face starvation—I do not think we have any choice in the matter except to try to help them, but I see no reason why the American corn grower should be expected to produce corn in America and sell it for 67 cents a bushel less than it is worth in Argentina.

In December 1941, I appeared before this House Banking and Currency Committee which was then considering the bill creating the Office of Price Administration. I called attention at that time to the fact that the administration of the Office of Price Administration as drawn was a superhuman job. Nobody could do it. The Congress would be asking the President to do what would be humanly impossible for anybody to do, and that was to fix prices.

Because proper prices are a matter of a relationship of prices, and the only way in which it is possible to determine a correct relationship is by the experience of the past, the relationship that prices and labor have had to each other over a period of time.

At that time, I suggested that it was impossible for Congress or anybody else to maintain price levels unless the act should cover labor as well as commodities.

There is a great deal being said about the Office of Price Administration these days—especially on the radio and in the newspapers. I seem to be hardly ever able to turn on the radio but what I hear them talking about inflation, holding the line, and that high prices are going to create inflation, and so on. So I decided to make survey of one thing. It is impossible to go out and survey everything, but I just tried to find out what had actually happened on cotton dresses.

I went out and made a survey in Atlanta, Ga., just to find out what the farmer was getting out of the consumers' dollar that went into cotton dresses, and what the consumers were paying for the farmers' cotton that he was selling at that time for about 18 cents a pound.

We tried to take into his survey just as many different kinds and sizes and prices of cotton dresses as we possibly could, and I would like to give the committee, briefly, the outstanding facts of that survey.

The cheapest cotton dresses that we found were $1.69 each, and they weighed 4 ounces each. That was size 14. I assumed that was a child's dress. I am not familiar with these sizes, but I assumed it was. That is $1.69.
Now, in that cheap range of dresses, we took the seven cheapest ones we could find, and they ranged in price from $1.69 each to $4.98 each. Those seven dresses cost $25.58 and the seven dresses together weighed 45 1/2 ounces, a little less than 3 pounds. Those seven dresses cost $8.99 a pound: Five hundred pounds of those dresses, which is the weight of an ordinary bale of cotton, would cost $4,495.

Those were the cheapest dresses to be found in Atlanta.

Then we had the next class of dresses, six dresses that ranged from $5.98 to $7.99 each. Those six dresses weighed 70 ounces. They cost $10.25 a pound, and 500 pounds cost $5,125.

The next six dresses ranged in value from $7.98 to $12.95. Those six dresses weighed 64 ounces, and they cost $14.75 a pound, and 500 pounds cost $7,350.

The next six ranged from $12.98 to $35 each. Those six weighed 48 ounces, or three-quarters of a pound each, and they cost $37.29 a pound. 500 pounds, $18,645.

Then there were 13 dresses which came into the highest range, averaging from $13.48 to $50.47 each. Those 13 dresses cost $45.12 a pound and 500 pounds cost $22,560.

The farmer who produced the cotton that went into those dresses received five-eighths of 1 cent out of each dollar that the consumer paid—just slightly over one-half of 1 percent of the consumer dollar.

Now the Office of Price Administration comes along—

Mr. Brown. Will you pardon me there Mr. Lindner? My recollection is that Mr. Nelson who was head of the War Production Board 3 years ago, replied, when I asked him, how much cotton was there in a shirt that Sears, Roebuck & Co. retailed for $2, and he said 8 or 10 cents worth. At that time he was correct.

Mr. Lindner. Well, that is about right.

Mr. Brown. Cotton at that time was about 18 cents?

Mr. Lindner. That is right, of course, that would vary with shirts, but one shirt that I happened to investigate was made with 20-cent cotton and it had 9 cents worth of cotton in it and the price was $5.60.

At any rate, out of all these dresses covered in this survey, the farmer received five-eighths of 1 cent out of each dollar of the consumers' money.

I talked to a lady in Atlanta who happened to be a regular customer of one of the department stores, and she pointed out some dresses that were then hanging up there for sale, and she said that just before the Office of Price Administration law was passed that she had bought five dresses, and she pointed out the exact kind of dresses they were, and at the time she bought them then, they were $2.98 to $3.98 each. The day she pointed them out in the store, those same dresses were $8.98 to $14.98 each. The ones that had been $2.98 had gone up to $8.98 and the ones that had been $3.98 had gone up to $14.98.

Now I undertook to make another survey to take in a great many articles, but particularly had in mind the things that the farmer ordinarily buys, such as work shirts, overalls, plows, harness, the different things that a farmer ordinarily would buy. So I undertook to get from merchants and from catalogs comparable prices. For instance, I took a Sears, Roebuck catalog. I thought I could do it with their catalog. But I found that Sears, Roebuck were not selling the same things now that they were selling before the Office of Price Adminis-
tration was created. I undertook to investigate that and found that in a great many instances they cannot buy the same brands of merchandise they used to buy. They cannot buy merchandise that is of the same weight and quality. They cannot buy it with the same label on it.

It seems that the Office of Price Administration made a practice of fixing a hard-and-fast ceiling on our product that was established in the trade, and that when the cost of producing that product went up, that they refused to raise the ceiling, so that the manufacturer could continue to produce that same quality and that same brand. So the manufacturer simply sidestepped it by making a different quality and different brands, which he sold either at the same ceiling price or at a higher ceiling price—in many cases a higher ceiling price.

But, of course, a farmer cannot change his brand. A bale of cotton is a bale of cotton. He cannot change it. A bushel of wheat or of corn is still a bushel of wheat or corn, and the farmer cannot do anything about changing it.

It seems that the whole country today is more interested in, and there is more talk about, inflation than anything else. Of course, that is perfectly normal, because the Government itself is agitating the idea of fighting inflation.

They talk about the Office of Price Administration holding the line, preventing inflation. Well, now, holding the line on prices may prevent runaway prices, but preventing inflation is entirely a different story.

There is no way, Mr. Chairman, in which prices can either create inflation or prevent inflation. Nobody can create inflation except the Government and its agencies.

The Government, through Government spending, and through its control over the banks and over bank credits and other credits—if you have inflation, it must come through the action of the Government itself. It cannot come from any other place. But if you have inflation, you are going to have high prices, because high prices are a natural economic antidote for inflation, just as low prices are a natural economic antidote for deflation.

We hear a lot of talk about the great inflationary period of World War I, and what happened to the country on account of that inflation. Many people are young and do not remember what happened, and many more have forgotten what happened, and the rest just have not studied what happened. But in 1919 and 1920 we did not have inflation. We had a lot more money, and we had much higher prices, that is true. But the whole country’s economic level had been adjusted to those high prices and to the fact that there was a lot of money. Farm-land prices, mercantile-goods prices, other labor prices, bank credits, other credits, everything had been adjusted to a higher level. There was no inflation, and there cannot be any inflation so long as your entire economy is in adjustment. It does not make any difference whether your cotton is 5 cents a pound, and everything else is adjusted to that level, including the amount of money and credits, or whether it is 50 cents a pound. It is a matter of relationship, and that applies to the volume of money and credits as well as it applies to anything else.

At that time we did have a balanced economy.
But if you remember, in 1920, the Governors of the Federal Reserve Bank issued an order and destroyed $5,500,000 of outstanding currency. They restricted radically all credits, bank credits, and the customers of the banks restricted their credit, and debts which had been made on the basis of 30-cent cotton could not be paid with 10-cent cotton. The fact that cotton went down, and that the man who had made that debt could not pay it, was not due to inflation, either of prices or of money. It was simply due to the fact that we undertook to adjust our economic level back to 10-cent cotton, when the whole country had gotten accustomed to working on the basis of 30-cent cotton, and everything else in proportion.

We are in this position today, as I see it. We have a $300,000,000,000 debt, or some such large amount—I do not know just what it is.

Mr. Crawford. $279,000,000,000 at the 1st of this month.

Mr. Linder. Well, it is a tremendous debt. Whenever a nation incurs a large debt, or whenever the citizens incur large debts, you cannot then undertake to adjust the entire economic structure downward radically and expect those debts ever to be paid.

If a farmer makes debts on the basis of 30-cent cotton, and cotton goes to 10 cents, he can do nothing except repudiate the debt, either in whole or in part. And if the Government incurs $300,000,000,000 or $279,000,000,000 debt, on the basis of prices that we have been having, and wage levels that exist, and you undertake to adjust that economic level to a lower point, then the Government has to do exactly what that farmer did. It has to repudiate that debt, in whole or in part.

But if your entire economic level is adjusted upward, so that you have the proper relationship existing, then you can pay that debt, and you can have prosperity, and you can have a return, not to the same normalcy that you had under a lower level of economics, but back to a normal peacetime condition.

I appeared not very long ago before one of the committees that was holding hearings on the bill to increase the minimum-wage law from 40 cents an hour to 65 cents, then 70 cents, then 75 cents an hour. I got up a number of Government figures on that point, going back over a period of years, and I found, over a period of 18 years, immediately prior to this war, that the amount of money the factory workers received and the amount of money that the farmers received was almost identical. It did not work out exactly in each individual year, but as wages went down, or as the farm income went down, wages went down, and as the farm income went up, factory wages went up, almost the identical amount. Which proves, to my way of thinking, that in a natural economic system, that you have a certain percentage of your national income that is going to the raw-products producer and a certain percentage that is going to your factory worker.

That being true, and the records of employment and unemployment bear it out, the amount of money that you have for your factory pay roll in 12 months is determined by what the farmer gets—or, at least, it may not be determined by that, put it is substantially the same percentage that he gets, and when you arbitrarily raise the hourly pay of the factory worker, without increasing your entire national income, you create unemployment, because you cannot hire as
many men with that same number of dollars, at a higher wage, as you could hire at the lower wage.

At the same time, of course, you increase the cost of producing what the farmer has to buy with which to produce the raw materials. Now, I have some figures here showing just how this relationship has changed between what the farmer got and what the hourly wage was.

In 1919—that was the year of our highest prices, just after World War I—the average hourly earnings of factory workers was 47.7 cents per hour. And the average price of cotton on the farm was 31.2 cents per pound.

In other words, in 1919 it took 1½ pounds of cotton to pay for 1 hour of factory labor.

From 1910 to 1920—that took in the war period—the price of cotton went up 130 percent, and the price of cotton on the farm when up 130 percent. They both stayed in the same balance during that period.

In 1925 the average earnings of factory workers had gone to 54 cents an hour, and the average cotton price had fallen back to 15 cents. At that time it took 3½ pounds of cotton to pay for 1 hour of factory labor.

In 1925 the price of cotton had fallen almost to where it was in 1910, but the average factory worker's income was 225 percent higher than it was in 1910.

In 1910, it took 1.4 pounds of cotton to buy 1 hour of factory labor. During the war years, 1915-19, it required an average of 1.4 pounds of cotton to buy 1 hour of factory labor.

Immediately after the war we started the imports of agricultural products, and during the years 1920 to 1924, inclusive, it required 2½ pounds of cotton to buy 1 hour of factory labor.

During the next 5 years, these imports were increased, and during that 5-year period it cost an average of 5.14 pounds of cotton to buy 1 hour of factory labor.

And from 1930 to 1934 it required 5.86 pounds of cotton to buy 1 hour of factory labor.

From 1935 to 1939 it required 6 pounds of cotton.

From 1940 to 1944, it required 5.32 pounds.

Now, Mr. Chairman, I had occasion some time ago to call attention to the fact that the Office of Price Administration had arbitrarily fixed a ceiling on pulpwood, $7.60 a cord in the Southern States, and up in New England it ranged as high as $12.75 to $13.25 for that same quality of pine pulpwood.

At that time, Mr. O’Kelly, whom you know very well, wrote Mr. Bowles a letter, in which he asked him if I had given the correct facts. Mr. Bowles said yes, that what I had said was true, but that under the law he did not have any power to change it. He said he did not have any authority to change that differential on pulpwood which amounted to $5.65 a cord.

Mr. Brown. The Georgia Legislature passed a resolution showing the differential.

Mr. Linder. That is right.

Mr. Brown. That is in the record of the hearings. I asked Mr. Bowles to comment on it later on.
Mr. Linder. Well, I brought that out in a bulletin and then the legislature took it up and passed a resolution on it. He took two and a half pages to explain that he did not have any authority to change that differential. But when the pulpwood shippers became aware of the great discrepancy in the price they were getting, they simply stopped shipping, and, in order to get pulpwood moving again to the mills, it became necessary to do something about it, and he turned around then and raised it $1.40 a cord.

He wrote this letter to Mr. O’Kelly on the 8th of February, in which he said he did not have any authority to change it, but he signed an order changing it soon enough, but the order became effective on the 18th, which was only 10 days from the date on which he wrote the letter. Then days from the day he wrote the letter until the effective date of the order raising the ceiling $1.40. Which showed that he was arbitrary in one case or the other, and if he did not have any authority to change it on the 8th of February, then, he certainly had no authority to change it on the 18th of the same month, because there had been no change made in the law. But that is just in keeping with this other letter wherein he says he had no authority to change the marginal requirements on the futures market. But as soon as the market went the way he did not want it to go, then he assumed to have authority to regulate the marginal requirements.

Mr. Chairman, I suppose we are all willing to make all sorts of allowances for human errors and human mistakes. We do not expect anybody to be perfect. But there are some things that the Office of Price Administration does and has done that I do not think are consistent with a sincere intention to do the right thing.

For instance, I do not believe that anybody can sincerely maintain that it is right to raise everybody else’s wages and cut the farmer’s wages. Of course, when you fix a price on a pound of cotton, or a bushel of wheat, or a bushel of corn, you are fixing the farmer’s wages, because that is his wage, what he gets for those crops. And when you lower those prices, you are cutting his wages.

They have gone ahead—I think Mr. Bowles objected personally to some of it, at least he said he did, but, nevertheless so far as the Government policy is concerned, they have gone ahead with the idea of increasing wages, they have gone ahead with the idea, if necessary, of raising prices to make it possible to pay increased wages, and yet, at the same time, they come right back and say that the men and women and children who produce these crops on the farms should receive a lower wage. I just do not think that is consistent with a sincere intention to give a fair administration of law.

Down in Georgia we grow a lot of watermelons. Watermelons constitute one of our larger money crops. Last year the ceiling price on watermelons, fixed by the Office of Price Administration, was $45 up until about the 1st of July, and then it was $35.

Mr. Brown. Per ton?

Mr. Linder. Per ton, yes. In the case of this year’s crop, before it was even planted, they have issued an order to reduce that ceiling about 30 percent, from $35 to $25 a ton, even though everybody knows that labor is scarcer than it was last year, that equipment is scarcer than it was last year, and that it is bound to be more expensive to produce them than it was last year. Yet, arbitrarily, without any reason in the
world, or any hearings, so far as I have been able to learn, they just decided that the farmer's price on watermelons should be cut $10 a ton, which amounts to approximately 30 percent.

I would like to call the committee's attention also to this cotton ceiling, and this effort to interfere with what I would call a bull market on the cotton exchange. You know that two-thirds of cotton is seed, while one-third is cotton. Cottonseed is one of our major food crops. Through cottonseed meal and cottonseed oil, we have more feed and food value on an average acre of Georgia cotton ground than it would produce if you planted it in corn or wheat.

If you plant one acre in cotton and throw the cotton away and take the seed, you still have more feed and good than you would get on an acre planted in wheat or corn.

I do not mean to say that you could not pick out some acres on which that would not be true, but just taking an average acre of cotton land in Georgia, that is absolutely true.

I am informed that we are now in a period of great world-wide famine. I understand that millions of people are starving to death, and will starve to death in the world. I understand that we have a great need for all the fats and oils that we can get in this country. I see where the Government is, or has been, paying a reward to ladies who would preserve the grease from fried meats, and the old grease, and turn it in, stating we needed it so badly. Yet, in the face of all of that, we have a threat to the next cotton crop which is going to be small, anyway. We have a threat there of an arbitrary ceiling, which he has attempted to fix in two ways:

First, he attempted to fix an arbitrary ceiling on the cotton itself.

Then, when a great number of Congressmen and Senators interposed their objection to that, he suddenly decided that he has the power under this law to go ahead and fix marginal requirements in such a way that that will amount to an absolute ceiling.

Mr. Brown. Has he put into operation the marginal requirements as yet?

Mr. Linder. No, not yet.

Mr. Brown. I do not think he can do it under the law unless Mr. Anderson signs it. And I doubt very much that Mr. Anderson will sign it.

Mr. Linder. I understand that that is true.

I believe, Mr. Chairman, that that substantially covers what I had in mind, unless there is something else you would wish me to cover.

Mr. Brown. Mr. Chairman, do you care to ask any questions?

The Chairman. No questions.

Mr. Brown. Mr. Crawford.

Mr. Crawford. Mr. Linder, are you familiar with the statement made before this committee by Mr. Bowles at the beginning of these hearings? He stated, in substance, that it was not unfair or unreasonable to ask that the farmers of this country go along with their present wages as measured by the prices they are now receiving from the products they produce for the market.

Mr. Linder. Well, only to the extent that I read it in the newspaper. I was not here.

Mr. Crawford. You disagree with that, do you not?

Mr. Linder. Oh, yes; I disagree with that.
Mr. Crawford. I think you are one of the best-informed Commissioners of Agriculture in the United States. I say this because I have watched your statements and releases for many years, and I would like to ask you this question: What do you estimate is the hourly wage of those who produce cotton in the South, and by that I mean those who plow the ground, who prepare it for the seedbed, who plant the seed, and, after the cotton comes up, who block and thin the cotton, and who hoe it during the growing season, who pick the cotton and take it to the gin after it is harvested.

Mr. Brown. I would like to say, Mr. Crawford is a Representative from the State of Michigan. Formerly he was a cotton grower in the State of Texas.

Mr. Crawford. What is the wage of those people who perform the productive labor in connection with that crop under the present prices?

Mr. Linder. You mean what is his wage in relation to the price of cotton?

Mr. Crawford. Well, it would have to be that, because he does not get a wage until he sells his cotton. In other words, a farmer's wage consists of what he receives for his labor in the form of the products which he places on the market. That is a fact, is it not?

Mr. Linder. Well, the generally accepted rule in the Cotton Belt is that whatever a farmer gets for a pound of cotton pays him for 1 hour's work.

Mr. Crawford. In other words, 1 hour's work is equivalent to about 1 pound of cotton?

Mr. Linder. That is right.

Mr. Crawford. In actual tangible goods?

Mr. Linder. That is right.

Mr. Crawford. So if cotton sells for 5 cents a pound, he gets 5 cents an hour?

Mr. Linder. That is right.

Mr. Crawford. If cotton sells for 24 cents a pound, he gets 24 cents an hour?

Mr. Linder. Well, actually, that is an absolute rule, and has been for many years.

Mr. Crawford. Under the Agricultural Adjustment Administration, you make estimated cost sheets, do you not? By "you" I mean the cotton growers.

Mr. Linder. Yes.

Mr. Crawford. On those cost sheets, what do they allow, per hour of productive labor, for the farmer, for the tractor, or for the mule or team? Are you familiar with those studies?

Mr. Linder. No; I am not. But they do not allow you anything for the labor.

Mr. Crawford. In those statements, I think you will find that they put down a figure—I am now talking about your cost studies which you make on the farms for the Agricultural Adjustment Administration operations—they put down a figure at which they estimate the cost of the team, or the tractor, or the man per hour. It is stated in hourly rates. I was wondering if you could give us any of those figures.
Mr. LINDER. No; I do not remember. In fact, I am not familiar with that procedure. But I do know about what a farmer gets when he sells the cotton.

Mr. CRAWFORD. What is your present going prices down there, say on 15 or 16 staple middling cotton, per pound?

Mr. LINDER. I think it is about 25 to 26 cents a pound for 15 or 16 staple of strict middling cotton. Now, you understand that that does not mean that the farmer is averaging 25 cents a pound.

Mr. CRAWFORD. I understand that. But that would be a good average price, would it not?

Mr. LINDER. For that particular grade, yes.

Mr. CRAWFORD. Then, as I understand you, what you are protesting against—and if I am not correct in this statement, I want you to correct me—is the Congress and the administration and the public, generally, accepting and endorsing and prosecuting the philosophy where government steps in and sets a wage, for instance, for the factory man who works in my home town, at $1.30 per hour, by government procedure, and then, at the same time, taking the position that your cotton grower should be satisfied with 25 cents an hour?

Mr. LINDER. I would like to enlarge on that a little bit, if I may.

Mr. BROWN. Will you yield, Mr. Crawford?

Mr. CRAWFORD. Yes.

Mr. BROWN. While you stated that cotton brings 25 cents, this year we have had so much damage to cotton that I doubt that this year's crop will bring, on an average, more than 21 or 22 cents a pound.

Mr. LINDER. That is right.

Mr. CRAWFORD. I think you are correct in that.

Mr. LINDER. I would like to call attention to two things.

Mr. CRAWFORD. Just a minute. Let us go back to this other point. If you southern men want to go along willingly and accept your 25 cents under Government edict, I am going to quit raising "Old Ned" about it.

Mr. LINDER. I do not blame you.

Mr. CRAWFORD. If you are satisfied to take it, it is all right with me. But if I try to help you develop the testimony and show that these things are done by Government decree, then, I want you to support me in that contention. If I am wrong, you tell me so. If I am right, I want you to say whether or not you are going to support me. Are you protesting against the Government doing what I have outlined here?

Mr. LINDER. I am; emphatically.

Mr. CRAWFORD. That is what I want to know, because I think it is economically unsound, I think it is morally wrong, and I think it is politically indefensible, and so far as the northern agriculturists are concerned, I am going to protest against it, and I have a lot of people who will support me, and I hope you people in the South will support me. There just is no sense in a situation where people who live in cities should say to the man who produces our foodstuffs, "You have to work for 25 or 30 cents an hour while we here in the city are going to charge $1 to $1.50 an hour, and you have got to pay it if you want any of our production." We cannot defend that.

Mr. LINDER. I think it is totally indefensible. The fact of the
matter is, in 1909 to 1914, the period which Congress saw fit to take as a base period, cotton sold, on an average—that is, good, bad, and indifferent—cotton crops sold on an average, during those 5 crop years, for around 12 cents—12.20, I believe it was, if I remember correctly—12.20 cents a pound. That was taken as representing 100 in farm prices. The existing wage rate at that time was taken also as being 100.

But since that time your wage rate has been increased more than 400 percent—181/2 or 19 percent very recently—and if you give the farmer that same 400-percent increase, it would make the average price of cotton 48.80 cents a pound, for strict middling 15 or 16 staple; in a crop such as we had in 1945, it would put the price of the best grades of cotton up around 53 to 55 cents a pound. The same thing would be true with regard to your corn and wheat.

As you know, North Dakota is a great wheat State. The State of North Dakota has a wheat mill run by the State, which grinds anywhere from 7 to 10 million barrels of flour annually.

The farmers are getting, for that wheat, which goes into a barrel of flour, $6.30—that is, for enough wheat to make a barrel of flour. The people who buy bread, prior to this last order of the Office of Price Administration, were paying $39 and some cents for that same wheat for which the farmer got $6.30. In addition to that, the other day the Office of Price Administration issued an order to cut down the size of that loaf of bread, but to maintain the same price per loaf, which is just another way of raising the price to the consumer, but none of it is passed on to the man who produces that wheat.

I just brought that out because I happen to have those figures in mind, and that same price applies to practically everything that the farmer produces and that the consumer buys.

Mr. Crawford. Are you familiar with the testimony that Mr. Goss submitted the other day?

Mr. Lindner. No, sir.

Mr. Crawford. He made this statement:

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 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.

Mr. Lindner. Yes, sir; I agree with that. In fact, I would go a little further than that. I do not think you are ever going to get anything like normal conditions without getting away from all controls.

But I am sure that these arbitrary controls of the Office of Price Administration are absolutely interfering with production. I think the country is just about faced with the choice of whether they will save the Office of Price Administration and give up America or whether they will save America and give up the Office of Price Administration.

Mr. Crawford. On that direct statement, in times of war, you probably would have agreed to submit to arbitrary rules and regulations, and controls exercised by Federal functionaries. I think our people generally accepted that type of control during the war. In other words, we became, during the war, the servants of the state, in order to defend the country against outside enemies.
Mr. Linder. Yes, sir.

Mr. Crawford. But is it not a fact that in peacetime, if we maintain and support these Federal functionaries, such as the Office of Price Administration, that we become, as citizens, the servants of the state, instead of the State and Government functionaries being the servants of the people?

Mr. Linder. That is true, in my judgment, and I think it will lead into a permanent condition of totalitarian control unless we get away from it.

Mr. Crawford. In other words, you feel that if the Congress, as the agent through which this is to be done, forces the citizens to submit to Federal functionaries and their rules and regulations in peacetime, that, as a matter of fact, we forget and forsake the trusteeship placed in our hands for the protection of our Government for posterity?

Mr. Linder. I think, Congressman, that you can go further than that.

The Chairman. Will you yield, Mr. Crawford?

Mr. Crawford. Well, just let him answer that question, Mr. Chairman, and then I will yield.

Mr. Linder. I think that arbitrary power placed in the hands of any man or any group of men, unless limited in time, and removed as soon as possible, will lead to a loss not only by the individual citizen of his rights, but if you let it operate long enough, Congress itself will become helpless to remedy it. I will go that far.

I think that any governmental agency, except actual military organization in the field, that finds it necessary to have laws which place it above the courts, which finds it necessary to have laws that, to all practical purposes, repeal the constitutional provisions, in order for it to live, is, I think, a dangerous organization.

We have cases—many of them—where citizens have been denied every right under the Constitution, by the Office of Price Administration. We have even had cases where judges of the courts have held, in effect, that under this law the judge himself was not a judicial officer, that he was not a court, but that he was simply an administrative official of the Office of Price Administration, and that he must sign an order even though he knows it is in violation of the law when he signs it.

I think a law like that ought to be repealed, whether it is the Office of Price Administration or what it is.

Mr. Crawford. You are referring to the Oregon decision?

Mr. Linder. Yes.

Mr. Crawford. I yield to the chairman.

The Chairman. What was cotton bringing before the Government established the policy of support prices?

Mr. Linder. You mean back in 1933?

The Chairman. Yes, when they all hollered for help.

Mr. Linder. It was bringing about in proportion to what everything else was bringing.

The Chairman. It was the process of evolution, it seems to me, that the Government should not interfere in the affairs of individuals. I agree with that. But they all hollered for help and we helped them. The railroads were in trouble; the insurance companies were in trouble; the cotton producers were in trouble. They said, "Help us or we will sink," and we established the Reconstruction Finance Corpora-
tion. They interfered with the affairs of the American people. We took them off. They became indebted. We exercised control. But they were glad to have them come.

We closed the banks. They all said the Federal Deposit Insurance Corporation was a socialistic scheme. And we opened the banks and the banks have been pretty solid ever since.

Now, a war came on. The Government had to go into the business of controlling prices. It had to go in to save the economy of America. And yet we hear everywhere that it was a violation of the rights of the American people. We do not violate the rights of the American people when you take the rights away from some people in order that all the people's rights may be maintained and the economy of the Government may be established. I was told and brought up to believe that the "Government's best is the Government's least." That was the principle of Thomas Jefferson. Times have changed since then.

I heard Washington's Address read the other day, and he said, "By reason of our detached and distant position we must not have anything to do with foreign nations." But we are no longer detached and distant. Times have changed, and men change with them.

I get tired of hearing them say that we have violated all the rights of the American people, when the American people asked that we violate their rights in order that we might protect them.

You wanted protection way back yonder. I think the farmer ought to get a fair return for his product. Why does he not get a fair return? Parity is a relationship. Parity is not a price. And as wages and other costs go up, the farmer, if you establish the parity principle, ought to receive a greater price for his product.

What is wrong with that? Why do the farmers not get a higher price?

Mr. Brown. May I interject there?

The Chairman. Yes.

Mr. Brown. The man who wrote the parity formula said it did not take into consideration the labor costs. He did not include that in the parity formula, and it should have been included; is that not right?

Mr. Linder. That is right; and I would like to—

Mr. Brown. If you had that now, you would make no complaint, would you?

Mr. Linder. I would like to enlarge on my statement. The base period selected for parity was the period from 1909 to 1914—July 1 to June 30, I believe.

As I said, the price that the farmer got for his cotton over that period was taken to be 100 percent of parity. Actually, though, it was not 100 percent of parity, because for many years prior to that time and during that time we had protective tariffs on almost all of the industrial products that a farmer bought which went into the cost of producing that cotton.

Those tariffs run—I remember looking some of them up—as high as around 100 percent. Some of them down as low as 20 and 25 percent.

The farmer was buying all of his industrial products, which went into the production of that 12-cent cotton, in a protected market, but
he was selling it in the markets of the world, and, therefore, he was not getting anything like parity, even in that parity period. But Congress arbitrarily took that and said that was a hundred percent of parity, when it was not anything near a hundred percent of parity, due to the fact that he was buying in a protected market and selling in a world market.

Mr. Crawford. Now, Mr. Linder, there is no legislative committee on earth which should be any more aware of the different phases of this question you are discussing than this committee, the House Banking and Currency Committee, and this committee should know that at the moment the Office of Price Administration is nothing more than an umbrella. It is being held temporarily in the storm that is going to break across this country in connection with the banking industry, wherein the unsound fiscal policy of this administration has jammed over a hundred billion dollars worth of Government securities, and it is only a matter of a few moons until this committee will have to give consideration, from the standpoint of the prevention of inflation, to what is to be done with those securities now held by the banks, to what shall occur to bank earnings, to how long this administration shall continue to subsidize banking earnings, and to whether or not banks will be permitted to purchase any more of the Treasury issues. That is the issue before this committee, and I repeat that the Office of Price Administration is simply a temporary umbrella which the administration is supporting until we can get past the next election, and then have a show-down on this whole proposition.

The chairman opened up this case and we might just as well better understand what this hearing is about. We have got to face it. You cannot continue to let banks buy these bonds the way they are being bought. That has to do with inflation. The Office of Price Administration is utterly helpless, and it goes along imposing these arbitrary rulings on our people, saying to one group: You shall have this; and to another group: You shall not have that; all as a matter of temporary expediency. That is all I have, Mr. Chairman.

Mr. Brown. Does any other member desire to ask any questions?

Mr. Kilburn. I would like to ask a question:

If you were a member of this committee, would you vote to terminate the Office of Price Administration on June 30?

Mr. Linder. I would vote to end it; yes, sir.

Mr. Kilburn. That is all.

Mr. Brown. We appreciate your appearance, Mr. Linder. Thank you very much.

The Chairman. We will hear next from the National Association of Lumber Manufacturers.

Mr. Colgan. Mr. Chairman, I have about seven men with me. It will take about 2 hours to complete our testimony. If you will take them in the order in which I have set them out, we will go right through with them.

The Chairman. You may proceed.

Mr. Colgan. Mr. Chairman, my name is Richard A. Colgan. I am executive vice president of the National Lumber Manufacturers Association.
STATEMENT OF RICHARD A. COLGAN, JR., EXECUTIVE VICE PRESIDENT, NATIONAL LUMBER MANUFACTURERS ASSOCIATION

Mr. COLGAN. The association for which I am speaking today is a federation of the 16 regional, species, and product associations of the lumber-manufacturing industry, which in turn represent virtually all producers and manufacturers of lumber throughout the United States.

Our position in the matter before you may be expressed in one sentence: The dilatory, unrealistic, inconsistent, and almost confiscatory methods of the Office of Price Administration in the pricing of lumber are the major cause of the large and tragic decline in the production of lumber today, and we recommend the complete elimination of all Office of Price Administration price controls in this industry if maximum production of lumber is desired.

However, if, in the judgment of the Congress, price-control legislation should be extended, we recommend a series of changes in the act which would go a long way toward meeting the pressing needs of the country for lumber.

My statement is brief. I am not going to attempt to detail for you the dozens of specific complaints against the Office of Price Administration price schedules in this industry. A number of other witnesses representing various regional and species associations will appear to give you the damning testimony from the record. I merely wish to point out the present over-all position of the industry, to give you in general terms the reasons which we believe are responsible, and to suggest changes in the act which we are confident will permit substantially increased production of lumber.

A shortage of lumber obviously would be a fundamental bottleneck in the housing program. That shortage is here right now—today. The President's program calls for 36,000,000,000 feet of lumber this year—the same amount we produced in 1942, the peak year in the industry's recent history. During the first 5 weeks of this year, however, we produced only just half of what we did in the same period of 1942, and the prospects for reaching the housing goal, or anywhere near it, are nonexistent under present price ceilings.

Production of lumber has declined steadily from the 1942 peak of 36,000,000,000 feet to last year's estimated total of only 27,500,000,000 feet. We do not, of course, claim that bad pricing was the only reason for that drop during 1943, 1944, and 1945, although it was largely responsible. Wartime losses of manpower and shortages of equipment also contributed. But these two deterrents have been greatly relieved—and production is still going down.

Nor is lack of productive capacity the reason—the industry right now can exceed its 36,000,000,000-foot record, the goal of the housing program. The answer, almost entirely, is price. Unrealistic, below-cost price ceilings are sabotaging lumber production, and the Nation is just not going to get the lumber it desperately needs until something is done about price. The answer to shortage is production, to be sure, but the answer to production is price.

In our judgment, five specific fundamental complaints can be proved against the Office of Price Administration's current pricing methods and philosophy in this industry:

First, the Office of Price Administration has imposed by its own admission price ceilings on the industry arrived at by its own account-
ing practice, which permits only 75 percent of the industry to make a profit. Industry advisory committees do not have access to these figures which the Office of Price Administration uses in arriving at the ceiling prices. Office of Price Administration officials have stated that 25 percent of production in certain major producing areas cannot make a profit under present prices. Actually, not even 75 percent of present production is profitable when you include the capacity of the scores of mills which only recently have been forced to shut down. A policy which arbitrarily puts 25 percent of production into a nonprofit category—and then progressively extends that 25 percent after many producers have been forced out of business—obviously will put new large segments of the industry into this nonprofit group every time it makes a new study.

For example, as long ago as 1944 a cost survey of the southern-pine producers revealed that 44 percent of a representative sample were operating at a loss. By volume, 38 percent of the lumber produced was unprofitable. Last week the owner of a mill which operates the year round, producing 10 to 15 million feet annually for the past 12 years, reported that he had finally been forced to shut down on December 6. He found that he had been operating at a loss of $1.25 a thousand feet for 6 months, and could not take it any longer.

Second, the Office of Price Administration seems to have been obsessed with the idea of profit elimination to the extent that it has based a number of its decisions on the over-all return to producers who make other products instead of limiting its cost and profit studies to the lumber product being considered. Now, you know as well as I do that no company can indefinitely continue to support a nonprofitable part of its business with a fortunately profitable other line. That, carried too far, is business suicide. Even the Office of Price Administration admits that this unrealistic approach is unsupportable, but they have done nothing about it yet in lumber, despite the industry’s protests.

Third, the Office of Price Administration, in its blind determination to prevent realistic pricing, has adopted the practice of figuring standing timber—or stumpage—at its book value. A number of operators it is true, purchased large reserves years ago at depression prices. But the majority of small operators are forced to buy new stumpage currently at much higher market prices which the Office of Price Administration will not recognize as a legitimate cost factor. These market prices may be two, three, or even more times the average of the depression book values of the timber in certain areas. Naturally, no operator can possibly go in and buy this timber if he cannot base his prices on the actual cost—yet the Office of Price Administration persists in using low average book values of a few large operators. Even for those producers who have the advantage of the low-cost stumpage, the replacement cost of new timber to insure future operations is a very real problem which the Office of Price Administration refuses to recognize. And certainly it is a silly, ridiculous state of affairs when the profit from selling his raw-material stumpage gives a lumber producer much more profit than cutting it into lumber, as is the case in many areas today.

Fourth, one of the most annoying of all of the Office of Price Administration’s practices is its utterly inexcusable slowness in granting needed increases in specific prices. Cost factors in all industries have
been changing so quickly during the past year, and right now are accelerating so rapidly, that no agency which takes up to a year or even more to reach a decision on a specific request can possibly hope to meet the need for prompt, realistic pricing changes to match the changes in costs of doing business. The policy of what seems to us to be deliberate delay, in the experience of many of our industry advisory committees who have attempted to obtain decisions from the Office of Price Administration, will be described in detail by other witnesses. It is completely evident that, whether from policy or otherwise, this agency is the price exponent of "too little and too late."

It is not enough that in the last few weeks the Office of Price Administration has finally been stirred to a flurry of activity after months and months of inaction. The storms of protest from industry, these hearings themselves, and the necessity for the Office of Price Administration to present a temporarily showy flare-up of business in order to encourage the renewal of its contract, undoubtedly account for much of the unusual heat right now. But frozen as we have been in the past when we attempted to warm our industrial problems at the cold, cold stoves of the Office of Price Administration we cannot be blamed if we look skeptically at this new fire, and wonder how soon it is going to go out again.

Fifth, and finally, the cost studies on which the Office of Price Administration bases its decisions are always out of date long before any decisions are reached. Wages, equipment, and stumpage, the three major determining cost factors for a lumber manufacturer, increase from day to day. Any prices figured on the basis of costs even 6 months old are no good in meeting present problems. These costs are no respectors of our lumber price ceilings—they blithely jump right through the ceilings, and long before the Office of Price Administration can consider them, they have very effectually put many operators in the red, and out of business.

I recognize that this statement of general complaints has been unsupported by specific cases. But the proof is available, as you will see from the witnesses who follow me.

It is our considered opinion that if price control is continued it will be impossible to achieve the 36,000,000,000 feet of production needed to meet the requirements of the housing program. If you must extend the act, we strongly recommend that you make these minimum changes mandatory to the Office of Price Administration:

1. The act should require specifically that the Office of Price Administration establish ceiling prices which will permit at least 90 percent of the industry to recover the cost of production.

2. In determining the adequacy of ceiling prices, the Office of Price Administration should be required to disregard the over-all profits of producers and to limit its consideration to the particular ceiling involved.

3. The act should require specifically that the Office of Price Administration consider the market value of standing timber instead of its book value in analyzing costs to determine whether price ceilings need to be changed.

4. The act should require that the Office of Price Administration act on requests and recommendations of industry advisory committees within a specified time.
5. The Office of Price Administration should be required to base its price determinations on current costs.

I submit that these are not radical changes—they are a realistic recognition of the only way in which lumber production can be increased. If you cannot remove price ceilings entirely, we sincerely hope that you will make some such revisions—without them lumber production must remain at a level far below what is needed, and the housing program is doomed to failure.

Mr. Crawford. Mr. Chairman, we have some additional lumber witnesses, do we not?

The Chairman. Yes.

Mr. Crawford. Will we be able to get to the furniture men this afternoon?

The Chairman. I hope so.

Mr. Kunkel. These gentlemen said it would take them 2 hours.

The Chairman. Well, we might be able to shorten it up. Have you completed your statement?

Mr. Colgan. Yes, sir; if there are no questions.

The Chairman. If there are no questions, we will hear the next witness.

Mr. Colgan. I would like permission to submit a statement from the Southern Pine Association in relation to their price.

The Chairman. That may be incorporated in the record.

(SOFTWARE DOCUMENT SHOP refers to this as follows:)

SOUTHERN PINE CASE

The case of the southern pine industry stands out in bold relief as an example of how control, as administered, has resulted in widespread plant shut-down and consequent serious curtailment of production. Southern pine is produced chiefly in 12 Southern States by some 15,000 units, the bulk of the production coming from mills with an annual outturn of less than 5,000,000 feet, these being commonly designated as small mills. Normally, southern pine is responsible for about 30 percent of all lumber (softwoods and hardwoods) produced in the United States.

In the 4 years, 1936-39 inclusive, the annual production of this species, in round figures, was 7,000,000,000 feet. As our country geared up for defense in 1940, production that year rose to 10,000,000,000 feet. About the same volume, slightly increased, was produced in 1941, and in 1942 southern pine production reached the staggering total of nearly 12,000,000,000 feet, the largest output since 1925. It was in 1942 that the Price Control Act was imposed as a war measure, and it was during that year that OPA set up an Industry Advisory Committee to counsel with its lumber branch in matters dealing with the price angle of the industry's production for war needs.

This advisory committee to OPA, composed of practical lumbermen either engaged in the manufacture of southern pine lumber, or thoroughly acquainted with the make-up of the industry and its operating conditions, did advise OPA on many occasions but its advice was rarely considered by OPA, or considered too late and too lightly to be of any practical use. The industry, through the Southern Pine War Committee and its duly accredited representatives, exhausted every effort in its power to provide factual evidence to OPA and to facilitate and expedite the work of the OPA staff. Comprehensive cost studies were made by the industry and checked by public accountants to vouchsafe their accuracy and accounting reliability. These were submitted to OPA in toto and were used by OPA, in combination with its own theoretical formula, in making ceiling price determinations based on the years 1942 and 1943.

When the industry completed its 1944 cost study, under the same methods and conditions followed for all previous studies, it, too, was submitted to OPA. But OPA, for some reason never made clear to the industry, had elected to make its own direct cost study applicable to the year 1944, using methods that departed
Cost studies made by the industry are confined strictly to the lumber manufacturing operations, excluding any subsidiary operations not directly associated with lumber production and distribution. The figures reported on lumber cost and sales realization agree with the lumber books and are submitted on reports signed by an official of the company. Notwithstanding these procedures, OPA assumed unwarranted liberties in treating reported figures for previous ceiling adjustments and for income derived from nonlumber operations in instances where it was able to obtain such information from profit-and-loss statements submitted by mills reporting directly to it. Of the 200 mills included in the OPA "adjusted array" of southern pine operations, year 1944 (51 mills on direct reports to OPA and 119 mills taken from the industry's study), 94 had reported to the Southern Pine War Committee they were able to recover their costs in 1944, some by a bare break-even or by a few cents, while 79 had reported losses. No cross check was available on 7 of the 180 mills. When the OPA economists had completed their maze of theoretical adjustments, more than four-fifths of the gainful mills had been made to appear more gainful, and more than two-thirds of the ungainful mills less un gainful. Some of the reported gains, it would appear, had been so substantially increased by OPA tampering that had these mills actually obtained such a spread between cost and sales realization, they would have had to sell above ceiling and in violation of OPA controls. Yet OPA could transcend its own law in its effort to produce evidence showing the industry not to be in need of a ceiling-price increase.

Is OPA a commodity price control agency, or an agency to control or confiscate profits? It is chiefly the larger southern pine operations who have subsidiary sources of income—those having the largest production, operating mainly in owned timber reported at depreciated book values—and when these, who are the most likely to show a spread because of their low valued stumpage, have their gains from lumber arbitrarily increased by the inclusion of other income, there is little hope for the rank and file of the industry to be adequately protected under OPA procedures. Many of the largest mills, in 1944, were unable to recover even the cost of their devalued stumpage, and it is a rank discrimination against them and against the industry for OPA to inflate their gains and disguise facts that should be revealed in the public interest. The larger reporting mills, those profiting mainly from the sacrifice of undervalued stumpage, were responsible for nearly two-thirds of the production reported in the industry cost study for 1944. As a segment of the industry, this class of mills account for less than one-third of the total normal production, their reverse weight in cost studies causing mills responsible for the bulk of the industry's production to be left unprotected under methods employed by OPA in examining the industry for price adjustments.

Few southern pine producers, representing perhaps less than 20 percent of the total production, have other considerable means of income. Most depend exclusively on their lumber operations. No income, therefore, that is not common to the majority of operators should be applied to a minority. When so used, it distorts facts and deals unfairly with the industry as a unit. Even those few mills who have other sources of income have it only spasmodically, and notably at times when they are failing to profit from the profit-making enterprise. It more often involves some sacrifice of capital to keep the main utility alive, than any deliberate effort to enhance income. Of the group of larger pine mills included in the industry cost study for 1944, 51 percent of their number and 35 percent of their production recorded losses in their lumber operations. Is it any wonder that some few should look for other available sources of income, when OPA ceilings would not permit them to get this income in lumber? As though conditions were not bad enough, OPA must credit this income to lumber sales and make the lumber operations show income it did not receive. There is no authority in accounting annals to condone such treatment. Only OPA could do this and attempt to justify it under the requirements of law. A law so handily appropriated by OPA to defend its theories is scarcely a law that OPA could invoke if it were similarly appropriated to defend lumber producers against OPA abuses.

Let it be known, further, that OPA could find scant excuse for increasing reported costs, although it did increase reported realization by any and every device it could conjure. In spite of a continuing sharp upward spiral in costs (southern pine cost at reporting mills increased $5.56 per M., or 14.1 percent, in
1944 over 1943) OPA allowed only a 50 cent per M increase in cost to account for increased wages between the year 1944 and the latest available date prior to its examination of the case in 1945. The increase in southern pine labor cost, in 1944 over 1943, amounted to $2.75 per M, or 17.5 percent—5½ times the allowance permitted by OPA to compensate for its unequal additions to reported lumber sales realization. The industry has contended, and rightfully, that no adjustments should be made in reported realization unless proper adjustments be made also in reported cost. Having no reported data to sustain the full actual increase in cost, it was manifestly a discrimination against the industry for OPA to distort earnings. If costs had been available, the increase in cost undoubtedly would have offset the increment arbitrarily pyramided on realization, because OPA controls served as a stopgap to lumber realization and there was nothing to check the upward trend in costs.

It was only in 1945, in dealing with 1944 costs, that OPA saw fit to depart radically from its past practices. Previously, OPA had dealt with reported lumber cost and sales realization, and its application of extraordinary adjustments to reported book data was made effective only in 1945, based on its consideration of the 1944 costs. OPA's only stated reason for this sudden departure from a former custom was that it "had made a mistake" formerly and was trying to rectify that mistake (at the expense of the industry) in its present study. This, however, does not seem to justify OPA's retrieval of its old mistake, for it considered incomplete cost and sales realization it gathered for the first half of 1945 without making the adjustments it applied to the 1944 record. Industry accounting methods have remained uniform and comparable throughout, but OPA changes its methods at will and makes mistakes to excuse mistakes without end. No Federal agency charged with the control of a major industry should ever make a mistake. Such mistakes involve millions of dollars and huge volumes of lost production, and are a blight on the Nation.

So far as mistakes are concerned, every decision made by OPA involving southern pine ceilings has been a mistake, as witness the progressive decline in percentage return on sales recorded by reporting mills—from 12.7 percent in 1941, to 9.2 percent in 1942, to 5.6 percent in 1943, and thence to a bare 2.7 percent in 1944. The average spread, all reporting mills, dropped from $4.19 per M in 1941, to $1.26 per M in 1944, a decline of $2.93 per M, or 70 percent, in 3 years. OPA made mistakes, to be sure, but these were not mistakes which helped the industry. It must, therefore, make the grand mistake in 1945 of changing its computing methods to make an already distressed industry more distressed. Instead of tightening its tentacles, these should have been relaxed to insure the industry some recovery from the less damaging mistakes previously made by OPA.

The 1944 cost study made by the Southern Pine War Committee, from information taken directly from the lumber manufacturing books, showed 52 percent of the reporting mills and 40 percent of the reported production as having sustained operating losses that year. Had the study been less heavily weighted with large mill production, as afore-mentioned, these results would have been still more disappointing. When OPA had completed its "adjusted array" for 1944, and had made its decision based on a 75 percent cut-off in reported production, it was able to declare the southern pine industry not to be in need of price relief based on OPA's accounting methods and the "minimum requirements" of OPA law. In fact, notwithstanding OPA's questionable adjustments, the OPA adjusted array for 1944 showed 29 percent of the production to have been obtained at losses. This brought from OPA the startling declaration that some 25 percent of the total production of southern pine is always produced at a loss and is expected to continue being produced at a loss; therefore, OPA is under no obligation to protect it. How and where OPA got this information, nobody knows. Certainly, if any substantial part of the production is obtained at a loss in any year, due to economic conditions beyond the control of the operators, these operators expect to recover their losses in a subsequent period. Nobody engages in business for the avowed purpose of losing money consistently. Under the inflexible OPA ceilings, there would be no opportunity for subsequent recovery, and this 25 percent would continue to revolve until nearly all of the producers had shut down or gone broke. What, then, can be expected of a control agency whose thinking is so lacking in common sense that it would sit by waiting for production to dry up without ever seeing the need for any action on its part?

The southern pine industry contends that price adjustments, under methods employed by OPA, where the past year's cost is involved, should be made on a 30-percent cut-off in reported production, leaving roughly 5 percent as the un-
protected marginal fringe. In its determination, effective March 16, 1944, based on 1943 costs and realization, OPA remarked in its statement of considerations:

"The next point is that the increase is the minimum required by law. Figures supporting this statement are set out in detail in the statement. In brief, the reason lies in the fact that the essential demand for lumber is considerably greater than the supply, so that it could be said that 100 percent of production is needed. However, since it is obvious that practical principles of price control would not permit the price so high as to cover the entire cost to the most inefficient producer, the present increase has been designed to support approximately 85 to 90 percent of production by volume."

If protection afforded an estimated 85 to 90 percent of reported 1943 production, unadjusted for nonlumber income or other factors, resulted in more than one-half the reporting mills and 40 percent of the reported production showing losses in 1944, then by no stretch of the imagination could a 75-percent cut-off in an adjusted array for 1944 protect as much as one-half of the 1945 production. OPA made no adjustment based on 1944 costs, and allowed only $2.25 per M, effective November 29, 1945, to account for partial increase in costs in the first half of 1945 over the year 1944, amounting roughly to $1.50 per M at a 75-percent cut-off in production, plus an additional 75 cents per M to convert the schedules from a war to a peacetime basis. The industry had petitioned for an increase of $5.31 per M, based on a 95-percent cut-off in its reported 1944 production (amounting to $5.30 per M at a 95-percent cut-off in the adjusted OPA array), which should have supplemented the increase granted in November of $2.25 per M, making a total increase of roughly $7.55 per M, the amount actually needed to keep some 85 to 90 percent of the industry's production alive.

If OPA's failure to heed the industry's need for relief caused 859, or 51 percent, of a total of 1,676 mills recently surveyed to shut down, resulting in a loss of production aggregating 1,140,000,000 feet, or 44 percent of a probable production in 1945 of 2,564,000,000 feet. This condition is directly attributable to OPA and its blundering and procrastinating administration of a law that is gradually exterminating the hitherto most stable and efficient segment of a vital American industry.

While there may have been need of price control in war, there is no way to make it work equitably and practically in peacetimes. Representatives of OPA have admitted that, in their opinion, more than one-half of the 1945 production of southern pine was being black-marketed, rough, green, and ungraded, at prices far in excess of those established for the finished and properly graded product. OPA has no effective control over black-market practices, and has made no vigorous effort to check violations. Consequently, its efforts to prevent sound inflation have resulted in unsound inflation on a huge scale. Consumers are paying extortionate prices for inferior lumber because there is not enough good lumber being produced to supply the demand. That is inflation of a vicious type—indeed high prices on one hand, and failure of the product in use on the other. Yet, OPA, fully aware of this condition, does nothing to stop it and continues to sit tight on the law-abiding producer, who is the only medium through whom unlawful practices can be checked by being assured a price for his quality product that will enable him to produce it without loss and in quantities that will limit or dissipate the demand for black-market lumber.

No industry made up of thousands of diverse operations with varying degrees of financial and managerial stability can adjust itself bodily to uniform controls. Some must fare worse than others under these controls, yet all should survive if lumber production is to be the keystone of the gigantic housing program planned forour country. All cannot survive with OPA at the helm. Each individual operation is a world to itself, depending for its life and fate on such natural forces as location, climate, human relations, and a host of circumstances peculiar to its own being. Subsidies would not succeed, because they would be contingent on the ability of each and every operator in the industry to produce accurate statements of cost and income, and it is doubtful if as many as 5 percent of all southern-pine mills do any real cost accounting. They may keep records of a sort, but these are not the orthodox cost records, for few, indeed, could afford the talent needed to install and operate cost accounts. Furthermore, any attempt to subsidize mills would cause interminable delays in the already interminably delayed procedures of OPA, and competitive discriminations resulting from such delays and from OPA deficiencies would only force more lumber onto black markets. Subsidy is no cure for southern-pine disabilities, nor is subsidy a palliative for any ill resulting from conflicts with the inevitable forces of nature. There is no place
MANUFACTURES INDEX OF PRODUCTION FOR SELECTED PERIODS
(FEDERAL RESERVE BOARD 1939 = 100)
for subsidy in our young, vigorous, and growing America. OPA would have to be the biggest business in America—a monopoly control—if it hoped to administer subsidies fairly and properly.

The facts in the southern-pine case have been laid before all authorities having power to redress industry grievances. They are recited briefly in this presentation to illustrate the hopelessness of any effort to improve our national economy while OPA holds the reins. OPA is politically sensitive, swayed more by political sentiment than by allegiance to its duties. For example, in the southern-pine industry's appeal to Congress for relief from distress caused by OPA, the manufacturers of rough green lumber who customarily sell their product to concentration plants for drying, dressing, grading, and marketing were granted a $5 per M advance in ceiling by OPA, while the advance allotted by OPA to the concentrators and other manufacturers of finished lumber was restricted to $2.25 per M. This meant that the concentrator must pay $5 per M more for his rough green purchases, refine the lumber, and sell it for a $2.25 per M advance on his list, thereby losing, roundly, $2.75 on every thousand feet of such lumber he handled. This was plainly a case of putting the cart before the horse, because it was politically expedient for OPA to do this. In reality, the larger increase should have been accorded the manufacturer of the finished product. Failure of OPA to do this stripped many of the rough green independent producers of a legitimate market and either shut them down for want of a normal outlet or compelled them to route their production to black markets. Another mistake made by OPA, but one OPA made no direct attempt to correct.

Southern-pine costs, average for all reporting mills, between 1941 and 1944, increased $13.39 per M, or 49.9 percent, while sales realization in that period increased $13.39 per M, or 49.9 percent. OPA did not, therefore, adjust ceiling prices comparable to the increase sustained in cost, causing the spread between cost and sales realization, at these reporting operations, to decline $2.93 per M, or 70 percent, in this 3-year period. Here, again, as previously remarked, this showing would be even more alarming if the cost study had been contingent on industry weights rather than reporting mill weights, being biased abnormally by the 61 percent of production reported by large mills operating chiefly in low-book-valued owned stumpage, whereas these mills as a class yield less than one-third of the industry's total production. OPA has done nothing to rectify this condition, knowing full well that it resulted in discriminatory and inadequate treatment being accorded the industry.

Then, there is the problem of coordinating prices between regions and between trade groups, to preserve the normal differentials in competition and avoid serious supply and demand distortions. OPA has given little attention to these problems. On the contrary, OPA has evaded these responsibilities and, through its cost absorption theory, has endeavored to compel one branch of trade or industry to underwrite the grants extended another. Such treatment does not keep business healthy, nor is it likely to encourage the volume of employment, production, and distribution that would exist normally in a free economy. OPA, or no other standardized and streamlined control can be depended upon to iron out all of the difficulties that must arise when synthetic directives are applied to uncontrollable natural forces. If progress must be hindered or prohibited, there is no better way of achieving this disaster than to let OPA plow ahead with its sails untrimed.

The Office of War Mobilization and Reconversion has recently directed that southern pine ceilings be increased $3.25 per M, as an incentive for increased production. The industry has demonstrated its need for an even greater adjustment to cover its actual increase in costs. This incentive, therefore, is primarily a necessity, rather than a premium for extra effort on the part of producers who are failing to recover their costs from adjustments made hitherto by OPA. Its uneven allocation by OPA to items and grades entering mainly into housing construction will not enable all producers to realize the full amount of this incentive. As applied to the total production, it will yield less than the declared $3.25 per M, and will not be an incentive for producers of exempt items to increase their outputs. All items enter into the total production, and production goals based on total output should be predicated on uniform treatment being accorded all producers under any incentive granted for the purpose of increasing total production. Failure to do this distorts price relationships and discourages production by mills equipped to supply a demand for industrial users whose need for lumber must be met if the housing program is not to suffer from their lack of full participation in it.
The southern pine industry made an all-out effort, regardless of cost or sacrifice, to supply the war demand for lumber. It may point with justifiable pride to its wartime production record. It will not be neglectful of its peacetime obligations, and will exert every possible effort to discharge its responsibilities. Hampered with confusing and restricting directives, progress will not be so rapid as it could be if the industry were left to its own resources. OPA interventions result in distortions and bottlenecks, and these will prevail as long as OPA has authority to subordinate varying industry customs and practices to its price control theory.

The longer these abuses are permitted to accumulate under OPA price controls, the greater will be the chaos and the economic displacements when the controls are finally relinquished. If OPA law could be fairly and equitably administered and rigidly enforced, it might have some psychological if not needful merit. There seems, however, no way to accomplish this, for even the uniform price adjustments that are made by OPA do not apply equitably to all operators. When these adjustments are prorated to specific items and grades, some producers realize more or less than others, depending on the class of timber they cut and its item and grade yield, and on the circumstances under which they operate. The whole thing, therefore, is impractical and unenforceable and cannot be made to work effectively in a competitive peacetime economy. The vast expenditures of tax money budgeted for the maintenance of OPA are more of an inflation threat to consumers than would be the higher prices obtained for an adequate and better quality of production without price controls. OPA cannot transcend natural causes and effects, and as long as these must prevail and thwart all efforts to control our economy synthetically, the sooner these artificial obstructions are removed, the quicker will our country regain its equilibrium and be alertly on its way to a bigger and better future.

The Chairman. We will hear Mr. Warren next.

STATEMENT OF C. J. WARREN, PRODUCTION MANAGER, SOUTHWEST LUMBER MILLS, McNARY, ARIZ.

Mr. Warren. Mr. Chairman, my name is C. J. Warren. I live in McNary, Ariz. I represent the Southwest Lumber Mills, of which I am production manager.

I came to this hearing in order to give you some specific facts showing the effect that the administration of the Emergency Price Control Act has had on one particular industry, my particular company. I am qualified to speak for the western pine industry, to the extent that I am a member of the industry advisory committee and have been off and on for some time past.

It is my understanding that this committee is here to consider whether or not to extend the Price Control Act and that if it should hear enough evidence to the effect that the administration of the act has resulted in reducing production and reducing employment and creating chaotic conditions from which we will take a long time to come out, the committee will, of course, recommend the discontinuance or termination of the act on June 30.

I think I can give you more help in trying to decide that very heavy question if I tell you some of the facts about my own individual business.

First, I would like to touch—and I realize your time is very short, Mr. Chairman, and I am going to go through it very fast. I hope not too fast, however, to make at least the necessary impression for my particular segment of the industry. I am going to touch first upon production.

My company in past years before the war produced from 40 to 50, and one one or two occasions, 60,000,000 feet of lumber per year. We
reached in 1944 a peak of 105,000,000 feet under the stimulus of preparing for war and producing for war. That is about enough lumber, Mr. Chairman, to build 13,000 homes.

To do that we operated our three main plants, which are modern, electrified plants, and we had seven subsidiary plants—somewhat similar to what you gentlemen in the South are familiar with, the semiportable and even the portable-type sawmill, which we send out into the timber, close to the stump, at higher cost, in order to stimulate and increase production.

We did that because it was profitable primarily, and our year in 1944 was a successful year and we have no complaints. We were able to pay some tax into the Treasury from our profits, and we would like to experience the same thing again.

In 1945, the increase of costs resulting from factors over which management had absolutely no control—wages which were provided for us, wage levels dictated by the War Labor Board, costs of materials, costs of stumpage, which Uncle Sam himself was selling us at constantly increasing prices—shoved our costs up against our ceilings to the point where we were losing money in these marginal units of production.

We, therefore, dropped our production in 1945 at a very time when you and we all wanted lumber in this country—if we ever wanted it—from 105,000,000 to 75,000,000 feet. That was a drop of 30,000,000 feet.

Now, in 1946, you will, of course, be interested to know what our plans are—I am speaking of my own company, still, but I would like to emphasize that our company is almost a perfect cross section of the western pine industry, the only principal difference, if any, being that not so many of the mills operate so many small subsidiary plants. But in doing so, we represent all classes of mills, from the very smallest groundhog mill up to the very finest, modern, electrified plant. So I think you are hearing a pretty fair cross section of the western pine industry.

I recently conducted a survey on my own account, for purposes which I would like to mention later, of about 115 of the principal producers in the western pine industry, the men whom you would think first would be in production, at their fullest possible capacity. I found that the prevailing average of production was 35 percent. It ranged from 30 to 35 percent under 1945. That is in this year of 1946.

We could produce, this year, even as late as this—and it is late for a lumberman, because the snow melts in the mountains, you know—but we could still produce $5 to 90 million feet this year. We will not produce over 65 million feet this year. And it is not because we do not want to. We are not on a sit-down. We simply cannot produce that additional 25 to 30 million feet and lose from $2 to $5 per thousand on the production. In some instances a good deal more than that.

The loss in 1944's peak production in our own relatively small branch of this industry represents 5,000 dwellings that could just as well have been built for the people who are crying for them today. They will not be built unless price relief is granted, or unless the Price Control Act is amended or allowed to expire.
I want to tell you now a little about some of the components that go into the house. We also happen to be in the business of remanufacturing moldings and interior trim out of our lumber.

Up to 1942, we were the largest ponderosa pine molding manufacturer in the United States. Ponderosa pine is what we call western pine in the trade. That is the most commonly used pine for interior trim throughout the West, the North, the Midwest, and the East.

We had a total capacity of a carload a day. For years we shipped 300 carloads each year. Each car represents about a half million lineal feet. The amount of moldings we produced in a year's time would supply all that you would need for somewhere between 75,000 and 100,000 homes.

Our molding plant is shut down today. It was shut down long before this by reason of general maximum price regulation, which froze our ceilings at the March 1942 high. We should be producing moldings. We want to produce moldings. We have a plant in which we have a good many hundreds of thousands of dollars invested. Our machinery is all high-speed electric machinery. A push button would start it. There is no machine that is not ready to go. We have the knives, the equipment to do it. We would have to round up the labor, but we would, first of all, have to have a price which we could see, to begin with, not one of these theoretical prices, but a price that we know, from our own practical experience as lumbermen, would bring forth production and still leave us a profit. We want to produce moldings but we cannot produce moldings. That is the story in a nutshell.

You would be interested, I think, to know that there were no molding prices, as such, published by the Office of Price Administration on a specific ceiling price basis until November 1945. We were governed by general maximum price regulation, as they call it, which was issued in March 1942. Now, this will astonish you, I am sure, but I am going to have to tell you this fact: That Maximum Price Regulation 601, which was published after VJ-day, presumably to taper off after the war and lead us into peacetime production reduced the price of our moldings below what it would have been had we continued to produce at March 1942 prices.

We produced, in prewar years and until 1943, in fact, 6,000,000 lineal feet of venetian-blind slats in our factory. That is enough venetian-blind slats to make a venetian blind for 60,000 ordinary home windows, not like this one, but the ordinary dwelling house.

We are not running that plant. We have not run it since 1943, and we cannot run it until the price controls are removed or lifted high enough so that we will have enough elbow room to be sure we can operate at a profit. It will take us 6 months to get that department going again. If they gave us complete free rein today, it would be 1947 before this country could have the benefit of whatever production we could get going; and it would probably be the end of 1947 before we could get up to the full production we had at the time we shut down. I am sure you all realize we did not want to shut down. We did it because we were forced to by a rigid ceiling and mounting costs.
We formerly manufactured large quantities of railroad ties. We
do not make a single railroad tie today and we would not make one,
unless to use in our own railroad sidings.

Let me give you a short example of such a silly inconsistency. When I say that I want you to understand I am not blaming
the individual man in the Office of Price Administration who wrote
the regulation and is responsible for crossing the "i's" and dotting the
"t's" in this case or any other case. Those boys are doing the best
they can with a situation they are told to do something with from
higher-ups.

We have a regulation which governs what we call cut stock. That
is the material that is used in framing a door or a window, or in
manufacturing a door and a window. Now, one of the items that I
happen to know a specific instance about is a piece called a casing,
a door casing, 7 feet 2 inches long. The cut-stock price list goes to
that length. It stops at that point. A customer wants a piece 7 feet
4 inches long. Does he get it? He does not. Because when you
price the 7-foot-4-inch piece it is $25 to $30 a thousand cheaper on a
board measure basis than the 7 foot 2, so the manufacturer, if he is
making the stuff at all, would be a fool if he did not just cut it off 2
inches and sell it to somebody else for $30 higher.

We do not make any of it because the prices are still too low for
our plant.

Now, here is one of the most vicious things in the entire price-con-
trol programs, as it applies to lumber. How far widespread this
applies to other industries, I do not know. But if it does, I can say
that it must be devastating to other industries.

The Office of Price Administration, in making adjustments to con-
form to the hold-the-line order, evolved a formula which they called
the internal adjustment. I guess you have heard a lot about that.

Sometimes they call it compensating adjustment.

They take a given item that someone tells them, like the War
Production Board, in need, short supply, and they want to raise the
price of that item. As a compensation, so that the consumers gen-
erally will not pay more for the average total product, they have to
reduce something else. Let me give you an exact example down to
the last penny of what happened in a case dated September 11, 1945,
after VJ-day. This has to go back in the preface to 1944. The
industry advisory committee made very explicit and definite recom-
mendations in answer to the War Production Board's plea for more
lumber. The recommendation called for $4.72 premium on 1-inch
lumber. They said they will get lumber quickly. That was 1944. we all forgot it.

On September 11, 1944, here comes the amendment, after VJ-day,
and ammunition box contracts were canceled. Here comes an amend-
ment which raises the price of 1-inch lumber to promote its further
production. To compensate for that, they reduced the prices on
articles they thought the country did not need so badly. That would
have been fine, had it not been that they were dealing with an indus-
try that spread over 12 States from South Dakota to northern Wash-
ington, to the Mexican border. We have ponderosa pine in 12
Western States. It varies from 10 inches to about an average of
60 inches, for example, in Oregon. They put out a compensating adjustment so the consumer will not pay more. That hits the mills that do not happen to have logs or trees that can produce 1-inch lumber. We are in timber that does not produce 1-inch lumber. We took our inventories on September 10 of the exact footing shipped on that date. We applied Office of Price Administration prices to that footage. It cost us $2.72 per thousand because they made an internal adjustment which would theoretically increase the production of 1-inch lumber. It cost us $1,500 that day. That should help to answer why our production is falling and why the western pine industry, generally, is gradually going down to predepression levels.

Let me show you the effect of the internal adjustment on small mills. I am going to take the liberty of quoting from Mr. Peterson in the Office of Price Administration. No concern was given to the fact that little mills do not have the facilities to make 1-inch lumber. They cannot make it; they go in the hole. Mr. Stone recognized that.

He recently made a recommendation, and it was published for fir lumber, which provided for some of these so-called compensating adjustments, an increase in this, a decrease in that, to keep the consumer level at the same general level.

In explaining that to Senator Knowland's committee in the Senate, subcommittee of the Agriculture Committee, a few days ago he made this statement:

In order to make a compensating increase and decrease something had to be cut. There was a very delicate problem of how far you could cut without hurting some of those mills that could not gain from the increase on the housing items. We couldn't come to an agreement at that meeting. * * * I went back in January and worked out a slightly different adjustment which would not hurt the smaller mills as much by taking the cuts out of the higher grades that were still not housing items, that is, thick clears, etc. * * *

Here you have in the words of the lumber price executive himself the evidence that it is the little fellow or the marginal producer who is most likely to be hurt in the application of price control.

I am not blaming Mr. Stone. Mr. Stone did his best with an almost impossible situation. I think I should extract the word "almost."

The other day we had occasion to get up some estimates for a new logging camp we are about to construct. We will have to build about 100 houses. The ordinary door used in any modestly low-priced house would be the five-cross panel door, a fir door, generally. It costs about $5 at retail. We inquired. There was none available at the retail sources. We asked them what else they had. The only other door available was a flush door which had no paneling on it. It is a solid flush door. It costs $24.

Well, that is $19 per door. That multiplied by the average number of doors than an ordinary four- or five-room house would require would be about $200 premium that a builder is paying to get doors when he could just as well use the five-cross panel for about $50. I think that illustrates the defects in price controls.

This industry is too intricate, too delicate. It is impossible. There is no human intelligence strong enough and great enough and broad enough to sit in Washington or in any other city and tell the lumber
industry—and I firmly believe any industry—how to run their business best.

We have done pretty well in this country under free enterprise. I hope this committee will give very serious consideration in the light of the illustrations I have given you to the effect of any continuation of these meddlesome, harassing conditions in our industry and all industry.

Mr. Chairman, I happen to be in Washington in order to present to a joint informal committee of Senators and Congressmen a special plea for help in securing the attention and the ear of the Office of Price Administration in connection with a very serious problem facing my industry. In connection with that meeting, which was held last Monday morning, a complete record was taken.

There were present a great many men who are deeply interested in the industry, both directly and as representatives of the region. I would appreciate it very much if you would permit me to introduce into your records a copy of the record from that informal hearing, which can be obtained. I will obtain it for you.

(The matter referred to is as follows:)


Mr. Patman. Which group was that? Who was in that group?

Mr. Warren. Well, Congressman, they were all western men, as far as I know. There was Congressman Engle, Congressman Johnson from California—I am sorry, I am not familiar enough—

Mr. Patman. It was just the people over on the west coast?

Mr. Warren. Yes, sir; it was generally concerned with ponderosa pine production.

Mr. Patman. In official committee?

Mr. Warren. Yes, sir.

Mr. Crawford. How are we to interrogate these witnesses?

The Chairman. If it will expedite matters, we can hear them all and then call them back.

Mr. Crawford. That is satisfactory to me.

The Chairman. Any interrogation the committee desires to pursue, we can call the witnesses back.

We call Mr. Dosker as the next witness.

STATEMENT OF C. D. DOSKER, PRESIDENT, GAMBLE BROS, LOUISVILLE, KY.

Mr. Dosker. My name is C. D. Dosker, president of Gamble Bros., of Louisville, Ky. I am here as a wood fabricator. The company of which I am the head has been in the business of producing wood parts for the consuming industries for many years. We are as a matter of fact in our fiftieth year in this business. We make wood parts largely from hardwood for the furniture, cabinet, piano, display, fixtures, machine tool, and textile trades. These parts which we manufacture are made to customers’ specifications. We make no items for stock.

There is no industry in which the current situation is more confused than in the lumber and timber products industry and those industries
depending upon them for raw materials. To say that the situation is chaotic is but a mild description.

Lumber, both hardwood and softwood, is needed in order that finished products may move into consumer markets. Because of the unrealistic pricing policy of the Office of Price Administration, lumber production today is being stifled. In the north central region, in which our company is located, practically all of the large mills are shut down. The Wood-Mosaic Co. is operating its sawmills at about 40 percent of normal. This company operates several mills. Its Louisville mill has been shut down for 2 years. The Amos Thompson mill at Edinburgh, Ind., I understand, is also shut down, and has been for 6 months. The Malley-Wertz mill at Evansville, Ind., has been shut down for 6 months. We recently received written notice from the Chicago Mill & Lumber Co., from whom we purchase quantities of lumber, that they regret the necessity of having to shut down their mill.

The large manufacturers can no longer operate. The restricted production of other mills is seriously affecting those industries who are dependent upon them for raw material. Nothing but the unrealistic approach of the Office of Price Administration to the problem of lumber production can be blamed for this condition. Unless this situation is rectified a wave of unemployment is bound to follow as plants shut down for lack of lumber.

The wood fabricator, and that is what I am, is most sympathetic with the problem of the sawmill. The sawmill problem is our problem, for without the product of the sawmill, our plant must become idle. It has already been necessary for us to curtail production to the extent of approximately 35 percent because of lack of raw material. The fabricator knows that the sawmill man must have a fair average realization for his lumber or he cannot survive. This applies equally to any other product from the tree, whether it be veneer, last block bolts, shuttle block bolts, handle blanks, cooperage stock, or pulpwood. The composite dollar yield of all of the products of the tree is necessary for the survival of the logger-lumberman. These products of the tree vary as to the type of operation, area, and species of timber. Furthermore, they all vary within an area.

The economic fabric of industry in this country is woven in such a complex pattern that no individual, or group of individuals, has sufficient comprehension to adequately understand its complex structure and thus be able to establish price controls that are fair and equitable. Great harm is being done to American industry and particularly to small American industries, and a desperate struggle of survival has now begun.

As processors we, in our industry, have been able to observe the great shifting of production, wherever it is possible, that is taking place in an effort on the part of manufacturers to come under a price ceiling sufficiently favorable to permit the manufacturer to stay in business. Years of manufacturing experience, special equipment, established markets, are all being discarded. All of this has the effect of making scarce goods scarcer. It is not serving the best interests of the people of this country and will inevitably result in business recession and lack of job opportunity for returning veterans.
Our company had plans for postwar expansion. Because of the situation which began to develop early after VJ-day, our board of directors hesitated and in December tabled these plans.

We know the machinery manufacturers need increased prices for machinery. Orders placed for machinery last August are still unfilled. This machinery, we are told, can only be made at a loss. The machinery manufacturer will not proceed until price relief is granted. Our plans and those of others whom we serve are stagnating; reconversion is getting moss covered. The capital with which postwar expansion was to take place is being dissipated in business losses. Our company is but one of hundreds in this same position. During the war our company was occupied in the manufacturing of war materials to the extent of 90 percent of our plant capacity. Our company has lost money constantly every month since VJ-day, and we have at the present an appeal for relief before the Office of Price Administration.

This loss is the result of shifting from mass production of war goods to civilian items. The quantity is smaller. The set-up is different.

In our industry we operate, because of the nature of our products, under many different ceilings. Our particular company operates under a price formula—Maximum Price Regulation 501. At the time of its formulation this price regulation was fairly adequate. It is no longer adequate. It is out of date because we and all other fabricators have had to absorb many of the problems of the material suppliers from whom we receive materials. Our problem is the same as the plywood manufacturer, furniture manufacturer, casket manufacturer, or any other branch of industry converting lumber.

The processor formerly bought his lumber by specific grades, thickness, and species as required in his finished product. If he is to get lumber at all today, he takes the full product of the log, which includes all grades and thicknesses. Furthermore, he takes it unseasoned and green from the saw. What is the cause of this? Nothing but the ceiling prices on lumber which are so low that if the sawmill man is to break even he must ship his lumber in this condition because he cannot afford the expense to properly handle his product. There are, of course, a few manufacturers who may take advantage of this situation to move their product by compelling the consumer to take something which he knows the customer does not want.

The effect of this is to cause rehandling on the fabricator's yard. As an illustration of what this can amount to, we recently unloaded a carload of 17,000 feet of lumber that contained 18 items and 5 species, all of which had to be separated by grade, species, and thickness. This is not a record, however. A more recent carload of 12,600 feet contained 44 items and 13 species. This lumber must all be held for air-seasoning and it seems that the fabricator must assume the shrinkage and degrade due to seasoning. This will amount to 10 percent of the money value of the lumber, and this added cost must be borne by the processor.

Ceiling prices of lumber are on an f. o. b. mill basis. The fabricator must pay the extra freight on green lumber, but under the provision
of Maximum Price Regulation 501, he can expect no relief. I quote from this regulation:

Material costs for the particular item of hardwood small dimension shall not be higher than the current f. o. b. mill ceiling price, plus the average in bound freight for the cost of the particular material during the 6-month period from May to October 1943.

I have explained to you that the sawmill operator is shipping his lumber green today. He says he must. And I believe him, because I have had some experience in sawmilling.

Under the regulation just quoted, we, as fabricators, may only include in our cost freight based on dry lumber, because that is the kind of lumber we received during the 6-month period from May to October 1943. Inch air-dried hardwood lumber will average about 3,200 pounds per thousand feet. Green from the saw this same lumber will average 4,400 pounds. This means that we, as a fabricator, must absorb an average of $3.25 per thousand feet of additional freight on rough lumber, which is equivalent to approximately $5 per thousand feet on our net product after waste. When a company is already on a profitless basis, this represents an additional loss.

The great demand in the fabricating industry is for 1-inch lumber. Most products require this thickness and normally the laws of supply and demand regulate the production of other thicknesses of hardwood lumber. The Office of Price Administration ceiling prices have changed this picture. Inch, No. 1 Common Appalachian Poplar has a ceiling price of $62 per thousand feet. Three-inch No. 1 Common Poplar from the same region has a ceiling price of $97 per thousand feet. Gentlemen, if you were running a sawmill and tried to save your capital investment, you would naturally try to produce the item that brought you the greatest return. Under the artificial market thus created, the fabricator buys the 3-inch lumber and resaws it into three 1-inch boards. The fabricator must absorb the extra cost. As a result of the operation of the Office of Price Administration pricing policies, artificial markets are being created without any relationship to the normal requirements of industry. Such a procedure is destructive of the timber resources and the utilization value of the lumber produced, and retards reconversion.

The country needs consumer goods. It needs furniture, pianos, plumbers' woodwork, radios, refrigerators, and the myriad of products of which lumber is a part. It does no good to talk of housing shortages for returning veterans with no furniture to put in them. It must be remembered that no log produces a predetermined proportion of any product. The grade out-turn of every log varies. Only a free economy can properly price and merchandise these products.

Our company has been compelled to discontinue the manufacture of many items. It was recently necessary for us to advise a customer whom we have served for over 30 years that because of a price situation over which we had no control we could no longer serve him. Our company has never been fortunate enough to make exorbitant profits. Our industry is highly competitive. We have been able to weather the lean depression years, but today we cannot properly price our product to recover costs of manufacture under an unrealistic pricing program. Under this same Maximum Price Regulation 501 we cannot add any increase in wages that have been necessary since September 30, 1943.
Under Maximum Price Regulation 501, all costs other than material and labor are frozen as of March 1942. This means that all indirect labor, clerical wages, such services as legal and accounting, and all other costs must be figured in 1946 as though we were still living in 1942.

But if you did not happen to be in the business of manufacturing wood parts in 1942, but began operations after VJ-day in 1945, you would be able to currently establish costs; at least, that is my understanding. Driving old-established people out of business for the benefit of newcomers is not progress, nor will it increase production. It will not add one foot of lumber to the finished goods which the markets so badly need. Gentlemen, does this make horse sense; is it realism or asininity?

We feel that every manufacturer in an established business is entitled to the same realistic consideration that is given a newcomer in the industry. We ask only one thing—let management compute into cost those items that belong in cost. Let management price lumber products as they must be priced. Trees are a unique raw material, and one tree may go into many different types of products such as lumber, veneer bolts, and pulpwod. Trees are a variable raw product. The time has come to stop trying to operate the industrial capacity of this Nation from Washington. The time has come to return this Nation to a free profit and loss economy; to a free competitive system. Industry is too conscious of the dangers of inflation to permit runaway markets.

I belong to that group of American manufacturers who are members of the G. I. A. C. C. This alphabetical organization of industry is known as the God, I Am Confused Club and, gentlemen, I and hundreds like me are confused. Let us do away with a policy of profit control which, if continued, will destroy small industry in America and realize that the urge in business today is not for profit but for survival.

If you don't think you could be confused, here are just a few of the regulations we have to try to follow. You just cannot follow them all.

The CHAIRMAN. Mr. Howard Gray.

STATEMENT OF HOWARD L. GRAY, PRESIDENT OF MEADOW RIVER LUMBER CO., WEST VIRGINIA

Mr. Gray. Mr. Chairman my name is Howard L. Gray. I am president of Meadow River Lumber Co., in West Virginia, I also speak for the Appalachian Hardwood Manufacturers of which I happen to be president.

I hope to speak very briefly on what I consider some of the broader aspects of this situation.

Last September, I sat among a group in Chicago and listened to Mr. Peter Stone, the then price executive for lumber make the statement that if Congress were willing the Office of Price Administration intended to retain rigid control over lumber until stock aggregated to 14,000,000,000 feet—the stocks were then somewhat less than 5,000,000,000 and badly broken and knowing something about the declining scale of production I immediately reached a conclusion that if Congress were willing, as Mr. Stone expressed the hope, those of us in the present generation of lumber men would never, again, know this thing.
we call free economy and the generation which might succeed us would only know it by hearsay or history.

I want to assure you that unless there is a political catastrophe of major proportions there will not be any such quantity of lumber within the next 10 years at least.

In West Virginia, from where I come, and where we happen to operate the largest single hardwood unit in America, the problem is essentially different from other areas.

It was necessary in order to justify large plants to acquire large timber holdings. As a typical example we began this in 1906. We still have a considerable quantity of timber acquired at that time.

When the First World War came along, we were required to enter an argument, sometimes a fight with the timber section in order that we might by some measure of compromise reach a value for timber held as of March 1, 1913. If you were so unfortunate to have the cash to pay for that timber, you were permitted not a single penny of carrying charges since that time, it is true if you did not pay for it at the time and carry it on a series of interest-bearing notes the interest thereon is chargeable to production costs. If you paid for it, there was no such luck.

The problem that concerns us today is this:

We feel under definite obligation to four agencies or groups of people, one, our country; two, the stockholders who made the operation possible; third, the employees in the community which we created; and fourth, the customers we have served for some 30, 35 years.

We gave ample evidence of the proper discharge of our obligation to the country in the war period, because our own normal stock of 28,000,000 feet on the yard at one time was reduced to 9,000,000 feet because we had one customer and that customer of a preemptive character. What we got for that liquidation of inventory after we paid the extravagant taxes which will in no wise permit us to replace that inventory in like quantity or grade, nothing like it.

We are faced with a very embarrassing problem. Shall we diminish production to the barest minimum possible and hope for some more favorable time at some later period where we can at least secure enough to permit us to reestablish ourselves in business on the current values of business or shall we liquidate it now that we cannot return capital to them that has a purchasing power equivalent to that which they placed in it?

You must bear in mind that in 1934, when the then administration decided to dilute our currency, that unless the people were willing to accept a lower standard of living, that at sometime, it was mathematically certain that there must be an increase of some 67½ percent in wages and commodity prices and also, if you please, the returns to investors.

As a matter of cold record, in our operation, we have, since 1934, January 1, increased average wages by 118 percent and because we happened to be working 54 hours a week and thereby incurring a severe overtime penalty, the net effect for the hours worked is that we are paying today, 246 percent of the then wages.

I have mentioned we took care of our Government. We have amply cared for our labor. Prices on our products—and I am speaking of rough lumber now—have risen in that period between 40 and 50 percent so we are dealing with what I generally call diminishing returns.
These are serious questions. We are under heavy obligations to our customers. I feel definitely that the lumber industry is going to get an unsavory name and reputation because it has been maneuvered by agencies beyond its horizon into a position which is wholly indefensible.

The No. 1 political problem of the moment and it will continue to be, is the housing question. There is no immediate relief in sight. I want to tell you that in the hardwood industry you cannot by taking wishful thought today, have lumber tomorrow.

There is an average time lag of at least a year between the time we fell a tree and the fabricated product is ready for use. We knew this during the war, but we sat by helpless, frozen as to wages and as to prices, frozen as to the channeling of men in war industries where they were not needed.

I visited too many of them. I know how they were padded. That is a situation we face today. Trees grow in rather inaccessible places. Lumber men by nature have to be of the rugged individualist type. Because of that they do not work well together. Neither do they ably present their problems at forums like this.

They must of necessity rely completely on the good understanding and the good wishes and the tremendous interest in America that their Congressman should have.

Thank you very much.
The CHAIRMAN. Call the next witness.

STATEMENT OF ABBOTT FOX, IRON MOUNTAIN, MICH.

Mr. Fox. Mr. Chairman, my name is Abbott Fox. I run a sawmill in Iron Mountain, Mich. With your permission, Mr. Chairman, I would like to submit, for the record, a statement covering the industry in Michigan and Wisconsin.

The CHAIRMAN. Without objection, it may be received.

Mr. Fox. I would like to preface it with a few remarks. I happen to be one of that unfortunate 25 percent that is losing money in the lumber industry.

Why? Because my mill and my timber was purchased on today’s market. My prices are established by the average cost of timber whether it was purchased in 1913, or 1932. My prices are further established by the depreciation on all of the sawmills in northern Michigan and in Wisconsin and some of them were 35 or 40 years old.

They are all written off. I am down here now talking again to the Office of Price Administration about a little matter concerning home-building lumber. Through the war by arbitrary pricing, to which we agreed, our hemlock logs that make building lumber, went to the production of paper.

Our price on hemlock lumber was artificially kept down to stop the production of lumber. We are again pointing out that inasmuch as the war is 6 months over, and about 300,000 homes went to paper in the last year in Michigan and Wisconsin, that we can still save about 18,000 homes this year in Michigan and Wisconsin should we finally get some price change that puts our logs back to our own mills instead of sending them away.

Thank you.
Federal Price Administration in Wisconsin and Michigan

Lumber production in Wisconsin and Michigan in 1945 was 23 percent under 1944. Mills producing more than 5,000,000 feet annually and supplying the bulk of the lumber from this area which goes into interstate commerce are making only 44 percent of the lumber which mills of this class made in 1941. The manufacture of hemlock lumber, which has been a primary factor in residential building in Wisconsin and Michigan, has fallen off out of all proportion to other lumber production. The chief factor causing this loss of residential construction lumber is certainly due to the artificial diversion of hemlock logs into other channels of use through OPA pricing methods. An important factor in the over-all decline in the output of lumber in the Lake States is the lack of a method which measures changing production costs with reasonable accuracy, and the inability of Federal agencies to make prompt ceiling price adjustments to cover wage increases as determined by Government agencies, and to take care of creeping production costs. We emphasize that the OPA cost-accounting methods which may be applicable and reasonable elsewhere, have greater factors of error when applied to conditions in the Lake States than the production-cost differences which the method undertakes to detect.

Examples of the Effect of OPA Controls

Retail-lumber dealers in Michigan and Wisconsin have long placed much dependence upon quick, local shipments of hemlock construction lumber. Currently, the quantity available is unreasonably and artificially reduced by pricing. In 1939 and 1940 the sawmills were taking 89 percent of the hemlock logs, but the price ceilings on hemlock lumber and on other commodities in industries which could well afford to buy hemlock logs, have resulted in the diversion of the logs from the sawmills into other uses, so that since 1943 less than half of the hemlock logs have gone into lumber. The record of the winter log input of hemlock during the past 5 years has shown other industries than lumber manufacture taking the following percentages of the winter seasonal output of hemlock logs.

<table>
<thead>
<tr>
<th>Percent diverted from lumber</th>
<th>Winter season</th>
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<tbody>
<tr>
<td></td>
<td>Percent</td>
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<tr>
<td></td>
<td>1939-40</td>
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<td>1940-41</td>
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<td>1942-43</td>
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<td>1944-45</td>
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In 1945 less than half of the hemlock produced in 1941 went through the sawmills, while the over-all production of lumber was about 79 percent of the 1941 figure. Last fall this situation was further aggravated by an increase of $4 in the ceiling price of hemlock logs, while the average hemlock lumber ceiling price was increased $2. This followed wage increases by the WLB which raised the production costs of lumber between $4.25 and $8.50 per thousand feet. This came at a time when residential construction lumber production needed to be stimulated. The reverse action was taken. One of the medium sized producers, whose situation is like that of many others, on February 7, 1946 wrote:

"I can truthfully state that we lost at least 1,500,000 feet of production during 1945 for the reason that we declined to take in hemlock logs, and this was entirely due to the price set-up, as we had no manpower or equipment problem."

On February 14 the president of one of the larger operating companies testified:

"Hemlock lumber production has dropped to a small fraction of what it formerly was and hemlock logs are being shipped to the paper mills instead of being manufactured into lumber. Our firm has manufactured and shipped hemlock lumber for years to customers who at this time are desperately in need of it and now have to go without it because of OPA price situation. I know of a retail yard operator who formerly purchased a good deal of Hemlock lumber from a sawmill. This retail yard man is unable to buy hemlock lumber from this sawmill and is forced to purchase hemlock logs and ship the logs in on cars—unload the cars—load these logs on trucks and haul them to a small mill in order to obtain lumber which he formerly purchased from the same operator that is selling him the logs. This seems to me to be going a long way round the bush
and this ridiculous situation is caused by OPA's price controls and is a good example of the results of the failure of OPA to live up to its responsibility to be fair in dealing with the industry.

On October 8, 1945, the War Labor Board awarded a wage increase of 10 cents per hour retroactive to April 26, 1945. The effect of this on certain producers is shown by a report from one of the companies on January 18, 1946. They write:

"What this whole situation means can be stated in a nutshell. We employ about 400 men on a 48-hour week, meaning 52 hours' pay. The 10 cents per hour increase means $5.20 per week to each man or $207.40 per man per year, so that for 400 men our wage increase amounts to $102,960. We produce about 14,000,000 feet of lumber per year, so that the $2 per thousand increase means $28,090. Consequently, the wage increase means a net loss of $80,000 per year and we need hardly point out that there is no such money available from the profits of a company of our size in the lumber business. Unless we get some relief we are bound to go badly into the red while this situation lasts or we will have to shut down. It is manifest that we cannot continue to pay a net increase of $80,000 in wages per year and continue on."

OPA COST ACCOUNTING

The cost accounting methods which the Lumber Branch of the OPA is currently required to use, are not reasonably applicable to the condition which prevail in the Lake States. It is possible to obtain detailed OPA cost reports from less than 20 operators, chiefly in the larger production classifications. These may not be representative with respect to timber holdings, related operations, and mixture of species. The smaller operators do not have comparable cost figures in the books.

The cost reports from 12 to 18 mills have to be taken as representing the costs in Wisconsin-Michigan, for example, of 2,475 mills producing less than 1,000,000 feet annually, but making 38 percent of the lumber; and 119 mills producing between 1 and 5 million feet annually, and making 26 percent of the lumber, and 32 mills cutting over 5,000,000 feet annually, and making 36 percent of the lumber. These 15 or 20 cost reports are presumed to cover the following variations in the cost problems of more than 2,000 sawmill men.

1. Firms consuming timber purchased many years ago and carried on the books at low values.
2. Firms which must purchase logs or timber on the current market.
3. Firms with equipment well depreciated, and firms using normal equipment costs.
4. Firms having a heavy percentage of valuable maple and birch, and firms normally having a high percentage of hemlock or aspen.
5. Firms cutting many species, and also handling various percentages of ties, redwood, small-dimension products, and other items which are averaged into their costs and realizations. The operating profit or loss on the OPA reporting forms shows variations from a loss report of $16.64 per thousand feet, to a profit of $13.98 per thousand feet.

Certainly the reports from 15 to 20 sawmills cannot be averaged and applied as a fair measure of cost to the hundreds of firms in the region which deal with entirely different complexities.

The operating profit or loss per thousand feet of some of the companies which reported to the OPA in the last cost survey, for the first 9 months of 1944 and which furnished the bulk of the production coverage showed the following variations:

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<thead>
<tr>
<th>Loss</th>
<th>Profit</th>
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<tbody>
<tr>
<td>$0.27</td>
<td>$4.74</td>
</tr>
<tr>
<td>3.45</td>
<td>16.64</td>
</tr>
<tr>
<td>9.78</td>
<td>3.48</td>
</tr>
<tr>
<td>13.98</td>
<td>5.01</td>
</tr>
<tr>
<td>3.64</td>
<td>5.05</td>
</tr>
<tr>
<td>1.02</td>
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Obviously, where there is such variation in profit and loss in the sample, it is unreasonable to attempt to apply an analysis to these reports which would determine the break-even costs of 75 percent of the production. The addition or elimination of one firm changes the ceiling price figure which will be set for the entire regional industry.
A method which has seemed to prove that the industry was more profitable as wages and costs increased is prima facie in marked error. Each time a new survey is made under the conditions outlined above, but with different firms reporting, the final analysis under the OPA method cannot be fairly applied to operators working under so many different conditions. The most feasible method would be to take a base period determined by the original cost reports, and to use comparative cost reports of identical firms to determine the changes which are taking place so that prompt adjustments in average ceilings may be made on the basis of the actual cost increases in the region.

The CHAIRMAN. Mr. Simpson.

STATEMENT OF H. V. SIMPSON, EXECUTIVE VICE PRESIDENT OF WEST COAST LUMBERMEN'S ASSOCIATION, SEATTLE, WASH.

Mr. Simpson. Mr. Chairman, my name is H. V. Simpson. I am executive vice president of the West Coast Lumbermen's Association, Seattle, Wash.

The Douglas firm mills located in the western half of Oregon and Washington produce about 30 percent of the softwood lumber manufactured in the United States.

In 1942 mills in this area produced 8,800,000 M feet of lumber. In the three succeeding years production decreased to 8,085,000 M feet and in 1945 dropped to approximately 5,908,000 M feet. In the first 9 weeks of this year production is at the rate of about 5,500,000 M feet per year.

In the fall of 1945 our industry was partially tied up by strikes at the end of which wages were increased 15 cents per hour for all operations. In response to requests made to the Office of Price Administration the industry was told that no price adjustments could be made until 6 months had expired during which time we must submit cost statements for the year 1944 and 9 months of 1945.

We were told that at the end of the 6 months waiting period, the Office of Price Administration would make a further survey and if more than 25 per cent of the industry was in a loss position a price increase would be granted.

The industry properly interpreted this to mean that 9 months or a year would elapse before any price relief would be granted. The operators also fully appreciated that the Office of Price Administration would require operators to include stumpage at cost in their determination of the profit position of each operator even if this stumpage might have been held by the company for many years.

The operators understood also that profits for any other enterprise conducted by that company, such as retail yards, docks, stores, plywood plants, and so forth, would also be included in the Office of Price Administration calculations before any company would be considered in a loss position. There was no enthusiastic response to the Office of Price Administration's request for cost statements—very few were sent in.

Later the Office of Price Administration announced that the waiting period of 6 months could be waived. Meantime the Office of Price Administration had twice increased the price of logs, once $1.50 per M and again an average of $1.25.

No corresponding increase was made in lumber prices. The Office of Price Administration also released on March 1, a price adjustment
on lumber intended to channel production into housing items and which, all during the course of negotiations with the industry, was declared to be an internal adjustment and not a price increase but which was declared a price advance of $1.10 when issued and so released to the press.

Many hundreds of items were affected by this amendment and I vigorously state the Office of Price Administration could under no circumstance determine the effect of this amendment with any degree of exactness and that their release to the press was a breach of faith with the industry; and is so branded by the industry.

A few weeks ago the Office of Price Administration released a further amendment permitting buyers to pay wholesalers and commissionmen a buying commission for purchasing lumber. No change of any price in the manufacturers’ ceiling was made. Possibly occasional commissions previously paid by the manufacturers may now be paid by buyers. Possibly this might be a saving of one-half of 1 per cent for the industry.

Neither amendment recognizes the increase in wage nor the increase in log costs. Neither amendment provides any incentive to increase production.

The Civilian Production Administration has asked our industry to produce 8,000,000 M feet of lumber during 1946.

This agency further requested the Office of Economic Stabilization to grant the industry $3 per M price increase as necessary to get this production. Without consulting the industry, the Office of Economic Stabilization has denied this increase, stating in part that the two recent amendments referred to above made any increase now unnecessary. This letter of denial was signed by Mr. Bowles.

Our mills are now caught in the squeeze between advanced cost and fixed Office of Price Administration ceilings. Many of these mills must economize on every operating expense—less planing, less drying, less sorting—while at the same time they must carefully select the most profitable items to sell regardless of the end use. Even so many are losing money. And this process of manufacture does not suit the national economy.

If our output is to be increased it will be because our operators log difficult timber stands, work during adverse weather, work overtime, and exert extra effort in many directions, all very costly.

If we are to produce 8,000,000 M feet all our efficient plants must give extra effort to the job and all of our marginal mills must be allowed to operate. Any substantial increase in our production can be had in no other way.

Our Government, our people demand increased lumber production; the Office of Price Administration denies us the necessary price relief to accomplish this production.

Our industry strongly supported the Office of Price Administration during the war. Our industry has now lost confidence in the Office of Price Administration. It is rapidly losing confidence in other Government agencies.

Our operators have been and are strong supporters of inflation control. But they now wonder whether it is better to have inflation with the Office of Price Administration or inflation without it. Reluctantly we have concluded we prefer full production without the Office
of Price Administration than limited production and doubtful inflation control with the Office of Price Administration.

Mr. Monroney. The next witness is Mr. Arthur Bruce.

STATEMENT OF ARTHUR BRUCE, PRESIDENT, NATIONAL LUMBER MANUFACTURERS ASSOCIATION

Mr. Bruce. Mr. Chairman, and gentlemen, I am the last witness to appear on behalf of the lumber and timber production industry.

I was in Memphis last week and got a wire that we were to be allowed about 2 hours' time to present the story of the lumber industry. The lumber industry manufacturing part, you will hear from the retailers who are our sales outlet for most of our products that go into construction.

It is composed of approximately 40,000 units of manufactures. These 40,000 units are scattered in every State of the Union, almost every city and even small hamlets contain a woodworking plant of some kind. There are four major divisions of the lumber industry.

You have heard a brief statement, just recently, from Mr. Simpson of the Douglas fir situation. You have heard from Mr. Warren with respect to western pine. There is another major division which is southern pine and there is a division, also, of hardwoods; those are the four major divisions.

Until March 7, 1946, I was president of the Southern Hardwood Producers, which is the largest division of hardwood production. That includes 11 or 12 Southern States. I am not going to add very much to the testimony I presented here in the way of evidence. I want to say this, however, that given the opportunity, to parade our witnesses before you, the story would be much the same for this entire lumber industry.

I want to tell a little story. It is a traditional story in the lumber industry. It was a northern man who bought a sawmill in Arkansas. After he negotiated with the owner of the sawmill, he asked this native, this southerner, if he could not give him some points on how to operate it profitably. The previous owner said he did not think he could do him any good. The northerner reminded him he paid his price for the mill. He said, "Pardner, I cannot do you any good. As a matter of fact, I did not pay anything for this mill. My father died and left it to me; I do not employ any help. Me and my four sons run it. We steal all our timber and still we run behind."

The lumber industry is a beautiful picture on paper and as it may be presented in Washington, but I want you to get this fact and get it clearly; lumber is a variable raw product and when the sawmill operator busts open a log, he has got to make the products that come out of that log, make it into products to the best advantage.

That is the cause of a great deal of the confusion that exists on account of the Office of Price Administration prices. They do not know our industry.

I have reminded you of the fact that I am just recently and for 3 years prior to March 7, president of the Southern Hardwood Producers, Inc. They are not here to present their case. I am here with a statement which their advisory committee—and that advisory commit-
The committee was selected by the Office of Price Administration from the members of the industry, which their advisory committee made to the Office of Price Administration as late as January 23, 1946.

I want to read this statement into the record. It will tell you the story of that branch of the lumber industry right up to date. It is an official statement.

Before going into the matter of the cost study, we wish to report the serious conditions prevailing throughout this industry.

The members of our committee and the staff of Southern Hardwood Producers Industry have surveyed the situation carefully prior to this meeting.

It is difficult to exaggerate the conditions as pertaining to production and distribution. The Statistical Summary of Lumber Production shows a production of 3,083,000,000 for the first 11 months of 1945 against 3,596,000,000 for the identical period of 1944—a decline of about 14 percent.

However, prospects for 1946 are really nothing short of a crisis, as mills who are unprofitable are not disposed to continue operating at a loss, and also mills who are showing a profit because of low-priced, long held stumpage are refusing to convert it into lumber at a lower price than it would bring.

Some mills are refusing to sell lumber because they cannot replace their inventories without loss and with the conviction that sooner or later, values will have to increase materially.

We enclose a list of quotations from letters which are in answer to the following telegram sent to each participant in the current cost study:

Please advise me not later than January 8 increase per thousand feet in operating costs for year 1945 over year 1944. If actual figures not available give best estimate. Also state what effect current ceiling prices unless revised will have on your 1946 production schedule. This information for use advisory committee.

These complete letters are also handed to you.

The causes of this situation are mostly the fault of the Office of Price Administration, and could have been averted by a realistic Office of Price Administration policy. They are as follows:

On prices, the original prices established in February 1942 but cut back to those existing in September 1941 did not take into consideration the tremendous inflation of the minimum-wage rate since October 1938 on top of the then existing depression in the industry. They represented a heavy cut-back and were much too low, and incidentally were established over the strenuous protest of the committee.

Since then, the Office of Price Administration has followed three policies which absolutely guarantee that prevailing prices cannot be otherwise than ruinous to a very large section of the industry during a period of rapidly advancing costs of all kinds.

1. Use of a system so full of red tape that no cost study can be processed until a year or more of increased costs have been absorbed. For instance, we are now operating on costs of 1943, supposed to recover costs for 75 percent of the industry.

2. Stumpage values should be market—or what it would sell for—not cost. Otherwise, the soundest policy for holders of low-priced stumpage is to sell it to the more fortunate industries or with-
hold it rather than to saw it. Also, this policy can only result in depressing prices down to where timber cannot be currently brought, sawed into lumber and sold at ceiling prices without a loss.

3. The changing of the policy to only allow 75 percent of an industry to break even instead of 85 percent, as was done in amendment 16, is in itself a guaranty of lower production even if on fair stumpage values and on current costs. There are so many unforeseen hazards which always arise in producing lumber that such a theoretical percentage would decline in actual experience to not over 60 or 65 percent.

Now on labor. This industry is burdened by a 53 percentage of labor cost out of its total cost. The minimum-wage rate in September 1941—date of original Office of Price Administration price level—was 30 cents per hour and the average rate paid in southern mills according to BLS was 39.4. According to BLS in 1944, it advanced to 59.1. To September 1945—the last available—it has advanced to 61.

Shortage of labor and its accompanying inefficiency has steadily increased costs by much more than the actual wage increase. This is getting worse each year, and was much worse in 1945. These additional labor costs were yet much worse in logging, where the mills and their contractors attempted to hold their labor against other industries.

Next, I will take up stumpage and logs.

Much has been said by the Office of Price Administration about the advancing of stumpage prices by this industry. The facts are that other users of hardwood timber have been allowed Office of Price Administration prices for their products which permit them to pay far more than the hardwood mills. This does not refer to just a few picked logs. Veneer mills are scouring the entire South and paying far more than any sawmill can even consider for all kinds and grades of gum, tupelo, and other species used by them, either on the stump or in the log. The stave people are doing the same on oak. This condition never existed prior to the Office of Price Administration. Many mills are selling their timber rather than saw it.

The pulp industry has been paying prices for pulpwood and logging it, which inflate our logging costs. Now it is understood that the Office of Price Administration is advancing the price of pulpwood by over 15 percent. Recently, the production of the Belgian mine-pits props has also inflated these costs by paying unbelievable prices.

The users of our products are under no illusions. They know that most of them will only be able to operate their plants at part of capacity. This applies to the building industries such as the flooring and trim manufacturers, the furniture, the box and container, the implement and all others. They are scouring the South desperately. They would very gladly pay enough to stimulate production, and put a stop to their heavy losses of partial production.

The result of all this can only be toward one end. This is that instead of stopping or impeding inflation, the Office of Price Administration is actually causing it and pyramiding it by preventing production and causing a scarcity.

This statement is made advisedly and after careful consideration. The South produced 4,100,000,000 feet in 1943 and unless some action is taken quickly, it is improbable that much more than half of this will
be produced and marketed in 1946. The difference in the labor situation, except as to cost, can only account for a small part of this loss of production.

At the same time, black markets are really coming into swing, and can be expected to soon reach the proportion of illicit buying under prohibition. There is hardly a day when every legitimate seller and buyer are not tempted once or more by every conceivable device.

We have now been dilly-dallying over this since our first scheduled meeting for October 12, when the committee came to Washington by appointment, but failed to get a hearing, and nearly 4 months of valuable time has transpired since the industry furnished the complete cost study.

During this time much has been injected by the Office of Price Administration to confuse and delay the issue rather than take necessary action to meet the prevailing situation.

The time has come when this committee must decide whether or not it is a hindrance rather than a help to this industry, when the members are using their valuable time only to concur and participate in all this dilly-dallying around and temporizing while this crisis is materializing.

Under conditions as have existed to this time, it probably would be more honest and at the same time, perform a greater service by leaving the Office of Price Administration alone and letting the industry, its customers, the public and our southern solons know that a large part of the southern operators, probably a majority, will have to await the end of price control before they can produce southern hardwood without sacrificing their capital assets.

I want to add one little bit more of testimony. That is in reference to my position. We are large manufacturers of hardwood flooring. One time in our history we made as much as 20 percent of all produced.

Our average is probably around 10 percent. We do not dominate the industry. Today, we have 26 flooring units ready to go. How many are we able to operate? We are able to operate under present conditions just six. That does not tell the whole story. Several of our plants are down, 40 hours a week. Our production of hardwood flooring the potential sale of which is simply tremendous, is less than 20 percent.

How can we supply the needs? Why is that? We cannot buy the lumber and we have twice or three times the force of lumber buyers because we do not make a large percentage of the lumber that goes into hardwood flooring.

We buy it. Our buyers just cannot buy it. Some of our buyers tell us there are 10 times as many buyers in the South today looking for lumber.

These millmen are our customers. We have been buying from them over the years. We think they would favor us. We make a bid for it at the ceiling price of Office of Price Administration. We do not get it. It is going away from us.

That is the reason we are not producing flooring. We just cannot go back to anything that parallels it at all.

I am just going to close with this statement.

Given an adequate opportunity, the lumber industry can prove to any fair-minded person that the responsibility for the present short-
age of lumber production in our country lies mainly on the doorstep of the Office of Price Administration.

This Government agency has been arbitrary in not following the recommendations of its selected advisory members drawn from industry, it has been dilatory to an exasperating degree in affording relief in price change to compensate for increased cost, to the extent that in most cases the relief, when granted, was too late and too little.

Polls may indicate that popular opinion supports the continuance of the life of the Office of Price Administration. On the other hand, it is not going to be popular for the Office of Price Administration to continue to throttle this great American lumber industry so that it is unable to employ our people and produce the lumber and lumber products demanded for so many purposes.

I believe, Mr. Chairman, you said questions should be asked after the testimony.

May I bring our witnesses up here so that questions may be asked of them?

Mr. Monroney. Mr. Crawford has a few questions.

Mr. Crawford. Mr. Chairman, before starting the interrogation, I think the witnesses are entitled to a statement from somebody on this committee. As members of the committee, we are in a most embarrassing situation, at least I am. The furniture people from Michigan asked that I be present when the furniture people testify. We went through a 5-week hearing on housing. I voted against the Patman bill. We cannot legislate a house into existence. We have to have lumber. This is our first chance to get any lumber information. If we close this afternoon session without any interrogation, I think we are failing to carry out our duty. If we interrogate these people, the furniture people cannot come forward to testify. I have made engagements with the Chamber of Commerce of the United States for this evening.

That is my position. I have some questions I want to ask these lumber gentlemen.

Miss Sumner. The funniest thing is after running quantities of lumber and lumber producers out of production, they come in this morning with an investigation for which taxpayers will pay to investigate prefabricated houses. It seems to me it is outrageous.

Mr. Crawford. I do not know to whom to address my questions.

The first question I want to submit to you gentlemen is, What position are you in, financing and otherwise, to make it understood by the people of the United States what the reason is that they are not getting lumber? Is it on account of the policies of the Office of Price Administration, backed up by the Congress of the United States? Do you understand the question?

Mr. Colgan. We have one member of the advisory committee of the Office of Price Administration here. We have two members. I think they would all say it was on account of the pricing of lumber. That is holding up the production at the present time.

Mr. Crawford. You do not understand my question. I agree with the gentleman. I made a statement to this committee as far back as December of last year that the No. 1 political question was going to be that of housing. One of you gentlemen made a statement today that we are facing a housing crisis. If the lumber is not produced, who do you think is going to be blamed? My question is in what position
are you gentlemen to let the country know that the responsibility is on the Congress backing up the Office of Price Administration in its rules and regulations which prevents the production of lumber, otherwise the burden will be shifted from Congress to you in the minds of the public? Have I made my question clear?

Mr. Colgan. We would be defenseless.

Mr. Bruce. I think we all realize that what we are dealing with is probably maladministration of the Office of Price Administration. All of us who have read the enabling act cannot find anything in the act that would not have let them operate to the satisfaction of industry. They have not operated to the satisfaction of industry or to the satisfaction, at least, where they felt they could go ahead and produce.

The problem that you have is one of mandatory provisions of an amendment of this act, and a prohibition in some cases. That is prohibition of the executive department of your Government to do these things. I do not know how you are going to handle it. So far as the lumber industry defending itself and being in position to place the responsibility where it belongs, we have tried to do it here today. Perhaps this will not be blazoned over in the newspapers and the responsibility properly placed. We are lumbermen. We are not publicity men.

Mr. Crawford. The whole veterans' proposition is going to come into this. You could at least approach the veterans' organization and put your story before them so that they, in their publicity, will not condemn the lumber industry for not bringing forth the lumber for building the veterans' houses.

Mr. Bruce. The entire lumber industry is sympathetic with this situation. We want to go. We are ready to go when we get free of some of these restrictions. We welcome any suggestion of yours enlisting our aid to put the pressure where it belongs.

Mr. Crawford. Let us go into this stumpage proposition for a moment. Do I understand if one of your operators, for instance in 1926 or 1934, or any previous day you want to select on which you have paid taxes, on which you have paid interest on the purchase price, that in calculating your costs, that you must carry into the cost formula, as a direct cost of lumber, a price element which does not exceed the original cost of the stumpage?

Mr. Gray. I made that statement. I would like to be very specific.

Mr. Crawford. I have some other questions to follow on the same line.

Mr. Gray. We acquired most of our stumpage in the years between 1906 and 1920. As of March 1, 1913, we were required to reach an agreement with the timber section that happened to be at $5 per thousand feet. Today, in arranging or getting our operating data, cost data, we used precisely that same figure. It has never gone up above $5.20, in spite of the fact that today the price of comparable timber is probably in the neighborhood of $15 or more. I have also, unanswered on my desk, letters which I do not want to answer. I am offered as high as $100 a thousand for certain species. I leave them stand there. Those are realistic points. We have to deal with them. That is a concrete situation we are facing today. The Office of Price Administration is following, religiously, the same ritual. Had I made a thousand feet of floor 30 years ago and had it on my shelves
today, the Office of Price Administration would not offer the slightest objection to my selling it at the cost it is selling today.

Mr. Crawford. In calculating your cost under the Office of Price Administration rules and regulations, you have to throw in, in your case, $5 per thousand. You are not even permitted to add your taxes?

Mr. Gray. Nothing whatever. We have carried some of it for 40 years.

Mr. Crawford. You include in the cost formula the agreed upon price for your March 1913 tax?

Mr. Gray. That is correct.

Mr. Crawford. Tax valuation?

Mr. Gray. That is right.

Mr. Crawford. Do you know of any case where a company owning stumpage has leased the mill to some operator to come in and manufacture that stumpage into lumber and place in the lease a sufficient lease valuation to give the owner of the stumpage and the mill a reasonable return letting some other one person perform the service?

Mr. Gray. I understand what you mean. I know of no such offer. However, it is legally possible. Absolute conformity with the Office of Price Administration rulings must and are still followed. If we care to hunt or produce a bona fide purchaser we can sell him our stumpage at the current market price. We can pay a 20 percent tax.

Mr. Crawford. You could even operate your plant for him on a total basis?

Mr. Gray. Surely.

Mr. Crawford. And still be within the rules and regulations of the Office of Price Administration?

Mr. Gray. Surely. I would like to point out something. By taking back, the correct set-up, you cannot provide lumber to him. We have the plants. We still have sufficient capital and all of the equipment to jump into full-time production, but there is going to be an inevitable time lag. A lot of people are going to blame the industry. Industry is not at fault. I want to leave that with you.

Mr. Crawford. What political importance can you attach to this phase of it? You have the stumpage acquired from 1905 to 1920. You refuse to cut it and sell it. The Office of Price Administration publicizes that fact. They condemn you. Do you attach any importance to that publicity from a political approach?

Mr. Gray. That is one of the crosses, I suspect, we shall have to bear. The fact that we know that we are right will probably help in some degree. Whenever you take a position of that sort, no home owned by any individual in this country is any longer safe.

Mr. Crawford. Do you face an increase in operating direct wages which you have not yet met as a result of recent wage agreements?

Mr. Gray. Last November, because we were continuing to lose men, we discussed this. Keep in mind that for generations the lumber industry has been known by city standards as a low-wage industry. We were getting in desperate straits although the war was over. I called our men together. I said, "Gentlemen, solely on our hope and expectation that by the time the lumber we shall make from here on will be ready for the market, the Office of Price Administration will either be out of existence or they will have acquired some measure of realizing what we are up against; we are raising wages once more by
10 percent. Definitely, if these things do not come to pass, we have made a rotten guess.” That is what I said. We are doing everything we know is possible. We are willing to go out on the end of an extremely long limb. In our case, we are paying 24½ percent of the 1934 wage.

Mr. Simpson. Our area went through a strike last fall. It tied us up for 3 months. In the West we have very high wages. Since then we have had no additional compensation from the Office of Price Administration.

Mr. Crawford. My question goes further. As a result of wage agreements in which the Government agencies and the Government was a party do you gentlemen, in the lumber business, face additional wage increases in your operations during the next 3 to 6 months? I mean based on what has occurred since last November.

Mr. Gray. Just as surely as we sit here. You mean because of the 18½ cents?

Mr. Crawford. Yes, sir.

Mr. Gray. It is going to happen to us in some degree.

Mr. Bruce. Senator Pepper’s proposition of a 75-cent minimum wage is to be considered. If that comes into effect, it must be considered. A great deal of work goes into the making of lumber. Everyone has to watch it. Everyone has to exercise discretion. We have to have a lot of labor. We cannot mechanize to a great extent. They beat us to it out on the west coast. We are trying in the South. I am from Memphis. A great deal of our work is labor.

Mr. Crawford. You can mechanize as to physical load, but not as to types of material.

Mr. Bruce. Not until an electric eye is developed.

Mr. Crawford. Your company is operating how many units?

Mr. Bruce. We have 26 flooring units. They produce hardwood flooring. We are operating 6 out of 26 units today at 40 hours per week. Our normal operation would be 50 hours. That is the economical basis of operation.

Mr. Crawford. If this wage-hour proposal, which is now before the Senate or the Congress, I should say, moves the minimum from 40 up to 65 cents, and then up to 75 cents for this period specified, what will the immediate 65-cent rate do to your industry in the South?

Mr. Bruce. Well, I think the committee should understand that while the minimum wage figure is 40, the Federal law, most of us are paying 55 today. Most operats are paying a whole lot more than that, so the difference is not between 40 and 65, but it is between 55 and 65. That, figured in a percentage of the wage we started with, is a considerable percentage advance.

Mr. Crawford. Would it not be right to say, taking your 55-cent rate, when you go above your 40 hours and up to your 65-cent rate, you would have to pay a 65-cent base plus one-half of that base for overtime? Is that not right?

Mr. Bruce. That is right.

Mr. Crawford. So you have an increase in wage, there, of probably 25 to 30 percent?

Mr. Bruce. That is right.

Mr. Crawford. You face that?

Mr. Bruce. That is in prospect.
Mr. Crawford. If this amendment goes through.
Would any of you care to give us further information as to the scope of black markets at this particular time? Especially in the southern-pine area.

Mr. Bruce. Mr. Congressman, it is a difficult question. It is a $64 question. For this reason: These black-market operations are going on in ways that it would take a Department of Justice man to really get at the facts. In other words, the passage of money or the cases of liquor that we are quite satisfied goes on, we cannot know those facts. These people in the lumber fraternity are our friends. We cannot bring to you cases of violation. I tried to make clear, in my statement, the reasons why we are not operating all of our units. We ought to be able to purchase that lumber at the ceiling price. They are our friends. And when we do not purchase at the price, it gets away from us. Then we have only one conclusion to draw. The extent of it, we do not know. I have heard it estimated at more than half in the South up to as high as 75 or 80 percent. I say this: I think in fairness, that if you gentlemen in your committee endeavor to recommend to Congress the continuance of the Office of Price Administration, it is my personal judgment, and I have not conferred with the members of the lumber industry on this at all; it does not make good sense if you continue the Office of Price Administration and not give them the money to police that kind of a situation. It is crucifying the legitimate operators. It leaves the men in the business who are getting their stuff to market at extremely high prices. They are prices, if the Office of Price Administration were released today, that I don't believe the lumber industry prices would exceed.

Think in these terms: Whatever this percentage of black market is, your lumber prices put back in legitimate channels would probably not exceed that until production could catch up to it.

Mr. Gray has talked about a lag of 1 year. That is in his particular part of the country. Our business, which is the hardwood lumber industry, will not have such a lag. We do have to have a long drying period. With us, down in Memphis, it is not probably quite as long as he indicates. It is quite a few months. Most of our construction lumber, Douglas fir, yellow pine, and western pine, can go, immediately from the sawmill to a drying kiln and be shipped immediately. The entire industry is not going to be on the same spot. The hardwood industry, as such, contributes to construction. But, principally, in floors, in trim, and in doors and other places where you see hardwood, as you see it here, most of us can produce as soon as it is present.

Mr. Crawford. On this question of prefabricated homes, will any industry that you know of be able to produce prefabricated homes without lumber? Here is what I am getting at. We are trying to get information. The story will undoubtedly go out that we can rely, to a great extent, on prefabricated homes. You gentlemen have made your presentations here. That convinces me the lumber will not be forthcoming unless rules and regulations are changed. Can prefabricators, so far as you men know, produce those homes without lumber from your operation?

Mr. Bruce. No, sir. It will require lumber. My company is one of three lumber-producing companies that went into the prefabri-
cated house field. They require lumber. They may require less lumber, considerably, than the average standard house, but when they do, they will not get by the code provisions of most of our cities. They will have to be built outside of the district where codes control. People will have to live out there in most of the places of the United States. I am not trying to damn that end of the construction industry. There is an opportunity, probably, to provide housing more quickly with less lumber, but, still, with lumber. There is the matter of speed to be considered. Those houses can be produced and made available quickly. I do not believe the same type of house can be produced with good lumber in the standard way. Those elements are prefabrication, what their plans are, and what they can do, is for them to say.

Mr. Crawford. One of the gentlemen referred to the $20 for doors as against the $5. Why are not these doors being produced?

Mr. Warren. It is because of the pinch-penny pricing policy which prevents the manufacturer from recovering his cost on the low-cost item plus a reasonable profit.

Mr. Crawford. I have satisfied myself of that. Would you agree with me in that respect we are forcing the man who builds a home with only 5 doors into paying about $100 up on the house with 10 doors, about $200 upward?

Mr. Warren. That is correct.

Mr. Crawford. And we sit around and worry about a $5 up cost on pipe, for instance, and let a thing like that go unnoticed and uncorrected.

Mr. Warren. May I elaborate on that point, sir? Western pine industry, at this time, has before the Office of Price Administration, the Civilian Production Administration, and the Office of Economic Stabilization a formal application which has, as I understand it, been endorsed by the Civilian Production Administration, but it has not been endorsed by the Office of Price Administration for an $8 per thousand across-the-board increase in western pine lumber. To what extent the Civilian Production Administration actually endorsed our application we, of course, do not know. We think they qualified it to some extent. But in the testimony before an informal committee called by Senator Chavez and attended by all of the western Senators and Congressmen, it was testified that the increase of $8 per thousand, if all of the houses were built out of western pine lumber, would amount to something like $50 to $60 increase in the cost of the house. It was also testified that the average house builder, today, who is, of course, patronizing the black market if he is getting any lumber, is paying far more than that for inferior lumber. While I am on the subject of black markets, if I may, I would like to say since Mr. Bruce stated that we had not conferred on this subject, there is this difference of opinion at least between him and me. He is in the flooring business, largely. I am in the sawmill business. I see the sawmill from the standpoint of a little fellow in overalls who gets up at daybreak and is not in bed until after dark. He is up against a problem of getting cost out of his lumber. There is a trucker who comes into his place of business. He offers him something better than the ceiling price. If that is black market, I think we had better make the most of it. It probably is black market. That man needs that to survive.
He cannot produce lumber at present ceilings. There are 40,000 producing units in this industry. We hear representatives for the most part, out they are relatively larger units.

When you deal with this problem, just remember you are dealing with 40,000 individual little sawmill owners. You cannot deal with them any better. There is not a possibility of controlling this black-market problem. I do not think there are enough enforcement officials to spread out over the 48 States of this country and ride up and down the country roads into the sawmill district and follow these truckloads into market. It does not make sense. You cannot do it.

Mr. Crawford. Even if they had a provision of a billion dollars a year?

Mr. Warren. Yes.

Mr. Crawford. Who spoke about two amendments which granted an increase in price of $2.75?

Mr. Doskin. I spoke of them.

Mr. Crawford. Did Civilian Production Administration make its recommendation of a $5 increase since those amendments?

Mr. Doskin. The Civilian Production Administration made theirs after hour-wage increase. The wage increase would probably amount to something like $2.25 per thousand. They said $2.25 plus $1.50; they said give them $3 as an incentive price increase. Later, there was another amendment increasing prices.

Mr. Crawford. In other words, you have an allowance of $1.25 against the $3 recommendation of the Civilian Production Administration?

Mr. Doskin. In our opinion, we have had nothing. The one amendment which the Office of Price Administration released to the press was one in which their representatives met with our advisory committee in which any suggestion made by us that we might want to increase the price was immediately turned down by them. This was an internal adjustment matter. When it was released to the press, it was announced to our customers that there was a $1.10 increase. It would give us a net return of 84. Nobody could figure out this with a degree of exactness. It was unfair to us to say it was a price increase. Mr. Bowles used that in his letter as one justification as to why we needed no further increase.

Mr. Crawford. That is all I have.

Mr. Riley. Can you give me an idea about the percentage of increase it would take to put you all back to work?

Mr. Bruce. That is impossible to state on any average basis because the character of our lumber industry depends upon the given situation, the territory, the species, and, for instance, in the hardwood lumber, we have 15 commercial species to deal with. To answer that, you have to answer it by individual situations.

Mr. Riley. I thought you could give me a general idea.

Mr. Bruce. I am sorry. I could not. I do not believe any such figures are available.

Mr. Warren. On ponderosa pine it is 20 percent.

Mr. Doskin. Our current survey shows the ceiling price set by the Office of Price Administration which we are denied the right to use. We have no objection to the use of the ceiling price. We are denied, however, the use of it. I would judge in the Douglas fir area that an
increase of perhaps 12 percent would bring 84 percent of our industry in an even or better position.

Mr. Bruce. I can answer that, too. I thought you wanted me to give you a general over-all picture. With respect to oak floor, on February 1, 1946, the Office of Price Administration granted a price raise to the oak floor people. So far as the price of the product they make, if they can get the lumber out of which to make it, they figure they can operate. However, with respect to southern hardwood production, they have been promised a price increase of 8½ percent. I am led to believe that would take care of that situation. It has not been granted. What we hope will not happen is that that will sit up like a lot of promises that have been made for a long period of time. They say they are going to give you something and then they do not give it. That is bad. The man who has the lumber hangs on to it. Those are actual situations. If the Office of Price Administration increases the price of hardwood lumber 8½ percent, the oak floor people are right where they started because they have had this increase in their raw products.

Mr. Riley. This percentage of increase will not necessarily be reflected in retail yards if the mills could go back to their normal method of production and not have to ship green lumber and that sort of production?

Mr. Bruce. I think we can get our industry back on the tracks. Hardwood lumber is being used for construction purposes. It is a misuse of hardwood lumber. It is being put into houses green. It is going to make bad houses. Our whole structure, if we can get back into the groove again by getting these things rectified, I believe, what we have to do is get an attitude on the part of the Office of Price Administration instead of something arbitrary. We are going to keep prices down to keep down inflation, then we will make out pretty well.

Mr. Kunkel. I believe Mr. Warren could answer this one best on account of his statement. We have heard a great deal about subsidies being a cure-all for almost every economic trouble that affects the country. I see you have gone out of actual production in your particular business in the number of items. Therefore, the cost and the amount that you would require in order to go back into production in those items ought to be readily determined because you have your cost figures. What do you think of subsidies as a remedy?

Mr. Warren. We would not go into production if we had to do it with subsidies.

Mr. Kunkel. You do not think subsidies would get production?

Miss Sumner. Why not?

Mr. Warren. I do not see how anyone could expect 40,000 units could be individually examined and their accounts studied and actual determinations made as to how much each sawmill would need to get into production. I cannot conceive of its being possible, that you could treat an industry like this with subsidies.

Mr. Kunkel. In your judgment, even if subsidies were granted, that would not cause any appreciable increase in critical materials? It would not cause such an increase?

Mr. Warren. If you starve lumber producers to a point where they are in the hands of their bankers, there is always the possibility that somebody would weaken here and there. The thing might sweep
through the industry. If it did, it would be adding chaos to chaos. It
would be impossible to administer subsidies without discrimination
and just more Government controls piled on Government controls.
We better give it back to the Indians.

Mr. Kunkel. You probably know that the President, and everyone
else, who has had power to institute subsidies has done so; do you
think the reason they have neglected you—and they referred to it as
the heart of the housing program—if they believed that, it is a case
of gross neglect; you believe the reason they have not instituted sub-
sidies before is that it is an impossible procedure?

Mr. Warren. That has definitely crossed my mind a good many
times.

Mr. Kunkel. I was interested in some of these few observations as
reported in the paper. I do not know whether he ever made these
observations. He said low wages, not low prices, were the cause of
holding back the production of needed lumber supplies. Would you
care to comment on that observation?

Mr. Warren. I can comment as far as the West is concerned and the
Southwest. The western pine and the fir industries of the West are
paying now an average wage of $1.35 per hour. Their highest wages
go up into the brackets comparing with the highest wages in the
country today. I can tell you, definitely, that the western industry,
lumber industry, is a high-wage industry.

Mr. Kunkel. You believe there is a relation between prices and
wages or rather wages and prices?

Mr. Warren. Definitely, where 55 percent of our cost is in the form
of labor cost.

Mr. Talle. Mr. Chairman, I do not want to misrepresent Mr. Kaiser
who testified before this committee some time ago. I will check this
with the record if it is in the record, but he left the impression with
me that what the lumber manufacturers needed was more competition,
and that he thought substitutes for lumber would come forward and
serve as that competition and, therefore, we might expect lumber.
Have you any comment?

Mr. Warren. I do not want to answer all these questions, sir.

Mr. Gray. I would like to make just a remark about this impact
of increased wages. I think we all ought to keep clearly in mind that
we, in America, are definitely committed because of public debt to a
production cost so high that we can no longer sell our goods in
international markets. Evidence of that is the British loan that is
up for examination and others undoubtedly will follow. I will give
you a concrete example. We formerly sold large quantities of high-
grade stock for export to England. In January I received some letters
from former customers saying they had, among others, been appointed
for the timber control and would be presently coming to this country
and would we please reserve all of the high-grade stock they once
bought for their account. In some mysterious way, they have been
failing to show up for a long time although they gave me their Ameri-
can address and I am persuaded the loan has not been approved as
soon as they hoped it would.

That is merely an extension of the subsidy system. That is a terrible
situation. We will have to be realistic and deal with it.

The other question that you wanted——
Mr. TALLE. May I ask if it is not true that something over 125,000,000 feet of hardwood lumber left this country under lend-lease prior to the 31st of January of this year?

Mr. GRAY. I suspect that is true. I am not qualified to talk about that.

Mr. TALLE. There are still deliveries to be made, and commitments made before the war was over are held for delivery still?

Mr. GRAY. We still have an unfilled order they want us to ship in that way.

Mr. TALLE. Around 20,000,000 feet of choice hardwood that our furniture makers want for making good furniture?

Mr. GRAY. That is right.

Mr. TALLE. My other question was with reference to Mr. Kaiser. I do not want to misrepresent him. He left the impression with me that what lumber manufacturers needed was more competition, and that he thought remade lumber, something manufactured out of waste lumber, and certain other types would come forward to meet the competition of the lumber manufacturers and that that would stimulate you people to greater production.

Mr. GRAY. If I may be a little humorous——

Mr. TALLE. I thought it was funny at the time.

Mr. GRAY. The lumber industry has never been permitted to try this cost-plus business. Maybe they should.

Mr. TALLE. I think that is a pertinent remark.

Have any of you counseled with Mr. Wyatt?

Mr. GRAY. So far as I am aware, no. That may not be true for the whole industry.

Mr. DOSKIN. If I may answer that, Mr. Campbell is holding a meeting of the Lumber Association here on Friday with the idea we might suggest to Mr. Wyatt something that might be done. I would like to add that we are 100 percent opposed to the subsidy. We have some ideas as to what we might do to help. We will have to have money to do it with.

Mr. TALLE. How much does a sawyer get in your area?

Mr. DOSKIN. $16 to $18 a day, 8 hours.

Mr. TALLE. How much do truckers get?

Mr. DOSKIN. The log truckers get $15 or $16 a day, too. I am guessing a little bit.

Mr. TALLE. That would vary with the conditions that prevail?

Mr. DOSKIN. Yes.

Mr. KILBURN. Can any of us get a job there?

Mr. DOSKIN. I will let you know.

Mr. TALLE. Can anyone tell me about the export of lumber?

Mr. DOSKIN. The export has always been a part of the Douglas fir picture out there. Probably 40 percent or more of the lumber that is being exported is a part of that picture. We can divide our mills into two sections. One is inland mills. The other is the waterfront mills. Of the inland mills, there is no proportion considered there yet.

Those who have the cost to the waterfront are not interested in export today. Of the balance, those that are at the waterfront, this includes our very largest operators, who are fully equipped with equipment they need to produce American lumber, they are not taking
any export business. That leaves a small group of mills built for water business. They, as a group, do not have sufficient materials or capacity to put their lumber into so-called housing sizes. To them the export business has always been their specialty. Without that they are in a serious position. They are already caught between this cost of doing business and the Office of Price Administration prices.

Bear in mind these are the mills that are the farthest from our woods. They have the longest hauls to get there. Without this export business, you increase their difficulty of producing. Of all of those mills operating under an order of the Government, which says 40 percent must go to housing items, no mills operate exclusively on export. No mills operate 50 percent on exports. None operate 25 percent on export. This little export business which is their specialty, for which they were built, keeps them in business.

Between the Office of Price Administration and other prices, we net, for the domestic economy, by letting them have very little. Do not forget that 75 percent of the cargo moves from the north coast by tonnage. We are trying to build up ports. Fifty-two percent of the cargo from the whole of the Pacific companies is lumber. These fellows who are in that business are willing to take a reduction in the amount of their export business. They would like to keep their accounts. They would like to stay in business and take care of the domestic economy. If we should shut off lumber to the British Empire, where we get a million feet a year, and if we should say no lumber, we could expect the British Empire to take care of itself. We would lose maybe all of it. Believe me, we need that little bit of export business to keep these mills going. It will help our production if we have a little bit.

Mr. Talle. The dollar value exceeds the imports?

Mr. Doskin. I would have to qualify that. There is no comparable grade. You ship export lumber, and there is no rule for prices, comparing one against the other. Just that custom and the law of supply and demand sets the price. Much too much has been said about the high prices of export business.

Mr. Talle. What is the amount of the premium price?

Mr. Doskin. You cannot compare it.

Mr. Talle. What loss of production was incurred by your stoppages?

Mr. Doskin. I have had a lot of guesses on that. We had a strike with one group and we operated with another group. Our own production fell off about 50 percent on the 25th, 26th, and 28th of September. I am guessing at my dates. The strike was over in time for us to run into our holiday situation. I cannot answer that. I have heard a billion.

Mr. Talle. I have heard that too. What is the full production capacity of your industry annually?

Mr. Doskin. It is 10,000,000,000 feet, slightly over.

Mr. Talle. You do not know what it would be for the Nation's industry?

Mr. Colgan. In 1936 it was 40 billion.

Mr. Talle. In 1936 about 40 billion feet was the total production, I understand.

Mr. Colgan. The capacity figure could be worked out.
Mr. Kilburn. I have just two questions. I would like to ask Mr. Bruce, if you were a member of this committee, would you vote to extend the Office of Price Administration beyond June 30? 

Mr. Bruce. I have not the benefit of the evidence that has been presented to you by all of the testimony that you have received from other lines of industry. If your question is general with respect to all industry——

Mr. Kilburn. Keep it to the lumber industry.

Mr. Bruce. I believe, personally, that we cannot get an industry opinion on it with the 40,000 units that we have. We are pretty well together on the prepared statement made by Mr. Colgan, the executive vice president of the National as to the main things that are the matter with our companies. I personally think we would be better off if the Office of Price Administration were to die a natural death on June 30.

Mr. Kilburn. Supposing it did die. You gave an estimate that there would be between 8½ percent and 18 percent rise in different types of lumber. Supposing it did die. What would your estimate be on the percentage of rise that would occur under a natural law?

Mr. Bruce. I am sorry. I could not hazard a guess.'

Mr. Kilburn. Would it go up 100 percent?

Mr. Bruce. I would not want to guess a figure. I think it would go up some. I am in hopes, however, that the lumber industry, which at various times has seen the reasonableness of action in the public interest, would so construct itself realizing that they were out from under price control, that they would not go wild on it. A good deal of effort would be made in that direction. We would be faced with a situation of that kind every time an industry tried to handle that kind of a situation. They would be thinking about the Department of Justice. The Department of Justice might say it was collusion on prices. I think there is a great deal of intelligence in our industry. Also, our industry has not forgotten the experience they went through during the last war when prices did get out of control. I believe they would be very conservative, at least, the responsible operators would be. What the irresponsible operators are going to do, I do not know. That is not a very good answer, I agree. You have asked me a very difficult question. If any members think they can make a better answer, I wish they would rise.

Mr. Colgan. I feel it would not go any higher than some of the prices we have heard that the retailers and constructors are paying to the truck drivers that come up here from the little mills. I think the flow of production would be so great, so soon, that there would be a competitive price on the market.

Miss Sumner. Why would it be less? A man who risks a criminal sentence is going to charge more than a man who has a premarket supply and demand situation.

Mr. Colgan. I feel a great majority of it would be less. I know that some of the big producers would not raise it higher than the advisory committee is asking now. Some of them would raise it less.

Mr. Brumbaugh. Is there any representative of the Northern Lumber Manufacturers Association present?

Mr. Colgan. Mr. Roderick has not been with this committee now. He is here in audience.

Mr. Brumbaugh. I am interested in the sawmill business myself. We are down from seven mills in about 1941 to two mills now. Since
the first of the year, we have lost money. I feel that I am well
qualified to state what you gentlemen are bringing before this com-
mittee is true and correct. The situation has to be corrected. In other
words, the lumber business is so complicated, if they were about their
own problems, they can do it on a profitable basis and keep prices
where they are. As it is, you will now keep certain grades off the
market that you could make a profit on.

Mr. COLGAN. That is correct.

Mr. MONROE. Let the record show that Congressman White of
Idaho appeared on behalf of the lumber industry of his state, and he
will make his full statement at such time as members of Congress
appear to testify.

We thank you gentlemen very much for your testimony. We
appreciate your staying until this late hour.

The hour is very late. We have some gentlemen here who have
been waiting quite patiently. Please come to order, gentlemen, so we
may proceed with the testimony they have to offer.

STATEMENT OF LOUIS S. BING, PAST PRESIDENT OF THE
NATIONAL RETAIL FURNITURE ASSOCIATION

Mr. BING. My name is Louis S. Bing, Jr. I am from Cleveland,
Ohio. We would not hold you over at this late hour, but, unfortu-
ately, all of our committee is from out of town. We have all
arranged for transportation home this evening. We must be back
in our cities tomorrow.

We have prepared a formal statement. I shall review some of the
high spots of it in as brief a time as is possible so we can develop our
story to you and have time for any questions you have. We are pre-
pared to answer them. I shall not keep you very long with my
statement.

My company is the Bing Furniture Co. in Cleveland, Ohio. It is a
medium sized retail furniture store. Other members on my committee
are Mr. M. I. Behrens of Ludwig Baumann & Co.; Mr. W. E. S.
Griswold, Jr., of W. & J. Sloane Co. They operate stores, in New
York and Washington and also in several cities on the west coast;
Mr. J. Hudson Huffard, of Bluefield, Va., and Mr. L. J. Heer, our
vice president in charge of our Washington office.

We all speak to you representing the National Retail Furniture
Association which comprises 7,000 retail furniture stores doing about
80 percent of the retail furniture volume of the United States. Our
presentation in our formal statement to you represents the vote, the
vast majority vote of our board of directors' meeting in Chicago in
January and after a poll and an analysis of the opinions of our 7,000
members.

A definite minority of our members were opposed to this majority
report, and would have been in favor of an immediate suspension of
the Office of Price Administration price control if they could come
and speak for themselves.

We are filing a formal brief with you which is the result of the
preparation and words of those who have come to the committee and
who are speaking to you this evening. We wish to present for the
National Retail Furniture Association a statement that we are in
favor of continued price control through the first quarter of 1947 with
the following modifications which are the result of our own operating experience as retail merchants.

For the past 4 or 5 years our contacts with the Office of Price Administration have been on a friendly and pleasant basis. We wish to give official testimony to the success of the Office of Price Administration in controlling prices and the economic life of this country in a large way. They had a difficult problem which they had to face in handling the price situation in these trying times of war, and more recently, of reconversion. In a large measure, we pay tribute to the success of the Office of Price Administration.

On many specific occasions, relating to our own operating problem, our own operating details, we have differed from them and we have wasted our opinion regarding these operating details directly and specifically to the Office of Price Administration.

However, speaking of the general economy in this country, many merchants in the furniture trade remember the terrific boom of prices and inflation from 1919 through 1921 and also the resulting depression. We do not wish to be a party to the encouragement of a repetition of such a rise of price inflation followed by a destructive depression.

We feel it is our responsibility to present to you a list of what we believe to be practical and constructive suggestions and revisions that should be added to the Office of Price Administration regulations to protect the interest of the retail furniture merchants and their customers who represent the home owners and the population of this country.

First, we recommend a prompt correction of the unbalanced price control below the wholesale level at which we buy for retail resale.

You have just heard a presentation of the problems of the lumber industry with which we are completely aware and which is retarding the production of furniture for our stores and for our customers. A similar situation exists, to our knowledge, in the textile trade, in the radio trade, and other trades, which is a bottleneck below the level at which we buy the goods for our stores.

Secondly, we recommend a modification of the industry earnings standard which has become an official policy of the Office of Price Administration. Specifically, we recommend that a choice be given of the earning performance of the best 3 years of the period 1936 through 1941 and also a number of other technical changes relating to the computation of the base of capital, the percentage of earnings, and so forth, to allow for the growth and expansion of our business so that we are modified as to our earnings standards but given sufficient latitude to add to capital for expansion.

Third, we believe in a modification of cost absorption at the retail level to make it more realistic. Manufacturers are all working for price relief in their own trades and for their own factory products, and the retail trades cannot stand the complete burden of price absorption or, as it is more popularly called, the retail squeeze. We also must face new higher wages in our own stores. And, in that regard, a higher wage scale for the country affects us doubly. First, through our own increased wages and our own higher cost of operation, and secondly, through the higher price of manufactured products sold to us because they, too, must pay higher wages.
Fourth, we recommend that there be made a restudy of the problem of low-priced merchandise. The Office of Price Administration is, in almost all classifications, trying desperately to provide a steady flow of merchandise at low-price ranges for low-earning consumers; but unfortunately many of their policies tend to the distortion of price and production and distribution which does not bring about the result which they are trying to achieve in the marketing of low-price merchandise.

Fifth, we recommend a clearly defined policy and schedule of de-control by the Office of Price Administration as fast as production reaches levels so that merchandise can find its own legitimate price level on a competitive basis.

Sixth, we recommend a program of individual hardship relief for the retail trades under the Office of Price Administration regulations. At present relief is produced for manufacturing establishments on a separate appeal basis, but no relief is provided for the regulations of the Office of Price Administration governing the retail trade.

Seventh, we recommend the elimination of individual inequities and discrimination as an allowance for error in the calculation of retail prices. To mention two out of several well-known discriminations and inequalities, I would mention the fact that under our retail price formula for the pricing of home furnishings there is no allowance made for freight differentials, which has been a definite and a distinct burden particularly on the west-coast stores, and also one of the inequities is the reticketing of certain home merchandise where that has never been priced the same in all stores. In some cases reticketing conforms to the established wholesale and retail pattern, but the Office of Price Administration for convenience has also selected a number of other items customarily sold at different prices in different establishments and in different parts of the country, and has established a single, uniform retail price.

Also let me add at this time that we would recommend strongly that the Office of Price Administration find a more moderate technique of endorsement for those rather numerous errors in retail prices that are inevitable in a trade which has hundreds of millions of transactions each week and each month, and that the harsh method of law enforcement be not used in the number of errors which come about through technical errors or mechanical errors or in a number of other ways unintentionally in the retail stores.

In conclusion let me say that we of the retail furniture trade feel very keenly our responsibility in the postwar world for the expansion of production and distribution. All factories and producers are aiming at a vast increase in their productive capacity and in the marketing of their product.

We of the retail end must be encouraged by Government agencies so that we, too, can do our share of distributing a mass product to a mass market.

Most of the retail furniture stores of this country are individually owned and individually operated. In most cases the furniture merchant is a part and parcel of his community. When we speak for the retail furniture trade I think we speak for a trade which lives closely with its customers and with the consumers of this country. We shall be pleased, if you wish, to answer any questions.
Also let me say at this time if in the future we can be of any assistance to your committee in preparing statistical or other information, our Washington office is at your service if you command.

I would like to file now our formal statement.

STATEMENT TO HOUSE BANKING AND CURRENCY COMMITTEE BY THE NATIONAL RETAIL FURNITURE ASSOCIATION, PRESENTED AT HEARING MARCH 20, 1946

We deeply appreciate the opportunity afforded by the committee to the National Retail Furniture Association to present the views of the retail home-furnishings industry on the Stabilization Act.

Our testimony is presented here today on behalf of more than 7,000 furniture stores, large and small, from all sections of the Nation, urban and country, who account for approximately 80 percent of the total furniture store sales volume. The recommendations we are about to make represent the consensus of the vast majority in our industry, and our industry is one that has had a great deal of experience with price control from its very inception. Because some of our merchandise forms an important element in the cost of living, we have been subject to price control from the very start. Perhaps to a greater degree than most industries, we have been subjected to the cost-absorption policy in the major phases of our business. As a matter of fact, Stabilization Director Bowles recognizes this for in his answers on wage-price questions issued March 11, 1946, he said, and I quote:

"* * * OPA has already required absorption * * * in many fields to the full extent permitted by its standards, for example, * * * household furniture * * * and * * * a number of household appliances * * *."

Throughout these years of control, the retail furniture industry has at all times exerted every effort to cooperate with OPA in the development of regulations. We are thoroughly aware, too, of the great complexities of the problems which have beset OPA, and of the substantially sincere and valiant efforts which the agency has made to solve them. We on our side have endeavored to render a helpful, constructive service in the belief that, in comparison with uncurbed inflation, some form of price control was by far the lesser of two evils. Our appearance today, therefore, comes after considerable experience with the problem and it is in the interest of adapting present-day regulations to the realities of today. We wish to speak concretely, not in vague academic terms, not in fear of what may or may not happen, but in the clear language of an industry that has had the experience, that has devoted careful study to the problem, and that has demonstrated a desire to cooperate in every way possible toward solving a common problem facing our Nation right now.

1. Renewal of the Stabilization Act.—The National Retail Furniture Association favors extension of the Price Stabilization Act for 1 year from now, or until March 31, 1947, on the condition that certain moderate changes are written into the act by amendment.

If the act were allowed to expire this coming June, the general price structure might undergo violent and drastic disruptions which ultimately could cause serious financial damage to the entire domestic economy.

On the other hand, to continue the act without modification would perpetuate a body of regulations that in many cases bears little relation to circumstances today. Despite existing amendments to OPA regulations, many basic policies now in effect were conceived 3 or 4 years ago when the economy was under stress of war and when conditions were entirely different. We believe that the Congress must now remove from the act the absolescence that exists in it today and must provide industry with a workable, practical system of control geared to present circumstances.

It is for this reason, therefore, that we advocate extension of the act on the condition that certain changes are simultaneously provided.

2. Encourage production.—At this relatively late stage of your committee's inquiry, there is no need of dwelling long on a subject with which we feel sure you are most familiar, and that is the retarding effect on production of overly tight price controls. If lack of production is in part the effect of certain phases of price control, we would prefer to dwell on causes. Our testimony on behalf of the Nation's furniture stores, however, would be incomplete and inaccurate if we failed to bring to the committee's attention a very serious and increasingly alarming situation that exists in the field of our basic raw material: Lumber.
The facts are that lumber sources are telling furniture manufacturers that, under present price ceilings, they can no longer supply raw lumber for furniture end-use purposes. In other words, despite the absorption required, which Mr. Bowles has said represents the limit which retailers can undertake, the end retail price of furniture is not sufficient to support the necessary costs at all prior levels and it does not provide an incentive to the production of the basic raw material in our industry. Parallel conditions exist in the fields of textiles, houseware, radios, and major electrical appliances.

It is hardly within our province to suggest techniques of control at the level of the raw material producer or even the manufacturer, but we submit that it is not in the interest of consumers, nor is it anti-inflationary, to hold prices to an academic line that prevents production from reaching the volume that would promptly fulfill the demand and reduce prices. It is even more aggravating to our trade when we realize that the present form of rigid price control is driving our basic raw material from furniture end-use to other channels which happen to offer greater incentives. We urgently request prompt, careful consideration of this alarming situation in order that this dangerous case of maldistribution may be corrected without delay.

3. Industry earnings standard.—We see no merit for the economy or for consumers in adhering rigidly, for cost absorption purposes, to the deflationary standards of earnings on net worth equivalent to the average of the years 1936–39. These particular years are not sacred in our economic history. They were not typical of any particular situation. And they bear even less relationship to current conditions than they did when they were first established as a base period. In many cases some of those years were loss years, and to use unadjusted loss-year figures of an industry works an undue hardship on the efficient operator today.

We believe, therefore, that the Congress should provide mandatory flexibility in applying standards of a base period by the use of the best 3 out of the 6 years, 1936–41, in determining trade-wide profitability.

Hitherto, the 1936–39 standard has been so rigidly used that any potential increase in earnings over that base period average has been looked at askance and with some misgivings by OPA. We submit that conditions today justify and require a change in standards. The volume of business is greater, operating costs are higher, and the entire tempo of commerce is greatly accelerated. Industry must be in a position to change with these rapid developments. A rigid adherence to standards of the last decade will not permit business to adapt itself to these changes and will not provide the larger retail distribution machinery that will be required to market the Nation’s increased industrial output. No administrative bureau charged with the responsibility that is now OPA’s can move quickly enough to stave off severe losses that may accrue due to increased wage rates, cost of materials, and other factors. For all these reasons, special study and consideration must be given in computing earnings, capital base, and percentages in establishing the industry earnings standard. We, therefore, urge once again that the act provide maximum possible flexibility.

At the moment, the use of the best 3 out of the 6 years, 1936–41, appears desirable in most respects, but we believe that a subsequent change even in these years should be permitted if circumstances later this year warrant a further change.

4. Cost absorption.—Judging our own industry by any standards, apparently Mr. Bowles and we are in agreement, as mentioned before, that we are not in a position to absorb any further cost increases. But in practice the process is never ending. On the theory that they play only a small part in our volume, we have recently been required to absorb the entire increases granted manufacturers of linoleum, metal furniture, and numerous other items. So there is urgent necessity for a realistic, clear-cut statement of policy which will once and for all remove cost absorption from the endless realm of argument and debate we have experienced to date. Therefore, we believe that no seller should be compelled to sell any individual product at a price which does not reflect at least his base period dollar margin.

We hold this opinion because we contend that the current obstructions to production and distribution are caused by distortions that have unnecessarily been created in the delicate balance between current costs and selling prices. While we hold no brief that a seller should be permitted always to realize a profit on increased costs, we do maintain that a seller should be permitted to pass through the dollar-and-cents amount of cost increases entering pro rata into the product or services he supplies when such increases reduce his actual dollar-and-cents profits below the base period.
This technique represents substantial absorption to the seller who must accept lower gross margins, higher direct costs of sales commissions, warehousing, occupancy charges related to volume, insurance, and many other items of expense. But it is simple and understandable and so will engender dealer cooperation, now as always, so important to the success of price control.

5. Low-priced merchandise.—OPA has developed a number of programs aimed at stimulating the production and distribution of lower price line goods, but once again OPA adheres to a base period that now has little relationship to present circumstances. The latest OPA order in furniture grants to manufacturers certain additional price incentives for producing essential low-end items and a graduated scale of increases favoring the lower brackets of prices in effect in March 1942. The plain facts are that March 1942 represented no ideal situation at that time, that the vast changes in the past 4 years have long since destroyed any present-day relationship with March 1942, and that the actual adjustments provided by the present order are unrealistic. As a result, furniture stores are still not in a position to offer really low-priced furniture because manufacturers cannot afford to produce goods in these brackets.

We urge that the subject of low-priced merchandise be completely restudied, that the low-end cut-off points be liberalized, that present cost-absorption incentives be removed from low-priced merchandise, and that some year having a more direct relationship to March 1946 as used as a base period.

6. Decontrol.—The Stabilization Director has assured you that decontrol as speedily as possible is his objective. We realize, however, that the transition from tight wartime controls to a free economy cannot be achieved overnight and that some interim machinery must be provided. We conclude, therefore, that in this transition period Congress should provide for a system of progressively more selective control for a limited time, with over-all decontrol as the ultimate objective. The mere existence of such a policy, spelled out in the act, is, in our opinion, a primary requirement for the resumption of normal production and distribution.

Essentially, the real guide to decontrol must be business judgment, carefully exercised between business and government. We propose, therefore, that the Congress state decontrol as a policy objective to the Administrator, that the Administrator continue to be granted discretionary authority, within limits, necessary for the proper discharge of his responsibilities, and that the Administrator be required to consult with, and to give due consideration to the recommendations of, industry advisory committees. The Administrator should not possess authority to overrule his properly selected advisors without first making available to those concerned and to Congress, if need be, all the pertinent facts on which he based his decision. In order to provide the required mechanics for this all-important phase of the transition period, we urge (1) the appointment of a congressional committee to conduct continuing investigation of price decontrol progress; and (2) a mandatory bimonthly report from the Administrator to such committee on the progress of decontrol, including a listing of all cases in which a majority of any industry advisory committee present at an official meeting had been overruled on affirmative decontrol recommendations, together with supporting reasons for failure to follow affirmative counsel.

In our opinion, such a device would create a practical means for careful study, forthright action, and a prompt return to a free economic system.

7. Individual hardship relief.—Present OPA regulations do not permit any relief to an individual retailer who is placed in an impossible operating position. This is not true of manufacturers, and the distinction is most unjust. OPA contends that the administrative difficulties involved in granting relief to retailers, comparable to that received by manufacturers, preclude the proposition. We submit that no administrative situation, and no regulations based on average performance, should be permitted if they force a citizen to operate at a loss without recourse to some form of relief escape machinery.

The only action taken resembling relief in our trade is an order which establishes the cost of doing business as a floor for margins in certain goods. It is interesting to note that OPA told Congress in March 1945 that this so-called expense floor regulation would be issued, that it was not issued until February 1946, that it has been necessary to revise the order to conform it to practical trade conditions, that the revised order is not yet released, and that it is now promised in a few days. Further, a preliminary estimate of the order indicates that its involved calculations may make its use impossible by the average small dealer.
Confronted as we are with situations hardly fair or equitable to retailers, with prolonged delays in relief orders for the general trade, and with all the uncertainties inherent in the new wage-price policy, we believe it only right that the retail trades be provided access to individual relief processes.

8. Inequities to individuals.—An inevitable outcome of a highly complex system of price control is the unintentional discrimination or inequity worked upon individuals.

Here are some examples:

In the past, OPA has determined upon preticketing certain items in our trade which never before were sold at a uniform, established retail price. This action has resulted in undue hardship in a large number of cases. For the future, we strongly recommend eliminating the preticketing of any products not normally priced for sale at retail by the manufacturer.

In another instance, the technicalities of a particular regulation discriminate against stores that are far distant from their sources of supply because of the manner in which the item of freight has been handled.

In the field of enforcement and compliance, perfectly plausible, unintentional errors in pricing by a retailer have been followed by prolonged investigations, unfair publicity, and entirely unreasonable prosecution of minor violations. While we support wholeheartedly legal action instituted in cases of serious or willful violation, and while we do not suggest any reduction of valid enforcement or compliance activity, we do submit that there is now no adequate or reasonable protection against unduly harsh or injurious handling of unintentional violations of a minor nature. Among the 7,000 retailers we represent, there is a large number of small store owners to whom the proper interpretation and application of this vast body of economic regulations represents a very serious problem. We propose that the act should direct that noncompliance with regulations of a nonwillful nature be first dealt with by private interview, with a reasonable time allowed for correction. On price cases, some margin for error should be allowed, enabling those subject to control to correct mistakes or to make refunds without legal involvements before OPA institutes formal enforcement action or publicizes proceedings.

9. Conclusion.—To summarize our specific recommendations—

1. On the condition that certain reasonable modifications are provided by amendment, we favor extension of the Price Stabilization Act for a limited period, preferably not to exceed the first quarter of 1947.

2. We urge prompt correction of unbalanced price controls which are curtailing production of lumber and other basic raw materials of our trade, or are diverting them from furniture end-use to other channels.

3. We urge modification of the industry earnings standard to provide for greater flexibility, to adapt it to current conditions, and to establish certain limits.

4. We urge that OPA's cost-absorption policy be corrected to remove current obstructions to normal production and distribution.

5. We urge a complete restudy of the low-priced merchandise problem.

6. We urge the establishment of a clearly defined policy of decontrol and other safeguards.

7. We urge provision for individual hardship relief to the retail trade.

8. We urge elimination of individual inequities and discriminations and the allowance for a margin of error.

Respectfully submitted.

NATIONAL RETAIL FURNITURE ASSOCIATION,
By W. E. S. GRISWOLD, JR.
M. I. BEHRENS, JR.
L. S. BING, JR.

Mr. Monroney. Thank you very much, Mr. Bing.
Mr. Griswold. Did you have a statement?

STATEMENT OF W. E. S. GRISWOLD, JR., VICE PRESIDENT AT LARGE, NATIONAL RETAIL FURNITURE ASSOCIATION

Mr. Griswold. My name is William Griswold. I am from New York City. There is one little contribution which I wish to make. It is late. I hesitate to keep anyone any longer than is necessary. The formal statement which we have prepared here is a sincere attempt
to present our ideas of what will make price control in our industry work more effectively. We are in between the squeeze of requirements of manufacturers and the limitations of customers. We are very keenly aware of what it would mean to have price control go out the window. Having worked also very closely over the past few years with the Office of Price Administration, we have had sufficient experience to believe that with more flexibility and a little more realistic approach to the problem that we face, that many of the obstructions and handicaps under which our industry operates can be corrected and cured. It is a fairly straight matter that I want to inject here.

It is completely supported by the factual statements we have made and the concrete recommendations we have presented. If we can have the same degree of cooperation and understanding in attempting these few recommendations I really believe that many problems affecting thousands of retailers can be eliminated. I think I better stop at this time. I would like to say I, personally, and I know our group appreciates your staying on here. I hope that the brief which we carefully prepared and spent hours talking about and studying will receive consideration because it is our main speech. We are hours late now.

Mr. Bing. May I take this opportunity to tell you that we will mail a separate copy of our brief to each member of the committee?

Mr. Monroney. Thank you, Mr. Behrens.

Mr. Behrens. I agree with everything Mr. Griswold said. It is very late.

Mr. Monroney. Tell these men about this dollar pass through. I think that will help more in stimulating a production at a smaller cost to the consumer than anything I have discussed. Mr. Behrens has made a study of it. He understands it very well. I believe it offers one of the solutions for this trouble.

Mr. Behrens. My name is M. I. Behrens. I am vice president and general manager of the Ludwig Baumann Co.

I would like to say that in the brief itself we have worked out, concrete suggestions that we think are practicable to solve one of the problems. I would like to mention one of them before I talk about the dollar pass through because Louis Bing did not touch on it.

One of the most difficult problems of all is the problem of decontrol. We spent literally hours trying to put out some kind of formula because there are a lot of people in our trade and in other trades, too, who feel that if some kind of rules are not set up, there will not be any decontrol.

I can summarize, quickly, the result of our deliberations by saying we could not find any formula. We do not believe it is possible to write such a formula into a law even if you could find one.

One practical thought did occur to us. It is our suggestion that a congressional committee should be appointed with the task of making a continuing study of the decontrol problem, and that the price or the stabilization administrator should be required to report to that committee at least once every couple of months as to the progress of decontrol.

We feel, further, that the Congress should say to the Administrator that he be required to consult his industry advisory committees on the problem of decontrol. And where he does not see fit to be
It seems to us that that presented a possible solution to this problem which would obviate the necessity of setting up a precise decontrol formula at this time.

Mr. Monroney. It would be almost impossible, in other words, to strait jacket any agency with an automatic decontrol. It has to be a surgeon's operation at the right time.

Mr. Behrens. Your analogy is very good. He has to cut out what he finds has to be cut out at the time he sees it and not try to prejudge it 1 month or 6 months or longer in advance.

I would agree with that. Something ought to be set up to study the problem so it does not just run by itself.

The dollar pass through which Congressman Monroney has mentioned is not really just something of my own. I did not originate it. It was presented to the Office of Price Administration as far back as 15 or 16 months ago, to my positive knowledge, by a group representing all of the retailing business. I think some 400,000 stores were represented at that meeting. The more I thought about it, however, in these ensuing months, the less I can understand why it has not been adopted. It is so simple. It is so easy. It offers a solution to so many problems.

The basic problem of price control, the problems which subsidies were created to solve, as a matter of fact, is that an increase cost, as a primary level, is pyramided normally throughout the economy with a constant percentage of profit added to it. That is in any hypothetical example that you wanted to take, if you have an increase of 5 cents per unit in the raw-material cost, by the time it gets through the process and/or the manufacturer and the wholesaler and the retailer, it has been multiplied many times. That is inflationary.

The dollar pass through says very simply we cannot ask people to absorb too much more. That is, if a man were accustomed to make, in his base period back before the war, 50 cents on a given product; that man is down where he is only making 42 cents on that product now. We cannot cut him further to 38, 36, and 32 cents. He has just about reached his limit.

The dollar pass through says, in fact, let us let him go on making that 42 cents to which we have now cut him. In that way, if he were paying a dollar for an article and he is now selling it for $1.42 and the Office of Price Administration decides that his source of supply has to be given $1.10 for that article, to keep up production, let him not sell it for more than $1.52. That is, take the 10 cents, and only the 10 cents, and add it to his price to the people who buy from him. That is all there is to the dollar pass through.

I have to say one word more. We have a fairly large operation for the furniture business. The Office of Price Administration has promulgated an extension for retailers in many fields. I believe I understand the new order will be quite similar in general outline to the original order. Some technical changes are present which had to be made. We have a pretty large organization for a furniture business. It took us a little over 30 days to work out the formulas for our business under this industry. That was not one person working. We never
had less than two on any one of those 30 days. At times, we had as many as half a dozen. Sometimes we even had 8 or 10. I believe they kept a count for me. One day they had about a dozen people just working on the application of these formulas to our business and the production which we carry.

I submit, gentlemen, it looks fine on paper. I think that in our shop we can work it out and make it work for us. But, I ask you what the little retailer around the country, the little furniture dealer is going to do with that order if it took us anywhere from two to a dozen comptometer operators working on it, 30 days to work it out? This is fair. It is psychologically sound. It is a solution to a lot of problems.

Mr. Monroney, I thank you. Mr. Huffard?

Mr. Huffard. My name is J. Hudson Huffard. I am from Bluefield, Va. I was not originally cast in this show. I came in after the rehearsal. I am opposed to Government control during peace-time. I think it wise to continue with modifications the price control authority for a reasonable length of time. Until you have the logical situation of supply meeting demand. Until then I think we need to keep in mind that price control, per se, and the need for it, is only part of this inflation we already have and will continue to be only a part of the inflation we are going to get.

There are a lot of other factors, and most of them are well within the control of the Government, and, properly so. They will continue to effect the rate and extent of this inflation.

I do not believe we have or will have the productive capacity in this country with or without controls to create the volume of business in national income to service the debt we have and reach the minimum level of employment which we will need to have.

As one indication, apropos of the lumber industry, there was an offer made me today: A furniture retailer, six bedroom suites for each car of lumber I can get them. Whether that is black market or whatever it is, it is a sad commentary on the so-called ethics that we have.

Mr. Talle. Mr. Behrens, I have had complaints from furniture manufacturers that they cannot get the hardwood which they need for making good furniture.

Have you had that difficulty?

Mr. Behrens. Yes, sir. I made rather an extensive report on that subject. I phrased that badly. I did not make the report. Our buyers make trips through the various areas where furniture is made. We have always done that. It is more necessary now than ever. The head of our furniture department has been with us a matter of over 25 years. I think he is one of the most respected and well known individuals in that capacity in the whole trade. His name is almost a household word in the furniture business. He made this trip. When we got back, he made a short report to me. He finds that the lumber situation has never been so acute and the manufacturers tell him that 75 percent of the trouble is due to prices; that the lumber mills cannot supply them with lumber at the prices they are allowed to charge.

He has some pretty fantastic stories to tell about factories accepting loads of lumber. Of course, this is only hearsay. He did not see it. They told him stories about accepting loads of lumber graded as No. 1
common, paying the price for No. 1 common when, in fact, the lumber was something quite different.

He also related the story that Mr. Huffard just told. Some factories told him if we could supply him with lumber, they would supply us with bedroom or dining room furniture. He saw a letter which had been written by one large lumber mill to one factory which stated that they were not going to saw lumber for the furniture industry any longer because they could not afford to do it. Those are all stories. We are not lumbermen. We are not manufacturers. We do not know whether they are true. That is what we are told.

Mr. Tallie. If I may turn to Mr. Griswold, you used the words "a more realistic approach is needed." Your remedy, in that case, would be what?

Mr. Griswold. We try to dwell on this subject of encouraging this production that happens to be in the second chapter. We believe that it is a question of price. The testimony given just ahead of us was ample demonstration of that. My company also happens to be in the manufacturing business so we have little experience on this subject. It is a question of price plus quality in that a furniture manufacturer has to accept a great deal of lumber that is eminently unsatisfactory, although he may get a carload which is good, though it is exceedingly high. He is really up against it. So far as we know, as an association here before this committee, we do not feel we should stand and recommend what action should not be taken at levels ahead of our retail trade. I think it is pretty definitely a difficult question.

Does that answer the question?

Mr. Tallie. Yes. I believe it does. As far as following the advice of the advisory industry committees is concerned, I have had some complaints about that. Members of those committees tell me that at the outset they were not consulted at all.

Later on, when they were called in for advice, someone listened to them, but the orders and regulations were written without any regard to the advice given.

Mr. Behrens, your recommendation is that administrators should be asked reasons for not following the advice?

Mr. Behrens. We made that recommendation with special reference to decontrol. Let us see how the procedure would work. The administrator might be considering decontrol on a certain line of goods. He would summon the industry advisory committee. Let us suppose that committee recommended decontrol on that line of goods. Let us suppose, further, that the Administrator decided that the time was not right for decontrol on those goods. Then we feel that the committee and also this congressional committee which we have suggested should be furnished with the Administrator's reason for disregarding the advice of the industry advisory committee.

Mr. Tallie. Do you know anything about the second-hand furniture market?

Mr. Behrens. No.

Mr. Tallie. I wonder if extremely effective advertisers like Mr. Bowles got busy and gave a tremendous push to the demand side how long it would take your production to catch up with your demand?

Mr. Griswold. Are you inferring demand is lagging now?
Mr. Talle. No. I am saying it is an uncertain thing. In fact, the wants of the people are insatiable.

Mr. Griswold. It has been so constantly. I can't remember when it was not. Demand has been so constant that I cannot remember when it was not. It has been so for several years.

Mr. Behrens. The supply side of the furniture, in bedroom and dining room furniture, it would seem, at the present time, to be substantially one of lumber. The labor situation, they tell us, is not acute. They certainly have plenty of machinery to make a whole lot more furniture than they are making at the present time.

Mr. Talle. A lot of people have worn out their furniture. They will turn their old furniture over.

Mr. Griswold. That, probably, is true.

Mr. Talle. I think this matter of demand is something that is not a fixed thing. When we talk of supply catching up with demand, that demand thing is not a fixed matter. Over a period of years you can determine pretty well what the future is going to be; however, do you not think it would be hard to determine now, in view of the pent-up demand, such conditions?

Mr. Bing. I do not know that you can ever measure correctly enough supply and demand as a measure of decontrol. However, there are certain production figures as to the industry, and with non-performance, where any branch of the industry reaches average production; then, at that point, decontrol should be looked into and checked very closely for that part of the industry. It would be good to find as favorable a time as possible. Some of our items have been decontrolled already. Some small articles of furniture, including magazine baskets have been decontrolled. Also, most furniture stores handle toys. Toys were decontrolled with the exception of juvenile furniture and wheel goods. I was at a toy market in New York last week. I looked at it rather thoroughly. I would say that the result on the price was rather slight. Most things were kept at the same price. A few things went up very moderately, and a few things went down in price.

Mr. Talle. Those toys were very low grade?

Mr. Bing. The toys to be sold for the next year are not exactly the same as those that were sold in the past 2 or 3 years. Most of it drifted into paper.

Mr. Talle. Just fragile paper or wood things?

Mr. Bing. Yes. For next year, there will be the return of steel goods on the market.

Mr. Talle. I should think the advisory committee of your industry would be useful to the Administrator in determining the proper time to decontrol.

Mr. Bing. Our advisory committee has met with the Office of Price Administration officials for a period of years. On some items we have had a great many meetings before the Office of Price Administration handed down its regulations. On some we have had rather perfunctory meetings and on some items, we have had no meetings. In most of those later cases, the pattern had been set by negotiations on other items.

Mr. Behrens. We were a little shocked when we saw Mr. Bowles' questions and answers on the wage-price policy because he said there,
very distinctly that home furnishings had reached about the limit of absorptive capacity. At the same time, we received a squeeze on linoleum, and another one on metal furniture.

Mr. Monroney. I would like to say, for the record, that the furniture industry was the first to take any cost absorption and to take it willingly and without protest for a period of about a year and a half.

Mr. Bing. There were two items on which the furniture business was a rather outstanding example. The first was a reticketing of the bedspring which was one of the very first items where the Office of Price Administration established a uniform price for all operators in the industry. We have the mail-order houses, the retail department stores, and the retail furniture stores. Customarily, the prices are not the same. The price of operation is not the same. But, over our vigorous protest, the Office of Price Administration put out the bedspring at a single price. Then, I believe, it was in December 1943, when we were the first industry that was given an all-over retail price freeze as Congressman Monroney says, that was a 5 percent all-over price freeze on furniture.

Mr. Monroney. Do you have any further questions? Mr. Riley represents a big furniture district. Have you any questions?

Mr. Riley. This has been one of the most practical and constructive presentations that I think has been made during this hearing. I would also like to compliment you gentlemen on your attitude. It is very refreshing.

Mr. Monroney. I wish every member of the committee would have been here to hear the kind words spoken about the Office of Price Administration which you gentlemen in your testimony recognized and understood. So much of the testimony we hear is confined to a very narrow viewpoint of that particular industry's operation and the hardships they are undergoing without any viewpoint of the results.

We want to thank you for your patience and the willingness to come down here and give the benefit of your views. We will study the brief you have submitted.

Mr. Bing. May I thank the chairman and the remaining members for their interest? We appreciate your sitting so late.

Mr. Monroney. We will adjourn until 10 o'clock tomorrow morning.

(Thereupon, at 7 p. m., the hearing adjourned until the following day, Thursday, March 21, 1946. at 10 a. m.)
THURSDAY, MARCH 21, 1946

H. R. 472

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

THURSDAY, MARCH 21, 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 hear from the Producers' Council. Mr. Whitlock:

STATEMENT OF DOUGLAS WHITLOCK, CHAIRMAN, ADVISORY BOARD, THE PRODUCERS' COUNCIL, INC.

Mr. WHITLOCK. Mr. Chairman, my name is Douglas Whitlock, and I appear as chairman of the advisory board of the Producers' Council.

The Producers' Council is a national organization of building-products manufacturers. The council's membership is composed of about 80 concerns manufacturing building materials and equipment, together with 20 national trade associations representing manufacturers of materials and equipment.

The council is vitally interested in legislation affecting the operation of the Office of Price Administration because the Office of Price Administration policies have been directly responsible for delaying the construction of homes for veterans and for retarding other types of essential construction. By restricting the output of building products, the Office of Price Administration not only has reduced the value of all types of construction but also has directly and substantially increased the cost of building.

However, the council at this time is not asking that all price controls over building materials and equipment be removed immediately. We recognize that the supply of some products is so much less than the demand that the sudden removal of all price controls might have undesirable consequences during the period required for production to catch up with demand.

On the other hand, we do ask that Congress take prompt and effective steps to make certain that the policies of the Office of Price Administration will be so directed in the future that the production of building materials can be increased sufficiently to meet the pressing need existing today.

During the war the Office of Price Administration endeavored to accomplish two purposes: First, to prevent inflation by regulating...
sales prices; and, second, to restrict the use of critical materials and labor by discouraging the production of nonessential goods.

The war is over. Industry now faces the complex problem of reviving its peacetime production. There still is need to prevent runaway inflation, but there no longer is any need or any excuse for trying to discourage the production of nonwar goods, yet the Office of Price Administration seems not to recognize that fact. The Office of Price Administration does not realize that many of the very items which were least wanted during the war are in greatest demand and are most urgently needed in peacetime.

We urge that Congress use every legislative device at its command to make it mandatory on the Office of Price Administration to adopt policies which will permit maximum production of currently scarce civilian products, including those building products needed to build low-cost homes for veterans.

Since before the end of the war, the Office of Price Administration has failed in two counts to discharge its responsibilities so far as the production of building materials and equipment is concerned. First, it has failed to approve certain fully justified ceiling-price increases needed to permit manufacturers of building products to make wage adjustments which are required to attract more labor to their plants. Second, it has failed to adjust price ceilings on certain building products which are essential to home construction but which cannot be produced in volume now because present ceilings permit no profit.

In the case of some items, inadequate price adjustments have been made. In the case of other building products, 4 to 6 months or more have been lost before the Office of Price Administration finally has granted necessary ceiling-price increases.

Specifically, 6 months were required to get an increase in brick prices; 6 months elapsed before manufacturers of clay sewer pipe obtained necessary increases; 3 to 4 months passed before the Office of Price Administration made its decision with respect to ceilings on enameled plumbing fixtures; essential price adjustments on coal furnaces and air conditioners have been pending for 5 months without decision; 18 months were required to induce the Office of Price Administration to adjust ceilings on millwork, and 5 months passed in the case of window screens.

These examples can be multiplied several times, demonstrating beyond question that the Office of Price Administration has been consistently slow and reluctant to take action. Each major request for ceiling-price adjustments requires endless argument, telephoning, surveying, and discussion. And each month of delay means fewer homes built for veterans, fewer schools and hospitals.

The Office of Price Administration waits 4 to 6 months or more and then grudgingly grants the requests which have been pending, indicating clearly that the manufacturers were fully justified in their requests and showing with equal clarity that the fault lies with the Office of Price Administration. That agency either does not want to speed up construction or else does not have the ability to make quick decisions.

Before making any specific recommendations as to the nature of the legislation which we believe Congress should pass at this time, I should like to stress the fact that this country cannot attain full pro-
duction of building products or other goods and cannot attain full employment until price controls have been removed completely.

I repeat that the council is not asking removal of all controls at this time, but we are asking that all controls be removed at the earliest possible date.

Maximum production cannot be attained until industry is encouraged to make bold plans and to take those risks without which all-out production is impossible. If we are to have maximum production and employment, management must be able to plan with confidence that it will be free to use its full ingenuity in achieving its goals, that its plans will not suddenly be blocked by new or changing regulations.

Business is a gamble, and the odds must be favorable before stockholders and directors are willing to take long chances. New investments in plants and tools and machinery cannot and will not be made unless there is a fair chance of paying out the investment and making at least a moderate profit.

The confidence needed, if risks and long chances are to be taken, does not exist today and will not exist so long as the Federal Government is in position to change the rules of the game at any time, and on short notice. How can anyone feel free to make large new investments when the Government stands in position to wipe out all chance of profit merely by issuing a new restrictive order or lowering a ceiling price?

Take the case of the small-home builder who has the capital, the organization, the land, and the know-how to build 10 small homes for veterans. Under normal circumstances, he feels free to take the risk because if he has guessed wrong about his costs or if costs increase while the homes are being built, he can add a few dollars to his selling prices and still make a profit or at least come out even. He is willing to take these chances. Experience has taught him that with freedom of action, he can usually come out all right on the average. He may lose on his first group of homes and then make up the loss on the second group. He understands that and is willing to take the risk.

But all of that is changed when the Government controls home building. The Government can effectively prevent the builder from obtaining the few extra dollars needed to make up for a few higher costs, which may be incurred after construction starts. The decision is made by a Government employee who may be completely new to his job and without any practical experience in the building of homes.

Indeed, this new and inexperienced Government employee may prevent the builder from starting his project at all, by insisting on a selling price which will not cover costs.

Under these conditions, the only safe course for the small builder is to play safe. Either he cuts down his building program to avoid the chance of heavy loss, or else he sits back and waits for conditions to change. He cannot risk all he owns when the Government can wipe him out by an unfavorable ruling.

Take the small manufacturer, or the large manufacturer, if you wish, of a scarce building product. He has to decide whether to produce at capacity or at half of capacity, or not produce at all. The decision rests on the possibility of realizing a profit.

If he produces at capacity and if his costs rise suddenly with no change in his ceiling price, the manufacturer stands to lose heavily. He knows that in advance. He knows how exceedingly difficult it is
to get an adjustment in ceiling prices from the Office of Price Administration. The safe course, and the course which many are following of necessity, is to produce on a moderate scale, thereby running less risk of heavy loss. Profits, if any, will be smaller, but so will losses. Control forces conservatism, and conservatism does not permit all-out production.

Those are the factors which prevail while controls remain in effect, while the Government arbitrarily decides whether a businessman is to make a profit—while the government, not free competition and ingenuity, determines the fate of business.

That is why we say that controls must be eliminated completely at the earliest practical date. That is why we say that the policies of the Office of Price Administration must be flexible and sensible so long as controls remain. Past experience convinces us, without the slightest doubt, that the policies of the Office of Price Administration will not be reasonable or practical or sensible unless Congress can give the Office of Price Administration a clear and unmistakable mandate through the new legislation.

Earlier, I said that the Office of Price Administration has failed to approve many needed price increases, and thus has prevented production of critically needed building products. The time available to me here today does not permit of a detailed report on these instances, and I shall not attempt to enumerate them. Instead, I urge that your committee arrange to hear the chairmen of the Office of Price Administration industry advisory committees who have been dealing with these problems and can give you complete information.

I said also that the Office of Price Administration has failed to permit ceiling price adjustments needed to permit manufacturers to pay the higher wages required to attract additional labor to their plants. Without this additional labor, production cannot be increased. Again, I urge that the committee seek the facts from the chairmen of the Industry Advisory Committees.

If you will consult the advisory committee chairmen, you will conclude, I am sure, that the Office of Price Administration itself has been the greatest bottleneck in home building. By delay and procrastination, the Office of Price Administration already has deprived veterans of thousands of new homes. The same will be true in the future unless the policies of that agency are radically changed.

Let us look now at the results of these misguided policies which the Office of Price Administration has been following. I have said that the Office of Price Administration has retarded home building. In addition, the Office of Price Administration has increased the cost of building new homes, and the increases are substantial. In the first place, the shortage of certain building products has resulted in a vicious black market for some materials. The industry advisory committee chairmen can tell you what has happened. They can tell you about the ingenious barter system which has been set up in some places to circumvent ceiling prices.

The black market directly increases the cost of building homes. But even with a free flow of materials, there would be no need for these illegitimate transactions, and the black market soon would disappear. It exists only because of the shortage perpetuated by the Office of Price Administration.
Home-building costs are further increased by the fact that builders are compelled to buy the high-priced luxury grades of some essential home-building products. The low-priced standard lines cannot be produced because existing Office of Price Administration ceiling prices do not permit a profit on those grades. Thus, the builder, if he is to build at all, must pay far more for a luxury grade than he would have to pay for the standard grade, even after the necessary ceiling price adjustments had been made.

In simple mathematics, ceiling-price discrepancies force the builder to pay $2 for a fancy grade when he could buy the standard line for $1.20 even after a 10-percent increase in the present ceiling. Forcing builders to buy luxury building products increases the cost of building homes for veterans.

The inadequate ceiling prices which exist today in the case of some scarce products also increase the cost of home building by causing long delays in construction. The builder has to wait 10 days for brick, another week for millwork, 2 weeks for plumbing fixtures, and 10 to 12 days for electrical equipment, all because the supply is not sufficient to permit prompt arrival of materials and equipment on the job.

Meanwhile overhead continues to pile up, interest charges keep on, laborers are paid for idle time, and the cost of the home mounts higher and higher. These delays increase the cost of home building, and all of the factors just enumerated also increase the cost of all other types of essential construction.

We contend that as much as half of the recent increases in the cost of building are a direct result of these factors. We also contend that judicious increases in the ceiling prices of scarce building products would permit a saving in building cost which would be twice as great as the amount of the increases in the ceilings. In other words, the Office of Price Administration is directly responsible for much of the high cost of building today. The cost of building would drop appreciably as soon as the Office of Price Administration adjusted ceiling prices. Veterans' homes would cost less.

Among the Office of Price Administration policies to which we object in the strongest possible way is the one by which industry must agree to pay increased wages without any assurance of receiving ceiling price adjustments to compensate for the increases.

In a set of questions and answers issued by the Office for Economic Stabilization in connection with the wage and salary regulations issued March 10 by the Stabilization Director, the following question and answer appeared:

May the Office of Price Administration advise an employer who is engaged in wage negotiations what price increase he might be entitled to if he should make a certain wage increase and secure approval of it?

The answer which appears in the document is “No.”

Economic Stabilizer Bowles in a press release dated February 27 made this statement:

Under no circumstances will the Office of Price Administration set a price or promise a price adjustment in advance of a wage agreement.

In other words, a manufacturer who is faced with a demand for increased wages must agree to an increase and then, and only then, can
he attempt to secure a compensating increase in his ceiling prices to permit him to pay the higher wages.

We submit that this is a completely unrealistic policy. It means that a manufacturer first must bind himself to increased costs and then try to get fair treatment from the Office of Price Administration.

Under the Office of Price Administration policy as enunciated by Mr. Bowles, the manufacturer either must close down his plant until the increased ceiling is approved or else must pay the higher wages without a higher ceiling, perhaps incurring heavy losses, during the period required for the Office of Price Administration to reach a decision.

In actual practice, as stated previously, 4 to 6 months or 2 years are required to get these decisions in case after case. Certainly, this is not a policy calculated to speed up production of materials. Some effective means of assuring short cuts in this procedure must be found, if production is to reach the necessary increased levels. Many building-product manufacturers already are operating on so narrow a margin of profit that they cannot possibly pay higher wages without higher ceilings. And the Office of Price Administration refuses to give any assurance of bridging the gap, if increased wages are agreed to.

Moreover, the Office of Price Administration consistently refuses to raise ceilings on individual building products when they find that the company involved is making an over-all profit or if they decide that the company is likely to start making a profit. In other words, if the ceiling price on a scarce and urgently needed building product is so low that the product cannot be produced except at a loss, the Office of Price Administration gives no relief because the company is making a profit on its other lines, which may have no relation whatsoever to the building industry.

Similarly if prevailing ceiling prices permit a company to produce a high-priced luxury line at a profit and require that a low-priced standard line be produced at a loss, the Office of Price Administration will not adjust the ceiling on the standard line if they find that the company is making an over-all profit.

No company can be expected to produce goods at a loss. Congress surely does not expect that the Office of Price Administration will follow such a policy. Yet that is exactly what is happening in many cases. We urge that Congress require the Office of Price Administration to revise its policies in this respect.

The situation is critical, and building-product manufacturers will have to have some relief without delay if veterans' housing needs are to be met. We therefore are proposing for the consideration of this committee, and are urging the adoption of, a program which we believe will prevent runaway inflation and at the same time permit the free flow of building products. We are proposing, for the time being, a middle course between absolute discontinuance of controls and the intolerable conditions which manufacturers have faced in their dealings with the Office of Price Administration.

First, since the Office of Price Administration now has a mandate from Congress to fix all prices in order to accomplish an objective necessary for war, Congress must give the Office of Price Administration a new mandate to prevent runaway inflation and to accomplish the entirely different objectives of peace.
Second, instead of controlling all prices, the Office of Price Administration should be instructed to exercise control only over a limited list of scarce items where control is necessary until supply catches up with demand. The list of items to be controlled should be those which affect the cost of living, particularly those pertaining to shelter, food, and clothing. These items should be specified by Congress, and additions to the list made by the Office of Price Administration and the President should be subject to the later approval of Congress.

Third, Congress should state in the mandate that price control is temporary; that the objective is to get away from it as soon as possible and get back to price determination in the market place where governing factors are competition and the decision of the individual citizen to buy.

Fourth, Congress should prescribe a formula for fair pricing as a guide to all sellers of scarce commodities in this temporary period when demand exceeds supply.

Fifth, manufacturers or sellers of scarce commodities should submit price schedules based upon the fair price formula to the Administrator for his approval. Businessmen would thus have an incentive to price below the fair price formula to avoid rejection by the Office of Price Administration.

Sixth, the Office of Price Administration should be given power to investigate and take into Federal court, and thus bring before the bar of public opinion, those individuals who, when given a chance to exercise freedom under a prescribed formula, violate that privilege by charging more than a fair price.

Seventh, Congress should prescribe that, when supply and demand come into approximate balance on any item designated for price control, the Office of Price Administration must remove controls without undue delays, thus giving everyone an incentive to produce to the limit of capacity so as to bring about freedom from Government controls as soon as possible.

Eighth, such a new mandate from Congress should be made effective at once, instead of at the expiration date of the present act on June 30, 1946, and should instruct the Office of Price Administration to eliminate controls on a gradual basis so that all controls will end on a definite termination date fixed by Congress.

Ninth, Congress should specify that the function of the Office of Price Administration is not to fix prices but to protect the public against unfair prices and that prices on each item must be sufficient to encourage full production and hence full employment as soon as possible.

In the long run, full production—getting supply ahead of demand—is the only real preventive of runaway inflation.

The effects of the Office of Price Administration policies with respect to building products are not being felt only in the reduced volume of home building. Because of these very policies which restrict the supply of materials, the Government has found it necessary to impose limitations on other important types of construction. This means that the building of new factories needed to provide employment for veterans will be slowed down and in many cases stopped. It means that important public works will be held up for an indefinite time—all because the Office of Price Administration does not believe in
encouraging production, even when increased production will mean lower building costs and result in a reduction in current building costs which have been inflated by that agency's very policies.

The CHAIRMAN. I would like to say that there are a great number of people who have come from long distances to testify on behalf of the petroleum industry. Mr. Whitlock had asked for 15 minutes to complete his statement this morning.

Thank you, Mr. Whitlock.

Mr. KUNKEL. Do we not get any opportunity to question at all?

The CHAIRMAN. How can we? Last night at 7:30 he said if he had 15 minutes this morning he would be satisfied. If we cannot do those things, we cannot hear these witnesses.

We have a great number of witnesses who are interested in the petroleum industry and who have come from a long distance. We scheduled those people for this morning.

Mr. KUNKEL. Is Mr. Whitlock coming back or is he going to disappear without being interrogated like many of the other witnesses?

The CHAIRMAN. I do not know whether he can come back or not. We set the petroleum industry here. It was a case of either having Mr. Whitlock be heard or not be heard, and I thought he should have an opportunity to be heard. We cannot now indulge in a long cross examination or the petroleum witnesses will not be able to be heard and they have come a long way.

You may step aside.

We will now hear from the Independent Petroleum Association of America. Mr. Hardey, president.

Mr. PATMAN. Mr. Chairman, are they going to turn over the presentation to one witness?

Mr. RUSSELL BROWN. Mr. Chairman, on account of the great number of witnesses, we have tried to curtail the presentation as much as possible, and I will arrange the order of the appearances, if it is satisfactory to you, and give it to the clerk. I would like for Mr. Hardey, president of our association, to appear first.

The CHAIRMAN. Would you rather have your witnesses complete their statements and then subject themselves to interrogation?

Mr. RUSSELL BROWN. I think the witnesses should be subject to the committee on that.

Mr. PATMAN. Mr. Chairman, I suggest it be left to Mr. Russell Brown to designate the order of appearance.

The CHAIRMAN. That may be done.

Mr. RUSSELL BROWN. Thank you.

STATEMENT OF B. A. HARDEY, PRESIDENT, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

Mr. Hardey. Mr. Chairman and members of the committee, my name is B. A. Hardey. I live in Shreveport, La. I am an independent producer of oil and gas and have been engaged in this industry for more than 30 years. I am president of the Independent Petroleum Association of America, whose membership consists of independent producers of oil and gas throughout the United States.

I come before your committee today as a spokesman for the people who have produced their oil during the war just ended at depressed
prices—at prices which were below its intrinsic value and prices which were far below the cost of replacing the product produced.

It was necessary during wartime that controls be imposed on products which would assure proper distribution in the interest of conducting a war. Price controls were imposed on crude oil while at depressed levels. We have attempted continuously since the beginning of the war to have this unjust situation changed. We have presented our case many times since price control was imposed on us. We have been trying to develop the method by which the Office of Price Administration could be forced to act in accordance with the meaning and intent of the law. We do not believe that Congress ever intended that the law should be so administered as to endanger the future supply of petroleum nor to drive oil producers from business and establish a trend toward monopoly. That is the way it has worked out.

Our repeated efforts have brought no results. The Office of Price Administration has repeatedly refused to take a realistic view of our problems. This unfair attitude prevails even to this day, 8 months after VJ-day. Recent conferences with Office of Price Administration officials give us no hope that these unfair restrictions will be lifted. So, as a final resort, I come to you today, a committee of Congress, with the hope that you will consider our problem from a realistic viewpoint and extend us the relief that is necessary if we are to be able to accomplish our peacetime job. The remedy is a complete removal of price control by legislative action from petroleum and its products.

It is not my intention to burden this committee with a recitation of minute details affecting our industry, but I will ask you to consider the contents of a booklet which our association has published this week, which contains many of the facts affecting this price situation and which has been drawn up in a graphic manner which will not consume much time in analyzing.

I would like to depart from my text for a minute, Mr. Chairman, to ask if the members of the committee have been provided with a copy of this booklet.

The CHAIRMAN. Yes; it has been passed around.

Mr. HARDY. With the committee's permission, could I refer to the booklet extemporaneously and call your attention to some of the factual matter in it?

This pamphlet, Mr. Chairman, and gentlemen of the committee, was prepared very recently, issued during the last few days, by our association. The matter is factual because it has been drawn up and the contents taken from an official report by the National Crude Oil Industry's Advisory Committee and was recently submitted to the Office of Price Administration by that committee. It contains quotations from sources of official record and I would like to call the committee’s attention to some of the pertinent facts contained in that pamphlet.

I would like first to call your attention to the first page, or page 3 in the pamphlet, which shows a projected estimate by official agencies of the Government on the possible consumptive demand of petroleum and its products over a period of years beginning with 1947 and extending into 1965. That is the column on page 3 of the pamphlet. Therein is contained the aim which the producers of petroleum and the industry must look toward in accomplishing their purpose.
and properly supply the consuming public and at the same time to
pile up a necessary reserve or backlog of petroleum that might be
needed by this Nation in case of emergency.

For that reason I call your attention to these projected requirements
for peacetime.

In the interest of saving the time of the committee, I would like to
pass to page 5 of the booklet, where we say "Where shall we get this
oil?" That is, the oil to meet the anticipated requirements that were
cited on page 3 of the booklet.

Under this heading, you are reminded that the petroleum industry
and this Nation cannot afford to be short of oil for the future. You
are reminded that the domestic petroleum industry must be relied
upon to furnish these consumer demands during peacetime and at
the same time provide the necessary amount of oil that might be
needed in time of emergency, and it offers as a comparison what might
happen as it did in the case of rubber, where we were dependent in
years past on a foreign supply of rubber.

We of the petroleum industry do not think it is in the public in-
terest nor in the interest of the security of this Nation that the petro-
leum industry be so strangled as not to be able to pile up a sufficient
reserve to take care of our sufficient needs, and it only asks, in this
presentation, that it be permitted to have an economic climate which
will permit it to do this very job. This Nation cannot afford to be
dependent on a foreign source of petroleum, regardless of the amount
of reserves that might be in those foreign nations. For that reason,
the basis of our presentation today is a request that the Congress take
cognizance of the fact that the domestic industry cannot be expected
to do this job unless it be developed in an economic climate which will
permit it to do its job properly.

I would like particularly to quote on that same page, page 5, a
recent statement by President Truman on this very subject, wherein
he recites, and it is quoted on this page, the necessity for this country
to augment and keep up its stock pile of natural resources, among
which oil is one of the most important, not only in our expanding
economy, but in the interests of national security in case of emergency.

Under the same heading, "Where do we get this oil?" I would like
for you further to refer to page 6 of the same pamphlet, where there
is graphically portrayed a picture of the North American Continent,
showing the possible sources of oil supply, and this is a quotation from
an official document prepared by the American Association of Petro-
leum Geologists, which shows possible sources of future petroleum
as yet unexplored. The graphic picture does not portray that part
of the United States which has been explored and which is now pro-
ducing oil, but there is portrayed in red, on this page, the possible
future sources of petroleum not only in this country, but extending up
into Canada and Alaska.

I wish to call your attention particularly to the vast empire of
possible future production beyond the present producing States. I
want to call to your attention the possibilities of Oregon and Wash-
ington, additional areas in California, the States of North and South
Dakota, Nebraska, further development in Wyoming, Colorado, fur-
ther possible deeper production in Kansas and northwestern Okla-
ahoma, additional new areas around the Permian Basin of New Mexico
and west Texas, and then, beginning at the present frontier of the oil business in Mississippi, where new additional reserves have been added, in that area to the east, taking in the States of Alabama, Tennessee, Georgia, Florida, and up the east coast, up as far as the State of Maine, all along the coastal line. Those are your possible new source beds for additional petroleum for this Nation.

Then, if you will turn to the opposite page, you will notice that we have cataloged there—and this is a quotation from official sources, it has already been entered in official agencies as testimony—it shows there the promising area for development of the area in square miles. It could be quickly interpreted into millions of acres, and shows the various basins that are prospective in these various States that I have just told you about. That is the source of your future petroleum in this country.

And I wish to call to the attention of the Congressmen who are from those States which are not producing States now, as to the possibilities in their own particular States and the necessity for encouraging the future development of this industry.

I will pass over to page 8, where we begin to make our firm argument on the necessity of carrying this on, and how it should be brought about. We have a graph there which is easily understood and easily analyzed, which shows that the solution of the problem of uncovering and developing these new reserves is a cost item.

I say to you, gentlemen, that in my opinion, any program of conservation or exploration or development which ignores the price factor or the economic factor is unsound, untenable, and will not be practicable.

Our pamphlet continues and recites the fact that this industry, through its proper accredited representatives, have made repeated requests to the Office of Price Administration during wartime. We are still doing it during peacetime. We are carrying it on now trying to convince the Office of Price Administration of the realism of this whole picture. So far we have been unsuccessful. As late as yesterday afternoon we sat with officials on the higher level—I am using their words now, on the higher level—and we got the story that, according to our standards—and I am using their words—their standards, it is impractical for their Office to consider replacing the reserves of this Nation. That they can consider only the balance-sheet figures in determining what the price of oil should be.

To us who are practical operators in the business, it is impossible for us to see how a group sitting up here can take an unrealistic attitude on this price question which ignores the necessity of the industry continuing in business. Their whole policy has been one of permitting the industry to liquidate itself out of past reserves. We think that that is unfair; we think it is not a good thing in the national interest, and that national policy should be established that does encourage the petroleum industry to keep on with its job.

I would like to pass over to page 10 in this pamphlet, where there is graphically shown the percentage of return from the producer's income, which is placed back normally in replacement of reserves.

We have five charts prepared there, figured out by years—and this is based on factual data, gentlemen, which has been taken from a questionnaire circulated throughout the producers of the industry and
compiled by competent people, the National Crude Oil Advisory Committee of the Office of Price Administration—showing the necessity of placing back into efforts at finding new oil certain percentages of the income from the industry. And still the Office of Price Administration says that in their computation of the cost situation in the industry, replacements should be ignored.

Well, if you want to go out of business and fail to build up your reserves and keep an industry stable and solvent, that is all right, but we do not think it is in the public interest, and we submit that for your approval.

These costs have gone up a great deal during the war. If you will pass over to page 12 of this pamphlet, it shows graphically how these costs have gone up from the base period of 1936–39. That is how they do all their figures, on the 1936–39 base period. We show graphically there how these costs have gone up.

I would like to remind the committee that these costs are not of the petroleum industry's making. It is not a part of their job to put up these costs. They had nothing to do with any increase in wages. They had nothing to do with any increase in prices of steel. They had nothing to do with the increases in the costs of other critical materials that went into it. Admittedly, the war effort, and the resulting increase in over-all prices, had a great deal to do with it. But our figures show that those prices are still going up. Those increased costs are not made by the industry itself, but they must be recognized as a potent factor in the problem of the petroleum producer, and the entire petroleum industry when it comes to determining this matter of cost of petroleum.

Over on page 13 of the booklet, we explain graphically why a higher price is needed.

One of the most dangerous things facing this Nation today, in my humble opinion, is declining rate of discovery of petroleum reserves. This is brought about largely as a result of the unrealistic price structure in industry. We show graphically on that page the decreasing rate of discoveries of crude petroleum. We are finding a great deal more new natural gas as we drill deeper, but crude oil is declining in the rate of discovery.

Production, however, is going up. The expanding economy of this Nation requires more and more oil as we go along. I showed that to you on the first page, which is page 3 of this pamphlet. The estimated future consumptive demand of this Nation in the way of reserves. With the demand going up, and the reserves going down, what is the answer? Some day we will reach the millennium on this subject. I hope that will not endanger the national security. But I do think the thing can be changed, and I think the trend can be changed, but it can be changed only if the petroleum industry is permitted to go along and operate under the laws of supply and demand and carry on its job as it has for the last 85 years.

We explain in detail on page 15—I will not read it, but I hope you will some time—how we are going deeper and deeper for this production; why the wells cost more; why we are getting smaller pools; why we have to have an increased cost in the price in order to continue operations.

On page 16 we draw a comparison. They say that comparisons are odious. I think this is going to be odious to some people who do not
like the looks of it, but I hope it will not be to you members of this committee.

This comparison shows the relative price of crude oil, as compared to other commodities, and also shows a line there which recites the increase in hourly wages affecting those commodities.

It is shown very clearly there just how bad our situation is as compared to other commodities, and we maintain, gentlemen, that a reasonable increase to permit this industry to live, a reasonable increase to take care of these higher costs, is not an inflationary trend. We would have to go a long, long way to reach this commodity index up there in the middle of the page, until it would reach a point where it could be construed as being an inflationary trend.

We have on page 17 the summary of this entire pamphlet. I am submitting that to you as a matter of simple facts that I hope the Committee will sit down and analyze if it has the time.

With the committee's permission, I will proceed now with my statement.

Now that military demands for crude-oil products have decreased we have an abundant supply of oil for all of our requirements, and we have sufficient reserves, productability, and refining capacity to take care of all requirements for the foreseeable future. Because of this plentiful supply, economic forces and the competitive nature of our industry are already working to take care of any possibility of skyrocketing prices during peacetime. If we are permitted to continue operation in a free economy, this supply will continue. There has never been a peacetime shortage of petroleum or its products in the history of this Nation.

I say peacetime. There was a shortage during the war because the demand was abnormal. But during peacetime there has never been any shortage of crude oil for all foreseeable demands in this Nation.

However, if the present controls imposed by the Office of Price Administration continue, I can foresee the possibility of this Nation becoming short of oil supply. The refusal of the control authorities to give proper consideration to the practical problems common to the industry and to see the necessity of allowing a price for oil which will keep the industry solvent is literally driving thousands of independent producers out of business. It will close independent refineries down. It will destroy the very competitive forces which have always prevented monopoly in the business and which have assured the consumer of a good quality of product at fair prices.

The public interest and national security require that this important industry remain in a solvent condition and that it continue to be permitted sufficient profit incentive to get out and search for and develop sufficient reserves to take care of the Nation's requirements for a constantly expanding economy and to maintain a backlog which might be needed in another emergency.

The petroleum industry asks these things, not through a spirit of selfishness, but it is motivated by a sincere recognition of its duty to the consumer and to the Nation it serves. These duties can be performed and these obligations discharged only if the industry is provided with conditions under which it can function efficiently and fairly. I say to you that the Congress can give us this opportunity and since the petroleum industry is able to produce its product in excess of consumer demand, I respectfully request that your committee approve
the plan of excluding price controls on petroleum and its products if the Price Control Act is extended beyond June 30.

I will be glad, Mr. Chairman, to answer any questions that I can on this subject.

The CHAIRMAN. I thought we had agreed that we would complete the hearings and then the witnesses may subject themselves to interrogation.

Who is the next witness?

Mr. Russell Brown. I suggested that we would do as the committee desired. But that is satisfactory.

Mr. Majewski is our next witness.

The CHAIRMAN. Mr. Majewski.

STATEMENT OF B. L. MAJEWSKI, VICE PRESIDENT, DEEP ROCK OIL CORP., CHICAGO, ILL.

Mr. Majewski. Mr. Chairman and members of the committee, my name is B. L. Majewski. I live in Chicago, and I am vice president of the Deep Rock Oil Corp., an independent producer, refiner, and marketer of petroleum products.

I appear before your committee, Mr. Chairman and gentlemen, on behalf of the independent segment of the petroleum industry.

The announced policy of Government, declared by both the White House and the Office of Price Administration, has been that price regulations on individual products and industries be removed as rapidly as possible without inviting inflationary tendencies and unwarranted price increases. Such controls were to be removed as soon as the supply and the demand situation within that industry conforms with these conditions. If this means anything, it must mean that a competitive industry, capable of putting a surplus of supplies on the market, would be freed from Office of Price Administration controls and the free forces of competition relied upon to insure reasonable prices to the public.

It is my understanding that the House Banking and Currency Committee is meeting to consider the necessity of extending price controls beyond June 30, 1946. I do not wish to speak on the general question of price controls in all industries, but have requested that you gentlemen hear my thoughts on the case of the public inconveniences being brought about through continuing Office of Price Administration control in the petroleum industry only.

At the final meeting of the Petroleum Industry War Council in December 1945, and the Petroleum Industry War Council was the industry advisory group appointed by the Petroleum Administrator for War, and served for 4 years of the war, a statement was unanimously adopted and released to the press, from which I quote:

There is more than adequate crude production and refining capacity available to meet all currently indicated needs for petroleum products. * * *

1941 industry prices, which are the basis for present petroleum product price ceilings, were set at a time when there was need for maximizing gasoline production. Today there is less demand for gasoline and substantially more for kerosene and various grades of fuel oil. However, the price straitjacket prevents the fluctuation of prices on various products from fluctuating in the normal manner to readjust product yields and meet seasonal and other fluctuations in consumer demand. Mainly as the result of this, there is a serious prospective shortage of fuel oil to meet this winter's needs.
Supplying this winter's heavy demands for fuel oil and serving the interests of the American people in having adequate quantities of all needed products available at all points can best be accomplished by the prompt removal of price control on petroleum and its products. The Petroleum Industry War Council strongly urges that this be done forthwith.

Let us consider the basic underlying reasons for preparing and releasing this statement to the public:

Industry estimated requirements: The economics committee of the war Council in its last report on indicated supplies of and demands for petroleum products presented the following estimates for the year 1946. All quantities are stated in thousands of barrels daily.

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity (Thousands of Barrels Daily)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated domestic demand</td>
<td>4,301</td>
</tr>
<tr>
<td>Estimated export demand</td>
<td>427</td>
</tr>
<tr>
<td><strong>Total estimated demand</strong></td>
<td><strong>4,728</strong></td>
</tr>
</tbody>
</table>

Deductions, natural gasoline:

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gasoline condensate and benzol</td>
<td>300</td>
</tr>
<tr>
<td>Less condensate mixed with crude oil</td>
<td>25</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td><strong>275</strong></td>
</tr>
</tbody>
</table>

Imports:

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>171</td>
</tr>
<tr>
<td>Products other than residual</td>
<td>10</td>
</tr>
<tr>
<td>Residual</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total imports</strong></td>
<td><strong>281</strong></td>
</tr>
</tbody>
</table>

Corresponding domestic crude production: 4,172

Corresponding crude runs to stills: 4,146

These calculations assume no change of inventory levels.

Within the fortnight the military and War Shipping Administration have revised upward their daily requirements of petroleum products and the level of crude runs indicated herein will have to be increased approximately 200,000 barrels daily. Therefore, the present estimated crude production should be 4,372,000 barrels per day and corresponding runs to stills 4,346,000 barrels per day.

These estimates were prepared by a group of experts who have devoted their lives studying problems of this nature. Estimates prepared separately by the Program Division of Petroleum Administration for War, published November 1945, vary from the above estimated crude runs by less than 1 percent.

There is more than adequate crude oil.

Crude production in the United States reached an average level of 4,710,000 barrels per day during the 4 weeks ending March 2, 1946. This is 338,000 barrels per day over the indicated crude production of 4,372,000 barrels per day, or a surplus production capacity within this country of 7.7 percent.

There can be no question, therefore, but that there is adequate crude oil available to meet anticipated requirements and a surplus production capacity will continue to exist.

There is a surplus of petroleum transportation facilities.

There is a surplus of all forms of petroleum transportation facilities required to move crude oil from the wells to refineries and to move refined products thence to the market. This surplus exists in the form of tankers, pipe lines, barges, tankcars, and truck transports. Quantitative data cannot be assembled on this phase of the problem.
to indicate the extent of the surplus, but all limitations on the use of these facilities imposed by the Office of Defense Transportation to meet the exigencies of war demands have been removed. This is adequate evidence of the elimination of any shortages.

There is surplus refinery capacity.

The crude runs adequate to meet estimated demand as stated above are 4,346,000 barrels per day. The economic operating level is about 4,900,000 barrels daily.

There is, therefore, a total surplus of approximately 550,000 barrels per day. Therefore, even after running the additional 200,000 barrels of crude oil daily to supply recently increased demands of the Navy and War Shipping Administration, there is a proven surplus refining capacity. The industry desires to utilize this capacity to secure economies incident to full utilization of plant facilities.

There is surplus plant capacity over requirements by individual products.

The petroleum industry produces many products from a barrel of crude oil. The principal classifications with which all of you gentlemen are familiar are gasolines, kerosenes, distillate fuel oils, and residual fuel oils. Normally the composite output of these four classifications represents approximately 85 percent of the volume of crude oil originally charged to the stills. The percentage yield of each of the four classifications is subject to variations as different seasons of the year require increasing or decreasing the yield of a particular product to meet current demand. This flexibility of yields is adequate to permit the industry to meet the requirements for any or all of the above classifications of products. Straitjacket price controls prevent various derivative products from being produced and brought to the market with various changes of demand requirements.

The industry's ability in this respect is well illustrated by the change in the production of kerosene before and after the much-delayed price adjustment on that product sought by industry for several months prior to its recognition. The pending shortages of kerosene and heating oils were called to the attention of the Office of Price Administration in August 1945. With elimination of other war controls, price adjustment was necessary if the industry were to produce enough of these products to meet winter requirements. Recognition of this problem came only after serious regional shortages had developed and the industry had repeatedly pressed its case to the Office of Price Administration.

On December 19, 1945, an increase of .5 percent per gallon in the ceiling price of kerosene was authorized in districts I and III. District I comprises the 17 Atlantic seaboard States and district III, the Gulf coastal States in the Southwest.

This was followed by a similar price adjustment in district II on January 24, 1946. And district II is the great bread basket of the world in the Middle West, the 15 Middle Western States.

The yield of kerosene against crude runs prior to the price adjustment was approximately 4.4 percent, according to the Bureau of Mines. Bureau of Mines reports are not yet available beyond December 1945, but American Petroleum Institute data indicate that since the price increase, the industry had adjusted yields of kerosene
upward to 7.2 percent during the week of March 2. Upward adjustments of yield of distillate fuels has also reflected the price changes finally authorized by the Office of Price Administration. At that time the Office of Price Administration rejected a recommended increase of one-fourth cent per gallon on residual fuel.

As of Monday of this week, the Office of Price Administration recognized a belated increase in the ceiling prices of residual fuels of one-half cent per gallon. An increase of at least this magnitude will be necessary to attract added supplies to meet both the military and civilian demand. Industry opinion expressed some months ago was to the effect that one-fourth cent might effect a balance of supply and demand.

It is always necessary to introduce larger immediate price increases when deficits in supply approach critical status than would have been necessary if the Office of Price Administration had allowed operations to be adjusted gradually. The owner and the farmer have paid more for kerosene and heating oils during the past 3 months than would have been the case had our industry been free to make small price adjustments when needed and foreseen by the industry immediately after V-J-day.

Adjustment of yields among products can be made as needed to meet requirements for particular products. Adjustments will not be made as needed when the industry is asked to conform with a price rigidity predicated upon 1941 demands for merchandise which have been drastically modified by succeeding events. The industry must be permitted the latitude of making necessary adjustments from time to time as demand for individual derivative products vary or the continued existence of Office of Price Administration regulatory measures will create the very crises that should be avoided. One of the best illustrations of controls creating crises is this winter's experience on kerosene and burning oils.

Price controls have led to an unbalanced inventory position.

Gasoline production normally varies from about 40 to 45 percent yield against crude processed. Refinery tanks throughout the country are filled or near capacity levels as industry has accumulated an abnormally high level of 104,901,000 barrels of inventory as of March 9, 1946, according to the American Petroleum Institute. Price ceilings frozen at unsound economic levels on heating oils and residual fuels resulted in deficits while prices fixed on gasoline encouraged an abnormal accumulation of stocks and now the ceiling price on gasoline is meaningless in terms of possible actual realization. Most recent published quotation (March 19, 1946) on tank-car price of house brand (regular) gasoline in group 3, the midcontinent field, was as low as 5 cents, as compared with a ceiling price of 6 cents per gallon.

This condition of surplus stocks of one product and deficit stocks on other products is not offered to the committee solely as a criticism of the policies adopted by the Office of Price Administration, but it is offered as evidence that the minds of a small group of men cannot comprehend all of the problems of adjustment of prices, refinery yields, inventories, and market potentialities of all derivative petroleum products, in all sections of the United States simultaneously. It is my firm conviction that in an industry where an over-all surplus
exists the free play of competition would serve as an infinitely more reliable control to insure adequate supplies at reasonable prices to the public.

Price controls in a multiple product industry must recognize costs and profits.

The petroleum industry is one which is characterized by joint costs of production and which permits alternate yields of finished products within a sufficiently wide range to meet requirements of all refined products with runs substantially lower than are currently being experienced. With the price balance wheel unable, under frozen ceiling prices, to operate except downward, refineries cannot increase yields of low value products at the expense of yields of high value products in accordance with normal seasonal practice. There must be a sufficient degree of flexibility to permit adjustments to be made from time to time to supply the public with the products needed at competitive prices. The greater the time period of delay in the introduction of corrective action in such adjustments the greater is the ultimate adjustment required to meet a current problem. If adjustments are not made, there results a loss of crude runs when refinery tankage of the high-value products is filled which greatly aggravates the shortage problem on low-value products as well as introducing a general stagnation in the industry and particularly upon many individual refineries. Refineries cannot operate without heavy cash loss at present ceiling prices on residual fuels and distillates with actual gasoline realization at the present levels.

The present policies of the Office of Price Administration with respect to the petroleum industry create deficits of particular products, introducing serious problems of supply essential for full industrial recovery, encouraging an unsound supply position of higher value products such as gasoline, so that currently established gasoline price ceilings are meaningless and are creating a gradual paralysis of an industry throughout its entire operation.

The petroleum industry asks only for the chance to demonstrate to the American public, as it has in the past, its ability to meet all requirements for all refined petroleum products when the free forces of competition are allowed to determine the prices of all petroleum products. It is my firm conviction in 37 years as an independent—I started as a muleskinner 37 years ago in Chicago—that such a modus operandi will react definitely to the public's advantage and ultimately to the petroleum industry's future advancement and development.

I thank you for this opportunity of presenting this matter to you and would like to answer any questions you may have.

The CHAIRMAN. Call your next witness, Mr. Brown.

Mr. RUSSELL BROWN. Mr. Chairman, shall we keep all these witnesses available for questioning at a later time?

The CHAIRMAN. Yes.

Mr. RUSSELL BROWN. If it is permissible with the chairman, Congressman McGehee, the Representative from Mississippi, has asked to have just a few minutes, if that is satisfactory.

The CHAIRMAN. You may proceed in your own way. If you will produce your witnesses without interruption, it would be more desirable from the standpoint of the committee to so do.
Mr. McGehee. Mr. Chairman, I want to introduce Mr. H. M. Morse, supervisor of the gas and oil industry of the State of Mississippi.

The Chairman. We are very glad to hear from you, Mr. Morse.

STATEMENT OF H. M. MORSE, OIL AND GAS SUPERVISOR OF THE STATE OF MISSISSIPPI

Mr. Morse. Mr. Chairman and members of the committee, my name is H. M. Morse. I am oil and gas supervisor of the State of Mississippi. I live in Jackson, Miss.

I appear before you today as the representative of Governor Bailey, who is indisposed and who came to the reluctant decision to cancel his personal appearance.

We are much interested, in Mississippi, in the question of price control in the oil industry. Mississippians are much interested in oil. The development of oil and gas fields in our State began a short time ago, compared to the oil history of our neighbor State, Louisiana, and many others. But the development has proceeded far enough to have a profound effect on our economy and the lives of our citizens.

In Mississippi we are in a new era of pioneering. Long ago settlers came from farther east and north and settled the lands of Mississippi until all the acreage had been occupied. Now another group of pioneers has arrived and the number is growing. They are oil operators, from all points of the compass, and they have brought a new outlook to our State.

We want to encourage greater activity on the part of these pioneers. We want to see the wartime control of the oil industry ended finally and completely. The supply of crude oil is plentiful and there is no occasion to control prices further. I think, in fact, that price ceilings should have come off in this industry simultaneously with the end of rationing of gasoline.

The industry has its own way of making the adjustments which fit the conditions and the needs of the time. Being highly competitive, unduly high prices have not been remotely possible for many years. There certainly is no possibility now that prices to the public will soar if the Office of Price Administration control is removed.

What we do hope is that there will be an upward adjustment in the price of crude oil which will stimulate further activity in our State and in others of the South. A great deal remains to be done in order to carry on the impetus that has been given to exploration and development of oil and gas in Mississippi to date.

We did not know much about the geology of the Coastal Plain in Mississippi until oil exploration brought intensive geological and geophysical studies. As a geologist, I have witnessed this technical development with great interest; I can see that the key to one puzzle unlocks others and that some of the things we have learned in Mississippi apply to Alabama, parts of Florida, and Georgia, and perhaps elsewhere.

The technical work is expensive. The drilling in part of this area is going to be around 10,000 feet deep and in some places deeper, and this is very costly. There are many other expenditures. Oil opera-
tors are distributing millions of dollars each year in rentals and bonuses on leases throughout the South and the Atlantic coastal region as far north as Delaware. The landowner is the direct beneficiary of this distribution. It all comes out of the producer's income from the sale of crude oil.

That is the end of my prepared statement. Just to give you a slight résumé of the oil industry as oil has been developed in Mississippi in the last few years, in 1939 our first oil field was brought into the State. Up until that time a great many people thought that there was no oil east of the Mississippi, or, at least, between Louisiana and Mississippi. So it was with great pleasure to our State and people that this field was brought in and was a major oil field. So that from 1939 the known reserves of oil in the State of Mississippi had increased from zero to date, which is approximately 300,000,000 barrels of oil in reserve.

We had gas also discovered in 1930, and this dwindled. Until 1939 we had very little, but the gas industry has also increased of late. This exploration and this finding of oil has extended over into Alabama and probably will extend further east.

Thank you, gentlemen, and if you have any questions I will be glad to answer them.

The CHAIRMAN. We are glad to have had your testimony.

Call your next witness.

Mr. RUSSELL BROWN. At this time I will call Mr. McClure, president of the National Stripper Wells Association.

STATEMENT OF H. M. McCLURE, PRESIDENT, NATIONAL STRIPPER WELL ASSOCIATION, ALMA, MICH.

Mr. McCLURE. My name is H. M. McClure and my home is in Alma, Mich. I am the president of the National Stripper Well Association, chairman of the State Oil Board of Michigan, and have been engaged continuously in the drilling and producing segments of the oil industry since 1919.

The National Stripper Well Association is composed of district and State oil and gas associations located in various oil-producing sections of the Nation and interested in the production and preservation of the petroleum reserves underlying our stripper wells.

It is a unique privilege and honor that one from the ranks of manual labor should have the opportunity to appear before this distinguished committee to acquaint you with the facts as to the effect price control has had upon the stripper well segment of the petroleum industry.

A stripper well may be defined as any oil well producing at a cost which approximates the revenue from the sale of its production. The depth or size does not necessarily determine its classification. It may be a 1-barrel well at 500 feet or a 50-barrel well at 5,000 to 10,000 feet; the principal factor being the cost of production in relation to the amount of money received therefor.

The most recent authoritative survey of stripper-well production was made by the Interstate Oil Compact Commission and the National Stripper Well Association covering the year 1944.

It discloses that the 412,851 producing oil wells in the Nation, 296,388, or 71.8 percent, are classified as stripper wells. In 1944 these
stripper wells produced 217,041,621 barrels of oil or 12.9 percent out of a total United States production of 1,678,376,000 barrels. Average daily production per well was 11.1 barrels for all oil wells, and 2.0 barrels for the stripper wells.

In fields now developed we have a total of 298,000 stripper wells with reserves conservatively estimated at 4,000,000,000 barrels; 20 percent of our Nation's total reserves which approximate 20,000,000,000 barrels.

The crude-oil price structure was probably the greatest single handicap under which the production branch of the oil industry operated during the war. Crude-oil prices were frozen by the stabilization program at the October 1941 level. At that time, crude prices were at a low level resulting from the flood of oil made available by the discovery and development of a large number of prolific oil pools in the 1930's. From 1938 on, discoveries had been distinctly disappointing and crude-oil prices were undergoing an upward readjustment under the normal economic processes of supply and demand. When the Office of Price Administration froze prices at the October 1941 level, this normal upward readjustment was terminated. Operating costs mounted continually during the war period but except for a few minor adjustments in isolated pools, crude-oil prices are still held by the Office of Price Administration down to the October 1941 level.

A situation such as the present where 33 gravity midcontinent crude oil is selling at $1.11 per barrel of 42 gallons, which is less than 3 cents a gallon or three-fourths of a cent per quart, seems absurd for an article that is so essential to the national defense and the national welfare. Milk sells for around 15 cents per quart, beer 35 cents and Coca-Cola 27 cents. On a pound basis oil sells for less than one-half cent per pound. Ordinary table salt, ordinarily considered a cheap commodity, sells for 14 times as much as crude oil. On a pound basis, butter sells at 55 cents, cattle at 15 cents, hogs at 14 cents, and cotton at 26 cents.

This crude-oil price structure has adversely affected both the large and small operator, but it has worked a particular hardship on the operators of stripper properties because of the narrower margin between their inherent higher operating costs and sales realization from the crude oil produced.

In June 1944, Economic Stabilizer Vinson issued a directive, effective August 1, 1944, which established the stripper subsidy plan. Under the plan the first purchaser of all oil produced in fields certified by the Office of Price Administration as qualifying for the subsidy would be reimbursed, provided the purchaser showed he had paid the full ceiling price plus the applicable subsidy to the purchaser. The amounts of subsidy were as follows:

- Thirty-five cents per barrel from fields in which the average production per well per day was less than 5 barrels.
- Twenty-five cents per barrel from fields producing more than 5 but less than 7 barrels per well per day.
- Twenty cents per barrel from fields producing 7 or more but less than 9 barrels per well per day.
- Seventy-five cents per barrel from fields in Pennsylvania, West Virginia, New York, and Ohio that produced Pennsylvania grade oil.

The principal aims of the establishment of the stripper subsidy were to discourage premature abandonment of wells and to encourage start-
ing secondary recovery projects and to prolong the operation of projects already started. Although subsidy payments did retard the rate of abandonment of wells, a fair and equitable price would have offered even more encouragement to the continual operation of these wells. Stripper subsidy payments also encouraged the continuation of secondary recovery projects already in operation. Few new secondary projects were started because the temporary nature of the subsidy plan gave no assurance of payments for a period long enough to justify the added investment.

The abandonment of uneconomic wells is a continuing process in the operation of the oil industry. The rate at which abandonments occur fluctuates with economic conditions of operation. The chief factors that influence the abandonment of wells are:

1. The return received for the oil produced.
2. The condition of the reclaimed materials market.
3. Whether or not the price of salvageable equipment as used material exceeds the value of the well as an operating unit.

The tabulation below shows the stripper-well abandonments from 1940 through 1944:

<table>
<thead>
<tr>
<th>Year</th>
<th>Abandonments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>9,625</td>
</tr>
<tr>
<td>1941</td>
<td>11,733</td>
</tr>
<tr>
<td>1942</td>
<td>10,541</td>
</tr>
<tr>
<td>1943</td>
<td>10,720</td>
</tr>
<tr>
<td>1944</td>
<td>9,400</td>
</tr>
</tbody>
</table>

In this 5-year period a total of 52,019 wells were abandoned because their continued operation was not economic.

The decrease in abandonments in 1942 and 1943 as compared with 1941 was, no doubt, due to a considerable extent to the patriotism of the owners of stripper wells in their desire to continue to furnish as much oil as possible for the war effort, realizing that oil was essential to victory. Many of these stripper-well owners had sons and other relatives in the armed forces and recognized the importance of oil. The smaller number of abandonments in 1944 can be attributed, in part at least, to the institution of the stripper-well subsidy on August 1, 1944, but it is my firm belief that far fewer wells would have been abandoned during the war period if there had been a fair and adequate price for crude oil.

The stripper well survey shows that 34,297,740 barrels of recoverable oil were left in the producing horizons underlying the oil wells abandoned in 1944. When and if abandonments increase, the recoverable oil lost will also increase.

I want to stress the fact that about three out of every four oil wells in this country are stripper wells and that the stripper-well production in 1944 of 217,041,621 barrels nearly matches the 1944 production of the Asiatic Continent which included the highly publicized fields of Iran, Iraq, Saudi Arabia, the East Indies, Burma, China, and Japan.

Undoubtedly new oil fields will continue to be discovered, but they will not be so easy to find as those we are now using. Inevitably, of course, all wells will in time reach the marginal or submarginal stage and will be abandoned. Each time a well is abandoned, some oil is left behind in the reservoir. The crude oil price level is the chief factor determining the point of abandonment of a well. The maintenance of an adequate price incentive to keep stripper wells operating will furnish many billions of barrels of additional oil that has been
already found and developed. The maintenance of the disastrously low price level that has prevailed during the war will, on the other hand, result in the loss of these huge reserves.

The serious situation confronting the stripper-well operator was recognized by the Federal Government with the introduction of the stripper well compensatory payments on August 1, 1944. Figures available indicate that in the 11-month period from August 1, 1944, to July 1, 1945, subsidy payments were made on 136,788,408 barrels, for a total of $49,822,347. The average amount per barrel was 36 cents. The daily average on which these payments were made was 409,832 barrels for a daily average payment of $149,020. It is interesting to note that 8.6 percent of the Nation's production received subsidy payments during the period referred to. It was stated by W. L. Clark, head of the Stripper Well Section of the Office of Price Administration, that the number of wells to which premium price increases were applicable as of November 1, 1945, was approximately 74 percent of the number of wells producing in the United States during that period.

The continuation of these payments is indefinite and uncertain. Much of the benefit of these payments has been lost because of increases in wages and increased cost for materials and supplies. With the war over, stripper-well operators cannot be expected to operate wells at a loss for patriotic reasons. Even if the present subsidy payments were continued without any increase in the posted prices for crude oil, there would undoubtedly be an acceleration in abandonments because of the increased costs and the uncertainty as to future economic conditions.

The future of the stripper wells and their underlying reserves presents a problem that deserves the serious and careful consideration of the industry and of governmental agencies from the point of view of conservation. The price of crude oil has been at depressed levels continuously since about 1926. The production cost per barrel varies in accordance with the average daily production of the well and the method of production, whether flowing, pumping, or secondary recovery. As well production declines, the cost per barrel increases, and the operator cannot change that trend. The price received per barrel for the oil determines the economic limit beyond which the well cannot be operated.

In conclusion, I have no charts or production curves. Those figures present in detail the status of the stripper-well operator. I do want to stress the fact that this week figures will be presented to show that $1.60 a barrel is the cost to produce this crude oil. It is approximately 4 cents a gallon.

Mr. Thom. What is the ceiling price?

Mr. McClure. The national average is $1.23 a barrel. The ceiling price is about 3 cents a gallon. That is an average. The average cost of finding, producing, and developing a barrel of oil—those figures will be presented to the O'Mahoney committee. That report has already been released. It reflects a figure of 4 cents a gallon cost. That is the average cost.

Certainly, in the production of any basic commodity as vital as oil, the price should not be lower than the average cost of finding, developing, and producing. When we say a "sustained adequate price," we
mean 5 cents a gallon. It would cost 4 cents a gallon to develop, find, and produce it. Certainly a reasonable profit would be 1 cent a gallon profit.

To show you how ridiculous it is, gentlemen—this is the only chart I have. I will leave it in evidence. This is a pound of crude oil selling at the well already transported to the top of the ground. An average depth in excess of 2,500 or 3,000 feet sells for half a cent a pound already transported to the top of the well, found, developed, and produced. I offer that in comparison with any other commodity that you gentlemen have in mind. Any ordinary commodity sells anywhere from 14 to 200 times as much as crude oil.

Small producers produced diligently and effectively during the war with very little complaint. They did ask for the cost of their product or a little profit. It was never received. Most of the small operators evaporated from the business. Of those who could beat the average cost, some of them still remain.

That is all, Mr. Brown.

The CHAIRMAN. Call the next witness.

Mr. RUSSELL BROWN. During Mr. McClure's talk he has emphasized the importance of secondary recovery.

Our next witness is Mr. Oak.

The CHAIRMAN. Identify yourself.

STATEMENT OF DONALD P. OAK, MANAGER, LYNDE, WALTER & DARBY, OF TULSA, OKLA.

Mr. OAK. My name is Donald P. Oak. I am a graduate engineer and all of my business life has been spent in the producing end of the oil business. For the past 15 years I have devoted my time exclusively to the water-flood method of secondary recovery. In 1943 I plugged and abandoned three projects on which the total production at that time was in excess of 100 barrels per day, for the reason that they could no longer be profitably operated under the Office of Price Administration's existing price ceiling.

Stripper-well properties and secondary recovery properties are very closely associated as the stripper properties are the sites where the secondary recovery operator conducts his development, so that the secondary recovery operator must own or acquire a sufficient number of these stripper properties to insure an adequate reserve for his operations.

As you may not be familiar with this phase of the oil business, I will try to give a brief explanation of the theory underlying secondary recovery. Petroleum is found in porous formations such as sandstone or limestone below the earth's surface. When wells are drilled in this reservoir, it requires some energy to overcome frictional resistance and cause particles of oil to move from the points where they exist to bores of the oil wells from whence the oil can be produced. In primary or natural recovery the source of this energy is inherent in the reservoir itself, usually in the form of compressed or dissolved gas, although there are other sources, such as natural water pressure. So far as compressed gas is concerned, this energy is almost entirely dissipated when only a fraction of the oil in place has moved to the oil wells. Movement ceases and the oil wells reach the end of their economic
life when only a small percentage of the oil in place has been recovered. Secondary recovery now enters the picture and supplements the natural energy inherent in the reservoir with energy which has its origin in an outside source. The two most common types are air or gas repressuring and water repressuring. In both types the repressuring medium is introduced under pressure into the reservoir through existing oil wells converted to injection wells or through new drilled wells. This pressure again starts the movement of the oil particles and production is resumed. No one method has universal application, but where it can be used, the water-flood method has proved to be the most efficient.

Even with the best technique, under this method only an additional fraction of the well in the reservoir is moved to the producing oil wells so that there still remains a vast amount of oil in the reservoirs when all present known methods of secondary recovery have been exhausted. Research is constantly improving methods and if not interrupted will ultimately lead to the recovery of a very much larger percentage of the oil than now thought possible.

The problem of research and its possibilities is admirably covered in the testimony of Mr. Don T. Andrus before the Special Senate Committee Investigating Petroleum Resources, on March 20, 1946.

Secondary recovery by water flooding is an expensive operation. As we take over stripper properties which already have had a long life, much of the material on the surface or in the wells, is worn out or not adaptable to water-flood operations.

The existing oil wells have to be reconditioned or plugged and new ones drilled, usually new water injection wells are drilled in proportion of one injection well to one oil well. Expensive water-pressure plants and a distribution system of water lines are built. Producing expense is also high, as the expense of obtaining, treating, pressuring, and distributing the water to the injection wells has to be added to ordinary production expenses. Even the better floods will require 10 barrels of water injected to 1 barrel of oil produced, so that this adds an expense of at least 10 cents per barrel of oil to producing costs. Ordinary producing expense is also high, because much of the water injected has to also be produced from the oil wells, and it costs as much to produce a barrel of water which is thrown away as it does to produce the saved barrel of oil.

I do not think that there are any figures available to show the average cost of producing a barrel of water flood oil, and they would mean very little if secured, as so many factors enter into the problem in the various oil fields of the United States, such as depth, condition of physical equipment, and existing wells at start of flood, intensity of development, location of properties, water supply source, drilling costs, and so forth, and the recovery of oil per acre, that typical costs in one section would have little relation to those in another section. Also, average costs are very dangerous figures to use. A few highly productive floods in favorable cost locations will bring down the average cost of all floods giving a distorted picture of those not so favored. The reverse is also true. In most of the floods now in operation in the midcontinent field, development costs will range from $300 to $3,000 per acre.
Production expense will range from 25 cents to 80 cents per barrel of oil, and recoveries will range from 800 to 8,000 barrels per acre. I am not so familiar with air and gas repressuring and will not attempt any estimates of cost or recovery ranges.

Historically, water flooding started in Pennsylvania and air and gas repressuring in Ohio. Air and gas repressuring soon moved to some extent to the Mid-Continent field, but water repressuring did not reach there until 1931, when air experimental flood was started near Chelsea, Okla. Results from this flood were sufficiently encouraging to cause a number of others to start but they had only gotten well under way when the price of crude declined and most of them became marginal operations. However, they were generally continued in operation until the Office of Price Administration froze crude prices at depressed levels at the start of the war. Operators then continued and sometimes expanded them, even at financial sacrifice to themselves in order to do their part in supplying the war petroleum needs. At the same time they joined in the fight to get relief from these price levels, which fight finally resulted in a subsidy being granted in August 1944 to stripper and secondary recovery operators. However, in the meantime, many operators had to discontinue operations and abandon their properties, leaving large unproduced reserves which are permanently lost. The advent of the subsidy did allow existing floods to be expanded and a few new ones started in very favorable locations, but there was no general renewal of secondary recovery operations for the reason that the subsidy was a too uncertain factor to permit long-time investment. Returns from water-flood operations do not start in any volume for at least a year after investment. That is about the picture as it stands today with the exception that all costs have increased to such an extent that they have nearly absorbed the subsidy. In other words, the present economic picture is not sufficiently good to encourage widespread secondary recovery.

I do not think the public or even considerable sections of the oil industry itself realize the importance of secondary recovery in relation to the national oil supply. The usual estimates of petroleum reserves recoverable from stripper wells and secondary recovery operations are about 20 percent of the total reserve, or some 4,000,000,000 barrels. However, the surveys leading to these estimates were made several years ago, at which time the various bodies making the estimates were faced with entirely inadequate information on which to base their estimates and many large producing areas were omitted completely due to lack of any data at all. The amounts to be recovered in any area were little better than a guess. Today, we have some additional data upon which to work, but even now it would be impossible to make an intelligent estimate for all the producing areas of the United States. One illustration will show the change that would be made today from the original estimate. The original estimate gave Osage County, Okla., a secondary recovery of 60,000,000 barrels, while a recent survey by one of the leading operators gave the Burbank field alone, which is located in that country, a secondary recovery reserve of 200,000,000 barrels.

Secondary recovery technique is constantly improving, and what the ultimate recovery will be, I will not try to predict. The best that I can do is to call attention to Mr. Andrus's figures. In the known oil fields of the United States there have been produced some 28,000,-
000,000 barrels of oil, and the estimates for present visible supply amount to 21,000,000,000 barrels, which includes the above-mentioned 4,000,000,000 barrels for stripper wells and secondary recovery. After this 49,000,000,000 barrels have been produced, there will still remain in the reservoirs 100,000,000,000 barrels of oil, which most estimates class as unrecoverable. The secondary recovery operators, if given encouragement, are going to get part of it, I know, but I will to leave the amount to your imagination.

Today, the secondary recovery operator is faced with an entirely too low ceiling price for crude oil, plus a war subsidy which he is receiving from you and all the other taxpayers of the country. Certainly, this is not an attractive picture for long-time commitment of capital. Even if he were assured of a continual price equivalent to the sum of the two, he could only undertake developments in favorable areas as with present increased costs average development would not show a profit. This aspect of oil production differs from others in that by expending comparatively small amounts for investigation, the operator can determine within reasonable limits the cost and expense of the development and the amount of oil which he may expect to recover, so that if he can determine the price at which he will sell the oil, he will know what to expect in returns. In the Mid-Continent field, it is my opinion that the present price of $1.40 to $1.50, including subsidy, will not justify development of properties where less than 3,000 barrels per acre can be anticipated. A price of $2 or even $1.75 would vastly increase the areas in which secondary operations could be successfully conducted.

The secondary operator is also intensely interested in the preservation of stripper wells for the reason that the abandonments of these wells so affect the sites of future secondary recovery operations that they may be lost forever for that purpose, or if not, the cost of secondary operations will be very much increased. When properties are to be abandoned, they are dead horses as far as the owner is concerned, and he tries to get away as cheaply as possible, so he takes no more precaution in protecting the oil reservoirs than is absolutely necessary by law. This is particularly true when the properties are sold as a whole to dealers in second-hand oil-field supplies. He is interested only in the profit from his deal, and as a result, thousands of abandoned wells are improperly plugged. As a result, uncontrolled extraneous water often infiltrates into the reservoir, rendering secondary recovery methods ineffective. On one lease we found 25 percent so affected. Even when the abandoned wells are properly plugged, another problem arises for the secondary recovery operator. As he starts introducing pressure into the reservoir, the fluid contained seeks the path of least resistance, which often leads to these abandoned wells and the oil and water pushes its way to the surface. It is then necessary to redrill and replug these wells, adding greatly to the cost of the development.

As an example of this condition, on a development covering 400 acres in the shallow fields of eastern Kansas, it was necessary to redrill and replug 106 wells at a cost in excess of $50,000. In shallow areas it is often cheaper to plug and abandon existing stripper wells and drill new ones than it is to recondition the old ones for use in water flood, but as the well cost increases in deeper territory, the re-
verse becomes true, even to such an extent that if the existing wells were abandoned, it is doubtful if secondary recovery can be undertaken except in very high recovery areas, unless crude prices rise to a point beyond present expectations.

The problems of the secondary recovery and the stripper well operator cannot be solved without an adequate crude-oil price. There is some diversity of opinion among operators as to how this adequate price is to be obtained. Certainly the present situation with a depressed ceiling and a war subsidy is not the answer. Other testimony has shown that price controls are no longer needed to prevent inflation, but with the return of a free economy some operators feel that flush production will be the guide to oil prices and that these will be insufficient to support stripper-well economy. They claim the past 20 years' experience demonstrates this fact. They believe there should be a permanent differential between the price paid for oil produced from stripper and secondary recovery properties and that paid for oil produced from flush properties. It is generally accepted that this differential cannot be paid within the industry itself—in fact, it would probably be unlawful under the antitrust laws; therefore, the only source from which this differential can come is the Government itself, or by tax on imported oil to be impounded for the benefit of small-well operators. Their argument in behalf of the justification of this differential falls into two general lines of reasoning.

First. That although only about 15 percent of the total production comes from stripper and secondary recovery wells, nevertheless about 300,000 of the total of 400,000 oil wells in the United States fall into the stripper-well class. The forced abandonment of any large proportion of these would seriously affect the economy of hundreds of small towns and throw thousands of workers out of employment. A large proportion of these workers have grown old on the job and if thrown out of employment would have great difficulty in obtaining new jobs. They believe that these local dislocations throughout the country would have an appreciable effect on the national economy.

Second. That from a conservation standpoint it is to the advantage of the country as a whole that this differential shall be paid in order to protect and preserve petroleum reserves which otherwise might be permanently lost. They believe that these reserves which are in danger are in such magnitude that the comparatively small cost now will be more than repaid by the larger supplies at reasonable prices which will be available to future generations. Another group of which I am a member, while agreeing on the underlying principles advanced, believes that a different method of approach should first be tried to accomplish their fulfillment. Oil producers as a whole, and particularly the small-well operators, have been so discriminated against in the past, especially in the early years of the war, that many of them are now grasping at straws for self-preservation without thinking the problem through to the end. We believe that any permanent subsidy paid from public funds is the entering wedge of Government control which, if followed to a logical conclusion, may eventually lead to the nationalization of the entire oil
industry. The nationalization of one great industry might easily lead to nationalization of all industry and state socialism.

If there ever were a class of men who loved and were willing to fight for their freedom and individual rights, it was the pioneers of the oil business, and we must carry on the tradition they founded. We believe that all members of the industry, both great and small, recognize these dangers, and if the present Office of Price Administration price controls are lifted, they will all cooperate to the solution of our problems and crude-oil prices will be realized which will be based on the raw commodity itself and its replacement cost. If such a program is carried out, we believe there will be a sufficient crude price to protect the small-well operators, and the reservoirs under their wells will not be lost, without having to take nourishment from the public purse.

Even though the great majority of all divisions of the industry unite in this program it cannot be carried out unless we also have the cooperation of Congress in protecting us in a—

1. Sound import policy.
2. Supporting the interstate oil compact in allotting production allowables to the various States to meet market demand and prevent loss.
3. A reasonable tax program.

I have great faith in America and Americans, and if we all earnestly work for it, I believe this program of cooperation within the industry itself and with Congress can be carried out to the benefit of all.

The CHAIRMAN. How many more witnesses do you have?

Mr. RUSSELL BROWN. The industry necessarily has a great number of factors and different elements in its make-up. We have presented here some of the testimony from the independent petroleum associations who are independent producers from the National Stripper Well Association, an association of the smaller well operators. We will develop the effect of the secondary recovery.

One of the largest so far as investment is concerned, probably the largest association of its kind in the country, is the American Petroleum Institute. In order to get this testimony into 1 day's time, we have tried to avoid duplication. Mr. William R. Boyd is present, of the American Petroleum Institute. They have some witnesses.

Mr. Frank Porter, who is president of the Mid-Continent Oil and Gas Association, would like to make an appearance. After that, I would like to make a few suggestions as to a possible remedy.

The CHAIRMAN. Do you have any additional statements you wish to put into the record?

Mr. RUSSELL BROWN. I would like to introduce Mr. William Boyd, president of the American Petroleum Institute.

Mr. Boyd. Mr. Chairman, you have graciously permitted us to schedule witnesses. I thank you. Those three witnesses are Mr. Walter S. Hallanan, president of the Plymouth Oil Co., of Pittsburgh; Dr. Robert E. Wilson; and Mr. J. Howard Pew, president of the Sun Oil Co., of Philadelphia. I should like to ask permission for them to appear in that order.

Mr. Hallanan.
STATEMENT OF WALTER S. HALLANAN, CHAIRMAN OF AMERICAN PETROLEUM INSTITUTE

Mr. HALLANAN. Mr. Chairman and gentlemen of the committee, my name is Walter S. Hallanan. I am president of the Plymouth Oil Co. and the Big Lake Oil Co., of Pittsburgh, Pa. Both of these companies are engaged in the business of producing crude oil from properties mainly located in Texas. During the war emergency, I served as chairman of the production committee of district 1 under appointment of the Petroleum Administrator for War. I was also a member of the Petroleum Industry War Council and was chairman of the general production committee of that organization.

Today I appear before your honorable body as chairman of a special committee of the American Petroleum Institute to petition your favorable consideration of the unanimous plea of the petroleum industry, every segment and division of it, to be relieved from the strait-jacket of Federal price control. Instead of holding the price line, it is now realized that the Office of Price Administration is holding up the production line. Every group of the industry has joined together in this appeal to the Congress that we may be liberated from the shackles of the Office of Price Administration control and that we may now be given an opportunity to meet the constantly variable problems of this great industry through a free economy operating under the competitive system of free enterprise. We present a united front in asking Congress for this relief.

The committee of the American Petroleum Institute was directed to present to your body its views and informative data bearing on the following subject:

1. To explain the present supply and demand situation of our industry and the unbalances and inequities created by the operation of peacetime price control.
2. To summarize the fundamental difficulties with, and bad effects of price control in peacetime.
3. To urge and supply the information which justifies prompt elimination of price control in the petroleum industry.

Particularly do I desire to dwell upon "the forgotten man" of the price control program—the American oil producer. For almost 5 years this indispensable figure in our economy has been a victim of an inflexible and unrealistic price structure. The oil producer, along with the other segments of the industry, has ever been deeply conscious of an obligation to provide the American people with an adequate and low-cost supply of crude oil and petroleum products. That obligation has been fulfilled both in war and in peace.

To the best of its ability, the oil industry is intent upon carrying out its obligation to serve the national interest. Its purpose is to get available oil products to customers in plentiful supply at the lowest price consistent with a healthy industry. This it cannot guarantee the public so long as it is hamstrung by inflexible restrictions and prohibitions that no longer have any color of justification.

The Office of Price Administration controls were provided by Congress for the purpose of preventing runaway prices of commodities and products in scarce supply during wartime and in the reconversion period. There is today an adequate supply of petroleum, and the
principle of price control is consequently wrongly and dangerously applied to petroleum products. I say "dangerously" because it is a fact that seasonal shortages of certain types of heating oils the past winter were Office of Price Administration created, and any scarcity which may arise will be due solely to continuation of Office of Price Administration control over the industry.

A specific example, Mr. Chairman, of the effect that production restriction by price control has on the motoring public is the present shortage of metallic lead which is now in such short supply due to a demoralized economy that current allocations of industrial lead are so limited that the American motorist is now confronted with the prospect of a return to the inferior wartime gasolines with their pings and knocks—simply because without enough lead the high antiknock rating of postwar gasoline cannot be economically maintained. Here again the petroleum industry may be blamed by the public for a fault that, like so many others, sprang directly from the Office of Price Administration.

I may say that the petroleum industry here and now disclaims responsibility for future low-cost supply of petroleum products to the American public if the Office of Price Administration controls are continued; but if the industry is permitted to operate under the flexible law of supply and demand, it is confident that it can furnish an adequate and continuous supply of crude oil and its products at reasonable prices.

Because of unnecessary continuation of the Office of Price Administration regulation of the oil industry since VJ-day, there have been many bottlenecks and hindrances in getting petroleum products to the American people at fair prices. This situation will become progressively worse if the industry is unnecessarily kept in a "straitjacket." It is in the public interest that this situation should be recognized immediately and corrected promptly.

Petroleum supplies are now ample to meet all foreseeable demands if they are not subject to frozen and unrealistic price structures. On any yardstick that would measure adequate supplies to take care of all demands, the petroleum industry is ready to meet every test. After many months have elapsed since the close of the war, during which we mobilized every resource at our command to fill every need of our fighting forces on every front, this industry which gave forth oil and petroleum products in quantities and kind never dreamed of before, finds itself locked up in the hands of Federal bureaucrats who seek to impose their distorted economic will over our destiny and the welfare and security of the American people. It becomes increasingly evident that certain groups which enjoyed the exercise of far-reaching power during wartime, prefer indefinite continuation of their wartime power to direct the Nation's economy. Having had a taste of power, they found it a sweet morsel, very much to their liking. They are loathe to give it up now.

I submit that there is no room in a free America for any Government control that is exercised for control's sake alone. There must be some sound justification in the public interest. That justification does not exist today insofar as the oil industry is concerned; it has not existed since the end of the war, and there is no foreseeable circumstance under which it will exist. On the contrary, it is decidedly in the public
interest to remove Government control now so that the oil industry may be free under the flexible law of supply and demand to meet the variable and seasonal problems which are peculiar to the industry.

There is nothing complex about the situation in the oil industry. There are no algebraic equations involved. The facts are simple. The price of crude oil was frozen by Government decree at a depressed and subnormal level, even before the Office of Price Administration enjoyed statutory authority. Wasteful production in Illinois had resulted in a price cut of 20 cents a barrel throughout the midcontinent area in 1938. Only a part of this price cut had been restored when prices were frozen at a similar time when the Office of Price Administration refused to permit one of the leading purchasers of crude to put into effect a 25-cents-per-barrel increase which was then entirely justified by market conditions. While crude-oil prices have remained fixed throughout this war, except for nominal spot adjustments permitted in some fields, prices of all other essential raw materials have been allowed to increase until they exceed parity with the 1926 price level. According to the United States Department of Labor, the wholesale price of all commodities in January of this year was 107.1 in comparison with the 1926 price of 100. But for the same month the same agency reports that the wholesale price of petroleum products was only 62.1. In the meantime, production costs doubled and finding costs of oil multiplied from five to ten fold.

This subnormal price structure, gentlemen of the committee, has been maintained in the face of recommendations for an upward adjustment from every public agency which studied the question, including the Petroleum Administration for War, the Petroleum Industry War Council, several committees of this House of Representatives, one committee of the United States Senate, the Interstate Oil Compact Commission, the House of Representatives itself, and the governors and other public officials of practically every oil-producing State in the Nation. Insofar as the oil industry is concerned, the price-control program has been administered with utter disregard of the law. When Congress enacted the price-control statute, it was keenly aware of its potential destructiveness if unwisely and unfairly administered. It provided that price ceilings should be established with relationship to costs and profits during the 1936-39 base period, and further provided that the Office of Price Administration should appoint advisory committees from each industry and consult with such advisory committees and give full consideration to their recommendations. May I say to this committee that it was not until a short period before the end of the war that the Office of Price Administration agreed to appoint and consult with an advisory committee from the oil industry. This concession was wrung from unwilling hands by the persistent efforts of a committee of this House, the Select Committee on Small Business, of which Representative Patman of Texas is chairman. In the meantime, price ceilings on crude oil have been held without any relationship whatsoever to the 1936-39 base period.

After denying for 2 years that any relief was needed by the oil industry in order to stimulate production and to safeguard reserves, the Office of Price Administration, in response to indisputable facts presented by congressional committees and other public agencies,
finally provided a subsidy for wells producing less than 10 barrels per day which is costing the taxpayers from $60,000,000 to $75,000,000 per year. This action was taken over the protests of the industry, which knew that a subsidy could not possibly produce the desired results and which likewise was aware that, touching only a bare, small percentage of the Nation's total production, it was wholly inadequate and unsatisfactory; it was merely the subterfuge by which Peter was robbed to pay Paul. The industry knew that the subsidy was nothing more nor less than an opiate which would deaden the pain without curing the disease.

In any event, the subsidy was made effective amid pronouncements by the Office of Price Administration that here was the answer to the decline in exploratory drilling and to declining production in the stripper fields, particularly in the Pennsylvania grade district which produced the high-grade lubricants then so vital to the prosecution of the war. The highest subsidy paid anywhere in the Nation—75 cents per barrel, was given to producers in that district.

The result of the subsidy was that the decline, both in production and exploratory drilling in this field, was not only continued but was actually accelerated. When this factual condition was brought to the attention of the National Oil Policy Committee of the United States Senate, Mr. Orville Judd, then head of the Oil Price Section of the Office of Price Administration, advanced the amazing contention that the subsidy had never been intended to provide an incentive for the discovery and development of new reserves. He quoted the Honorable Fred M. Vinson, then Director of War Mobilization, as having told him that the subsidy plan "was not promulgated as a stimulus for exploratory drilling." In this connection I hope the members of this committee will bear in mind that the basis of every recommendation for a crude-oil price increase that had been made by all the public agencies that I have named was the imperative necessity for encouraging exploration in order that reserves so heavily drawn upon in the war effort might be replaced and the Nation thereby assured of a plentiful and continuing supply of petroleum products throughout the foreseeable future. It was in response to these recommendations and to the action of the House of Representatives itself in passing the Disney bill, making mandatory an upward adjustment in oil-price ceilings, that the subsidy was made effective by the Office of Price Administration.

As I have said, the insistence and persistence of the House Committee on Small Business finally compelled the Office of Price Administration to obey the plain mandate of the law by appointing an advisory committee for the oil industry. That committee made its report last month showing that the gross income per barrel of oil in 1944 was actually 36 cents less than the cost of finding, developing, and producing that barrel of oil. With costs continuing to increase during 1945 and the early part of this year, the discrepancy is far greater today. The committee reported that an average price of $1.99, exclusive of subsidy, would have been necessary in 1944 in order to have maintained the base period margin of 45 cents per barrel. The committee recommended an immediate increase of 35 cents per barrel.

The response of the Office of Price Administration to this report of its own advisory committee—a comprehensive document of incon-
trovertible facts—was to announce an increase of 10 cents per barrel, which is less than one-quarter of a cent per gallon, to be effective at some undetermined future date. It is perhaps not without significance that this grudging and wholly inadequate increase was given at a time when the Office of Price Administration was fighting for its continued existence. The record would seem to justify the suspicion in the oil industry—a suspicion which pervades other segments of our economy—that in their loudly proclaimed determination to hold the price line the bureaucrats of the Office of Price Administration are not entirely without purpose and desire to hold their own power over every branch of American industry. The 10-cent figure was obviously “pulled out of the air.” It bears no relationship whatsoever to equity or adequacy. In the light of the record, it is not a stretch of the imagination to conceive that had it not been for the fact that the Office of Price Administration’s own life was hanging in the balance, the report of the advisory committee would have received the same lack of consideration that has been given in the past to the reports and recommendations of other public bodies.

Those are the simple facts about the administration of the Price Control Act with reference to crude oil and petroleum products. The result has been a creeping paralysis in the oil industry. Literally thousands of small, independent producers, whose production costs are naturally higher than those of the major integrated companies and who have no sources of revenue outside of production, have been driven out of business.

And may I call your attention to this? It has always been the small independent in the business who has carried on the bulk of the exploratory work. Three-fourths of the oil reserves which this Nation has today were discovered by these independents.

To the extent that the independent oil producer discovers the replacements which keep our reserves in the balance with production, he represents the foundation of the industry. You cannot tear down that foundation without undermining the whole structure and when the structure goes down, the Nation’s peacetime economy and security go down with it. We must be certain in looking to the interests of the immediate future as well as the destiny of our posterity, that we shall not become a “have-not” Nation with respect to our petroleum reserves. The civilization of which we boast in this great land is inseparably linked with the oil that flows from the “wildcatters’” projects.

The people are concerned with the question of whether the crude-oil productive capacity in the country today is sufficient to meet all requirements. The answer is yes. There is not only enough capacity to meet the needs but some to spare.

The requirements for 1946 as estimated by the Petroleum Administrator for War, with additions made to cover the revised requirements of the Navy and War Shipping Administration is 4,381,000 barrels daily. The actual production during the 4 weeks ending March 2 was 4,710,000 barrels daily. The surplus productive capacity is therefore more than 300,000 barrels daily. Actual production during January and February of this year resulted in a large accumulation in stocks even though this was a period of peak requirements. As a result, production in March has been cut down to about 4,400,000 to prevent further accumulation.
There can be no doubt as to the present crude-oil productive capacity being in excess of maximum requirements.

What of the future? That will in our opinion depend on price control. The question will naturally be asked: Will lifting of price control result in an increase in crude and product prices? The answer is, most probably, yes. The real question is: would such an increase be in the public interest? I will not try to answer that question but will state the facts to your committee:

With present price ceilings on crude oil, the return to the producer is less than his cost of replacement. In order to maintain production, new fields must be found because the old fields are constantly declining in productive capacity. As a matter of fact, three-quarters of our production comes from one-quarter of the wells. If there were no new drilling of any kind, the productive capacity would fall below requirements within a year.

To drill enough wells and find enough fields to sustain productive capacity requires a tremendous and increasing amount of capital each year. Capital is attracted into this risky business only if profits are possible when the driller is lucky enough to find at least an average amount of new oil. However, when the cost of finding and producing oil costs more than the sales price of the oil, as it does today, it may be expected that drilling activities will decrease markedly. This will result in a short supply of crude oil within the near future. Is this in the national interest? The military people tell us it is not. How about the public, the average consumer of gasoline, kerosene, and heating oil? He may save as much as 1 cent per gallon on his purchases for perhaps a year. Is it worth it to him to have this country become a have-not nation as regards oil? Consideration must be given to what his cost will be in later years when the Government, realizing the danger to the Nation resulting from the mistakes it made this year, attempts to rectify them by high cost synthetic production—perhaps subsidized, but still at the taxpayers' expense. Or maybe they will simply return to rationing the public on gasoline and other petroleum products.

It is easy to hold prices artificially low and appear to be acting in the public interest when you do not have to bear the responsibilities of the future. Certainly, many oil companies can stay in business and produce some oil for a considerable time at the present prices, simply by liquidating their assets, their underground reserves, and not replacing them. No oil company wants to do this and I do not believe the public wants it.

The old adage "You can't get something for nothing" is just as true today as ever. If the sole object is to have the lowest possible price for oil, then the public must be willing to put up with shortages, low quality and lack of reserves for a national emergency. We saw what oil meant to us in the last war. A healthy, expanding industry was a national asset then, and we do not believe it has ceased to be. We wonder what the public will think when they realize where the present policies are leading.

From the day of its completion, an oil well is a liquidating enterprise. As its reserves are liquidated, many direct and indirect charges must be paid. Part of the numerous costs of exploration and discovery must be paid by the revenue remaining after the payment of land-
owners' royalties and property taxes. Then the cost of drilling must be amortized and the daily costs of operation met. Then come overhead costs and Federal taxes and from what remains must come the profit and the increased fund for the replacement of reserves, and for this latter purpose the prevailing depletion allowance is an absolute essential.

In July 1941, the crude oil production of the United States averaged 4,019,800 barrels or 168,831,600 gallons daily. Most of this oil was being produced by efficient methods intended to obtain maximum ultimate recovery from the reservoirs. As the result of costly experience, 10 or more years previously, it was known that several of the newer fields had a productive capacity somewhat in excess of the most efficient rates of production, and it was the fervent hope of those most concerned that this reserve productive capacity would see us through the demands of the war that then seemed certain to engulf us.

It is well known now that it was the reserve productive capacity of a number of new fields that shortened the war and assured victory, for the utmost production of the 300,000 settled and stripper wells, and of thousands of new wells drilled under such handicaps during the war, would still have fallen far short of the magnificent total of 5,197,500 barrels, or 218,000,000 gallons of petroleum daily that was required in July 1945 to smash our last enemy. Without this reserve of oil to hurl against our enemies, it is doubtful if we could have fought two wars at once without completely crippling our civilian economy by oil rationing of unbelievable severity.

Many of the fields that contributed so heavily to the call for oil, regardless of price or future, are now far less productive than they would have been under continued good production practice. Their owners, gentlemen, have paid heavily and without recompense for the excessive depletion of the reservoir that the wasteful emergencies of war forced upon them. Perhaps this now comes in the category of water over the dam, but the war-taught fact remains that our national security will henceforth demand an almost instantly available reserve productive capacity of at least 25 percent greater than our ordinary needs. With reasonable freedom of action and some encouragement, the petroleum industry will do its part in maintaining this vital reserve capacity, but it has no relish for again being penalized for its efforts.

Gentlemen of the committee, the war we have so recently won was an oil war. On the sea, in the air, and on the land, oil was one of the great factors that gave us superiority and ultimate victory over our enemies. Our Allies looked to us for the oil to carry on their victorious advances. If those who blazed the trail in the past generations in finding oil had been compelled to build our great crude reserves and our refineries and distribution lines with an Office of Price Administration mandate over their heads, there might have been another story to tell today. Those crude reserves from which flowed the high octane gasoline, the lubricating oils and the fuel oils that took our Navy armada to the four corners of the earth, would not have been there. We have our oil reserves today because the American oil producer—the "wildcatter" if I may use that name—went forth to take a chance in the most hazardous business in the world: finding oil. That would not have been the case if he had thought it would be necessary to see
his product sold under an arbitrary price structure that denied him a fair price for his product. It would not have been possible if he had been told that he had to sell his product for less than he could replace it. Under "frozen" price structures, the profit margin is entirely inadequate to attract the venture dollars that have been responsible for past discoveries of new crude oil reserves.

It has been said by some poorly informed persons, and by some others who were not so poorly informed but who were desirous of creating dissension within the industry, that the larger companies have been pleased with the liquidation of the independent oilman and with the consequent trend toward control of the industry by a few large, integrated corporations. That belief is wholly without foundation. In making that statement, I am speaking as the representative of companies which are not classified among the majors. The executives of the major companies are fully conscious of the perils inherent in monopoly. They are likewise fully conscious of the fact that the industry as a whole cannot be prosperous unless that prosperity extends to every group within the industry. It is an industry structure and no part of it can be injured without disturbing repercussions all down the line.

The Office of Price Administration propagandists have attempted to obscure the fact of the liquidation of the independent oil producer by proclaiming from time to time that few oilmen have gone bankrupt throughout the period of price control, and by repeated assertions that the industry has enjoyed "satisfactory profits." It is true that very few oil companies have resorted to bankruptcy in the last few years, but this does not mean that literally hundreds of producers have not been driven out of business. The oilman has not chosen to make his retirement from business by way of the bankruptcy courts. He sells out his property to more favorably situated units within the industry or merely liquidates his affairs, pays off his debts, and seeks some other line of endeavor. It is not without irony that as he was following his course he would read the Office of Price Administration statements about his "satisfactory profits."

Let us look for a moment at those so-called satisfactory profits. This is a subject which has furnished a Roman holiday for the scaremongers of the Office of Price Administration who manufacture the propaganda of that organization and feed it to the public in the form of speeches and public statements. To them the very word "profit" seems to be evil and unwholesome and to connote some sinister purpose. Indeed, when representatives of industry come to Washington to exercise their constitutional right to petition their Government to provide them with the necessary profit margin to permit them to survive, the Office of Price Administration propaganda mill grinds out words of calumny upon the heads of these men, branding them as greedy profiteers who, in reckless and irresponsible fashion, are willing to bring on ruinous inflation in order to line their own pockets.

The oilmen of this Nation are deeply conscious of the ruinous effects of unbridled inflation. They are just as desirous as anyone of preventing any such tragic condition in this country. I think I may say with pardonable pride that, measured over the years, they have demonstrated a capacity for vision and action. Their record is one of the marvelous achievements by private industry. Since the First World
War, we have quadrupled our crude-oil-producing capacity, found and put to use enormous volumes of gas, increased our yield of gasoline from a barrel of crude oil by 75 percent, built 100,000 miles of pipe lines, and not only quadrupled refinery capacity but changed refinery technology to an amazing extent.

During the 23 years, 1919 through 1941, we drilled 551,676 wells in the United States, of which 136,881 were failures. In 1918, United States Geological Survey estimated the crude oil of the United States, both "proved" and "to be discovered" at only 7,000,000,000 barrels, and the automobile industry feared that an oil shortage would hamper its growth. Since that period, our private oil industry has produced 27,000,000,000 barrels of oil and still has proved resources of 20,000,000,000 barrels, while we continue to discover new fields.

The great network of highways and roads covering the United States was built by Federal and State governments largely out of funds derived from special taxes levied on automobiles and the consumption of oil products. In the case of gasoline alone, the States were collecting taxes at the rate of $948,038,000 yearly in 1941. Along these roads and highways the oil industry has established the greatest distribution system in the world. During normal peacetime in America, a so-called nation on wheels, the motorist is rarely, if ever, beyond reach of a service station where he is assured of fine products and exceptionally efficient service.

A business dealing with so vital a product, organized so efficiently, and enjoying so rapid and constant an increase in consumption, might perhaps be expected to earn a great rate of profit and pay dividends at high percentages on investment. On the contrary, the industry's profits, large in total dollars, have been small in relation to the investment, because the investment in dollars has grown so great. It has been able to pay dividends at only modest rates. In the past 20 years they have averaged only 4 percent on net depreciated investment.

Those engaged in the oil industry are practical men. They are concerned with facts—facts which convince them that the only way to assure this Nation of a continuing adequate supply of petroleum over the years to come is to remove the blighting hand of bureaucracy from the industry's throat. In that way, and in that way only, will we achieve the production necessary to meet demands and at the same time maintain an adequate ratio of new reserves. That is the way to prevent inflation—the only certain way to do it. The Petroleum Administrator for War, in commenting upon the theoretical oil reserves projected by statisticians outside of the industry, aptly observed that you could not discover oil with a pencil. By the same token, permit me to say that you cannot stop inflation by incendiary and scaremongering speeches. Inflation can and will be prevented only by exercise of the full capacity of America's enormous productive facilities, unhampered by straight jacket controls lodged in hands that are without comprehension of the problems involved.

As I have said, the Office of Price Administration propagandists have made much of the so-called satisfactory profits of the oil industry during the war. They have selected a particularly favorable earnings statement which suited their purpose and have given it to the public with the implication that it represented a fair cross-section of the industry. They have failed to take into account that such apparent profits as have appeared result from the exhaustion of assets developed
with capital invested years ago and that cannot be replaced except at much greater cost. In effect, therefore, the so-called profits are largely the liquidation of capital.

High production during the war drew heavily upon crude oil reserves accumulated in prewar years. Those reserves, produced during the war and currently, are being only partially replaced with new crude oil reserves, discovered and developed at much higher cost. The industry has disposed of a substantial part of its low-cost inventory of crude oil in the ground at prices which do not stimulate sufficient exploratory and development drilling.

It is axiomatic that if you sell goods off your shelves and do not replenish those shelves, you are liquidating. The oil industry resists its involuntary liquidation. It wants to continue on a going concern basis. It is motivated not alone by the instincts of self-preservation but by the knowledge that the national economy cannot survive without an adequate supply of petroleum.

The replacement of reserves is nothing new in the oil industry. It is one of its major normal operations, and during the base period of 1936-39, 63 percent of the industry's gross income was put back into exploratory operations. That percentage has declined precipitately since 1941 because the Office of Price Administration price ceilings did not permit the industry to carry on its major normal operation with any expectation of deriving a reasonable profit therefrom. In 1941, the percentage fell to 52 percent, and in 1942 and 1943, it dropped to 41 percent.

The American petroleum industry is built upon the crude oil producer. The needs of the millions of petroleum consumers in this country eventually fall squarely upon the owners and operators of the 425,000 oil wells in the United States. The responsibility of the industry for so much of the present pattern of life in this Nation is not so lightly held nor casually regarded by those who through four generations of the history of petroleum have inherited and steadily developed the creed of continuing service. In the brief interval between two global wars, the demand for petroleum multiplied fivefold—and so did the supply. The degree to which that supply will continue to meet a positively increasing demand depends very largely upon the liberation of the petroleum producer from the artificial and unnecessary shackles of a misplanned economy which now imbue the oil producer with a futile feeling of despair, discouragement, and disgust. So long as this attitude continues, the future oil supplies of this Nation are in jeopardy.

It is not necessary for me to recall the many declarations made before this committee and in other statements by Office of Price Administration spokesmen that price controls would be removed from any commodity when the supply became adequate to meet demand. In the oil industry that day arrived last August. But the only word that has come from the Office of Price Administration—word, incidentally, that came only after urgent request by a member of your committee—was a letter from Mr. Bowles stating that it might be “possible” to suspend price controls in the oil industry sometime within the next 6 months.

The oil industry insists that it is not interested in a mere suspension of price control, either now or at some uncertain date in the future. We are asking Congress for our full freedom. We do not want the
probationary and restricting hand of the Office of Price Administration on our shoulder. We want to be restored to our status as a highly competitive industry. We want the opportunity to survive. We seek to conduct our business entirely unhampered by the restrictions which were imposed by Congress only as a war emergency.

The war is now behind us and we ask that the restrictions born of that war also be placed behind us. We want the opportunity to go forth as free Americans to develop the vast oil reserves of the Nation and to be enabled to make the same kind of contribution to national security and prosperity as we have in the past. The greatest incentive to that goal would be immediate release from the strangling hold of Federal price regulation. We submit that on the facts and the record we are entitled to that consideration forthwith.

The Chairman. Mr. Russell Brown, the House is now in session. It is obvious we cannot conclude in the next few minutes. We will adjourn and meet at 2 o'clock.

(Whereupon, at 12:30 p.m., the meeting recessed, to reconvene at 2 o'clock of the same day.)

AFTERNOON SESSION

The Chairman. The committee will be in order.
Who is your next witness, Mr. Brown?
Mr. Russell Brown. Mr. Wilson.
The Chairman. You may proceed, Mr. Wilson.

STATEMENT OF ROBERT E. WILSON, CHAIRMAN OF THE BOARD, STANDARD OIL CO. OF INDIANA

Mr. Wilson. Mr. Chairman and members of the committee, my name is Robert E. Wilson. I am a resident of Chicago, Ill.
For a year prior to our entry into the war, I was head of the Petroleum Unit of the National Defense Advisory Commission, and later the Office of Production Management.
During the war I was Chairman of the Technical Committee and of the Committee on Petroleum Economics of the Petroleum Industry War Council.
I am chairman of the Board of the Standard Oil Co. of Indiana.

Previous witnesses have made it clear that there is plenty of crude oil available to meet all prospective needs for the foreseeable future. I shall devote my remarks on behalf of the American Petroleum Institute to the adequacy of refining capacity and its ability to make abundant quantities of the various petroleum products. The facts are very simple and readily demonstrable.

To put the entire problem in a nutshell, the petroleum industry has an excess of refining capacity and transportation facilities. The stated office of Price Administration policy is to remove controls when productive capacity is adequate. Continued adherence to present price controls are introducing serious dislocations of supply and pauperizing the refiner to the extent that his ability to serve the public is being jeopardized. The only shortages of any products experienced since the war have been brought about by the Office of Price Administration's disregard of repeated warnings that the frozen industry
price structure did not fit the postwar demand pattern. I shall develop these essential facts in greater detail.

The effective refining capacity of the industry at the present time is approximately 4,900,000 barrels of crude per day, not allowing for the completion of units now under construction. The refining branch of the industry actually ran at a rate of 5,000,000 barrels per day during the latter part of the war period. Last fall the Petroleum Administration for War estimated the average crude runs necessary during the year 1946 to be 4,200,000 barrels per day. Apparently the military, and particularly the naval, and the War Shipping Administration portion of this demand was somewhat underestimated. Latest revised estimates of the requirements of these agencies for the year 1946 will necessitate an increase of crude runs over the previous estimate by about 200,000 barrels per day. This requirement of 4,400,000 barrels daily of crude runs still leaves spare capacity of more than 500,000 barrels, or 21,000,000 gallons, per day.

The question may logically arise, in view of the adequacy of crude and of refining capacity, as to why we have heard so much discussion during recent months of prospective and actual shortages of kerosene, distillate, and residual fuels. These have given the industry and its customers real concern. The fundamental causes are as follows:

Ours is a multiple-product industry which has substantial flexibility as to the relative amounts of different products which can be made from a barrel of crude. The average percent of gasoline present as such in crude oil is only about 23 percent but with the present installations of cracking, and particularly catalytic cracking equipment, it is today easy to produce a total of well over 50 percent gasoline by cracking kerosene and the heavier oils. As a matter of fact, it is not practicable to reduce the country's average yield of gasoline much below 36 or 37 percent and still maintain adequate quality, as the products and byproducts of cracking are essential to making good quality gasoline.

The following table and chart show the average percentage yields of principal products from a barrel of crude petroleum during 1941 and the estimated yields required for the year 1946:

This chart shows that in 1941 we got 44.2 percent of gasoline as against 37.4 estimated for this year. On the other hand, residual fuels went from 24.3 to 28.4; distillate, from 13.4 to 15.4; kerosene, from 5.2 to 5.3, a very major change in the demand pattern. The sharp drop in the required yield of gasoline between the two periods, and the higher yield of fuel oils now required, is due primarily to two factors: First, the demand for gasoline is off because registration of automotive vehicles in 1946 is between four and five million lower than in 1941, and, second, the strong demand for fuel oils resulting mainly from naval requirements for Diesel and residual fuels are far higher than for any peacetime year.

The sharp shift in demand did not come as any surprise to the industry. The need for a substantial change of operations was strongly urged last fall by all students of the petroleum industry. This was very clearly indicated in the report of the committee on petroleum economics of the Petroleum Industry War Council, dated October 23, 1945, which was made public immediately, and in the November
report of the Petroleum Administration for War. The industry and Petroleum Administration for War urged that the only way to bring about these changes was to reintroduce the flexibility of prices which had existed in the competitive economy prior to the war. What actually took place after these warnings?

The Office of Price Administration continued in effect price ceilings which were designed to produce the high gasoline yields needed in 1941. It did not lift price control nor did it take action all during the period when it would have been fairly simple to secure the moderate changes in yields required to meet this winter’s demand.

Production of the low-ceilinged fuel products was discouraged and shortages came into existence while excess gasoline piled up. The reaction by the Office of Price Administration to this growing problem was to recommend reinstatement of controls on the distribution of kerosene and fuel oils. This was vigorously opposed by the industry which could not see the justification of rationing the public in the face of abundant capacity to supply.

It was only after the situation on heating fuels became desperate that the Office of Price Administration granted meager increases of 0.5 cent per gallon on kerosene and 0.2 cent per gallon on distillates in districts I and III on December 19. It was not until January 24 that these ceiling modifications were changed to 0.5 cent per gallon on kerosene, burning distillates, and Diesel fuel in district II, and districts I and III were brought up to meet these levels. On February 20, district V was granted an increase in kerosene and distillates ceiling of 0.75 cent a gallon.

These changes in ceilings came very late in the winter to meet a serious situation. However, their effect was immediate and substantial. Supplies of kerosene and distillates were attracted to the market in adequate quantities to prevent the customer from suffering. This is strikingly portrayed by chart II.

Notice that kerosene stocks were running substantially below last year for the months immediately following VJ-day. Refiners could not afford to adjust yields to make more kerosene at the expense of gasoline because of established ceiling prices. On December 19 the first price adjustment was made in districts I and III. Note how rapidly the kerosene stock situation changed from one of potential crisis to normal. Did not the public benefit far more from this than from reintroducing rationing?

The price changes on kerosene and distillates came so late, however, that they were not able to overcome all the local shortages and, in fact, aggravated the shortage of residual fuel oil because nothing was done as to the price of the latter. If free competitive prices had existed, the price adjustment would have been earlier, and probably of lesser magnitude, and the consumer would have benefited. Considerable of the kerosene and distillate fuel would have been made at the expense of gasoline which was piling up in excessive quantities. As it was, more crude had to be run, and more gasoline stocks piled up until some refineries had to curtail operations due to lack of gasoline storage capacity. These dislocations would not have occurred if prices had been free to perform their normal regulatory function in our industry, especially for products where the demand is highly seasonal.
The failure of the Office of Price Administration to extend an increase of ceiling prices to residual fuel oil led to shortages of such a serious nature that the Secretary of the Navy called the industry together on March 8 and showed the urgent and immediate need for more of this type of fuel than is being secured to meet Navy and War Shipping Administration requirements. The ceiling price on this product had been held at unremunerative levels all through the war in spite of a large growth in demand.

Even with the price increase of 21 cents per barrel announced on Monday, residual fuel oil continues at a figure below the refinery cost of most crude oils and the refiner cannot afford to run more crude to produce residual fuel as a primary product. While he can afford to make somewhat higher yields from present crude runs, I doubt if the increase will be adequate to meet requirements.

Apparently it is believed in some quarters that if each product price remained constant, the income to the refiner and the over-all cost to the public for petroleum products would remain the same. This is not the case because the mere shift of yields from the 1941 basis to the 1946 basis would reduce the cost to the public and the gross receipts of the refiner by about 10 cents per barrel of crude. It is analogous to a butcher having to sell part of his potential steak as hamburger.

As a further illustration of the situation of the refiner, the National Refiners Industry Advisory Committee has presented a detailed statement of what is taking place with respect to refinery margins in the midcontinent area, one of our largest petroleum markets. The midcontinent refinery margin index represents a calculation of the value, on the basis of quoted refinery prices, of the products manufactured by midcontinent refiners from their crude runs as reported by the Bureau of Mines. This information is available for many years and by comparing the typical realization from a barrel of refined products with the prevailing posted price of crude oil at the well, it is easy to determine the approximate gross margin available to the refiner above his crude oil cost at the well. The margin is the total available to the refiner from which he must pay for gathering and transporting the crude to his refinery, pay all refinery operating costs and, if possible, produce a profit. The average margin so calculated for the years 1935 through 1941 was 54 cents per barrel. As of March 1, 1946, this margin was only 48 cents per barrel. Thus the refiner in the midcontinent, through lower gasoline prices and altered yields has already had his gross margins reduced by 6 cents per barrel of crude oil processed, and out of this reduced margin the refiner must—

(a) Provide the American consumer with a better quality gasoline at increased manufacturing cost;

(b) Pay the new increased wage levels which, including "shift" differentials, amount to more than 40 percent over 1941; and

(c) Meet substantially higher costs of all materials for maintenance and repairs.

As if this were not enough trouble for the refiner, particularly the small operator, the Office of Price Administration, early in March, announced that it proposed to increase crude prices by 10 cents per barrel and would "consider" possible increases in product prices. The National Refiners Industry Advisory Committee was convened on March 11, and impressed upon the Office of Price Administration that...
refiners could not absorb this increase from existing margins. Many refineries would have to close as they would be operating at losses, supplies coming on the market would be reduced, and the public denied merchandise needed. That committee strongly urged discontinuance of Office of Price Administration control of prices of refined petroleum products.

The most that the Office of Price Administration was willing to grant, at least for the present, was increases of one-half cent per gallon on tractor fuels, residual fuel oils and asphalts. These price adjustments, even if realized in total by all refiners, which will not be the case on account of competition and contractual commitments, would return the refiner approximately 5 cents per barrel on crude which is only half enough to compensate for the increased crude price which will be effective shortly. Many of the smaller refiners reported to the Office of Price Administration Advisory Committee that the crude price would entirely wipe out their profit margin.

Our industry is a clear case of one where capacity to produce and refine at a rate above demand has not been recognized by the Office of Price Administration in spite of its promise to decontrol when such a situation exists. We are not only suffering from a price strait-jacket, but we are tortured by one which is a bad misfit for the present demands of our customers.

Our industry is one in which frequent price changes are absolutely necessary in order to keep our yields adjusted to fluctuating seasonal demands for different products. The price history of the industry speaks for itself in this respect. Chart III attached shows on an expanded scale the seasonal fluctuations in the average Oklahoma wholesale refinery prices for gasoline and a typical distillate fuel for our prewar years. Without free prices as a guide, managements are hampered or misled in making the many day-to-day decisions necessary to fulfill their responsibilities to their customers.

Our industry is highly competitive, and with an adequate supply of crude and more than adequate refining capacity and transportation facilities, competition can be relied upon without question to keep prices reasonable, as they were prewar.

I might just point out that the service station price (ex tax) of our principal product, gasoline, on an average in 50 cities in the United States on February 1, 1946, was only 67.5 percent of what it was in 1926, and well below the ceiling, in comparison with the all-commodity price index which was 107.1 percent of 1926 on the latest available figures.

The plight in which the refining branch of the industry finds itself is an outstanding example of the undesirable effects of price control, which has created shortages in spite of repeated warnings, and has required months to grant price adjustments which are clearly justified. So far as I can discover, there has never been a peacetime shortage of any petroleum product in this country until under price control we had those of the past winter.

Does the public really want a price-control system which has been creating shortages when plenty could have been made available, which restricts the introduction of new products and qualities, and which, if continued for very long, will result in a pauperized industry unable to meet the Nation’s petroleum needs? Or do the American people want
an industry capable of meeting all requirements at competitive prices, constantly improving quality and developing new and useful products?

The Office of Price Administration has indicated to the National Refiners Industry Advisory Committee that we cannot expect relief from price controls until the industry goes through one of those processes of delay incident to filling out another series of its interminable questionnaires. Office of Price Administration representatives have repeatedly said that when supply is adequate, controls would be removed promptly, yet when our problem is presented, the best we have been able to get after many months of discussion, is Mr. Bowles’ recent statement to Congressman Patman that—

The Office of Price Administration believes a successful suspension program can be worked out for the industry within 6 months. * * *

May I remind the committee that “the way to resume is to resume.”

I can also assure you that with the pressure of 500,000 barrels of excess daily refining capacity there will be no unreasonable refinery profits but that free prices will once more perform their vitally important regulatory function.

While our frequent visits to Washington in recent months have served to make the Office of Price Administration, the Congress, and the industry more cognizant of one another’s problems, I feel sure that all three of us would be relieved and the public would be better served if we could go back and resume our full and proper responsibility for supplying the public and the military services with all their petroleum requirements at reasonable competitive prices.

The Chairman. Thank you.

Mr. Wilson. May these charts to which I referred be made a part of this record?

The Chairman. Yes; they may be inserted in the record.

(These charts above referred to are as follows:)

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Federal Reserve Bank of St. Louis
U.S. REFINERY YIELDS - 1941 ACTUAL VS 1946 REQUIRED

PERCENT

<table>
<thead>
<tr>
<th>Product</th>
<th>1941 Actual</th>
<th>1946 Required</th>
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</thead>
<tbody>
<tr>
<td>Gasoline</td>
<td>44.2%</td>
<td>37.4%</td>
</tr>
<tr>
<td>Residual</td>
<td>24.3%</td>
<td>28.4%</td>
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<tr>
<td>Distillate</td>
<td>13.4%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Kerosene</td>
<td>5.2%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Total Residual, Distillate, &amp; Kerosene</td>
<td>42.9%</td>
<td>49.1%</td>
</tr>
</tbody>
</table>
The CHAIRMAN. Mr. Brown, will you call your next witness?
Mr. RUSSELL BROWN. Mr. Pew.

STATEMENT OF J. HOWARD PEW, PRESIDENT, SUN OIL CO.

Mr. Pew. Mr. Chairman, my name is J. Howard Pew. I am president of the Sun Oil Co.

In seeking discontinuance of price controls, the board of directors of the American Petroleum Institute believe we would not discharge our full duty if we failed to point out that such controls are seriously retarding, disrupting, and strangling all enterprise to the detriment of the American people.

Jobs for petroleum workers, and continued service and quality products at reasonable prices for our customers, depend upon the well-being of all industries. They are our suppliers and our customers.
So integrated is our American economy that what affects any one of us affects us all.

Competitive enterprise, which has given 140,000,000 people a standard of living far above that which has ever existed elsewhere, cannot function to serve the public welfare half free and half regimented by artificially imposed price controls. Therefore, I am addressing you on behalf of all business enterprise and the consuming public.

Much that I have to say will revolve around the principle that business and industry must serve the public to succeed. This is best done through competition. To have competition we must preserve at all cost an environment in which the little man can continue to challenge the big fellow for public favor.

I learned this at my father's knee, and that faith in competitive enterprise has guided my life. Within my lifetime the company founded by my father grew from a very small enterprise to one of substantial size, although comparatively speaking, we are still one of the smaller units in the petroleum industry.

To me, American enterprise is one of the miracles of modern industrial democracy in that it enfranchises everyone with a cent in his pocket and provides him with a continual polling booth whereby he can elect, or refuse to elect, the suppliers of his wants. Strangling enterprise denies every citizen of this free choice.

I shall attempt to demonstrate to your committee that:

1. America's present manufacturing capacity, unless impaired by hampering restrictions, is sufficiently large to supply the public demand without price increases substantially above costs.

2. Price controls have retarded production, increased the deficit of needed goods and, if continued, will perpetuate scarcities and shortages, thus encouraging inflation and reducing the purchasing power of the consumer's money; and

3. Price controls can never be administered with fairness and in peacetime cannot be made to work without resort to increasingly severe, additional controls, thus eventually destroying competitive enterprise and individual freedom.

First, we should clear our minds of several misconceptions which Mr. Chester Bowles and his Office of Price Administration propagandists have created to confuse consideration of continued price controls.

The first is the failure to distinguish the great difference between price control during war and price control in peacetime. During the war our imperative objective was to produce the requirements of our armed forces. Nothing could be permitted to interfere with that end.

Our national strategy was to make war work as attractive as possible; to make all nonessential production unattractive. Producers of war goods were given material priorities. They were given fair profit margins. Their workers received sharply increased earnings.

Conversely, producers of nonessential civilian goods were denied critical materials, forcing them in many instances either to shift to war production or shut down. They were subjected to frozen price levels, which frequently caused financial losses. The salaries and wages of their workers lagged under governmental restrictions.

All of this had the effect of more than doubling our production and shifting 60 percent of manufacturing output to war orders. This was necessary and proper—otherwise we never could have become the arsenal for democracy which won the war.
When hostilities ceased, our national requirements changed. Our postwar objective overnight became the production of consumer goods in sufficient volume to give our people those things for which they had fought the war—homes and a better standard of living for everyone. Removal of road blocks erected against civilian production became imperative. The needs of our people demanded the restoration of a freely functioning market, historically the most effective stimulant of production in peacetime.

Thus ended all justification for price control. Along with other wartime controls, it should have been thrown overboard as quickly as administratively possible. Had this been done last fall, supply and demand in all industries now would be rapidly on their way to a point of balance. Instead, supply and demand have become more unbalanced and our people go without the things they want and need.

The avowed reason we have not abandoned price control is a specious argument that price increases cause inflation; that inflation helps none but hurts everyone; that the Office of Price Administration keeps down prices, and thus is the only barrier standing between the country and a devastating inflation.

This is double talk designed to deceive and confuse. It is putting the cart before the horse. Price increases no more cause inflation than wet streets cause rain. Wet streets are a result of rain and rising prices are one of the many disastrous results that follow in the wake of inflation.

Inflation results when there has been an expansion in purchasing power that is not matched by a comparable expansion in the production of real consumer goods and services. We have an inflationary condition today as a result of the monetizing of the Federal debt, and war-accumulated shortages in certain consumer goods, aggravated by Office of Price Administration controls.

The best and, I believe, the only effective, ways to halt this inflationary trend are to balance the Federal Budget at the earliest possible date and to stimulate the production of goods. This last can best be done by removing Office of Price Administration controls from business.

All this Office of Price Administration talk about industry promoting scarcities is bunk. The lifeblood of industry is abundant production and nothing would suit industry better than a peacetime level of production equal to that achieved in the war. There is no doubt, if the hobbles are removed, that industry can produce all the goods the public needs. The expansion of manufacturing production in 1940–44 is proof of that.

Taking 1939 as representing 100, the Federal Reserve Board Index of Manufacturing Production was 231 for 1944. The factors which more than doubled the manufacturing output were:

A $25,000,000,000 expansion of plant and equipment increasing over-all capacity by 50 percent over 1939.

A 50-percent numerical increase in machine tools, with an even greater rise in their actual operating capacity.

Increased utilization of existing facilities through second and third shifts.

A 60-percent increase in production of raw materials.

An increase in manufacturing employment from about 10,000,000 in 1939 to approximately 16,000,000 in 1944.
Of these 16,000,000 workers, 57 percent worked on orders for the armed services, 43 percent, or less than 7,000,000, produced goods for civilian use, according to the War Production Board.

This agency last year asserted:

It is especially remarkable that notwithstanding the massive shift of industrial resources to munitions production, the manufacturing industries managed to supply the civilian market throughout the war with about as much finished goods as in 1939, though somewhat less than in 1941.

Thus less than 7,000,000 workers in 1944 were able to produce about as much finished goods for consumers as were 10,000,000 workers in 1939. Of course, there were reductions in metal goods and other durable commodities, but these were offset by increased supplies of manufactured foods, textiles, furniture, and other commodities.

These facts are of the greatest significance. Not only did American manufacturing industry produce everything needed for the prosecution of the far-flung Global War, but it also produced in the same period a volume of civilian consumer goods at least equal to 1939, when manufacturing production was substantially as high as at any previous time in our history. And this was achieved in a year when 11,000,000 of America’s finest youth were in the armed services.

In view of these facts, why has manufacturing production fallen in February to 140 on the Federal Reserve Index? Why have manufacturing plants dropped 5,000,000 workers since the peak of production? Why are the things people want so slow in coming? Why the delay in building homes? We have all the expanded plant capacity that we possessed in 1944. With few exceptions, like shipyards, it can all be converted to the production of consumer goods. The output of these plants can greatly be increased by second and third shifts.

We continue to have adequate raw materials and, in the few cases where supplies are tight, we are able to draw on world supplies denied us during the war. Our civilian labor force is no less than it was in 1944 when 43 percent of those employed in manufacturing produced as much finished goods for civilians as in 1939. Surely this volume should be doubled when the 57 percent who were engaged on war orders are shifted to consumer products. It is simply absurd for anyone to argue that with these two groups at work there would be a scarcity of goods for any considerable length of time.

Price control and labor strikes primarily have been responsible for the failure to produce the consumer goods needed—and price control in large measure has been responsible for the strikes. Had industrial management been free to adjust prices and wages, and if the Government had not interfered, increased wage demands would have been reconciled without the lengthy strikes which have been so costly to everyone.

Even though a statistical showing of comparatively high peacetime production levels can be made, we know that we are not obtaining the goods the public wants most. Thus our production is out of balance with the desires of consumers. In a freely functioning market price changes quickly would correct such maladjustments. Price controls multiply the maladjustments until the entire production system breaks down.

At this point I desire to lay before you a very interesting report of a survey of the experiences of small manufacturers under current price controls, just completed by Opinion Research Corporation, di-
rected by Dr. Claude Robinson, generally recognized as preeminent in this field.

The Robinson organization made this survey as part of a program of regular polling of public opinion on subjects in which business and industry are particularly interested. My company subscribes to this service, called the Public Opinion Index for Industry. Dr. Robinson granted me permission to present copies of this report to your committee.

May I ask you to have that report in front of you?

Time will permit only a summary of the highlights. I urge that you study this report with care, for, in my opinion, the manufacturers whose testimony is the basis of this document make the most damning, factual indictment of the harm being done by Office of Price Administration price control that has come from any source.

In this survey a representative cross section of small and medium sized manufacturers in the concentrated industrial area east of the Mississippi and north of the Mason-Dixon's line were interviewed regarding the effect of the Office of Price Administration on their operations. The results constitute an accurate sample that can be applied to about 250,000 manufacturing enterprises in this country employing 1,000 or fewer workers.

This report shows that 70 percent of these manufacturers—roughly three out of four—say price ceilings are injuring their business; 63 percent say Office of Price Administration ceilings have been unrealistic in regard to costs; 51 percent say they have had to hold up introducing new products on the market because of price ceilings; 44 percent say they have had to stop marketing certain products because of price ceilings; 51 percent say they have had to curtail production of certain lines because of price ceilings; 40 percent say they will be forced to curtail or eliminate products if price ceilings stay where they are; 36 percent of this last number say that they would have to shut down their plants unless they get price relief.

Dr. Robinson reports that, after eliminating duplications, 67 percent of these manufacturers—roughly two-thirds—say they have already cut out or curtailed production on some items, or face that necessity in the near future. Of these, 53 percent say ceilings are restricting an important part of their production line.

The next series of answers indicates why these manufacturers are stopping or curtailing production. Despite Office of Price Administration ballyhoo about profits being greater than ever, only 14 percent say they are making good profits; 41 percent say they are making a very small profit; 15 percent say they are breaking even; and 20 percent are losing money. Ten percent did not answer.

Thus, 40 percent of those answering are not making any profit. How long do you believe these men can stay in business under those conditions? I know several who are sticking it out only in the hope that Congress will give them relief from the Office of Price Administration. If you do not, many of the 40 percent reported by Dr. Robinson, reflecting some 100,000 manufacturing enterprises, will have to close their doors.

Fifty-seven percent say they are losing money on some item they make.

Fifty-seven percent say their recent profit trend is down.
Thirty-nine percent say that if the Office of Price Administration were ended tomorrow their output would increase.

Forty-three percent say in such an event they would hire more workers almost immediately.

There we have the story of what the Office of Price Administration is doing to production and to small business enterprises as succinctly as it can be told. The small manufacturer is the supplier of parts and machinery to the big producers. When the little fellow cannot produce, the production line halts and 100,000,000 consumers go without the goods they want.

Small enterprises cannot wait from 2 to 6 months for relief. When they go into the red, they must sell out to a larger unit—thus creating the monopolistic trend to which we are so opposed—or shut their doors with bankruptcy for themselves and injury to every man and woman in the country.

Patching up the present law will not correct this serious situation. Price control can never be made fair and equitable, for neither a few men nor several hundred thousand can be substituted for the day-by-day functioning of a free market reflecting the judgment and desires of the consuming public.

The weakness of any price-control scheme, no matter how competently administered, lies in the complexity of the interrelationships between prices, wages, other costs and earnings. Arbitrarily tinkering with a price here and another there throws a myriad of other prices out of adjustment.

Aside from all other considerations, it is physically impossible for a price-control agency to work out equitable price relationships. Let me demonstrate.

We have in this country some 8,000,000 articles of trade. We have 140 metropolitan marketing areas. The number of equations necessary to establish proper price relationships in the metropolitan marketing areas would be 140 times 8,000,000, or 1,120,000,000. We have some 50,000,000 workers whose wage rates might be reduced, for convenience, to 1,000 classifications. To establish proper wage-price relationships, the number of equations would be 1,000 times 1,120,000,000, or 1,120,000,000,000—one trillion one hundred and twenty billion equations. Computing one equation an hour, it would require the 50,000,000 workers in America 10 years to do the job on the basis of a 40-hour week, with only 1 week off a year for vacation.

Of course, it is fantastic. So the price fixers resort to formulas for universal application, freezing prices to some previous level. But no sooner are such formulas proclaimed than conditions change. Business conditions change constantly as people's desires and needs change—as producers increase or reduce their output in relation to those desires and needs—or as efficiency increases or costs fluctuate.

No matter how well-intentioned, the price fixers can never keep up with the changing economic picture. Necessarily large segments of industry and commerce always shall be knocking at your door for relief from the maladjustments created in their operations, and when such relief is not promptly forthcoming, production is impaired and the public suffers.

American industry and business cannot be operated by formulas. If they could, it would have been figured out years ago and all business
enterprises would be successful, while their managers could go on year-long vacations. Day-by-day judgments and decisions are essential to business operations. Enterprises are successful when they adjust themselves to changing conditions. They retrogress when they become static.

Price changes in a free market are the regulators of American industry. They control the volume of production; they shift savings to where they are needed; they move workers into those fields of production in greatest demand. They give consumers what they want.

In effect, the free market price serves the economic system as a safety valve does a steam boiler. Under price control, however, the safety valve is tied down and, in the pending bill, it is proposed to heap on the inflation fire some $2,000,000,000 in the form of subsidies.

Such a course of action is analogous to the engineer who ties down the safety valve on his boiler while adding fuel to the roaring fire. Does anyone doubt that there will be an explosion? And the longer price control is continued, the greater that explosion will be.

During the war, price control had a measure of success due to supplementary controls and because the people, out of patriotic motives, accepted it, subordinating their desires and needs to the national urgency of winning the war. With the end of the war, however, the pent-up desires of 100,000,000 consumers again asserted their force.

The black markets have become rampant, breeding widespread disrespect for law. Office of Price Administration officials testify to that. The situation is “worse than at any time” during the war, says J. M. Blackford, Office of Price Administration top enforcement officer in Portland, Oreg. Leo F. Gentner, Office of Price Administration regional administrator, says the same thing about the black market in New York City and makes this revelation: “Congress could give me 10,000 more investigators, but I would not have a chance of breaking up the black market, unless the women of the city refuse to buy from such merchants.”

As long as price controls continue, black markets will grow. Demoralizing though they are, they constitute a manifestation of a free people seeking to satisfy their legitimate desires when their Government has forbidden a free market. Since the days of Confucius people have refused to accept as wrong that which in their hearts they know to be innocent, and not even a Gestapo the size of an army can prevail against them. All this has the effect of penalizing the law abiding, whether consumer or producer, and encouraging all others. Likewise, it breaks down the legitimate sources of Government revenue.

When price control holds the price of a commodity below its free market level, two things inevitably happen: demand is encouraged and supply is discouraged. Thus the shortage of that commodity grows, rationing becomes necessary, and the consumer pays the bill.

Next in order will be material priorities and all other wartime controls under which industry would be told not only at what price it can sell its goods, but what type of goods it can make. What is more, consumers will be told what they can have, irrespective of what they want. A system of wage stabilization would have to be adopted, and,
ultimately, workers would be told where they must work, and what kind of work they should do.

The result would be, as Henry Hazlitt, the brilliant New York Times writer, has so well said:

A completely petrified totalitarian economy, with every business firm and every worker at the mercy of the Government and with a final abandonment of all the traditional liberties that we have known.

If the existing Office of Price Administration price control powers are continued for another year, it will be the first and a far-reaching step toward that end. Let none be fooled. If such action is taken the price control administration will be back here next year pleading for extension for another year, using the same arguments they propound this year, with this one exception: Next year they will be able to plead a worse situation and a greater urgency, for continued price control meanwhile will make the problem worse, just as our situation today is more critical, in the words of Chester Bowles, than it was at the end of the war.

Termination of price controls inevitably will result in some price rises. Wage rates cannot be increased across the board 15 to 20 percent without an impact on prices.

Since, on paper, at least, our prices are anchored unrealistically to the conditions of 1941–42, which long ago changed, prices generally will go through a period of readjustment. For a short period this will be a disturbing factor, but, I repeat, it is inevitable whenever price control is terminated. The sooner it is done, the less disturbing it will be.

Not all prices will rise. Some, in all probability, will go down. Certainly, the public will be freed of the extortions of the black market, quality deterioration and the present necessity of buying high-priced goods in the absence of standard low-priced articles. Price increases will stimulate increased production which quickly will bring prices back into balance. If prices go up too fast, consumer resistance will check them.

Whatever the dangers of price control termination—and they have been grossly exaggerated—they are infinitely less than the dangers inherent in continuing price control.

Congress will decide within the next few weeks either that America will take the road which has proven so disastrous to the rest of the world, or the road back to freedom and an ever higher standard of living. Your decision will determine the fate of our country, not only for the next year but for many, many years to come.

Mr. Chairman, may I have incorporated in the record the charts attached to my statement?

The CHAIRMAN. The charts may be inserted in the record.

Small Manufacturing Enterprises—75 to 1,000 Employees

(Dr. Claude Robinson Survey)

Seventy percent say price ceilings are injuring their business.
Sixty-three percent say price ceilings have been unrealistic in regard to costs.
Thirty-four percent say they have had to hold up introducing new products on the market because of price ceilings.
Forty-four percent say they have had to stop marketing certain products because of price ceilings.
Fifty-one percent say they have had to curtail production of certain lines because of price ceilings.
Forty percent say they will be forced to curtail or eliminate products if price ceilings stay where they are.
Thirty-six percent say they would have to shut down their plants unless they get price relief.
Sixty-seven percent say they have already cut out or curtailed production on some items or will in the near future.
Fifty-three percent say ceilings are restricting an important part of their production line.
Fourteen percent say they are making good profits.
Forty-one percent say they are making a very small profit.
Fifteen percent say they are breaking even.
Twenty percent say they are losing money.
Fifty-seven percent say they are losing money on some item they make.
Fifty-seven percent say their recent profit trend is down.
Thirty-nine percent say if OPA were ended tomorrow their output would increase.
Fifty-three percent say they would hire more workers almost immediately.

The CHAIRMAN. Mr. Brown, do you have another witness?
Mr. RUSSELL BROWN. Mr. Porter.

STATEMENT OF FRANK M. PORTER, PRESIDENT, GENERAL MID-CONTINENT OIL AND GAS ASSOCIATION, TULSA, OKLA.

Mr. Porter. Mr. Chairman and gentlemen of the committee:
My name is Frank M. Porter. I reside in Oklahoma City, Okla., and am engaged in the business of producing oil and gas as an independent operator. I am also engaged in the business of drilling oil and gas wells on contract for others.
I am president of the General Mid-Continent Oil and Gas Association, with headquarters in Tulsa, Okla. The association has a membership of more than 1,000 independent and major operators engaged in business in the States of Texas, Oklahoma, Kansas, Louisiana, Arkansas, Mississippi, and Alabama.
During the war this association, through its officers and membership, has contributed its share to the outstanding record established by the petroleum industry in furnishing the Armed Forces with an ever present and adequate supply of petroleum products. Since the application of price control to the oil industry by the Office of Price Administration in January 1942, the General Mid-Continent Oil and Gas Association, along with other representative organizations and individuals of the petroleum industry, has pointed out to various congressional committees dealing with the subject and to the Office of Price Administration, the inadequacy of the price of crude oil and its products.
In practically every instance, the position of the industry has been sustained by the report of the congressional committees that have conducted these investigations. The Petroleum Administration for War has at all times sustained the position of the industry and recommended to the Office of Price Administration that a fair and equitable adjustment of prices should be made in the petroleum industry. The Petroleum Industry War Council, appointed as an advisory group to the Petroleum Administrator for War, has sustained the position of the petroleum industry and recommended an upward adjustment of prices. The National Crude Oil Advisory Committee, appointed by the Price Administrator, has conducted a thorough investigation
of the cost of finding, developing, and producing crude petroleum, and on February 11, 1946, filed its report with the Office of Price Administration in which it has concluded that the existing crude petroleum maximum price ceilings are insufficient to permit the normal exploratory and development operations needed to provide adequate petroleum reserves in this country sufficient at all times to maintain a readily available supply of producible crude petroleum for national security and to meet the indicated military demands and the normal expansion in civilian and industrial requirements for petroleum products.

The report further stated:

Supply and demand are now in substantial balance and the reduced volume of crude production required in 1946 is a little smaller than productive capacity within maximum efficient rates.

Although at the termination of the Japanese war the industry was producing an estimated 300,000 barrels a day greater than the potential capacity within maximum efficient rates in order to supply the military demand, the decreased requirements for high-octane gasoline were such that at present our domestic producible capacity at established efficient rates exceeds existing domestic demand for crude petroleum. Actual daily production for the 4 weeks ended March 2, 1946, averaged 4,710,100 barrels. Runs to stills on the basis of Bureau of Mines estimates were approximately 4,779,000 barrels per day. Thus, it will be apparent that when any consideration is given to imports, the total daily supply of crude petroleum within the United States exceeds current refinery requirements.

The declaration of purposes as contained in the Emergency Price Control Act of 1942, as amended, makes it clear that the intent and purpose of the law was to assure a supply of any materials necessary for national defense and to stabilize prices in order to eliminate and prevent profiteering, hoarding, manipulation, speculation and other disruptive practices resulting from other abnormal conditions or scarcities caused by or contributed to by the war, in order that an adequate supply of critical materials and commodities may be available for both military and civilian uses at noninflationary prices. The dangers anticipated by the Price Control Act do not now exist with respect to the oil industry because supply and demand for crude petroleum and its products are in balance. Immediately following VJ-day, the Administration gave assurance to the public that it would be the policy to withdraw price and rationing controls as fast as the supply in any industry equaled demand. The Office of Price Administration failed to act in accordance with this policy insofar as the oil industry is concerned.

It is, therefore, respectfully suggested to your committee that if the Congress shall see fit to extend price control beyond June 30, 1946, an appropriate provision be included in the extension act that will impose the mandatory requirement upon the Office of Price Administration to act in accordance with the policy announced by the Administration immediately following VJ-day with respect to withdrawal of price control from individual industries. If such provision had been included in the present statute, the oil industry, for example, would have long since been freed of these controls and would have now been adjusted to a peacetime economy with the forces of supply, demand and competition in full operation, to the resultant benefit of the American public and the industry.
In our view, it is highly important that the statute be made self-executing in this respect. We, therefore, make the additional suggestion that if and when any industry advisory committee, constituted and appointed as provided by existing law, shall have found and certified to the Administrator that conditions exist in any industry which qualify such industry as being eligible for the withdrawal of price controls under the policy announced by the Administration following VJ-day, the Office of Price Administration shall forthwith withdraw such controls.

Some concern has been expressed that removal of price controls in the oil industry might result in run-away and inflationary price rises for crude and refined products. Such fear is, however, dissipated by the statistical position prevailing in the industry. With supply equaling and exceeding demand, the increase in storage develops a competitive condition that automatically applies the brakes to any sudden or severe price rises. During the month of February crude storage increased at the rate of approximately 160,000 barrels a day. The Texas Railroad Commission reports storage accumulations since January 1, 1946, in excess of 11,000,000 barrels. Bureau of Mines reports show at the close of the week of March 9, 1946, crude oil storage in the United States totaled in excess of 226,000,000 barrels.

A few days ago, following the filing of the National Crude Oil Industry Advisory Committee's report with the Office of Price Administration and just ahead of the appearances of petroleum representatives before this committee, the Office of Price Administration stated they would in the near future issue regulations authorizing or permitting crude oil purchasers to increase prices across the board 10 cents per barrel. It is the prevailing view in the industry that such increase is wholly inadequate.

According to the February 11 report of the Crude Oil Industry Advisory Committee, the average cost of finding, developing, and producing crude petroleum rose from 70 cents per barrel in the years 1936 to 1939, inclusive, to $1.60 per barrel in 1944. It is further pointed out by the report that during the base period 1936 to 1939, inclusive, the average excess of crude oil income, over replacement cost was 45 cents per barrel, whereas the 1944 finding, developing and producing cost of $1.60 a barrel was 35 cents greater than the average price for crude petroleum. Two factors contributed to this deficit—first, increased cost of supplies, materials, and labor; second, the increased and deeper drilling necessary for the discovery of new oil.

Recent surveys disclose that in 1938 for each million barrels of new oil discovered, it was necessary to drill 10,000 feet of hole, whereas in 1944 it was necessary to drill 45,000 feet for each million barrels of new oil discovered, or an increase of 350 percent. It is, therefore, obvious that at least 35 cents a barrel is necessary to bring the price of oil in balance with the average cost of finding, developing, and producing, as disclosed by the National Crude Oil Industry Advisory Committee. In view of the competitive position existing in the industry, there is no reason to believe that crude oil price increases would exceed the 35 cents a barrel necessary to bring the price in balance with replacement cost at this time. It is, of course, obvious that the oil industry, or no other industry, can be expected to continue to be content with a bare return of operating cost. It is only fair, in the absence of a de-
crease in the cost of finding, developing, and producing crude petroleum, to say that there will be a natural striving within the industry to increase prices to include the profit factor if and when competitive circumstances permit, which is the only way the American public can be assured of a healthy economic organism that can guarantee a continued supply of petroleum products at reasonable prices.

Refining surveys indicate that such increases in the cost of crude oil would probably justify an increase of a cent a gallon on refined products, but again, the statistical position of refined products may not permit such increase to immediately materialize. It should be pointed out that there has also been a constant increase of domestic stocks of finished and unfinished gasoline since VJ-day. For the week ended March 2, 1946, American Petroleum Institute estimates show a total of approximately 105,000,000 barrels of finished and unfinished gasoline in storage.

The oil industry has functioned through the war years at a price for its crude production which wholly ignored the facts of production cost. This inequity has rested especially heavy on the stripper well producer who has labored diligently to keep his small wells alive and thus preserve, as a conservation measure, the stripper reserves for future use. This price condition, of course, was no less burdensome to the larger producer but due to his greater reserves he was in a better position to stand the depletion of his capital inventories below ground. To meet the stripper well emergency the Congress provided for a stripper subsidy ranging from 25 cents a barrel in the lower grades of crude to 75 cents a barrel for Pennsylvania crude oil. It will be suggested that these subsidies must be terminated with withdrawal of price control. The largest subsidy now being received by any stripper well owner outside of the Pennsylvania grade producers, is 35 cents a barrel. If we are correct that midcontinent and Gulf coast crude will advance the 35 cents per barrel necessary to bring the price in balance with reproduction costs, then it may be assumed that Pennsylvania, California, and Rocky Mountain grades will be correspondingly increased, and the stripper well producer will be precisely in the same financial condition with respect to price structure as he was under the subsidy except he will be living in an atmosphere of free and competitive enterprise. He will also be free to take advantage of any special position or circumstance that may exist, such as availability to local refiners or the production of oil having special characteristics which many times are important factors to stripper well producers.

I have just had an opportunity to see the statement made by Mr. H. M. McClure, of Alma, Mich., president of the National Stripper Well Association and chairman of the State Oil Board of Michigan, before the Special Committee of the Senate Investigating Petroleum Resources. Mr. McClure makes it clear that although subsidies have been a substantial factor in preserving the stripper wells throughout the duration of frozen prices, the stripper-well producers recognize that it is a more healthy economic condition and more in keeping with our form of government when any industry or any segment thereof is assured an adequate price for its production in a free and competitive market.
A further continuation of price controls, particularly within the oil industry, is fraught with certain economic hazards which we cannot escape. Continued oppressive and unfair prices in any major basic industry obviously mean curtailment of production. Curtailment of production in any such industry is reflected in new hardships to the American public and a greater lowering in living standards, because scarcities necessarily develop increased prices which eliminate the ability of the public to use the products produced as the prices increase. In the case of the oil industry, continued price controls at subnormal levels will curtail expansion and finding of new petroleum reserves as a backlog to a continued healthy condition in the industry resulting in weakening the ability of the industry to perform one of its paramount obligations to the public in providing at all times adequate reserves, first, for the national defense, second, for civilian uses, and third, the service of expanding and developing new products for the benefit of the public. With the decrease of production and a further curtailment of searching for and finding new petroleum reserves, shortages of current available supplies will develop. This necessarily will result in inflationary prices. Such is the cost to the public of a controlled economy when controls are carried beyond a great national emergency such as war.

A free economy cannot exist without free prices. They are one and the same. Any argument to the contrary is elusive. To proceed on any other basis will lead us to bottomless pitfalls in the economic structure. Free prices are so definitely the core of a free economy that the statement must be accepted as axiomatic. Prices are the reflections of economic conditions and decisions, and free decisions in the economic world have no other means of expression than through free prices. Economic decisions, like prices, are controlled by the immutable law of supply and demand. All we ask is that industry be permitted again to function within the realm of this economic principle. The history of production and prices in America is such as to warrant the confidence and faith that system of free and competitive enterprise is the best yet devised.

The CHAIRMAN. Mr. Brown.

Mr. RUSSELL BROWN. Mr. Chairman, Mr. Emery Carper, who comes from Artesia, N. Mex., is here. I would like to have him make a brief statement on the position of the independent producer in New Mexico.

STATEMENT OF EMERY CARPER, ARTESIA, N. MEX.

Mr. CARPER. Mr. Chairman, ladies and gentlemen, my name is Emery Carper, Artesia, N. Mex.

I am an independent producer and also a drilling contractor. The fact that I am a drilling contractor is the main reason that I am still a producer. Otherwise I think I would be forced to sell out.

That is what my friends are doing out there. The larger independents out there are going out of business rapidly, because they cannot make a profit, and they cannot pay the bank without selling. I think that is a very bad condition for the industry, and I think it is largely through price control.

I think that low prices are one thing that is stopping drilling in our area.
During the war we had about 50 operations continuously against about 25 now. Twenty-five drilling operations will barely keep the production from declining in New Mexico.

Some of New Mexico property is subsidized. If the subsidy should be removed before a substantial increase in price is granted, it will lead to an intensive plugging program, beyond a shadow of a doubt.

I believe that production is the best method of preventing price inflation. Whenever the price reaches the point where it is profitable, drilling will immediately begin to take care of it, and hold the price where it should be. I believe that the Office of Price Administration is responsible for a great many of the scarcities we now have—for instance, sugar, certain lines of clothing, and a number of things I could mention, which are, no doubt, made scarce on account of artificial price control.

We are faced with an increased cost in our business on account of the increased cost of steel. The recent raise in steel prices will undoubtedly be passed on to the products we are using and it will have a material effect on our drilling.

It seems to me it would be sensible to remove the oil business from price control, as Mr. Porter and Mr. Bowles have both said that when the product of any industry reaches the point where it can supply the demand, that it would be removed from under control. I do not think the oil business has ever failed in that respect.

An increase of 50 cents a barrel would not be too much, and would not amount to more than 4 or 5 dollars per year per car for anyone using the products of the oil industry. Anyone that could not pay that much should not have a car.

In my opinion, rigid price control is going to lead to an artificial scarcity of oil and, as to the supply of oil, it all depends on the price. The surface has only been scratched as far as New Mexico is concerned. We already have proven production as deep as 11,900 feet. Of course, that is absolutely out of reach of any independent under present prices or perhaps any other price, but the fact is the oil is there if they will pay what it is worth to get it.

I would like to endorse all these statements that have been made here. In that way I can save you a great deal of time.

I think the field has been fully covered, and I concur in what has been said 100 percent.

Thank you.

Mr. Russell Brown. Mr. Chairman.

The Chairman. Mr. Brown.

STATEMENT OF RUSSELL B. BROWN, GENERAL COUNSEL, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

Mr. Russell B. Brown. Mr. Chairman and gentlemen of the committee: My name is Russell B. Brown. I am the general counsel of the Independent Petroleum Association of America. I have held that position, with offices in Washington, for about 15 years.

Our position in this hearing may be stated simply. We believe that the price controls which the Office of Price Administration still maintains on crude oil and its products should be terminated at once.

Rationing of products was lifted immediately upon the end of the
war with the Japanese, but price ceilings remain. Under that condition, it is not an industry in position to be responsive to the needs of the times or free to prepare for the future.

This situation, we contend, should not be continued. The oil industry is one that is in position to meet all present and foreseeable future demands. No threat of shortage exists, none is feared by the industry, unless produced by interference with the normal conduct of the industry.

On the other hand, the same urgency exists for an increase in the price of crude oil that has existed throughout the life of price control, since October, 1941. Discovery of new oil reserves has always been an essential to the adequacy of supply. That has been true from the very first day of the petroleum industry in the United States. We cannot indefinitely stand on that which has already been found and developed.

The oil needs of the war were largely supplied from the reserves that had been found before price control was instituted. With the beginning of the defense preparations the cost of finding, developing, and producing crude oil began to rise. Increased wages, cost of supplies, and taxes were forces of attrition on whatever margin the producer had. There has been no compensating increase in crude oil prices. In the third quarter of 1941, immediately preceding Pearl Harbor, the national average price of crude oil at the wells was $1.17. The Department of the Interior's calculation is that the 1945 average price of $1.23, including the subsidy paid by Government on wells of small production. Thus, including the subsidy, the price is 6 cents more than at the start of the war. A barrel of crude oil is 42 gallons. Under price control crude oil has been permitted to go up one-seventh of a cent per gallon. The recently announced 10-cent raise in crude oil price ceilings is not included in the above; it is not yet effective.

Six cents per barrel, one-seventh of a cent per gallon, is not much of an incentive to the search for new fields when the cost has increased since the war began by 90 cents per barrel for finding, developing, and producing.

The facts are indisputable as to the present adequacy of supply of petroleum in the United States. Our reason for asking that the price controls be removed is that under a free economy we believe we might be given recognition by those who purchase crude oil at the depressed, noncompensatory price now prevailing. A number of the purchasers, who also produce, transport, refine, and market crude oil, have said that it is imperative that such recognition be given.

There is nothing in the record to justify the belief that the Office of Price Administration will make the adjustment of crude-oil prices in the amount needed. It ignored for more than 4 years the recommendations of committees of Congress, of the Petroleum Administration for War, of the Petroleum Industry War Council, the Interstate Oil Compact Commission, numerous public officials of oil producing States and the oils producing industry.

The Office of Price Administration's decision on the price of crude oil was formed even before there was congressional authority to control prices. Thereafter, it was deaf to all representations. It held no hearings, entertained no petitions on more than small segments of production, and make no acknowledgment of resolutions and recom-
medations. The Small Business Committee, which twice conducted hearings and twice recommended crude oil price increases, in December 1944, requested the Office of Price Administration to appoint an industry advisory committee, as provided in the law, and to survey costs by obtaining the figures from a representative number of producers. The House committee said that the survey could be made within 90 days. The survey was duly announced on January 15, 1945. The figures obtained were placed in the hands of the advisory committee for its analysis on November 28, 1945. The report of the advisory committee was given to the Office of Price Administration on February 11, 1946. On March 5, the Office of Price Administration announced its intention to raise crude oil price ceilings 10 cents per barrel.

Such has been the history of the past year on crude oil prices. How many casualties have occurred in our ranks in that period I cannot say. Independent oil producers have been selling their holdings to large integrated companies throughout the war years as I have stated in former appearances before your committee. The alarming thing is not the total number of economic deaths but the malady that has been created which leads to death.

The number of oil and natural gas producing corporations declined from 5,974 in 1939 to 4,060 in 1943 according to statistics of income, published annually by the United States Treasury Department, Bureau of Internal Revenue. Comparable data for 1944 and 1945 has not yet been published. This is a decline of 32 percent in the 4-year period.

In the first 6 months of 1944 the population of operating firms engaged in mining and quarrying, of which a substantial proportion are producers of crude petroleum and natural gas, declined from 26,000 to 25,500, a drop of 500 in 6 months based on the United States Department of Commerce statistical publication in the May 1945, issue of Survey of Current Business.

The fight of the independents for economic existence has been difficult. It has formed much of the basis for the antitrust laws now on our statute books. It has been largely an economic fight with others in the industry. In this the Congress has at times intervened to prescribe rules for the conduct of the economic game. The rules have been such that we could understand and conform to. They were usually as favorable to the independent as they were to the integrated units of the industry. That was as much as we asked.

Our experience with bureaus has not been like that with the Congress. Particularly is this true of the Office of Price Administration. As I have said, operations under the control of this agency have caused many casualties. I know that your committee is not indifferent to that result and that it understands fully our request that you move to terminate oppressive controls so that competition may again have free play under the rules heretofore prescribed by Congress.

Your committee may rightly be concerned with the effect of possible price increases that might follow the removal of petroleum price ceilings. A proposal for price increase to average 35 cents per barrel was made by the Petroleum Administrator for War in 1943. At that
time careful study was made to determine the effect of such an increase, if made, on the cost of living. The study was conducted under the direction of Dr. John D. Gill, of Philadelphia, chairman of a committee of the Petroleum Industry War Council. I think it pertinent here to quote from the conclusions then reached as to the effect on the cost of living, assuming the full increase in the price of crude oil, 35 cents, was passed on to the consumer in the form of increases in the price of petroleum products.

The cost of living index has shown an increase every month except one since the war started in Europe in 1939, and the total rise since that time has been 26.6 percent, said Dr. Gill.

He then gave the following cost of living index figures:

<table>
<thead>
<tr>
<th>Month</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 15, 1939</td>
<td>98.6</td>
</tr>
<tr>
<td>Dec. 15, 1941</td>
<td>110.5</td>
</tr>
<tr>
<td>June 15, 1942</td>
<td>116.4</td>
</tr>
<tr>
<td>June 15, 1943</td>
<td>124.8</td>
</tr>
</tbody>
</table>

As the following table shows, petroleum components have relatively little weight in the total cost of living index:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel oil</td>
<td>0.2</td>
</tr>
<tr>
<td>Kerosene</td>
<td>0.11</td>
</tr>
<tr>
<td>Gasoline</td>
<td>0.9</td>
</tr>
<tr>
<td>Motor oil</td>
<td>0.1</td>
</tr>
</tbody>
</table>

An increase of 0.85 cent (eighty-five hundredths) per gallon in the price of petroleum products (approximately 35 cents per barrel) would increase the petroleum part of the index by 4.43 percent. The total index would be increased by fifty-eight one-thousandths of 1 per cent, a rise which could not be shown by the index at its present level. The total index now stands at 124.8. The increase estimated above to be the result of a higher oil price would raise it to 124.846; the published index would not be changed at all.

It is our position that price controls should be removed from the petroleum industry immediately. We make the contention that this is the announced policy of the administration. In support of that contention, I quote the following statements:

1. It is the policy of the Government, in order so far as possible to prevent price increases, that there be prompt and firm enforcement, during the present emergency, of Government controls over scarce materials and facilities.

   That quotation is from Executive Order 9697, dated February 14, 1946.

2. 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 continuation of heavy general inflationary pressures has 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.

   From the Fifth Report of the Director of War Mobilization and Reconversion, dated January 1, 1946.

3. Price control should and must be removed as rapidly as supply conditions permit. Barring continued labor-management difficulties, the production estimates for 1946 indicate that in industry after industry during the next 12 months, we will find supply and demand coming into balance. As that occurs I assure you that your Government will move promptly to eliminate the last vestige of price restrictions in those industries. But to remove them before competitive conditions are again established is to invite inflationary chaos.
From the speech by Chester Bowles, then Office of Price Administration Administrator, December 6, 1945, before the National Association of Manufacturers in New York City.

4. We should extend the Price Control Act just as soon as possible to remove the lingering hope of the minority that they can profit out of the scarcity that exists before our total reconversion makes available all of the items for which our appetite is whetted.

From speech of Secretary of the Treasury Vinson. January 31, 1946, before the Baltimore Association of Commerce, Baltimore, Md.

These four declarations of policy are by leaders in Government. Why, then, are we not willing to believe that they will be translated into action? Why do we appear here and ask that congressional order be given to end price controls on crude petroleum and its products?

Our answer is that we do not deal with these leaders. We have to rely on those in lesser positions, but policy announced from the heights is frequently bent to suit the convenience or the philosophy of those who are charged with the application of policy.

As an example I quote from an interview with Sumner T. Pike, Fuel Price Director of the Office of Price Administration, published in Platt's Oilgram of January 14, 1946:

On gasoline ceilings, the Office of Price Administration Fuel Price Chief said they were serving exactly the purpose for which they were intended to serve and he saw no reason to remove them.

They're not doing any harm, if th prices are soft,” he said, “and the situation won't last more than 60 to 90 days, anyway. Then we'll probably have a scarcity of gasoline, because motorists will drive their cars at higher speeds and there'll be a tremendous pent-up demand for vacation travel.”

It is Mr. Pike and his subordinates that we have to live with. They and not the President and Mr. Snyder and Mr. Bowles attend to the details. Mr. Pike has declared his intention of keeping price ceilings on the oil industry, not because of scarcities but because they “are not doing any harm.”

Mr. Chairman and gentlemen of the committee, the Office of Price Administration is again in one of its inconsistencies on the question of petroleum. Throughout the war its attitude was that there was no cause for anxiety, that the supply situation was comfortable. I denied that price incentive would make any difference in the expansion of supply, in which position it stood alone, and it denied that there was a shortage. Every civilian user knew that the latter was not true.

Now, with the war ended the daily production of crude oil in the United States has been reduced from 4,869,800 barrels daily in August 1945 to 4,638,000 barrels for the four weeks ended March 9. The Bureau of Mines estimate of demand for March was 4,450,000 barrels of crude oil daily; current production is in excess of demand, as shown by additions to stocks, and there are further reductions in the rate of production to be made. The aim of the oil-producing States is to prevent waste which occurs through storage of excess production by fitting production to demand.

The Office of Price Administration has access to the same official figures that the industry does. The Bureau of Mines each week issues a statement on crude-oil stocks above ground in the United States. It forecasts monthly the demand for crude oil. The producing capacity in the United States is known within reasonable
limits. It may be assumed to be approximately as great as it was in August 1945, when the war ended. How, then, can there be any assumption worthy of notice that this is an industry whose production is scarce?

One more quotation and I will have finished discussion of this particular point. I have said that we do not rely upon the promises of the Office of Price Administration to do any particular thing. Our reason for such distrust is based upon past actions and statements. On June 4, 1945, Mr. Bowles appeared before your committee in support of the bill extending the price act for one year. I quote from the printed record of hearings, page 30, as follows:

Mr. Monroney. Amplifying what you said, removing it commodity by commodity, even if we have a year's extension now, there might be 10, 20, 30, or even 40 percent of the commodities released before the expiration of the act.

Mr. Bowles. Well, there are two types of removal. First of all, there is the type where supply and demand catch up and get in balance. Now, there are certain fields that that may begin to happen as you suggest, next winter or next spring, a year from now; well, we will watch those, and each time we see that happen, our present theory is that we will probably suspend the price control for 90 days to see what is going on. See if it is temporary or not. If you see the continued supply of goods coming along, you can drop it altogether.

Had Mr. Bowles carried out that assurance to your committee, we would not be here today. Supply caught up with demand in August. The evidence of that is in the lifting of gasoline rationing and the reduction of crude-oil production. But there was no suspension of price control, for 90 days or any other period.

We can only conclude that the Office of Price Administration likes price control merely for the sake of control. It is unresponsive to the facts which are apparent to all. It is intent on following a line that was established in 1941 and, for all we can now conclude, it will, in the absence of congressional direction to do otherwise, maintain price ceilings on petroleum for the entire time it has authority to do so.

In the many speeches by Office of Price Administration executives and other proponents of its continuance with all the authority it is presently clothed, a chief argument is that without firm and continued control of prices, there will be a return to the conditions which followed World War I. I wish to discuss this theory as it relates to petroleum.

The dissimilarity between conditions in our industry now and in 1919 is so great that the sweeping predictions of Mr. Bowles and his associates and supporters can have no application to petroleum. We ended the First World War in a condition of shortage. The United States supplied most of the requirements for the Allied cause in both wars; we had no cushion of reserves then. With the close of the First World War, the first in history in which petroleum had been a major factor of supply, the producible supply of the United States was at such a point as to cause great concern in the industry. The refining companies began to stimulate drilling and the discovery effort generally in the only way they knew, by making the price attractive. The national average price of crude oil in 1918 was $1.98. The previous year it had averaged $1.56, it had risen 42 cents to stimulate the effort to get enough oil for the war.
In 1919 the price factor was again invoked to replenish reserves. The national average price in that year was $2.01 per barrel, but the advance started late in that year; the advances which occurred in the last days of 1919 and in early 1920 resulted in a national average price for 1920 of $3.07 per barrel.

The high-price era did not last long, for it produced such results in discovery and development as to bring on an overproduction of crude oil. The price began to drop in 1921, the national average price fell to $1.73 for that year and kept on declining; in only one year since has it equaled or exceeded the 1921 average. That was in 1926 when the average was $1.88. As I have said, last year the average was $1.23, including a subsidy on production of small wells.

But, relatively short-lived as the high crude-oil prices of that postwar era were, they added enormously to the known reserves of petroleum. The effects of the stimulus lasted for years. Major producing areas were opened to development. Geological knowledge was gained that led progressively to more and more discoveries. Without that stimulus in 1920, I wonder what shape we would have been in 20 years later when the Nation began to get ready for its greatest war.

We ask for our industry merely that a proper perspective be kept, devoid of emotionalism. In 1920 Mid-Continent, Oklahoma, Kansas, and North Texas crude oil reached a high of $3.50 per barrel. It was then bought at a flat price. Now it is bought on gravity schedule. The price at the wells today for the average pipe-line stream, 37° API scale, is $1.19. Does anyone seriously contend that with price ceilings lifted, in a situation of plentiful supply, there would be no advance amounting to nearly two times the present price? Or, consider the retail price of gasoline. The average in 1920 in 50 representative cities was 29.74 cents, exclusive of tax. The average price in the same cities in November 1945 was 14.19 cents exclusive of tax. In a period of currently plentiful supply, does anyone believe gasoline would go up 15 1/2 cents per gallon so as to make the Office of Price Administration’s predictions good?

In the year 1940 the daily average production of crude oil in the United States was 3,697,000 barrels. At the time of Pearl Harbor it was 4,103,715 barrels. In response to the ever-growing demands on the industry, production kept mounting until the peak month of July 1945, when the daily average yield of the wells in the United States was 4,891,000 barrels.

Oil producers committed waste to supply the program. Their wells were produced at maximum capacity, not at maximum efficient rate. A considerable amount of the crude was sold at less than the cost of production; practically every barrel produced in the last 2 years of the war moved from the fields at prices much below the cost of replacement through discovery and development. This is the only method the producing industry has of replacing its goods. The Office of Price Administration has displayed the utmost concern as to the future of petroleum supply; its only philosophy throughout the war was to hold prices, disregard effects on production, and attempt to meet war needs by rationing the civilian and industrial users.

We believe that the Office of Price Administration’s philosophy on petroleum is unchanged. It has never understood the petroleum-
producing industry, nor, it has seemed to us, made an effort to understand. Always, in defending its oil-price policy the Office of Price Administration has relied on the earnings statements of a few companies, chiefly those which operate through the full cycle of producing, transporting, refining, and marketing.

In the producing industry we entered the price-control era with an index of 62.2 for crude oil in relationship to the “all commodities” index as compiled by the Bureau of Labor Statistics. Today the crude-oil index is 65.4.

We are today in a position of adequate supply. There must be continued, and increased, exploratory activity to maintain that position, to maintain our position in world events. Surely, we should have learned by now the extreme importance of having an assured supply of oil, producible underground reserves, with which to meet any emergency.

Immediately following the Japanese surrender the Petroleum Administration for War began to drop certain controls it had imposed on the oil industry. None remain today. The organization stated its views to the Senate Special Committee Investigating Petroleum Resources, last November. I believe it is pertinent here to quote from two of the statements in support of what I have said about the necessity of exploration, and the means of getting it.

The following is from the statement of Ralph K. Davies, Deputy Petroleum Administrator:

NEED FOR MORE EXPLORATION

With the war over, requirements for crude have dropped, though not to pre-war levels. Present estimates indicate that 1946 demand will be higher than that of 1942 or even 1943, and that by a year from now demand will again be rising, passing peak wartime levels within a very few years. The discovery rate of the past 7 years would not keep pace with consumption at such levels.

It follows that, unless we are to curtail our use of oil or radically increased imports or resort to higher-priced sources of production including synthetics, we must reverse the downward trend of discovery.

We may reasonably hope for help from improved geological, geophysical, and geochemical techniques. Each successful new technique developed in the past has resulted in a substantial increase in discoveries. Still other techniques will doubtless be developed, some of them, perhaps, from scientific developments incident to the war. How much new oil they will discover no one can predict. Neither can anyone predict how soon they will come. Meanwhile, the only safe course, if the downward trend of discoveries is to be reversed, is to drill more wells in dynamic exploration.

PRICE AS A STIMULUS

The most effective stimulus, of course, is an adequate price for crude. Eighty-one percent of the wildcat wells drilled in the United States last year were dry. To induce enough individual operators to face adverse odds of 4 to 1, the price of crude must be such that the man who makes even a small discovery can expect something more than a modest return.

It is true, as has been pointed out, that a higher crude price does not lessen the odds against the wildcatters; what a higher price does is to enhance his prospective reward. Whether he operates his discovery or sells it, it gives him more money with which to go on to the next chance. It likewise makes outside capital easier to obtain. Anyone who has raised money for wildcatting knows how much more easily it can be had when the price of crude is up rather than down.

Why, then, during the war years, did wildcatting increase despite a virtually static price? There were at least three reasons: The industry responded to the
Petroleum Administrator for War's appeals to maximize exploration; many wildcat wells were drilled by high-bracket taxpayers because most of their cost would otherwise have gone for taxes; and the relation between supply and demand convinced the industry that higher prices were sooner or later inevitable.

**NEED FOR THE SMALL WILDCATTER**

Even the large company tends to reduce its wildcatting when the price is not high enough to make the hits pay for the misses and a profit besides, but the chief restriction is on the small operator whose wildcat plays are too few to get the full benefit of the law of averages. If a company drills 50 wells in a year under good geologic guidance, the law of averages is likely to give it 10 producers. The small operator who drills 1 or 2 or 3 wells may get none. The wildcatting hazard is greater to him than to the larger company.

If enough exploratory wells are to be drilled the small wildcatter must be kept in business and kept drilling. The large companies, with all their resources, do not have enough risk capital to drill all the wells that should be drilled. Moreover, they are not numerous enough to cover the multiplicity of possibilities that should be given attention. Their final decisions on what spots are worth the risk of drilling are made by too few men; they do not represent a sufficient diversity of opinion.

The small operator has always discovered a fair share of the new oil; he will continue to do so as long as he is given a crude price that will keep him wildcatting.

The next quotation is from the statement of Phil H. Bohart, Director of the Division of Production, Petroleum Administration for War:

**PRICE VERSUS RESERVES**

In considering the relation between price and reserves, it must be borne in mind that with increased drilling depths, with the decreased success in exploration, and with the increase in the cost of exploration, the cost of new reserves has risen substantially over a period of years and probably will continue to rise. A great deal of the oil which was produced to meet war requirements and a great deal of the oil being produced to meet current requirements are from an inventory which was "put on the shelves," so to speak, at a price considerably lower than at which the stock can be replenished. Moreover, as already explained, each year since 1937, with the exception of 1940, more oil has been produced in the United States than has been discovered.

When price does not advance in proportion to the advance in the cost of replacement of stock, a business to a degree is in liquidation. The crude-oil reserves, of course, are the stock supply of the production branch of the industry; also, to the extent that withdrawals have exceeded additions, the industry has been selling its capital assets and the net return from the sale of the excess withdrawal is not an operating profit. The price of crude oil should bear a proper relation to the discovery cost, as well as to other drilling and production costs, since without an adequate price the industry is forced into a position of involuntary liquidation.

Reserves are increased by drilling. New sources are discovered by exploratory drilling and then are developed and proved by development drilling. Whereas the month-by-month and the year-by-year effect of price on production and reserves cannot be readily shown, there is a striking relation between the price trend and the drilling trend. Curves of the average price prevailing and the average number of wells completed by years from 1914 to 1941, inclusive, shows a remarkable degree of parallelism. As the price rose from about 60 cents a barrel in 1915 to the peak of about 3 per barrel in 1920, drilling increased from an annual rate of completions of 14,000 wells in 1915 to 34,000 wells in 1920. Thereafter each important change in price is reflected in the drilling rate.

The major part of drilling is development drilling. This does not add new reserves, but it does add productive capacity, and consequently the price of oil has a direct and consistent effect on productive capacity.

A relatively small part of the total drilling is exploratory or wildcat drilling. There is no direct relation between the number of wildcat wells drilled and the new discoveries made because there is no infallible or even reasonable sure method of locating an oil pool in advance of drilling. However, the only way in which new oil pools are discovered is by the drilling of wildcat wells, and, notwithstanding...
standing the lack of a relation between the number of wildcat wells drilled and the amount of oil discovered, the way to increase discoveries is to increase wildcat drilling that it has on development drilling. Higher price brings more wildcat drilling, and the greater the amount of drilling and the greater the number of areas being tested the better the chances of discovery.

The independent producers are hopeful that under a free economy the long-needed adjustment in crude-oil prices will come; that those who buy the crude oil and who normally consider today’s actions in relation to tomorrow’s needs will be governed by the obvious facts.

The policy of the Office of Price Administration throughout has been to drive independents from the producing business, to develop concentration of the business in the hands of a few companies, and to force this Nation to rely on foreign sources. We do not know that an increase in price would occur if ceilings were lifted; we hope it would. It is in the public interest that a little insurance premium be paid now against the requirements later on. Pennies now will save the public dollars in just a few years, a very few years hence.

The justice of our position on price has been acknowledged and endorsed by everyone who has given it consideration, except the Office of Price Administration. We have no faith that the Office of Price Administration will give us any different treatment than they have heretofore.

We ask, therefore, that our industry, being one that is now and for months will be in position to supply all requirements of crude oil and products, be freed of the Office of Price Administration price control.

We hope that once out from under the deadening hand of this agency the intraindustry recognition of values, costs and necessities will result in correction of the inequitable position we have occupied under the Office of Price Administration since the beginning of price control.

As safeguard to the Office of Price Administration’s professedly feared inflation of prices, we submit that the plentiful supply and the active competitive forces in the industry will be effective, as they have been throughout the history of the industry.

There is one other point that I want to make aside from my prepared statement, and that is I want to acknowledge the very fine service rendered in trying to settle this matter by Congressman Patman and the Small Business Committee of the House. Mr. Patman directed a letter to Mr. Bowles, trying to clarify this, and got a letter in return indicating that he was contemplating lifting the ceilings.

Yesterday I had a conference with Mr. Porter of the Office of Price Administration, and his Petroleum Division, hoping to clarify that. What they are thinking of is not decontrol, as contemplated in the statement which I understood Mr. Bowles made a year ago, but a lifting of ceilings at some point determined by them, so that they may replace them at any time when their judgment is that the economic factors are not moving in accordance with what, in their judgment, is correct.

That will not solve this problem, because it keeps over the heads of those who hope to move out from under it the threat that we might in some way conform to the regulations they set, and they would re-impose ceilings on us.

Thank you very much for your consideration.

The CHAIRMAN. Does that conclude your testimony?
Mr. Russell Brown. That concludes our presentation.

The Chairman. Mr. Brown.

Mr. Brown of Georgia. I know very little, Mr. Brown, about the oil industry. I am thoroughly convinced that we have a surplus of crude oil, however. Do you have a surplus of kerosene, heating oil, and gasoline, also?

Mr. Russell Brown. I am not sure about the heating oils. That I would have to ask someone else to answer. I do know that we have a surplus of the facilities for making those.

Mr. Brown of Georgia. Well, I am talking about the market now. Do we have a surplus of gasoline?

Mr. Russell Brown. I will ask Dr. Wilson to answer that.

Dr. Wilson. At the moment we are very short of distillate and kerosene for the simple and sole reason that the Office of Price Administration retained in effect all fall and in the early winter the prices that were set at a time, in 1941, when we needed maximum gasoline. They encouraged the production of gasoline, they discouraged the production of heating oil, they were warned of the result, and when they finally did make the price change, immediately the stocks of kerosene became comfortable and today they are substantially better then they were a year ago.

Mr. Brown of Georgia. The reason I asked that question was I announced sometime ago that I was going to offer an amendment to the effect that whenever production of a commodity was equal to the demand that the ceiling should be taken off. Now, we do not have a surplus of gasoline, do we?

Dr. Wilson. We have a very large surplus. We have over a hundred million barrels of gasoline in storage today. One hundred and five million barrels of gasoline, which is the largest amount of our industry. The refineries are shutting down because they cannot get rid of it.

Here is the picture here. All fall it was lost, because the prices discouraged it. Finally we got a half-cent price increase in this one district in December, and immediately the falling of stocks ended and we finished the winter better than a year ago.

Mr. Brown of Georgia. I think somebody testified to that before. Now, some witness testified that if you take the ceiling off, the consumer would not pay more than 1 cent more per gallon. Some witness testified that crude oil is selling for 5 cents.

Mr. Russell Brown. No; 3 cents a gallon.

Mr. Brown of Georgia. Then, I understand the ceiling is 6 cents.

Mr. Russell Brown. No; it is right up against the ceiling and the ceiling is 3 cents a gallon.

Mr. Brown of Georgia. Somebody testified that in some area the ceiling was 6 cents.

Mr. Russell Brown. No; he said 5 cents is what they should have. But the present ceiling is 3 cents a gallon.

Mr. Brown of Georgia. On crude oil?

Mr. Russell Brown. On the average throughout the country.

Mr. Brown of Georgia. Gasoline is selling now around 19 cents; is that correct?

Mr. Russell Brown. I cannot tell you what the retail service station is selling it for, but a large part of that, of course, is tax. The gaso-
line in our area is selling for 5½ cents a gallon wholesale. Then, you have to transport it, pay taxes on it, and so on.

Mr. Brown of Georgia. It looks to me as though that is a long spread between the producer and the distributor, and the car user. I just do not understand why there should be such a spread—5½ cents to 19 cents.

Mr. Russell Brown. I can tell you approximately how that is made up.

Mr. Brown of Georgia. Pardon me. I will come back to it. What I am trying to find out is this: Suppose you are raised 1 cent a gallon. Would that satisfy the people engaged in business? Could they make a profit?

Mr. Russell Brown. I would rather the crude oil people spoke for themselves. I would say a half cent a gallon above present ceilings would cover all necessary flexibility in product prices, and, as a matter of fact, we could not get a half cent more for gasoline if they did raise the ceiling.

Mr. Brown of Georgia. I am talking about crude oil. Suppose they raise crude oil a half cent a gallon. Then, that would be just a half cent on the 19 cents a gallon of gasoline.

Mr. Russell Brown. That is right.

Mr. Brown of Georgia. Does that mean that there would be just a half cent increase in the price of gasoline?

Mr. Russell Brown. The more important thing is the half cent on other products rather than gasoline, because we have so much gasoline that we are not getting ceiling prices now. Raising the ceiling on gasoline does not do us any good. If we had a half cent on crude, what we would need would be a cent on other products and nothing to gasoline.

Mr. Brown of Georgia. What other products?

Mr. Russell Brown. Kerosene and heating oils and residual fuel.

Mr. Brown of Georgia. Of course, I think the most important thing is heating oil.

Mr. Russell Brown. That is right.

Mr. Brown of Georgia. I do not think there ought to be anything in the way of production of heating oils.

Mr. Russell Brown. That is correct.

Mr. Brown of Georgia. I certainly think that all obstacles in the way of production of heating oil ought to be removed. That is all. Thank you.

Mr. Russell Brown. I might say that the average gasoline tax is over 6 cents a gallon. That is one of the things in that spread you are thinking of.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Brown, in your testimony, on page 5, you give some quotations from Executive Order 9697, and from the Director of War Mobilization and Reconversion, also from the Secretary of Treasury, Judge Vinson, in which they lay down the fundamental propositions that these controls are to be removed when the supply comes into balance with demand. That is the meaning of that language, is it not?

Mr. Russell Brown. That is my understanding of it.
Mr. Crawford. Now, on page 282 of the official transcript of these hearings, which has not yet been published, I submitted this fundamental question to Mr. Bowles.

I said, “So long as you are Administrator, do you take the position that these controls should go off as we bring supply into 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?”

I also asked him this: “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 be no longer material necessity for the Office of Price Administration?”

Mr. Bowles answered: “Generally, when supply and demand are in balance, I believe that is correct.”

Then I said: “And remove controls at that time?”

Mr. Bowles answered: “Yes.” And he said: “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 today.”

Now, what does Mr. Bowles give you gentlemen as a reason for not removing these controls? You have the Executive order; you have Judge Vinson’s statement; you have the statement from the Director of War Mobilization and Reconversion; and you have Mr. Bowles’ statement in these hearings. What does he tell you gentlemen?

Mr. Russell Brown. Our difficulty is that we do not work with Mr. Bowles. We work with a division below him. The division below him—I asked them that question yesterday. I said: “What is your interpretation of Mr. Bowles’ statement that you would take these controls off as supply reaches demand?”

He said, “Mr. Bowles was talking generally. Our idea is that we ought to, instead of taking controls off, suspend controls until we are satisfied that this condition exists, ourselves.” That was the answer I got yesterday from Mr. Reppert, who is the head of the Petroleum Division in his office.

Mr. Crawford. What was his name?

Mr. Russell Brown. Mr. Reppert.

Mr. Crawford. R-e-p-p-e-r-t?

Mr. Russell Brown. That is correct.

I called his attention to Mr. Bowles’ statement of a year ago, and I also called his attention to the fact that since VJ-day we had been in sufficient supply. And that is the answer I got.

Mr. Crawford. Well, was that kind of—I am going to call it double talk myself. You can call it what you please—does that kind of double talk create any confidence of your industry in Office of Price Administration administration, as to their sincerity?

Mr. Russell Brown. In response to that, we told Mr. Reppert we should talk at a higher level, at which time he invited in, I believe, Mr. Barnett—I do not know his name exactly—but he is in charge of fixing these prices, and also Mr. Porter. We asked them the same question, and I am not quite sure that I remember what the answer was to that. Anyway, it was not clear-cut enough that I could bring
it back to you, except to the effect they were studying the question and that they hoped to get some form of suspension of ceilings within the 6-month period.

Mr. Crawford. Within what 6-month period?

Mr. Russell Brown. Some period that he had mentioned in the letter to Mr. Patman, I believe. And, of course, the suspension of ceilings just will not leave freedom of action in the industry, particularly in view of the experience we have had in trying to get these people to do something—we have been at it 4 years now.

Mr. Crawford. Mr. Bowles has led me to believe that when this situation developed which we were at that time describing, that he intended to effectuate decontrol. It is decontrol you are asking for, is it not?

Mr. Russell Brown. That is it, exactly.

Mr. Crawford. I am going to say publicly—and I have at least one vote in Congress that I can exercise—that if Mr. Bowles and his associates propose to come up here and make one statement, and go back to the Department and carry out a different policy, that I am not going to vote as if I had any confidence in any of their operations, because I think the American people are getting fed up on that kind of procedure. Today at noon I had the privilege of talking to 22 of the lower level officials of the Office of Price Administration down there for about 2 hours, and I told them I thought it was time they were changing some of their tactics. I am using this oil case as one in point.

If I understood Dr. Wilson right, the only reason there is a lack of balance between supply of kerosene and fuel oil and distillate and residual fuel, and the demand, is because of the method of applying price ceilings on your total operations.

Dr. Wilson. That is definitely correct, sir.

Mr. Crawford. In other words, if they will make an adjustment, instead of turning out so much gasoline, we would convert more crude into fuel oil and kerosene.

Dr. Wilson. The chart shows exactly what was done. Half a cent increases on kerosene in one district did that. But that did not come until December, and in district II it did not come until January. There is plenty of kerosene in district I and there would have been in district II if they had gotten it earlier. The only trouble today is residual fuel and we did not get any action on that until last month, after several months of representations.

Mr. Crawford. So, then, we have a basic industry before us, perhaps as important as the steel industry, whereby, with manipulation within the Office of Price Administration, they can effectuate an imbalance and create shortages of very important commodities in our country in order to create, in turn, a situation where controls can somewhat be justified. Is that about the situation?

Dr. Wilson. That is correct.

Mr. Crawford. Mr. Chairman, how should we interrogate these witnesses when testimony is thrown in in this manner? It gives the industry a chance to put in their presentation, but it makes cross-examination very difficult. Please understand, I am not criticizing you.

The Chairman. You may proceed as you wish, just so it is an orderly procedure. It is difficult for the reporter to make an orderly record
when you take people out of the audience. If you wish to interrogate another witness, I suggest that he take the stand.

Mr. Crawford. I want to ask Mr. Pew a question.

The Chairman. Mr. Pew.

Mr. Crawford. Mr. Pew, the question I have in mind has to do with this report of the Public Opinion Index. I think these people to whom you referred are all manufacturers; is that right?

Mr. Pew. Yes, sir; they are.

Mr. Crawford. Are they what we recognize in general terminology as small industry?

Mr. Pew. They are.

Mr. Crawford. With employees running from what to what?

Mr. Pew. From about 50 to 1,000 employees.

Mr. Crawford. From 50 to 1,000 employees?

Mr. Pew. Yes, sir.

Mr. Crawford. With capital structures ranging from, say, $50,000 on up to about what capitalization?

Mr. Pew. Well, I think, in different industries that would vary. But my first reaction is that it might run up to a million dollars. From a million dollars down, let us say.

Mr. Crawford. In other words, it is within that class of manufacturers which the so-called House Small Business Committee, Mr. Patman's committee, dealt with; is that correct?

Mr. Pew. That is correct.

Mr. Crawford. Now, you had a chart, and the opinions expressed on that chart are to the effect, are they, that the Office of Price Administration is greatly interfering with production by those manufacturers covered in that survey?

Mr. Pew. Yes, sir.

Mr. Crawford. Have you seen any kind of a Gallup poll—now, referring to Dr. Gallup specifically—which deals with the opinions of producers in this country?

Mr. Pew. I have not.

Mr. Crawford. The Gallup polls, as a general rule, deal with consumers, do they not?

Mr. Pew. Yes, sir. So far as I know, they do.

Mr. Crawford. In your opinion, does the Office of Price Administration base a great deal of its administrative policy on the opinions of consumers, or the opinions of producers?

Mr. Pew. I would only be able to guess, but from their actions, I would deduce that they take full consideration of the opinions of the consumers.

Mr. Crawford. Who want production?

Mr. Pew. Who want production.

Mr. Crawford. But who do not produce the goods? So somewhere down the line we have got to get into a realm of thinking which has to do with production, do we not?

Mr. Pew. That is right; yes, sir.

Mr. Crawford. That was one of the purposes of this survey, was it not?

Mr. Pew. It was.
Mr. Crawford. What percentage of the total production would you say that group represents? Have you any figures on that?

Mr. Pew. I do not have any figures, but it is a very important group, because they produce many of the products which the larger manufacturers use in connection with the production of automobiles, radios, and materials of that character.

Mr. Crawford. In other words, they feed into these larger operations?

Mr. Pew. They feed their material into the larger operations of the larger companies; yes, sir. And I might add, sir, that because of the discontinuance of the production of many of the smaller gadgets, these large manufacturers are hamstrung in the getting out of their products.

Mr. Crawford. Then, the position of your industry, as presented here today—if I am correct in my understanding of it—is that you are opposed to a continuation of the Office of Price Administration beyond next June 30, as far as the law is concerned? Or do you appear here and ask for decontrol on your industry?

Mr. Pew. We want our own industry decontrolled, and, because of the interrelationship as between the operations of different industries, we want decontrol throughout all industry, and particularly manufacturing industry.

Mr. Crawford. Do you think the oil industry has any difficulty in getting your drilling machinery and such other machine tools and equipment as you would use in the production of crude oil?

Mr. Pew. A great deal of difficulty.

Mr. Crawford. Would you advocate, on the assumption that the Office of Price Administration is continued, Congress writing into the law a proviso that decontrol should automatically follow as of next July 1 on all capital goods?

Mr. Pew. Yes, sir. We advocate decontrol being effectuated on all goods.

Mr. Crawford. If it is continued, I say.

Mr. Pew. Then, we would like to have as much taken out from under Office of Price Administration control as possible.

Mr. Crawford. I am not asking you for a compromise. I am trying to get your viewpoint.

Mr. Pew. Yes, sir; we would like to have the drilling material decontrolled.

Mr. Crawford. That is all, Mr. Chairman.

The Chairman. If there are no further questions, you may stand aside, Mr. Pew.

We are glad to have given you the opportunity to express your views to the committee.

Mr. Russell Brown. I appreciate very much the courtesy and the patience of the committee, Mr. Chairman.

We will recognize Mr. Baumbach.

Mr. Baumbach. Mr. Chairman, I am past president of the Northern Kentucky Food Dealers Association, Newport, Ky. I want to introduce as our first witness Mr. R. H. Raibert, executive secretary of the Kentucky Food Dealers Association, of Louisville, Ky.

The Chairman. You may take the stand, Mr. Raibert.
STATEMENT OF R. H. RAIBERT, EXECUTIVE SECRETARY,
KENTUCKY RETAIL FOOD DEALERS ASSOCIATION

Mr. RAIBERT. Mr. Chairman, my name is R. H. Raibert. I represent the Kentucky Retail Food Dealers Association, Inc. I am secretary of this organization.

The CHAIRMAN. Where do you reside, Mr. Raibert? Louisville?

Mr. RAIBERT. Louisville. Yes, sir.

Before any of the gentlemen who are retail grocers, that are with me, present any testimony before this committee, I would like to ask this committee if the same thing is going to happen to these men that happened to the grocers that testified before this committee last year.

The thing that happened that I am referring to is that each and every grocer who testified before this committee last year was hounded and persecuted by the Office of Price Administration. Many of those grocers have been forced out of business.

Even though we have come a long way up here from Kentucky to present the factual information on things that we think are unfair in the present Price Control Act, I do not think that it would be fair to ask these gentlemen to testify if they are to be persecuted by the Office of Price Administration for appearing at this hearing. These gentlemen are honest, upright American citizens, and they deserve fair treatment, because, after all, this is still America. I hope. I ask you gentlemen of this committee to assure the representation from Kentucky that no method of retaliation by the Office of Price Administration will be allowed against them. I certainly do not want to see these grocers in Kentucky crucified, as the grocers were, who testified before this committee last year.

We are here to present on behalf of the grocers of Kentucky their complaint about the unfair and harsh methods now being used by the Office of Price Administration, particularly in the Enforcement and Checking Division.

We do not believe that these methods are the fault of the local Office of Price Administration offices, but we believe that they are trying to rigidly live up to the letter of the law as written in the original Price-Control Act, and in the amendment presented last year to the Price-Control Act.

Now that the war is over, we sincerely believe that the law in itself is entirely too harsh and too far-reaching for peacetime, and that it should be amended so that price control will be more simple and more effective. Unless it is possible to do this, many more honest, upright, independent grocers will be driven from their businesses by this unnecessary harshness and unjust attitude taken by the Office of Price Administration.

I repeat that I think the way the law is interpreted today by the local offices is due entirely to their instructions from their superiors and that is that they must get tough and live up 100 percent to the letter of the law. It appears to me that the use of some common sense might help to remedy the situation a little bit.

But, frankly, gentlemen, I believe the only remedy is to amend or, rather, for the Congress of these United States to amend, the Price Control Act so that the harshness and the unfairness and inequities will be removed from it, and that it will be possible for the honest,
independent grocers to live under this act for another 6 months or possibly 1 year.

You gentlemen and the other gentlemen of the Congress and Senate are responsible for the amendment that was put into this act last year that allowed the Office of Price Administration paid employees to make purchases and build a case against independent grocers and other businessmen. The only reason that this was necessary was because the consuming public in general did not feel that the violations were as bad as the Office of Price Administration seemed to think they are. For that reason, this amendment should be corrected. Therefore, the Kentucky Retail Food Dealers Association asks you gentlemen for your consideration on the following corrections and amendments to the present Price Control Act.

First, the correction and easing up of unnecessary harshness in the enforcement of unintentional violation. We believe that for an unintentional violation there should be no fine. We further believe that if a grocer has items under ceiling as well as over ceiling, that there is no intent on his part to violate the law.

I might just ad lib a little bit there and say that I recently had occasion to appear before a price panel with a lady who was running a grocery store, because her husband was in the service. I asked to see the file. On checking this file, I find that there were eight minus items and three plus items, the minus items being items that were under ceiling; the plus items being items that were over.

Certainly, there was no intention on the part of that lady to black market or get rich, because she was selling eight items below ceiling and only three over ceiling, and yet she was cited for a violation. We further believe that the penalties for these violations are entirely too harsh, and that there are many more corrections that should be made.

For instance, when a checker comes in the store, that he or she should not come ahead of the merchant's customers, but should wait their turn before checking the store.

Second, we ask revocation of all controls as supplies of individual commodities come into a reasonable normal balance with demand, and the danger of ruinous inflation decreases.

Third, an immediate end of consumer food subsidies.

Fourth, the immediate removal of all food and grocery commodities that do not have a direct effect on the cost of living.

Fifth, that prices cannot be controlled by the Office of Price Administration or any other Government agency unless wages are controlled. The present policy of this administration encouraging wage increases is one of the basic causes of inflation.

Sixth, the removal entirely from price control of the attached list of nonessential and luxury items.

I have here a list containing those items, attached to this statement. Some of those items are ammonia, bluing, cleansers, insecticides, lye, and so on.

Seventh, that the retailers should be allowed to raise prices at the same time meat packers or wholesalers raise prices to them.

Please remember we are not asking that price control be discontinued. We are only asking that it be simplified and that it is more fair and equitable to all under its control.
There is just one more thing I would like to call to your attention. Here is an order that was sent out telling the grocers to take an inventory of the sugar on hand:

This amendment shall become effective 12:01 a.m., February 10, 1946.

We have a large number of members throughout the State of Kentucky. In Louisville we have, roughly, some 400 members. This order was effective February 10, 1946, yet the earliest it was sent through the mails to any grocer, and received by then, was March 7. I would like to know how you can take an inventory on February 10 when you do not receive an order until March 7.

Mr. Monroney. Mr. Chairman, could I make a statement for the record?

Representative Chelf, of Kentucky, was here earlier today and wanted to be here for this testimony, but was necessarily called to the floor. He will testify when the Members of Congress go on.

Mr. Crawford. Mr. Chairman, may I ask the witness what happened in that case where you had eight minus and three plus?

Mr. Raibert. They wanted $50, and they finally got down to $25, and I said, "This happens to be a case we will go to court on. I do not think you can do anything with it." And after I was asked to step out of the room and then returned later. They said that they had decided that they probably had made a mistake.

Mr. Talle. Mr. Chairman.

The Chairman. Mr. Talle.

Mr. Talle. Who receives the money when these fines are imposed?

Mr. Raibert. The check is made to the Treasury of the United States.

Mr. Talle. And is it turned over to the man who imposes the fine?

Mr. Raibert. Yes, sir.

Mr. Talle. It is not mailed to the Treasury?

Mr. Raibert. No, sir; it is turned over to the food-enforcement attorney of the district office of the Office of Food Administration. That brings to my mind a thought which was very ridiculous when it was brought up: I had a food-enforcement attorney in Louisville tell me, "We cannot accept a $25 fine, because it costs us more than $15 to transmit this check to Washington." I think it cost them 3 cents, and possibly the cost of a letter, which in my office, amounts to about 60 cents a letter. So I could not figure out, and have not yet discovered, the mystery of the $15 it cost them. That is the reason they wanted $50 fines instead of $25.

Mr. Patman. I would not believe that $15 part of the statement.

Mr. Raibert. You cannot believe it. It just does not make common sense to think that it would take $15 to transmit a check from Louisville to Washington.

Mr. Crawford. Is there general feeling among your associates that some of these investigators attempt to build up the volume of business in their favor in the way of assessing these fines?

Mr. Raibert. You mean that they are framing cases against the grocers?

Mr. Crawford. Yes, sir.

Mr. Raibert. No, sir; I do not think that that feeling is there at all. The feeling is simply this: That due to their lack of knowl-
edge of the grocery business and not being able to tell a Taylor ham from a regular ham, or not being able to tell a piece of beef from a piece of veal—in other words, that that is the cause of it—incompetence, more than anything else.

The Chairman. Mr. Baumbach, will you introduce your next witness?

I failed to introduce Mr. Baumbach. He is a fellow citizen of mine, and he is a grocer of standing and influence in the community in which he lives.

Who is your next witness?

Mr. Baumbach. William Murray, of Lexington, Ky. He is president of the Kentucky State Food Dealers’ Association of Lexington, Ky.

The Chairman. Take the witness stand, Mr. Murray.

STATEMENT OF W. L. MURRAY, LEXINGTON, KY., STATE PRESIDENT OF KENTUCKY FOOD DEALERS’ ASSOCIATION

Mr. Murray. Mr. Chairman and members of the committee, my name is W. L. Murray, Lexington, Ky., State president of Kentucky Food Dealers’ Association. My one and only purpose in appearing before this important committee is for the interest, protection, and betterment of the retail food dealers, not only in Kentucky but all over these United States. May I state, first, that I own and operate a fair-sized food market in Lexington, Ky. I have spent the past 16 years in the food business, and I very much like the business when I can operate on a pure and competitive basis, but I must state that due to complications that have arisen from the unworkable and unreasoning regulations of the Office of Price Administration it has especially been very hard to operate efficiently as per Office of Price Administration checkers’ views in the past 6 or 8 months. I have cooperated wholeheartedly with the regulations the best I could, and so far have never been questioned by any Office of Price Administration worker. I have never violated a price regulation knowingly, neither have I permitted any one of my employees to violate any of the price regulations. However, according to some of the indictments of several of my fellow food dealers, I may have my name in the big wheel, ready to be turned out at any time; for example, some of these indictments charge that between August 1, 1945, and January 19, 1946, some item was sold above ceiling price. Very seldom the item is ever mentioned in the indictment; therefore, the dealer must try to find out just what item has been sold above ceiling price. Won’t you agree that due to so many changes in prices and regulations that this method is unfair to any food dealer and will work an undue hardship on him in preparing his defense? Wouldn’t it be better and fairer that the food dealer be advised immediately of his error or violation, whichever the case may be?

I want to make this statement that it is next to impossible to calculate 2,500 to 4,000 items normally carried in a retail food market without making an error. I contend that there is a big difference between an error and a violation. As I understand a nonintentional error the Office of Price Administration asks for a $25 voluntary contribution to the United States Treasury and an intentional error—
they ask for $50 plus court costs and an injunction against such food dealer for further violation.

Now here's the joker—on second offense they are permitted to assess large fines and add long jail sentences. I ask you, gentlemen, if you think in time of peace after the display of all-out cooperation to win the war by contenting ourselves with various regulations, rationing, buying bonds, making contributions to war chests, Red Cross, and so forth, that this law is fair to the food industry? Do you not think that it is harsh enough in time of war, much less time of peace?

We are not asking for inflation. However, you will probably agree that we already have plenty of inflation. Neither are we asking for higher prices or larger permitted mark-ups. We are only asking for a fair deal and for your assistance to write such laws that do not persecute or work undue hardship on any group or groups of small or large businessmen.

We have inflation on real estate now in most sections of 100 percent or more. It is my opinion that inflation such as this is much more dangerous than a small percent on foods. It was such inflation after World War I that really turned people out of their homes. It seems to me that a world facing starvation that we should encourage production of all kinds instead of encouraging a planned economy which creates shortages and does not allow a fair margin of profit. I believe that every producer is entitled to a legitimate profit and every laboring man is entitled to a fair wage and good working conditions.

We believe that it is the purpose to make laws based on justice, and if such unfair laws as are now being interpreted by the Office of Price Administration enforcing agencies remain in effect, that many, many honest food dealers, some of which have been in business for many years and are respected in their communities will throw in the sponge and be forced to quit the type of business they love and resort to some other way of making a living.

In fact, we have two well liked food dealers of many years in Lexington, Ky., that have recently gone out of the food business according to their own statements because of unjust regulations and enforcements of the Office of Price Administration. One of these gentlemen quit before any charge was placed against him and one after an indictment had been made against him of which he pleaded "not guilty."

The thing that worries all of us most is what is a violation? Is there a difference between a violation and an error? And why does the average Office of Price Administration checker not have the ability to discern this difference? And if they are not qualified to determine this difference, why shouldn't the laws be written in such a manner that would enable the judges or the jurors to determine that difference after hearing the evidence in such cases?

Here is an example of an error made by the Office of Price Administration in Lexington, Ky. One of our food dealers had a small truck for sale, but before he advertised this truck in our local newspapers, he called the Office of Price Administration and after giving them full details and description of the truck, they asked for time to figure the ceiling price. In a short time they called him and told him
the ceiling price was $289.15. The food dealer advertised the truck and the next morning by 8 a.m. he sold the truck. It was necessary for the purchaser to go to the Office of Price Administration and get the necessary papers for the purchase. He took the papers to the seller and stated, "I think I got a bargain." The seller readily agreed, but when the purchaser presented the paper to the seller for his signature he found that the Office of Price Administration employee had made a mistake. The correct ceiling price was $376. Therefore, the food dealer lost $86.85 by an Office of Price Administration employee's error.

They have this same food dealer indicted for selling some item above the ceiling of possibly 1 or 2 cents. Gentlemen, does this make sense? Is there not some way that you, gentlemen, can eliminate such practices?

It is my honest opinion that a large majority of foods are being sold below ceiling prices. After talking and checking with several food dealers in our good State of Kentucky, I firmly believe that from 10 percent to 50 percent of food items are being sold below ceiling prices. This being true, should two or three items accidentally be sold a penny or so above ceiling and dozens or possibly hundreds of items in the same store being sold below ceiling—is there anyone who could accuse a dealer of being a crook, chiseler, or a violator?

I should think that if a man wanted to profit or cheat he would price all of his items to the highest permitted mark-up and then try to chisel on as many other items as he thought might get by without being caught. When I make the rounds over my own store, in order to satisfy myself that there has been no error made in the pricing of my food items, I occasionally find where there have been a few errors made. I immediately correct such errors and console myself that it was an error. Had it been that an Office of Price Administration checker would have found this error, I would have been branded as a crook and a chiseler or some other kind of a criminal.

Some few months ago when we had a district office in Lexington, Ky., our chief price administrator made this statement: "That the ordinary retail grocer was responsible for the black market." This statement was published in one of our newspapers. Some of us food dealers from different parts of the State secured an appointment with this gentleman and strongly resented this statement. We pointed out to him that it was the unworkable regulation of the Office of Price Administration that was responsible for the black market.

Now, gentlemen, if you agree with us that these regulations are unjust or being misinterpreted and that if the law in its present form is too harsh and unjust, then we ask your cooperation in correcting same.

The Chairman. You said they charged certain violations between certain dates, specifying the character of the violations?

Mr. Murray. No, sir; nor the date. There were three cases: I believe one on the 17th, one the 18th, and one on the 19th, all stated as being from August 1, 1945, to January, I believe, 17 or 18 or 19.

The Chairman. Did they not state the character of the offense?

Mr. Murray. No, sir. We have to dig that out by writing letters or getting our attorneys to get these things, which has been done in these particular cases.

The Chairman. You may stand aside, Mr. Murray.
Mr. Crawford. Mr. Chairman.
The Chairman. Mr. Crawford.
Mr. Crawford. What about these people who were persecuted by
the Office of Price Administration since they testified here a few
months ago. Do you know anything about that?
Mr. Murray. What is that?
Mr. Crawford. These witnesses who appeared here a few months
ago from your area, and, after testifying, have been crucified, as you
expressed it, by the Office of Price Administration since.
Mr. Murray. No, sir; I do not know whether they are in our area
or not. I am not familiar with that. The witness who preceded me
made that statement.
Mr. Crawford. I thought you two men were working together.
Mr. Murray. We are, but I do not know anything about that.
Mr. Crawford. Would it be permissible for the other gentleman to
answer that?
The Chairman. Yes.
Mr. Raibert. I made that statement.
Mr. Crawford. Have I understood your testimony?
Mr. Raibert. Yes, sir; the names and addresses of all those men
who testified in 1945 are available from the National Association of
Retail Grocers, of which we are an affiliated member. If you wish the
names of them, we will be glad to send them to you.
Mr. Crawford. To your knowledge, have they been unjustly treated
by the Office of Price Administration as a result of that testimony?
Mr. Raibert. Shortly after appearing here, checkers began to ap-
pear in our store from two to five times a week. Sometimes two to
three times a day.
Mr. Crawford. That is what I was trying to get at when I asked you
the question awhile ago; if any of these people had been framed.
The Chairman. You may stand aside, Mr. Murray.
Mr. Murray. Gentlemen, may I leave the letters here from the
State of Kentucky for your consideration?
The Chairman. Yes.
Mr. Thom. Have the checkers gone into your store, Mr. Murray?
Mr. Murray. Well, the panel checkers are in there frequently;
yes, sir. But if the undercover men have been, I do not know it.
Mr. Thom. You have never been cited?
Mr. Murray. I have never been questioned.
Mr. Thom. That is a good record.
Mr. Murray. Thank you.
Mr. Patman. Have you lost much money during this time, or have
you made money?
Mr. Murray. No, sir; our records show that we have made about
the same. Our organization was organized in April 1941, and our
profits have been about the same each year, with very little difference.
That, of course, possibly was due to the fact that our expenses have
been a little more recently.
Mr. Thom. What size business do you have?
Mr. Murray. $200,000 a year.
Mr. Thom. How much were your net profits last year?
Mr. Murray. I will give you this: About $5,800 or $6,000. But
this was an incorporation as of last year, until the last of last year,
and a salary to the officers was not included in that amount.
Mr. Thom. It does not look like much of a net income on that much of an investment.

Mr. Murray. Well, almost all of my time is given to keeping up with the regulations, and trying to keep these boys lined up, and trying to see that there are no violations.

Mr. Thom. What is your capital investment?

Mr. Murray. We have been operating on a $30,000 capitalization, with two stores.

Mr. Thom. You are not asking for the repeal of the Price Control Act?

Mr. Murray. No, sir; I think that should be left to you gentlemen, but I do think that it ought to be fixed so there will not be persecution. You will notice I did not ask for permitted mark-ups; I did not ask for anything except justice. I am appealing to you in the interests of the food industry in our State, which has elected me president, and that is the reason I am trying to work so hard for their interests, giving my time gratis.

Mr. Thom. You are satisfied with the law, but not satisfied with the enforcement of it?

Mr. Murray. Yes, sir. I am not falling out with your law. In other words, I am not asking—under the permitted mark-ups, I will tell you, we are confused in many cases, but it could be made simpler. However, I think that we are allowed a legitimate profit as retailers. I am not worrying about that. Maybe we are pinched in places, but in other places we have a loophole. So I see no reason that anybody should want to violate the ceilings. I do not see any reason for it, because they can operate with a profit by not violating them, and honestly, gentlemen, if there has ever been one violated in my store, I have no knowledge of it.

The Chairman. Thank you. You may stand aside, Mr. Murray. We are glad to have your testimony.

Mr. Baumbach. Next I would like to present Mr. Frank Bile, vice president of the Home Owned Grocers Association of Louisville, Ky.

STATEMENT OF F. K. BILE, VICE PRESIDENT, HOME OWNED GROCERS ASSOCIATION, LOUISVILLE, KY.

Mr. Bile. My name is F. K. Bile. I am president of the Home Owned Grocers Association of Louisville, Ky., and represent grocers there.

The first thought I want to get in your minds is that we do want price control. I am a grocer, and I live with grocers, and I know our troubles. I would like to cite to you some of the grievances of us grocers with the Office of Price Administration situation.

One man told me only day before yesterday about an Office of Price Administration price panel worker visiting his store unofficially. He was amazed at the fact that the grocer had not been before the price panel for a violation. During the course of the conversation he left the impression with the grocer that they would check and recheck until they found a violation against him. This attitude will give you an idea of how unfairly we feel we are treated. It has a tendency to have grocers on nerves' edge regardless of how well they try to keep their prices in line.
Citing an example of the fear under which grocers live, I found on a recent tour occasions such as this: The first grocer I visited I asked for the store owner upon entering. The man whom I presumed was the owner went on about his business saying that the boss was not in. I said to him, “I am not an Office of Price Administration inspector, I am here from the Grocers' Association.” He smiled then and left his work while we had our conversation.

The next store I visited I introduced myself as an Office of Price Administration investigator. The man shied away from me and literally went into a nervous spell. Then when I finally introduced myself he said, “Hell! you scared me. Damn! They got me again this morning.” It happens that this man had been washing his shelves and walls, which naturally caused him to move his merchandise about, and after working until 11 p.m. the night before, had not reset his prices on the merchandise.

A small item I would like to call to your attention is the wording of the newspaper releases from the Office of Price Administration citing violations which leaves the public with the impression that we are just short of being criminals. I know of cases in which grocers have had numerous items under ceiling and been charged with a violation with one price over ceiling. Why do they not put that in the newspapers?

The fines that are put out for these slight violations are far out of proportion. Fifty dollars may not be too heavy a fine for a $25-over-ceiling sale, but when you compare $50 to 1 cent, there is such a drastic difference that it sounds as if it were the war debt.

On more than one occasion when the panel worker has been checking my store, I have shown him prices under ceiling, and I usually get a look that makes you know they do not believe you. We could hardly expect to get rich on a penny or two overcharge. Does it not stand to reason that it is easily possible for a man to slip up here and there when he has anywhere from 800 to 1,500 different prices in mind?

Further, along the line of keeping a man confused, I would like to call your attention to the list of mark-ups put out by the Office of Price Administration. Unless I am sadly mistaken, there are 37 different mark-ups on this list, 18 of which vary no more than 4 percent. Why could they not be placed in about two groups so we do not have to become cross-eyed running up and down columns?

If the Office of Price Administration is big enough to control prices and do this gigantic job, why don’t they get to the base of the trouble? You gentlemen would only have to go down town to a wholesale produce house, open a crate of lettuce, and find up to 10 unusually small heads among those of the regular standard grade. Now and then you will even find the end row at the lower layers placed in such a way as to account for the two bottom layers, thereby shorting the grocer four heads of lettuce. While at the wholesale house, turn several cases of citrus fruits on end and note the vacant space where plenty of room is left for a dozen or so more oranges or several grapefruit, whichever the case may be. Open some of these crates and you will find the reason—up-grading.

Many of our stores are now turning to shelf service. They have an undue hardship when the customer selects the largest fruit, leaving
the small ones for an Office of Price Administration check to find you with short weight.

Recently a large chain was cited for being over 51,000,000 pounds short in their sugar inventory. This amounts to over 4 tons per store. They were not penalized for this, but what would happen to me if I were short even 1 ton? I refer you to figures Mr. Raibert has about what happened to some of our grocers in our association.

Furthermore, how could you expect us to keep our sugar account straight when such things as this happen: Our ration bank statement was due to be in our hands January 15. I personally had not used the checking system for a month prior to January 1 in order to get my account perfectly in line before the sugar adjustment February 16. But as late as March 16 they still did not have our statements ready at the bank.

Another thing I have worthy of mention dates back to the days when price panels were first put into effect. My first checker happened to be a customer of mine. When she was through with her work in my store she said, “I am on the way home and do not have my points with me. Let me have a pound of butter, and I shall give you the points tomorrow.”

Mr. Thom. Did you get the points?
Mr. Bile. She didn’t get the butter.
Is this situation supposed to work only one way?
I think a simple solution to the whole set-up that would make life worth living in grocery stores once more would be to set the mark-up at about 30 to 35 percent on cost, which would be about 25 percent on selling price, as we had always figured prior to the Office of Price Administration. This would have a tendency to put the grocery business back on a competitive basis.

Our present competitive situation is different than back after World War I. Now we have thousands of chain stores and tens of thousands of independent markets, not like the predecessors, the grocery business is modern. Competition is so keen that a grocer would only be signing his death warrant to take the full mark-up on all items. The most competitive items are naturally the necessity items.

One more thing I would like to relate to you is the wholesale price increase on meat that took effect recently. We were led to believe that pork would be raised 55 cents per hundredweight, but the prices to retailers were raised up to 4 cents per pound. Citing examples, bacon was raised 2 cents per pound in Louisville, and 4 cents per pound in northern Kentucky. Hams were raised 1 1/4 cents per pound, sausage 1 1/2 cents per pound, wiener 1 1/4 cents per pound. You will notice, please, that these are on the better selling items, and I am sure that it averages more than 55 cents per hundredweight.

In closing I would like to tell you that I was a violator once. My butcher sold pork chops above ceiling price because it was necessary for him to trim fat off the loins in order to put them in salable condition. I know that the law requires not more than a half inch of fat on a pork loin. It is not uncommon to find an inch and a quarter of fat on them. When I went before the Office of Price Administration attorneys with my case, I took some pork chops along. They measured them for themselves and found them to have 1 1/8 inches of fat. I trimmed one chop for them and laid it beside the other one.
I asked all five of them which chop they would buy for themselves, providing there was 5 cents difference per pound. None of the five gave me an answer. Does not silence still give consent?

These are just a few of the many things I could bring to your attention providing we both had the time.

The Chairman. Have you any other witnesses?

Mr. Baumbach. I want to remark just a minute. I have some clippings of local papers from a community of northern Kentucky. Some of these are from Fort Thomas. The headline is "14 Violators of OPA pay $9,558." That is small independent merchants.

Here is an independent merchant of Covington, Ky. He was fined eight thousand-some-odd dollars. Two days later they came in and they are going to recheck his inventories.

One other thing, in our schools they are putting a program on to ask children to check ceiling prices in their stores. One little boy came home to his dad who had been in the grocery business 32 years. He was 8 years old. He said, "Daddy, can you tell us why in school they say we have to watch you?" They are putting fear into the child. They tell him his dad should be watched.

We are not asking for controls to be taken off. There has to be some form of controls on price. We are asking for common-sense regulations. In other words, we are not in business for the last 30 or 35 years to operate illegally. We built our reputation over a period of years for the confidence of the people. Some of these small merchants, some of them had to borrow money to pay some of these fines. It is hard for a fellow to pay $8,000. That is a lot of money, gentlemen.

We are not asking for anything unreasonable. We are just asking for some relief. There has not been a grocer in northern Kentucky who hasn't had to appear before a price panel. They had 62 the day before I left. They are after all of them. You are constantly working in fear. You are afraid who the next customer is going to be. They are checking some stores' complete inventories, from one end to the other.

There is nothing to stop a young child from pushing a sign—pushing a 12-cent price over on another item. They do not ask you for any explanation. That is marked down on their sheet. Then you are a violator. We have some checkers—we have been trying to find them. Some of these checkers are young people, possibly 16 or 17 years old. We had a case in Cincinnati, two colored girls approximately 16 years old were checking stores.

The thing is that we want to live up to these regulations. We are trying to live up to them. We want some relief so we will not constantly be hounded and watched. We are trying to operate a legitimate business.

Thank you for your attention.

The Chairman. I am sure the committee will give you consideration.

Mr. Raibert. Many merchants are called in before the price panel and also by the district office. They are asked to make a voluntary contribution for an intentional violation of $50, or an unintentional violation of $25. Rather than go to court, they go ahead and settle for the voluntary contribution, not realizing the debt will be held...
against him on the next case which comes up, which will probably be a civil suit. They will also ask for an injunction.

We had a man in Louisville who did not appear. They had an injunction against him. When he came before me, I thought he was being imposed on. Through his lack of knowledge, which is no excuse of the law, they had obtained an injunction against him. They wanted to send this man to prison for 1 year for being over 2 cents on one item and 3 cents on another item. They finally compromised the case for $500 for being over 2 cents on one item and 3 cents on another item.

The grocers, rather than going to the inconvenience of hiring an attorney for $250 and having the court cost, go ahead and admit their guilt. We have tried to get them to fight the cases. Unfortunately, they would rather settle that way, not knowing they were going to be incarcerated for suits in Federal courts.

The **Chairman.** Did he pay that $500?

Mr. **Raibert.** Yes, sir. Our attorney had just returned from the service. The attorney who was serving until he got back dropped dead a few days before. He paid it because they took off the year in prison and reduced the fine they asked for from $1,000 to $500. If they get him the next time, I suppose they will throw the keys in the Ohio River and he will stay in prison until he rots.

Mr. **Thom.** Mr. Chairman, I think you better get back there and practice law. They collect good fees.

Mr. **Raibert.** I think we brought some intelligent considerations before you. I hope we are not in the class that just blows off steam.

The **Chairman.** We were glad to have you come here.

Mr. **Sunderstrom.** Mr. Margetts is chairman of the mediation board of the great State of New Jersey, and he is also president of the New Jersey Taxpayers Association. As the chairman of the mediation board, he has worked for both management and labor in order to settle strikes and disputes in my State. His efforts and work have made a large contribution in the fight against inflation. We will welcome his views.

Mr. **Margetts.** Thank you Mr. Chairman.

**STATEMENT OF WALTER MARGETTS, CHAIRMAN OF NEW JERSEY STATE BOARD OF MEDIATION**

Mr. **Margetts.** Gentlemen, my name is Walter Margetts. I am Chairman of the New Jersey State Board of Mediation. I was formerly a member of the National War Labor Board in Washington, D. C.

My presentation is really in three parts.

The first deals with my experience on the State board of mediation. The second with respect to the woolen and worsted industry, and the third with respect to the cotton industry in which I have a personal interest.

Concerning the first phase, we have a problem which is closely related to your problem in considering the extension of the Office of Price Administration or the modification of it.

Since VJ-day, in practically every case coming before our board involving wages which labor through its union representatives in accordance with what I personally believe is a good American ambi-
ation, seeks to obtain higher wages, we are faced with the statement by management that their peacetime products are in most cases operating at a substantial loss even before granting further increases in wages.

If you wish specific citations of actual cases, I would be pleased to give them to you.

The fact that so many companies have informed us that they are compelled to operate at a loss even before giving effect to increases has in my opinion contributed in a substantial way toward the prolonging of industrial disputes and has prevented us from expeditiously resolving wage disputes.

This matter needs correction and I believe your committee is the correct congressional group to do so.

I would like to point out to you that our board has received what I would consider wholehearted cooperation from the representatives of labor appearing before our board and, of course, labor itself by accepting settlements of labor disputes for a lesser amount than they honestly believe to be due them.

Especially is this so when labor generally has been given to understand that the Government is sponsoring a national pattern of wage increases.

With respect to the woolen and worsted industry, as Chairman of the New Jersey Mediation Board, I am naturally interested in problems affecting industrial production and wages in this State.

The woolen and worsted industry is a very important segment of the manufacturing activity which comes within my purview. Furthermore, as a life-long resident of Passaic, I live in the midst of the woolen and worsted mills of this immediate area, where approximately 20,000 workers are employed in the production of the better qualities of essential clothing fabrics for both men's wear and women's wear use. The welfare of these mills and of their workers, and the ability of these establishments to adequately assist in providing for the Nation's clothing needs, are matters of considerable local significance and concern.

I have been very much disturbed over the serious hindrances to maximum, effective production which have been directly caused by various Office of Price Administration regulations, and by the trouble-fomenting statements which have been issued by Mr. Chester Bowles relative to the wages paid by the woolen and worsted industry.

When I previously served as a member of the National War Labor Board in Washington, I knew that woolen and worsted mills generally throughout the country, as well as in New Jersey, applied for permission to increase their scale of wages, but these requests were denied in view of the Government's then existing hold-the-line policy.

After this policy was abandoned, and when contracts with the Textile Workers Union of America, Congress of Industrial Organizations, the bargaining agency for the larger New Jersey mills, came up for renewal on this last February 1, the woolen and worsted mills collectively bargained with it to substantial wage increases, the inclusion of paid holidays and other benefits, totaling an upward revision of over 18 percent. Furthermore, these benefits for the most part were made retroactive to January 1 although the old contracts ran until February 1. It so happens that it was a New Jersey mill in the Passaic area that first signed such a contract renewal with the Textile
Workers Union, Congress of Industrial Organizations, thereby setting the pace which the other mills in the industry followed.

As a result of these increases in the new union contracts, the minimum wage of the industry is now 75 cents an hour (10 cents an hour higher than a national minimum of 65 cents publicly advocated by Mr. Bowles in an article written for and recently published in Collier's magazine), and the average rate is over $1 per hour.

Bearing in mind that most of the industry's employees are women, and that the majority of the jobs are only semiskilled, the average weekly take-home pay of these workers compares most favorably with industry generally throughout the country. These wage increases are fully in accord with the current national pattern of wage revisions.

Perhaps most important of all, these new contracts were negotiated amicably across the table with the union, without any strikes or work stoppages of any kind and without any commitment from the Office of Price Administration that these increases would be reflected in the selling prices of the industry's products.

Throughout the war the woolen and worsted industry met all the vast requirements of the Army and Navy, produced extra fabrics for lend-lease, and still took ample care of the entire civilian population without the necessity of resorting to clothes rationing.

Since VJ-day the industry has continued working steadily, day and night, 6 and sometimes 7 days a week, on either two or three shifts, without any serious production interruptions. The reconversion from military to civilian manufacturing was accomplished in a matter of hours rather than of weeks or months.

At no time were there any labor difficulties requiring the services of our mediation board or any other means of settlement. In fact, the textile and garment manufacturing industries combined, representing one of the three most extensive and most fundamentally important industrial segments of our entire national economy, have presented a production record both during and after the war that more than favorably compares with the strife, strikes, and work stoppages that have occurred in other major industries.

As one who is professionally connected with the settlement of labor disputes, I am proud of this record in which New Jersey mills, their labor, and the Textile Workers, Congress of Industrial Organizations, have played a prominent part.

Among the many misleading statements issued by Mr. Chester Bowles, I would like to refer to his remarks which were broadcast on Saturday, March 9, and prominently featured in the papers of March 10, in which he said that a lack of needed production in the textile industry was caused by the "miserable" wages which that industry pays and by the added fact that the industry's looms were antiquated and inefficient. Not only are such assertions unwarranted on the basis of the prevailing facts, but they definitely induce the very kind of confusion, unrest, and work stoppages which retard production rather than help it.

Since VJ-day the industry has, and still is, maintaining a rate of production far in excess of any previous peacetime year.

Mr. Arthur Besse, president of the National Association of Wool Manufacturers, testifying before the House Banking and Currency Committee, said:
Employment in the industry has increased from 134,000 in August 1945 to approximately 160,000 at 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 (inability to obtain labor) and not to inadequate wages. And I am sure this statement will surprise you—there is no present shortage of wool fabrics.

The mills have been delivering so many goods that just this week, several spencers who accept, examine and shrink goods for the clothing manufacturers, have given notice that they cannot accept further shipments until they can process accumulations. There are goods enough—our production of civilian fabrics is at a new all-time high.

Surely this does not betoken any break-down arising from low wages or inefficient machinery. Paul Porter, Administrator of the Office of Price Administration, stated in the papers of March 20, approximately the same thing.

Since the inception of price control in the summer of 1942, the woolen and worsted industry has operated under the Maximum Price Regulation No. 163, which sets the individual price ceiling on each separate fabric that a mill produces.

From my observation, I believe that sensible and practical price controls should be maintained for the time being, but from my studies of wage rates, I believe that Maximum Price Regulation 163 should be amended in certain respects.

Since the industry went under price ceilings in the summer of 1942, wage rates in the woolen and worsted industry have risen by approximately 40 percent, and none of these increases are reflected in the price ceilings of the fabrics, but have been absorbed by the industry.

In fairness not only to the workers but to industry and the public as well, I propose that Maximum Price Regulation 163 be so amended that of those wage increases which have been granted since the inception of price control, 50 percent be reflected in the individual fabric price ceilings, and 50 percent be absorbed by the mills.

This is fair to labor, for they have received the benefit of these substantial wage increases; it is fair to the mills because their tremendous current rate of production will enable them to shoulder 50 percent of such increases although it is unreasonable for them to absorb it all as they do at present; and it is fair to the public that they should absorb some share of the burden of such a greatly augmented wage structure.

Incidentally, the price ceiling changes on fabrics at the mill level which are here proposed would have a very minute effect on the final price of a fabric, since only about one-third of the cost of a yard of cloth is reflected in labor, the other two-thirds being made up of raw materials, overhead, selling, and so forth.

Furthermore, this increase means little in the cost of the finished garment since fabric cost is a small part of the cost of the finished garment.

Without question, the real difficulty with which the industry is confronted is this: The maximum average price regulation of the Office of Price Administration (RSO 115), by forcing mills to meet a mathematical average price despite increased costs and wages, has forced production into lightweight fabrics (principally for women's wear), which are less needed, rather than permitting a normal flow into the heavier
weight men's wear materials which are obviously in the greatest de-

At a time when the needs of millions of returning veterans have
built up a tremendous market for men's apparel, at a time when the
mills should and gladly devote a greater than usual proportion of their
production for this purpose, the industry is compelled by an arbitrary
order to make that which the public could best afford to do without.

It is not a question of total production, or of wages, or of machinery.
It is a question of permitting the industry to use its vast, current pro-
ductive capacity in those channels where the need is greatest. The
Army did this with extraordinary results. The removal of the re-
strictions of maximum average price would accomplish this desired
end. The public would get what it wanted, at prices which would still
be held in reasonable check under Maximum Price Regulation 163,
under which the industry has operated since the inception of price
control.

The maximum average price is not so much a pricing order as it is
an order which tells the mills what they should make irrespective of
what the public demand may be. Not only at the fabric level, but in
the garment manufacturing industry, the garment maximum aver-
age price by the same faulty reasoning tends to disrupt the proper,
normal flow of clothing to the retail stores, and to hinder production
rather than encourage it.

In reading the testimony given at the House hearings, and the
statements published in the press, I am deeply impressed, as I believe
we should all be impressed, by the fact that fabric producers, garment
manufacturers and retailers, individually and through their asso-
ciations, are unanimously and firmly convinced that maximum aver-
age price regulations are an unmitigated evil, that they hinder pro-
duction at a time when to encourage production is the greatest pro-
tection against inflation, that they serve no worthy purpose, and that
they should be rescinded.

These men are the producers and distributors whose responsibility it
is to clothe the Nation. They are the men with the practical experi-
ence, who performed such herculean tasks during the war and who
are trying to maintain that pace now.

To say that all these men are merely activated by selfish motives
is both insulting and ridiculous. They want to keep production and
distribution at a maximum, because they know that the dreaded effects
of inflation feed on insufficient supply. I am convinced that their
advice should be taken, and that maximum average price regulations
should be abolished.

Referring again to Mr. Arthur Besse's statement that there is cur-
rently an ample volume of production, the fact remains that maximum
average price forces a substantial part of this production into rela-
tively unwanted items, and conversely fails to supply that which is
in demand.

This in itself is inflationary because it prevents the public from
spending its money to secure that which it definitely wants.

As I said previously, I favor reasonable and practical price controls
until conditions are normal, but I feel that the Office of Price Admin-
istration should be sufficiently realistic and flexible in its regulations
to encourage production rather than hinder it.
Now with respect to the cotton situation. I would like to talk briefly about the third phase. That is the cotton industry. As I said, I am interested in the small cotton mill. We have been unable to obtain any raw material.

The mill is 125 years old. We face the closing of that mill just because we can not get gray goods. I have discussed it with the owners and management of the larger mills. Without exception they all state that it is due to the Office of Price Administration. That situation applies to another industry in the same area which makes a tape that covers electrical cable. The cable is manufactured by Phelps-Dodge Corp., by Western Electric, by Oakenite Co. They, too, have had to practically cease production in that line because of their inability to obtain gray goods.

This morning while waiting at the station one of the largest independent laundry supply owners, a manufacturer of soap in New Jersey, stopped to talk to me. He told me they had to practically give up their cotton end of the business. They could not obtain cottons. As I said, I contacted my friends in the cotton textile industry.

Incidentally, I was chairman of the Cotton Textile case from the industry point of view when it appeared before the National War Labor Board on the case brought by the Congress of Industrial Organization to increase wages, in which they were successful. Through that I have contacts with practically all of the cotton people in the South.

As I say, they all informed me that it is the Office of Price Administration that is holding them back. On the question of the statement made by Mr. Bowles on March 10, that it was wage rates; not being currently advised with respect to wage rates, I took the liberty of contacting the American Cotton Manufacturer's Association in conjunction with the owners of several large mills.

They advised me as follows:

In response to your request following information submitted:

Average hourly earnings southern cotton goods industry when Great Britain went to war September 1939 was 36.3 cents. At time Little Steel formula January 1941 was 40.3 cents. Pearl Harbor December 1941 was 48.3 cents. Latest figures available show 65.5 cents November 1945.

Above figures from United States Bureau of Labor Statistics. Additional increases in February 1946 will raise figure to approximately 75 cents. Percentages computed here show increase from December 1941 to November 1945 of 42 percent; January 1941 to November 1945 of 70 percent; September 1939 to November 1945 of 89 percent.

Figures for cotton manufacturing for United States show average hourly earnings August 1939 of 38.2 cents; January 1941 of 41.9 cents; December 1941 of 50.5 cents and July 1945 of 70.5 cents.

Increase August 1939 to July 1945 of 85 percent; January 1941 to July 1945 of 68 percent; December 1941 to July 1945 of 40 percent.

Increase same periods United States nondurable goods 57 percent, 48 percent; 33 percent.

All manufacturing in United States same periods of 66 percent, 51 percent, 32 percent. These figures from United States Bureau of Labor Statistics and show cotton-goods increase has been considerably greater than for nondurable industries or for all manufacturing industries. Cotton goods wage very favorable when compared with industries in same area requiring equivalent skill.

North Carolina Department of Labor shows that in November 1945 average hourly earnings of cotton-goods workers in that State 68.9 cents, November 1945 which was higher rate than paid in same State in brick industry, tile and terra cotta, fertilizer, foods, furniture, and bedsprings, seamless hosiery, flat knit goods, lumber and paper boxes.
United States Bureau of Labor Statistics report shows only 28 percent cotton-goods employees classified as skilled. Therefore considering degree of required skill together with figures above cotton goods industry on favorable basis with neighboring competitive industries.

That is signed by the American Cotton Manufacturer's Association.

I have read that telegram to show that it is not as Mr. Bowles has stated, the miserable wage paid in the textile industry, nor is it the antiquated equipment. It must be what our prospective sellers of raw material tell us, and that is, it must be the Office of Price Administration regulations.

I think something should be done so that a business that has been established for over 125 years or even a business in space we rent, one of the largest manufacturers of hats, can obtain gray goods or can obtain material either through us or somebody else with which to manufacture articles of clothing.

Mr. Brown. You may stand aside.

Mr. Sundstrom. May I ask one question?

Mr. Brown. Very well.

Mr. Sundstrom. As chairman of the Mediation Board of the State of New Jersey, you have had the experience of sitting in with many labor disputes, did I understand you to say in your statement that price controls had delayed and prolonged settlement of strikes and, secondly, it had interfered with giving labor a bigger increase in wages than they were entitled to?

Mr. Margetts. It has. Notably so in your own district.

Mr. Brown. We will take the next witness.

Mr. Ferry. It is rather late. If you prefer, I can present my speech tomorrow.

Mr. Brown. You can have your statement incorporated if you like.

Mr. Ferry. The size of these charts does not indicate my brief will be lengthy. I will only take ten minutes.

The Chairman. Anything you gentlemen want to incorporate in the record, it will be incorporated.

STATEMENT OF ROBERT E. FERRY, GENERAL MANAGER, THE INSTITUTE OF BOILER AND RADIATOR MANUFACTURERS

Mr. Ferry. My name is Robert E. Ferry, general manager of the Institute of Boiler and Radiator Manufacturers.

The following statements are made in the name of the members of that institute who comprise a large majority of the volume of manufacture of cast iron heating boilers and radiators.

The purpose of this statement is to present facts pertaining to the needs for and potential supply of cast iron heating boilers and radiators and to place on the record the effect which the Office of Price Administration price controls continue to have in creating serious shortages in these products.

Heating boilers and radiators are products which are an essential part of the emergency housing program.

It is true that there are other types of heating equipment which will be used, such as warm-air furnaces, space heaters, floor furnaces and stoves; but without a greatly expanded production of boilers and
radiators, heat will not be available in many of the homes which will be built:

First, because the maximum capacity of plants producing these other types of heating equipment is insufficient to cope with the total volume of homes that are needed over a several years' period.

Second, because a certain portion of those buildings can be heated only by steam or hot water, which means boilers and radiators. Therefore, unless production of boilers and radiators is maintained and sharply increased, it is inevitable that a large number of homes which are to be built during 1946 and succeeding years will be uninhabitable because of lack of heat.

Recognition by Government agencies of the essentiality of boilers and radiators is in ample evidence. The Civilian Production Administration and the housing agencies are deeply concerned over present and impending shortages.

The report of Wilson W. Wyatt, Housing Expediter, to the President, dated February 7, 1946, states that 2,700,000 homes must be started before the end of 1947. The target for 1946 is 1,200,000 and for 1947 1,500,000 homes.

The number of conventional homes listed as a goal by the Housing Expediter is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>700,000</td>
</tr>
<tr>
<td>1947</td>
<td>900,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,600,000</strong></td>
</tr>
</tbody>
</table>

The other 1,100,000 homes to be built during 1946 and 1947 will be prefabricated and temporary units.

The shortage of boilers for 1946 and 1947 home requirements is very serious. It is estimated that this shortage for 1946 will amount to 175,000 boilers, if something is not done to accelerate production.

Production is currently at the rate of 100,000 boilers per year. Requirements of boilers for the 700,000 new homes of the conventional type are estimated by the Civilian Production Administration as 25 percent of the total or 175,000 boilers.

In addition, 105,000 boilers are needed annually for replacements.

Thus, if the Housing Expediter's goal for 1946 is to be reached, production of boilers needs to be stepped up from 100,000 per year to 275,000.

The monthly report of John D. Small, Civilian Production Administrator, dated January 28, 1946, states the following with respect to radiation:

Production of cast-iron radiation failed to reach 1.5 million square feet in any month during 1945, and at the end of the year was at the monthly rate of 1.2 million square feet. This compares with average monthly production of 5,000,000 square feet in 1939 and more than 7,000,000 square feet in 1941. Current production must be quadrupled if estimated requirements of 60,000,000 square feet for 1946 are to be met.

The monthly report of John D. Small, Civilian Production Administration Administrator, dated January 28, 1946, states the following with respect to shortages of radiation:

The major limiting factors in the production of cast-iron radiation are shortages of labor and unprofitability of this item. Civilian Production Administration has certified the criticality of cast-iron radiation as a bottleneck item to
the Office of Economic Stabilization and the Office of Price Administration is
considering whether discretionary price increases should be granted to pro-
ducers. All possible efforts to stimulate labor referrals will be made through
United States Employment Service and priorities assistance will be extended to
producers where necessary.

The same factors of labor shortage and price ceilings apply equally
to radiators and boilers.

Basically, the reason for the estimated shortage of production in
1946, of both cast-iron boilers and radiators, is a current shortage
of labor. The labor shortage is due to unattractive wage rates in the
industry and a shortage in the labor pool of skilled molders and
coremakers. Manufacturers of cast-iron boilers and radiators can-
not afford to pay higher wages because the Office of Price Adminis-
tration ceiling prices are lower than the cost of manufacture.

This means that:
Each shipment contributes a loss to the manufacturer,
Each shipment robs the manufacturer of a part of his working
capital.

Manufacturers are faced with ruin if they continue to sell for less
than their products cost them.

With this prospect ahead of them, this means that manufacturers
will refuse to produce boilers and radiators.

The policy purportedly used by the Office of Price Administration
in determining ceiling prices for boilers and radiators involves de-
termination of the following items:
(a) Current cost of materials.
(b) Current cost of plant wages and salaries.
(c) Overhead, including plant, administrative, selling and general,
at the 1942 rate.

To that, they add the over-all industry profit at the 1936–39 average.

This policy is tending to reduce rather than increase production for
the following reasons:

One, ceiling prices on boilers were established under Maximum
Price Regulation 272 on November 27, 1942 at a level 5 percent below
the average 1942 price levels. As costs increased during 1943, 1944,
and 1945, the Office of Price Administration on several occasions was
requested by the industry advisory committee to raise ceiling prices.

After receiving detailed cost data, the Office of Price Administration
defered action for many months and even years. One increase on
boilers was granted in 1944 which placed the price level at 5 percent
over 1942 prices. In other words, present ceiling prices on boilers
reflect the level which the Office of Price Administration deemed ade-
quate to cover costs as of the middle of 1943, with no allowance for
profit. No action has been taken on frequent requests to recognize
subsequent cost increases.

Ceiling prices on radiation were established under Maximum Price
Regulation 272 on November 27, 1942, at levels 12 percent below aver-
age industry levels of 1942. Two increases in ceiling prices have been
made, one in October 1943 and one in August 1945, which represent a
total increase of approximately 17 percent over original ceilings.

However, due to the 1942 cut-back, present ceilings are only approxi-
mately 4 percent above 1942 levels. The industry advisory committee
made repeated requests during 1944 and early 1945 that recognition of
increasing costs be accorded by the Office of Price Administration.
On May 27, 1944, the Chairman of the Office of Price Administration's industry advisory committee requested a meeting to discuss the situation with the Office of Price Administration.

The Office of Price Administration replied, on June 3, 1944, stating:

It is our considered opinion that no useful purpose can possibly be served by the meeting you propose.

And now No. 2. The effect of the Price Administrator's well-known policy of "Over-all Profitability" has forced some of the manufacturers to divert their production facilities to products other than boilers and radiators. Adequate ceilings on boilers and radiators have been refused by the Office of Price Administration because some of the members of the industry showed over-all profits due to diversified production.

Three, current costs, except for labor and materials, are not used by the Office of Price Administration in determining ceilings. Overhead as of 1942 is the maximum overhead used in their determination of costs. It does not require an economist to recognize that costs of everything are higher today than in 1942 and the items which make up overhead are no exception.

Recently the Office of Price Administration has become more generous in their ceiling determinations and now say that an industry should be permitted to make the same profit that it made on the average during 1936 to 1939. That policy is of little help to this industry for two reasons.

First, the Office of Price Administration does not recognize current costs on which to add the 1936 to 1939 profit.

Second, it would not be possible to select four worse years from the profit standpoint. During 1936 to 1939 construction levels were at a very low point. The boiler and radiator industry was living largely on repairs and replacements. Because volume was down, profits obviously were almost nonexistent.

The net selling price for the industry, as compiled by the Office of Price Administration for the latter part of 1945, was 30.6 cents per foot—approximately 6 cents per pound.

Cost of raw materials, labor, and factory overhead totaled 30.8 cents per square foot. Thus, before administrative, sales, and general expense, radiation is being produced at a loss.

Administrative, sales, and general expense, under the Office of Price Administration formula of using 1942 costs, amounted to 3.4 cents per foot. Theoretically, the Office of Price Administration permits a profit at the 1936 to 1939 average rate. The Office of Price Administration calculates that as approximately 2.5 cents per foot. Even under the Office of Price Administration formula the ceiling price, based on October 1945 costs, should be:

\[
\begin{align*}
\text{Cost of production} & : 30.8 \\
\text{Overhead} & : 3.4 \\
\text{Profit} & : 2.5 \\
\text{Total ceiling price} & : 36.7
\end{align*}
\]

It is evident, therefore, that present ceiling prices on radiation are 6 cents per foot, or 20 percent under the figure which the Office of Price Administration formula requires.
How much should ceiling prices be raised to allow a 10 percent operating profit on radiators, based on present labor and material rates? A 10 percent operating profit presumes a Federal income tax rate of 40 percent, yielding a net profit of 6 percent of sales.

On the basis of late 1945 wage rates, ceiling prices should be raised on small tube radiation, which represents almost 100 percent of present types, to meet the following costs and profits:

<table>
<thead>
<tr>
<th>Cents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factory cost</td>
</tr>
<tr>
<td>Overhead</td>
</tr>
<tr>
<td>Operating profit, 10 percent</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The above calculation does not take into consideration the fact that wages must be increased to attract additional workers. If 20 percent were added to the 1945 cost of labor, which was 13.8 cents per foot, an additional 2.75 cents per foot would be added to the cost, making a total cost (including profit) of 43.35 cents.

The net selling price, as reported to the Office of Price Administration by a majority of the boiler manufacturers, for the latter part of 1945, was 8.4 cents per pound.

Cost of raw materials, labor, and factory overhead was 7.08 cents per pound.

Administrative, sales and general expense, under the Office of Price Administration formula of using 1942 figures, amounted to 1.13 cents per pound.

Average 1936–39 profit was 0.53 cents per pound.

Thus, under the Office of Price Administration formula of figuring costs, the loss is as follows:

<table>
<thead>
<tr>
<th>Cents</th>
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</thead>
<tbody>
<tr>
<td>Net realization</td>
</tr>
<tr>
<td>Cost plus 1936–39 profits</td>
</tr>
<tr>
<td>Loss per pound or 4 percent</td>
</tr>
</tbody>
</table>

The above figures, however, do not present the true picture as to why small domestic-size boilers cannot be produced to meet vital requirements. An increase of at least 30 percent is needed in ceiling prices to stimulate increased production.

The following figures represent the average selling prices and costs of small boilers, as reported to the Office of Price Administration by several representative manufacturers:

<table>
<thead>
<tr>
<th>Cents per pound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net realization</td>
</tr>
<tr>
<td>Cost plus 1939–39 profit</td>
</tr>
<tr>
<td>Loss</td>
</tr>
</tbody>
</table>

This represents a loss of 23 percent without taking into consideration an estimated 20-percent increase in labor rates which would be needed to attract additional employees.

Manufacturers of boilers and radiators cannot afford to increase their volume of production of these products under the Office of Price Administration pricing policies. Abandonment of price controls for this industry will lead to full production within a reasonable time.

Of course, somewhat higher prices would ensue. However, it is my belief that the extent to which prices would be increased would
be limited to actual costs plus a very limited profit. This has always been a relatively low-profit industry. The forces of competition both within and without the industry will restrain inflationary prices. Steam and hot-water heating systems cannot be sold at price levels which are not reasonably competitive with other types of heating systems.

The situation in which this industry finds itself, as briefly described above, will continue to have a very serious effect on the all-important program of providing adequate housing under livable conditions. The record proves that volume of production of these essential heating products is tending downward rather than increasing.

We do not contend that had there been no price controls since the termination of the war the industry would have been able to get back to their prewar volume. However, the curve of production without question would be tending upward if the members of the industry could anticipate rewards in profits for initiative, efficiency, and progressiveness.

We believe that the restrictions now hampering industry have been tried long enough and that this industry should be given an opportunity to return to a free competitive market and thus assure maximum possible production. We believe that maximum production is the answer to controlling inflation.

There is another brief word I would like to add for the record. The industry realizes the seriousness of this housing situation. With the shortages that are indicated on these charts ceiling prices are the things that are preventing production to meet those demands.

The housing program is going to be retarded and particularly as we get into next fall's heating season it is going to be particularly felt. The industry advisory committee and various members of the industry have made frequent contacts with the Office of Price Administration.

They received frequent statements as to what would be done. These things have not been carried out in any degree.

I was told this morning about a radiator manufacturer who is supplied with three important materials. They are plugs and bushings and one other item that slipped my mind for the moment.

One company supplies 70 percent of the requirements to the radiator manufacturers. They have notified these people that they can no longer supply these essentials. They intend to go out of that business.

The Office of Price Administration claims its exercise of power over prices is to encourage production. It claims its control has not hindered production in the past. It has been alleged price control has aided production by providing that stability of prices which is so helpful in forward planning.

The record of this industry since the Office of Price Administration shows conclusively that the contrary is the case.

In a statement before this Commission on February 8 Mr. Bowles is reported as saying:

What does this new policy mean to prices? It means that a manufacturer will no longer be required to wait 6 months before the wage increases 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.

For an industry to be in hardship it must be operating at normal
volume and still not be able to realize the minimum level of peacetime
earnings.

Who is to determine whether or when an industry will be operating
at normal volume?

The Office of Price Administration usually takes 1936–39 average
earnings as a base. Incidentally, it is interesting now—when consider-
ing periods of normal profits in peacetimes—to hark back to Mr.
Bowles' press release of June 5, 1945. It contains this:

Few observers appreciate the contrasting fact that nearly 60 percent of all cor-
porations, large and small were in the red in the prewar years 1936–39. The sales
of these companies operating at a loss accounted for 25 percent of the total volume
of sales in that period. These little known figures are based on published statistics
of the Bureau of Internal Revenue.

Yet the Office of Price Administration has not allowed this industry
the meager profit earned during those years which were exceptionally
poor for the boiler and radiator industry.

We are told we must wait until operating volume is normal—that
mysterious indefinable term; before we can expect price relief—though
in the meanwhile we must pay the going scale of wages if we are to
operate at all.

A substantial percentage of the industry’s production has been down
since January 21 when the men were called out because of a controversy
in the basic steel industry—in which the members of this industry, who
had contracts with United Steelworkers Union were not the least bit
concerned.

If companies now strike-bound are not justified in resuming opera-
tions under the conditions reflected in these charts. How in the
name of common sense can they be expected to pay 18 1/2 cents more per
hour and absorb the increased cost of pig iron, 6 percent, granted as a
result of the settlement of basic steel strike, and the increased cost of
other materials and hope to stay in business?

The case I have briefly presented today is only one of the many that
illustrates what can be expected under a system of Government con-
trol of our economy, of employment, of industrial production.

May I suggest the elimination of the elements that are retarding
production and do away with the agencies that are perhaps uncon-
sciously curbing our standards of living—due to their miscalculating
the needs of the people—even presuming to dictate their tastes and
wishes.

Let us replace bureaucratic frustration and confusion for individual
creative effort. Once this has been accomplished the economic law of
supply and demand will soon bring prices in line.

I would like to incorporate in the record, Mr. Chairman, some charts
I have prepared.

Mr. Brown. You may do so.

(The above-mentioned charts are as follows:)
NUMBER OF HOUSES REQUIRED

The report of Wilson W. Wyatt, Housing Expediter, to the President, dated Feb. 7, 1946, states that 2,700,000 homes must be started before the end of 1947.

<table>
<thead>
<tr>
<th>1946 TARGET</th>
<th>1,200,000 HOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>600,000</td>
<td>PREFABRICATED AND TEMPORARY HOMES</td>
</tr>
<tr>
<td>700,000</td>
<td>CONVENTIONAL TYPE HOMES</td>
</tr>
<tr>
<td>175,000*</td>
<td>CONVENTIONAL TYPE HOMES REQUIRING BOILERS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1947 TARGET</th>
<th>1,500,000 HOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>600,000</td>
<td>PREFABRICATED AND TEMPORARY HOMES</td>
</tr>
<tr>
<td>900,000</td>
<td>CONVENTIONAL TYPE HOMES</td>
</tr>
<tr>
<td>225,000*</td>
<td>CONVENTIONAL TYPE HOMES REQUIRING BOILERS</td>
</tr>
</tbody>
</table>

* Estimated by the Civilian Production Administration as 25% of the total.

Mr. Brown. Mr. Talle wants to ask one question.

Mr. Talle. I want to know if your industry has had an opportunity to discuss your problems with the new Housing Administrator, with Mr. Wyatt?

Mr. Ferry. We had a discussion this morning with Mr. Wyatt. We asked for it 3 weeks ago. He has been tied up and so we were not able to have this hearing until this morning. We gained the promise that they would do everything possible to go thoroughly into the situation.

They recognize the need of these products for their program. They stated they intend to do something about it.

Mr. Talle. What is the standard heating equipment used in prefabricated housing?

Mr. Ferry. Not the type to which I refer.

They are types of heating equipment suitable for smaller houses and where the cost of installations is less than a piped system. However,
under Mr. Wyatt's program, there are many conventional type houses which need some form of central heating systems.

Mr. Brown. We thank you very much.

Since there are no other witnesses on the program this afternoon, we will adjourn until tomorrow morning at 10 o'clock.

(Thereupon, at 5:30 p. m., the hearing adjourned until Friday, March 22, 1946, at 10 a. m.)

**1946 BOILER REQUIREMENTS PRODUCTION AND SHORTAGES**

<table>
<thead>
<tr>
<th>TOTAL REQUIREMENTS</th>
<th>280,000 BOILERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIVILIAN PRODUCTION ADMINISTRATION ESTIMATE OF REQUIREMENTS FOR 700,000 NEW HOMES OF CONVENTIONAL TYPE</td>
<td>175,000 BOILERS</td>
</tr>
<tr>
<td>ANNUAL REQUIREMENTS FOR REPLACEMENT IN EXISTING HOMES</td>
<td>105,000 BOILERS</td>
</tr>
<tr>
<td>PRODUCTION &amp; SHORTAGES OF BOILERS</td>
<td></td>
</tr>
<tr>
<td>SHORTAGE IN PRODUCTION FOR 700,000 NEW HOMES FULL REQUIREMENT OF 175,000 BOILERS PLUS 5,000 REPLACEMENTS</td>
<td>180,000 SHORTAGE</td>
</tr>
<tr>
<td>EXISTING REPLACEMENT SHORTAGE</td>
<td>5,000</td>
</tr>
<tr>
<td>PRODUCTION FOR 1946 AT CURRENT ANNUAL RATE</td>
<td>100,000 BOILERS</td>
</tr>
</tbody>
</table>
RADIATION
PRODUCTION AND SHORTAGES
(MILLIONS OF SQUARE FEET - MONTHLY AVERAGES)

1939
MONTHLY AVG.
PRODUCTION
5 MILLION

1941
MONTHLY AVG.
PRODUCTION
7 MILLION

1945
MONTHLY AVG.
PRODUCTION
UNDER 1.5 MILLION

1946
PRODUCTION
MUST BE
QUADRUPLED
TO MEET ESTIMATED
REQUIREMENTS OF
60 MILLION FOR YEAR

Production Shortage

1.2 MILLION MONTHLY PROD. RATE AT END OF 1945

Statement by CPA Admin: "The major limiting factors in the production of cast iron radiation are shortages of labor and unprofitability."
LOSS ON RADIATION

LOSS INCURRED AT PRESENT CEILING PRICES

SUMMARY OF COST AS PER OPA FORMULA

LOSS INCURRED UNDER PRESENT OPA CEILING PRICE AND COST FORMULA

CEILING PRICES ON SMALL TUBE RADIATION SHOULD BE RAISED TO MEET THESE LEVELS OF COST AND PROFIT, BASED ON LATE 1945 WAGE RATES, OR WITH AN INCREASE OF 20% IN WAGE RATES TO ATTRACT ADDITIONAL WORKERS, AND TO MATCH BIG STEEL WAGE SETTLEMENT

COST PLUS 1936-'39 PROFITS

AVERAGE 1936-'39 PROFIT

ADMINISTRATIVE, SALES
AND GENERAL EXPENSE

(Use factor of using 1942 figures)

COST OF RAW MATERIALS,
LABOR AND FACTORY
OVERHEAD

36.7¢

2.5

3.4

5.9

Loss

30.8

30.6¢

CEILING PRICE

Note: Ceiling Price does not cover Factory Cost

1200 EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942

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Federal Reserve Bank of St. Louis
LOSS ON BOILERS INCURRED AT PRESENT CEILING PRICES

LOSSES AS PER THE OPA FORMULA OF FIGURING COSTS VS. THE TRUE PICTURE

LOSS ON SMALL BOILERS AS REPORTED TO OPA BY SEVERAL REPRESENTATIVE MANUFACTURERS

ACTUAL COST FOR LATE 1945 PLUS 1936-39 PROFIT $1.01c PER POUND

LOSS

COST PLUS 1936-39 PROFITS

AVERAGE 1936-39 PROFIT

ADMINISTRATIVE, SALES, and GENERAL EXPENSE

OPA Formula of using 1942 figures

COST OF RAW MATERIALS, LABOR, and FACTORY OVERHEAD

As reported to OPA by a majority of Boiler Manufacturers for late 1945

LOSS NET SELLING PRICE

.34c (43%)

.64c

.82c

.02c

.04c

.12c

.13c

.23c

.25c

.29c

.08c

.10c

.11c

.14c

.15c

.17c

.19c

.21c

.22c

.24c

.26c

.28c

.30c

.32c

.34c

.36c

.38c

.40c

.42c

.44c

.46c

.48c

.50c

.52c

.54c

.56c

.58c

.60c

.62c

.64c

.66c

.68c

.70c

.72c

.74c

.76c

.78c

.80c

.82c

.84c

.86c

.88c

.90c

.92c

.94c

.96c

.98c

1.00c

* This represents a loss of 23% without taking into consideration an estimated 20% increase in labor rates which would be needed to attract additional employees.
STATEMENT OF WESLEY HARDENBERGH, PRESIDENT, THE AMERICAN MEAT INSTITUTE, CHICAGO, ILL.

Mr. Hardenbergh, Mr. Chairman and members of the committee, my name is Wesley Hardenbergh. I am president of the American Meat Institute of Chicago, which has as members more than 500 meat packers and sausage manufacturers, small, medium, and large, located in all parts of the United States. The volume of business handled by these companies prior to price control represented in excess of 90 percent of the meat production of the United States which enters commercial channels.

I am here today to call to the attention of the committee the conditions and dislocations in the production and distribution of meat which are in the opinion of the industry caused by the Price Control Act, its faulty administration, and impossibility of enforcement. Present conditions are highly unsatisfactory and are rapidly approaching, if they have not already reached, the wholly unsatisfactory conditions of a year ago. A great proportion of the better grades of cattle are purchased in excess of maximum stabilization prices by black-market slaughterers, making it impossible for legitimate slaughterers to purchase even minimum requirements and remain in compliance with the Office of Price Administration stabilization range, thus compelling legitimate slaughterers to curtail drastically or discontinue their beef operations. Also a serious situation is developing in the hog market and pork business.

The Government report of hog numbers on farms January 1, 1945, when analyzed, shows a really startling disappearance of hogs into what must be the black market. For the first time since records have been available, the disappearance at other points has been larger than the slaughter under Federal inspection.

Violation of both wholesale and retail maximum prices is widespread and flagrant. The prices that the consumers now pay for their meat
average many cents per pound in excess of retail ceiling prices. As a matter of fact, the country now has a dangerous black-marked inflation in meat prices.

Meat products probably represent the most difficult commodities to control as the perishability of the product and the extremely high tempo of the business do not lend themselves well to control, and price control has not worked well in the industry.

Profit control, which seems to have been the principal objective of the Office of Price Administration has made price control extremely difficult, if not impossible. It has resulted in a price squeeze on the industry and paved the way for the black market.

The Price Control Act as originally enacted provided that maximum prices should be "generally fair and equitable," and an amendment to the Stabilization Act provided that a "generally fair and equitable margin should be allowed," for processing livestock products. The construction placed by the Office of Price Administration upon these provisions was that prices were "generally fair and equitable" and that a "generally fair and equitable margin was allowed for processing" if the current over-all industry earnings before Federal taxes equaled or exceeded the over-all industry earnings before Federal taxes during the base period 1936-39. This formula is "profit control" and not "price control."

The regulations promulgated pursuant to this price policy placed controls both on the price of cattle and hogs and the price of products of livestock, and resulted, together with the tightening supply situation and increased costs, during the latter part of the fiscal year 1944 and for the several months thereafter, in a squeeze on the customary and necessary operating margins of the packing industry in the pork, beef, and lamb departments.

By January 1945, losses had become so severe that many meat packers were forced drastically to curtail or to suspend their operations. These facts were well known to the Office of Price Administration through advice from its industry advisory committees, committees representing the industry, formal protests, complaints by many individual companies, and testimony given before congressional committees. The existence of a scandalous widespread black market and the maldistribution of meat were a matter of common knowledge.

In January and February 1944, the Office of Price Administration made a study of retail meat dealer compliance with Office of Price Administration regulations under supervision of Mr. Joseph A. Thornton, head of the Food Trade Relations Branch of the Office of Price Administration, and surveyed 11 cities in North Dakota, Minnesota, Wisconsin, Illinois, Iowa, and South Dakota. This survey shows that more than 2 years ago that of the cities surveyed, from 81 to 100 percent of the retail stores were violating maximum prices and that the above-ceiling prices ranged from 3 percent to 14 percent.

Notwithstanding full knowledge that its pricing policy was causing heavy losses on every animal slaughtered, thereby compelling law-abiding companies to curtail or suspend operations, the Office of Price Administration failed and refused to grant any relief, and, beginning in February 1945, committees of Congress made extensive investigations of the meat situation, and published findings that the "squeeze"
on meat processors was a factor contributing to the serious meat situation and the black market.

The Special Committee To Investigate Food Shortages for the House—then the Anderson committee—in its report filed May 1, 1945, said this about the black market and its causes:

**BLACK-MARKET EXPANSION**

Evidence of this is to be found in the constantly developing reports of black-market operations. Naturally it would not have been and could not have been the privilege of the committee to develop a sufficient staff of investigators to run down and prove or disprove all of the statements and rumors which have been made concerning the mishandling of food, the channeling of meat supplies into improper hands, and the actual sale of it at prices far in excess of the Office of Price Administration ceilings or without the surrender of proper red ration points.

The committee, however, did receive in its meetings in New York what it regarded as substantial evidence that a large portion of the retail establishments in New York dealt in meat at above-ceiling prices. To support our opinion that the evidence was reasonably conclusive, the committee had on the stand testifying before it a Government official whose responsibility it is to gather market quotations. It was his testimony that a substantial percentage of meat in New York moved at the wholesale level in black-market channels, and his experience was sufficiently specific so that he was able to quote for the committee the exact black-market prices then prevalent in New York on the various grades of beef. These prices were approximately 100 percent above the legal ceilings at the wholesale level on the various grades. If the customary mark-up practice was followed by the retail store the retail price to the consuming public was more than double the legal ceilings.

In confirmation of that testimony the committee heard from the various consumer groups statements that steak sold customarily in New York at from 75 cents per pound to more than $1 per pound. These reports were confirmed by numerous witnesses who had either seen sales made at those levels or had been present within stores when actual transactions had taken place. Numerous witnesses under oath concurred in this testimony.

The committee felt itself justified in believing that the black-market operations in New York City were increasing rather than diminishing and that the price was steadily rising. Indicative of this was the fact that some 5 weeks prior to the trip of the committee to New York, it had received from a well-informed executive of a packing concern a market quotation indicating that the prevailing going price for a carcass of good beef in New York was $30 above the ceiling price. At the same time the committee visited New York, the going black-market price was reliably given as $100 per carcass above the legal ceiling price.

**INFLATION IN BLACK-MARKET PRICES**

This surely indicates the inflationary spiral that quickly moves into the black-market operation and indicates as well the cost to the American public of not being able to control the price of meat and “hold the line” on that important part of the American diet.

The best evidence of the dislocation that has taken place in our meat distribution system is the fact that legitimate processors of meat and legitimate wholesale and retail distributors of meat find it increasingly difficult to secure supplies to meet the civilian requirements while those engaged in black-market operations seem to have an abundance of supplies both at wholesale and retail levels.

Many legitimate dealers, both in processing, wholesaling, and retailing, are being forced out of business because they are trying to “hold the line” and comply with Government regulations.

That situation is even more true today than it was a year ago.

The Special Committee on Agriculture and Forestry for the Senate in its report filed May 15, 1945, likewise found that the “squeeze” that the price regulation had placed on the customary and necessary oper-
ating margins of the meat-packing industry were a contributing factor to the black market and recommended—

That the Price Control Act be amended to require and direct the Office of Price Administration to give to processors of livestock a reasonable margin of profit for processing each species of livestock.

In 1945, when the Price Control Act was up for extension, the existence of a scandalous widespread black market was recognized and the remedy proposed for its elimination was the removal of the "squeeze" upon legitimate meat packers.

Senator Elmer Thomas, of Oklahoma, proposed an amendment to the joint resolution extending the Price Control Act and the Stabilization Act designed to correct the faulty pricing policy of the Office of Price Administration and prohibit the use of the over-all industry-profits test.

The Thomas amendment would have made any maximum price unlawful for the products of any species of livestock that did not allow for the recovery of any processor's total costs plus a reasonable margin of profit not less than the profit earned in a representative base period.

The Office of Price Administration opposed any amendment and agreed to cure the defects and eliminate the causes administratively and on June 6, 1945, addressed the following letter to Senators Thomas and McKellar.

You have asked for a statement of the policy which the Office of Price Administration will follow in pricing the products of the various species of livestock.

Recognizing the critical shortage of meat and the imperative need of avoiding any impediment to maximum production and even distribution, this Office, in addition to satisfying all the various mandatory requirements of the present law, will see that the products of each of the three main groups of livestock—cattle and calves, hogs, and lambs and sheep—are each separately considered, on a profitable basis.

To the fullest practicable extent the office will see that each of these groups of products is separately profitable on an annual basis.

I have discussed this letter with Judge Vinson and Mr. Davis, and they authorize me to say they concur in it.

During the debate on the Thomas amendment in the Senate, the Administration objected to the amendment on the grounds that, first, the Thomas amendment applied to all agricultural products, whereas meat was the only commodity needing legislative relief, and, second, the Thomas amendment was impossible of administration because it would require the collection and analysis by the Office of Price Administration of detailed figures from every company in the industry before wholesale ceiling prices could be established or changed and would require individual ceiling prices for each company.

Senator Barkley, the majority leader, offered a substitute amendment for the Thomas amendment and it was enacted into law as the Barkley-Bates amendment.

It is clear from the debate following the introduction of Senator Barkley's amendment that Congress clearly intended, by the enactment of the Barkley-Bates amendment, to prohibit the pricing policy theretofore followed by the Office of Price Administration—the overall profit theory—and prevent any further "squeeze" on meat processing margins.

The meat-packing industry was entitled to assume that, from and after Mr. Bowles' assurances to Congress and the amendment of the law, any company with average costs and efficiency would be per-
mitted to slaughter and process livestock and sell at maximum whole-
sale prices that would permit the recovery of all its costs, plus a rea-
sonable margin of profits, for each separate species.

Notwithstanding numerous and widespread complaints after the
enactment of the Barkley-Bates amendment that existing maximum
prices failed to return a reasonable margin of profit by species on an
industry basis, no relief was afforded until OSA Directive No. 90
was issued on December, 1945.

On November 4, 1945, the Office of Price Administration announced
to a subcommittee of its Beef and Pork Industry Advisory Committees
what it proposed to do in carrying out the Office of Price Administra-
tion's commitment to Congress and to comply with the law. The sub-
committee were informed the Office of Price Administration was rec-
mending that each company be paid additional subsidy for each
species of livestock slaughtered from April 1 to October 31, 1945,
as follows:

Cattle and calves, 10 to 12 cents per hundredweight; hogs, 13 to 15
cents per hundredweight; sheep and lambs, 20 cents per hundred-
weight, and that the same amount per hundredweight was to be paid
to each company, without discrimination on an industry-wide basis.

We are informed that the subcommittee of the Beef and Pork Office
of Price Administration Advisory Committees promptly advised the
Office of Price Administration that the proposed subsidy payments
would be wholly inadequate to make the industry profitable by species
for the fiscal year just ended or to provide a reasonable margin of profit
by species for current and future operations. A survey of industry
results hereinafter set forth confirms the joint committee's views that
the proposed relief would not remove the "squeeze."

Directive 90, issued on December 4, 1945, as a substitute for the
Office of Price Administration proposal completely changed the Office
of Price Administration plan by, first, reducing the amounts to be
paid, second, setting up discriminatory eligibility provisions, third,
using "income from all sources" as a standard, and fourth, providing
for individual pricing dependent upon eligibility, amounts of sales
and other factors.

Directive 90 does not follow the law or carry out the Office of Price
Administration commitment to Congress; it revives practices and
policies which were condemned by both the Senate and House and
which led to the enactment of the Barkley-Bates amendment, namely,
control of profits, over-all earnings as a basis for maximum prices,
individual pricing which the Office of Price Administration claimed
was administratively impossible for the purpose of defeating the
Thomas amendment; in effect, the directive completely nullifies the
Barkley-Bates amendment.

This nullification is indicated by the fact that financial reports
submitted by 78 companies, small, medium, and large, located in all
parts of the country, equalling more than 67 percent of all federally
inspected slaughter, show net profits, before taxes, per hundred weight
alive of only the following amounts:

For the fiscal year through October, 1945: Cattle and calves, 2
cents; hogs, 4 cents; sheep and lambs, 7 cents.

For the 4 months' period July through October 1945: Cattle and
calves, 20 cents; hogs, 30 cents; sheep and lambs, 21 cents.
Certainly, by no stretch of the imagination can those figures be construed to give the industry a reasonable margin of profit for processing each species of livestock, or place it in a position to compete with the black market for livestock supplies.

The fact that the meat packing industry has been in a severe “squeeze” because of the failure of the Office of Price Administration to live up to its commitment and to the requirements of the Barkley-Bates amendment, has been serious not only from the viewpoint of the industry itself, but also from the viewpoint of the public.

For the squeeze which has existed has led to a growth of the black market operation to the extent, on the one hand, that legitimate operators are being forced to shut down or curtail operations, and, on the other, that consumers throughout the United States, generally speaking, do not have the benefit of price control on their purchases of meat.

The existence of a country-wide black market in meat cannot be denied. As indicated by the following news stories, the black market has already reached alarming proportions and is growing worse daily:

From the Joplin, Mo., News-Herald, January 16, 1946:

BLACK MARKET REVIVAL

Reports have it that black markets are flourishing with revived enthusiasm in many parts of the country.

Mr. Edward C. Jordan, supervising Price Administration investigator in the Chicago area, on January 21, 1946, was quoted in the Chicago Journal of Commerce as saying that 75 percent of all cattle sold in Chicago the preceding week “went east at higher prices than ceilings on dressed beef will justify.”

From the Chicago Journal of Commerce, January 21, 1946:

Office of Price Administration trailing black-market meat suspects.

On February 1, 1946, the following news item appeared in the Lancaster, S. C., News:

TO WATCH OUT FOR MEAT BLACK MARKET

A State-wide investigation and enforcement drive against violations of meat regulations will be started immediately, according to E. H. Talbert, Office of Price Administration District Director in Columbia.

From the Bartlesville, Okla., Examiner, February 8, 1946:

Meat makers cannot make ends meet.

On February 5, 1946, the following article appeared in the Chicago Daily News:

EASTERN BUYERS BLAMED
HIGHER PRICES DRAW CATTLE FROM CHICAGO

(By Peter Lisagor)

A substantial black market in beef is thriving in the Chicago area, the Daily News has learned.

An estimated 30 to 40 percent of the available beef supply in this district is being sold illegitimately by small packers and country slaughterers, according to an Office of Price Administration official.

“This meat is uninspected and ungraded”, the official stated. “It finds a ready market because of a shortage of cattle here.”
Behind these black-market operations which were aggravated by the meat strike, is the fact that large shipments of cattle are being diverted to eastern slaughterers who pay “suspiciously high” prices.

Edward C. Jordan, chief Office of Price Administration enforcement officer for the Meat and Dairy Division here, said these eastern buyers were leaving the local market short by paying $2 to $3 more a hundredweight than they did a month ago.

“A slaughterer buying at that high figure would have to sell the dressed meat at above-ceiling prices to realize a profit,” Jordan said.

Suspecting a widespread black market, the Office of Price Administration in Washington has issued a warning to eastern buyers who have been listed by Office of Price Administration officials in Chicago.

These buyers have been notified that violations will result in withholding of all subsidy payments as well as court action.

“One effect of this diversion to the East,” Jordan explained, “has been to reduce the cattle runs in the Chicago stockyards at least 40 percent under those before the strike.”

It also forced Gayle Armstrong, Government representative in charge of the seized meat plants, to make an appeal last week to farmers’ agents for more stock to be shipped into local yards.

“Legitimate, Government-inspected packers cannot compete with the eastern buyers and stay within Office of Price Administration compliance,” Jordan said.

“Further, the way has been opened for the illegitimate slaughterer,” he said.

“We have run across country slaughterers selling beef for 47 cents a pound where the ceiling is 20 cents.”

He added that city health officials, as well as the United States Department of Agriculture, have aided in violation enforcement.

Edward C. Dufficy, chief Office of Price Administration retail food enforcement officer here, said it was hard to ascertain the effect of the present shortage upon retail operations.

“We do know that retail violations have been progressively worse since meat went off rationing,” he said.

I think I should point out in connection with his reference to eastern buyers, nobody should jump to the conclusion that just because the packer is located in the East or does not have Federal inspection that that packer has something wrong with him. We have plenty of eastern packers in our membership and plenty of packers who do not have Federal inspection who are operating honestly and legitimately as any other type of packer. It is true, the East is the largest market for meat, and that is only natural that the black market should be largest.

The February issue of the Restaurant Man, the monthly magazine of the Restaurant Association, contains the following article:

**PREDICTS FOOD HABITS CHANGES**

“Meat Shortage Develops Taste for Other Dishes,” says Henkel.

“The prices of all meat products is controlled by the Office of Price Administration which holds them down to the 1939 level. The responsibility for the present situation and the responsibility for correcting it is squarely up to the Government,” says Paul Henkel, president of the Society of Restaurateurs.

“An adjustment of meat prices would enable the packers to pay their employees higher wages. The packers, not being in the black market, are held by the price freeze. When the meat leaves their hands, a great part falls into the hands of the black-market operators. We are strongly in favor of holding the line in prices, but not to a ridiculous point, lacking a sense of reason.”

“Every restaurateur,” he stated, “would rather pay a few cents more a pound, in a legitimate market and be able to get some meat, than to go into the black market. His regular dealer can supply him with only about 25 percent of what he used in December 1941, as that is all he can spare. Consequently, the restaurateur is forced to limit his meat dishes, while at the
extend price control and stabilization acts of 1942

same time the public hears and sees places that make a specialty of meat dishes, especially steaks and chops, and they wonder why they cannot get the same in all restaurants. These places do not make a secret of their ability to serve steaks as a specialty. Some even advertise the fact in the press."

On February 5, 1946, the Chicago Journal of Commerce carried the following news item:

Office of Price Administration extending drive on black markets in meat.

From Washington, February 4 (United Press):

The Office of Price Administration extended today its enforcement program against black-market sales of meat to the stockyards of East St. Louis, St. Paul, and Omaha.

The agency said its investigators are now checking all purchases of cattle made at the stockyards to determine the number of large shipments purchased at or near the overriding ceilings of $17.65 and $17.90 a hundred pounds.

"A slaughterer who consistently buys the lower grades of cattle at these high figures would probably have to sell dressed meat at above-ceiling prices to make a profit," Office of Price Administration said.

Office of Price Administration has already checked purchases of cattle made in Chicago, and has received reports that black-market operators there have been discouraged by the drive.

From the Chicago Daily News, February 6, 1946:

City sleuths probe meat black mart.

From the San Mateo, Calif., Times and Leader, February 8, 1946:

Local packers join "fight for life" with OPA.

From the Palo Alto Times, Palo Alto, Calif., February 7, 1946:

MEAT BLACK MARKETS—OPA TO CRACK DOWN ON VIOLATORS

Live-cattle prices are running at break-neck speed toward inflation, Office of Price Administration Pacific regional officials warned today, as they ordered a sharp crack-down in the five Western States on widening black-market activities in the meat marts.

Regional Enforcement Executive Austin Clapp (former Stanfordite) disclosed that so many slaughterers are paying above-normal prices for beef on the hoof that Office of Price Administration suspects the dressed product is bringing over-ceiling prices.

From the Chicago Daily News, February 25, 1946:

New set-up forecasts better black markets.

From the Seattle Star, February 26, 1946:

Bootleg meat dealers raided.

From the Portland, Oreg., Journal, February 27, 1946:

Black market meat dealing charges filed.

From the Chicago Herald-American, February 26, 1946:

Meat black mart threat to supply.

From the Seattle Star, February 27, 1946:

Black-market raid nabs four.

Six others accused of meat violations.

On February 28, 1946, the Portland Oregonian, of Portland, Oreg., carried the following story on the black market:

Black mart counts faced.

State-wide set-up Washington claim.
From Yakima, Wash., February 27, 1946 (United Press):

Federal authorities moved swiftly Wednesday to clean up what they termed the biggest black-market meat operation in the State, following arrest of two men and issuance of warrants for several others.

On March 3, 1946, the St. Louis Post-Dispatch carried the following article:

PACKERS PREDICT DROP IN SUPPLY OF BEEF FOR CITY

Sixteen packing plants scheduled to be closed tomorrow in protest against OPA.
St. Louis housewives can expect few steaks and beef roasts in their meat markets by midweek because of the scheduled shut-down of 16 small beef-slaughtering firms tomorrow, representatives of the Missouri-Illinois Small Slaughturers' Association said yesterday.
Several of the firms already have suspended operations in protest against Office of Price Administration regulations which they contend force them to operate at a loss. Others threaten to follow suit.
"There may be a shortage of beef already, but it will be even more scarce," one slaughterer said. "I don't like to close up, but I can't keep losing money just to serve the public."
The 16 firms represent a majority of small beef slaughterers in the St. Louis area, who supply a large portion of the local market. The large packing houses have reduced beef production to one-third of normal because of the same regulations of which the small firms complain.

From the Auburn (Ind.) Star, March 5, 1946:

OPA is extending fight to reduce black market.

From the Chicago Herald-Examiner, March 1, 1946:

End hog black-market drive.

On March 8, 1946, the following article appeared in the Chicago Herald-American:

"Black market rampant here, OPA," by John Madigan.
Chicago's black market is having a field day! Overceiling violations are more numerous and flagrant than at any time during the war!
Not only is there no indication that they will decrease, but the peak has not been reached.
That was the dismal price picture painted today by Homer Clay, Office of Price Administration district enforcement attorney, as he again urged Mr. and Mrs. Chicago to refrain from buying at overceiling prices in the black market. Asserting there was more enforcement activity last month than at any time in the history of the Office of Price Administration, Attorney Clay said:
"The patriotic motive for staying away from the black market is gone.
"During the war, people at home were willing to do their part to help the boys over there. But now, too many have adopted the attitude: 'We stayed in line during the war. It's over now, so what's the difference?''"

From the Chicago (UP), March 11, 1946:

A livestock industry spokesman charged Friday that Government price and subsidy policies had saddled producers with the expense of supporting nearly 10 times as many slaughtering houses and processing establishments as before the war.

P. O. Wilson, secretary-manager of the National Livestock Producers Association, said that the number of markets had multiplied so rapidly that they no longer reflected consumptive demand and ability to pay.
"Prior to the war," he said, "we had something like a hundred so-called terminal markets and a thousand or two smaller local markets. Under Government pricing and controls, we now have literally thousands of markets and buying stations scattered throughout the various producing States."
In addition, Wilson said that the number of slaughterers had jumped from approximately 1,800 to about 9,000, not including black-market processors. The Government’s "continued insistence" to maintain price controls has resulted not only in a black market, but has placed the industry in its most uneconomic and wasteful position in 50 years, Wilson said.

To continue the program as it stands today, with price regulations and subsidies, can only lead to further chaos, reduced production of meat, and less for the average American consumer.

From the Indianapolis News, March 13, 1946:
Black market ring exposed—235 indicted.

From the Kansas City, Kans., March 16, 1946 (UP):

**BIG FOUR KANSAS PACKERS CUT BEEF SLAUGHTER ONE-QUARTER—SMALLER PLANTS IN STATE HALT PROCESSING—REGULATIONS FAVORING BLACK MARKET BLAMED**

Kansas City "Big Four Packing Plants" dropped their beef kill to 18 an hour, one-quarter to one-fifth of the killing rate of late last year, it was learned today. While smaller packers in southeastern Kansas announced they had halted altogether the processing of beef.

In the New York Times, March 19, 1946, the following new item appeared:
Omaha cuts packing, blames steer prices.

From Omaha, March 18, 1946 (AP):

Omaha packing plants are drastically reducing slaughtering operations, representatives said today, because "we can’t buy cattle at present prices and stay within Government compliance."

"I don’t know how long we can stay in business this way," Ed Hinton, Armour plant manager, said. "Order buyers and chain-store packers are taking the cattle at prices which we can’t pay and stay within Government limitations."

The Cudahy plant here has reduced its beef kill 25 percent in the last 2 weeks "and it will be worse this week," the manager, George Hugenburg, said. The supply this week will probably be reduced by bad roads resulting from widespread rains, he added.

Harry Coffee, president of the Union Stockyards Co., said order buyers were taking a large part of marketings here and that in the week March 4-9 some 816 cars of livestock were shipped out to 130 cities in 37 States. The majority went to Michigan, New Jersey, and New York he said.

From the Chicago Daily News, March 19, 1946:

**BLACK MART CHOKES PACKERS—SHADY BUYERS OUTBID BIG 4**

**BREAK-DOWN OF LAW THREATENS LIFE OF BILLION-DOLLAR INDUSTRY**

(By George Theim, staff farm writer)

Chicago’s billion-dollar meat-packing industry, responsible for the livelihood of at least 100,000 persons in the city and suburbs, stands threatened today by the growing black market in beef.

Swift, Armour, Wilson, Cudahy, and others who are trying to comply with Government price ceilings are gradually being forced out of the cattle business. Taking their place is an army of fly-by-night slaughterers and little packers suddenly become big. Their new-found riches in the meat racket will keep internal-revenue agents digging like a farm dog after gophers for years to come. And possibly with no more success—such are the intricacies of meat packing.

Swarms of unknown buyers of cattle have descended upon the Union Stockyards, many representing black marketers in the East. They are paying prices for meat animals clearly out of compliance with Government regulations, according to experienced marketmen.

These buyers either waive the fat Government subsidies to avoid detection or falsify grade and weight records to obtain the money being poured out lavishly from the Federal till.
The "alky" racket in the palmiest days of Al Capone was peanuts compared to the important money changing hands under cover today, say packing-house officials.

Millions of dollars in meat-price overcharges and side payments which eventually come out of consumer pockets are involved.

Meat which normally flows into local retail stores is being diverted into other channels.

Violations are so numerous and varied that the situation is completely out of hand of Office of Price Administration and Department of Agriculture enforcement agents.

Legitimate packers are laying off employees with long service records while they see their business being taken over by the ardent and shady newcomers.

The beef output of the Big Four packers has slumped 50 to 75 percent in recent weeks despite high market receipts—a matter of record not only in Chicago but at all the large livestock terminals.

Office of Price Administration officials and Defense Supply Corporation agents who pay the subsidies know more or less of what is going on. At this moment they are making frantic efforts to deal with the crisis but thus far have no workable plan other than complete abandonment of meat-price control.

Complaints are reaching Congress and a thorough-going investigation by several Senate and House committees is about to break in Washington.

One development that is bringing the matter to a head is the inability of the Army and Federal relief agencies to get enough meat. Only last Friday, beef set-asides were stepped up to as high as 60 percent on some grades. But this will not solve the problem, say industry leaders, because the plants that supplied the Government during the war gradually are closing down.

At the stockyards, Department of Agriculture market news officials and meat graders realize that something must be done.

"There's no doubt that the black market has increased and is growing," said L. M. Wyatt, livestock chief here.

"The wrong people are getting the cattle. I don't think they can enforce this compliance thing at all."

The number of slaughterers in the Chicago area has increased fivefold to tenfold in the last year or two.

Federal meat inspection, now compulsory, has brought an army of 600 new inspectors into the field which compares with only 50 to 75 in the prewar days.

But even this number isn't able to cope with the mushroom growth of slaughterers because so many are allowed to grade their own beef—one of the loopholes used by the black market.

Yesterday's cattle market here was typical of the trend. Armour bought just 225 head—enough to keep only one-third of their cattle-department staff running. Normally the company would have bought 2,000 to 2,500 head of the 15,000 received, an official said.

Swift and Wilson likewise got only a few. Shipments from Chicago to eastern markets took the bulk of the run.

From Kansas City, Kans., March 19, 1946 (AP):

PACKERS LAY OFF 1,000 AND PUT BLAME ON OPA

Spokesmen for the Big Four meat packing plants here today said 1,000 employees of the plants are being "laid off indefinitely" due to a meat crisis, which they blamed on the Office of Price Administration and black-market operations.

These are but a few of the stories appearing in the daily press which clearly indicates that the black market has gotten entirely out of hand and apparently the Office of Price Administration is wholly unable to check or stop it.

It is a fact that numerous packers throughout the country are being forced to curtail their operations, or shut down, because of their inability to compete with black-market operators.

One of our members wrote the other day in part as follows:

Our inability to purchase livestock in competition with the black market is seriously hampering our production. Since November 1, the beginning of our
extend price control and stabilization acts of 1942

fiscal year, our volume has decreased over 400,000 pounds as compared with the same period a year ago. It is imperative that something be done to retard expansion of the racketeering and illegitimate operations in the meat business and some protection be given to those who wish to remain ethical and honest in their operations.

Our operating losses, the past 12 weeks have been the greatest in years. Meat price control in our opinion is completely ineffective at all levels.

Another member wrote in part:

We call to your attention pages 1 and 2 of yesterday's local newspaper which explains our attitude toward the beef situation.

As you might suspect our decision to discontinue slaughtering beef was a difficult one. Under the circumstances, however, there was nothing else we could do and continue to operate a legitimate meat-packing plant.

We have used all means to buy cattle in compliance with Office of Price Administration ceiling prices. None of our buying sources in any of the large or small markets has been able to furnish us with cattle which figure under the ceiling. And there is every reason to believe that no decline can occur in the cattle market. In other words, we see no relief in sight unless the Office of Price Administration is willing to approach the many problems of the beef industry in a sensible and realistic manner.

Reports from the institute's membership all point out the extreme difficulty of purchasing even a small percent of their requirements of cattle in compliance with the Office of Price Administration regulations thereby forcing law-abiding slaughterers to curtail drastically or discontinue their beef business. One national packer reports that on Monday, March 18, out of receipts of 15,000 at Chicago, it was able to buy only 267 cattle, yet order buyers purchased in excess of 8,000 to ship from this market. Out of receipts at Kansas City of 7,500, it was able to buy 48 cattle yet order buyers shipped out 4,000. At Omaha out of receipts of 8,500, it was able to purchase 125 cattle. Oklahoma City receipts were 2,100 and it was able to purchase 22. Sioux City receipts were 6,600; it purchased none. St. Paul receipts 2,500; it purchased none.

Country-wide, this company was able to purchase only 715 cattle whereas its normal buy would be 6,500 cattle.

All the evidence indicates that this situation is general and will become worse rather than better. This means serious unemployment in companies who are complying with the law and the end of the beef business in legitimate channels.

The Office of Price Administration officials themselves in public statements have admitted the existence of a widespread black market in meats.

I think I should mention that so many of these violations were of the picayune type mentioned by the retailers from Kentucky yesterday. And I think I should mention there are numerous honest retailers throughout the country abiding by the law even though there are many widespread black-market operations at the retail level as well as at the wholesale level.

Because of complexities inherent in the situation—the break-down of enforcement, the possibilities for juggling books, for concealing details of transactions, for upgrading of product, and many other types of evasions and avoidance—it seems apparent that price control on livestock and meats is unworkable; at least, it has proved so up to now from a practical viewpoint.

Black-market production is inefficient and costly. The black market cannot save and utilize byproducts. Hides are destroyed, edible offal
is wasted, blood, bones, and fat so badly needed for animal feeding stuffs are not saved. Full legitimate production is the only answer to both the inflation and the black-market problems. Full legitimate production is the only answer if this country is to be fed and our meat commitments to Europe are to be met. At this late date, a raise in livestock and meat ceilings will not eradicate the black market. At this late date, additional investigators cannot bring about compliance with the Office of Price Administration regulations. Black-market operators are not interested in the meat business at normal margins, they are inefficient operators and cannot compete with the legitimate packer under normal conditions. They can be driven from the market and put out of business if the legitimate operator is permitted to compete.

Therefore, and because price control on meats fails to give the consumer adequate protection—indeed there are many who argue that present black-market prices are higher than what prices would be without price control—we reluctantly have come to the conclusion that the consumer and the industry alike would be better off if price control on livestock and meats were not extended.

In closing, I should like to point out that this recommendation comes from companies whose conscientious support of price control very largely made possible whatever degree of success price control achieved during the war. We do not oppose price control as such, but under existing conditions price control as applied to livestock and meats is unworkable. We think facts should be faced and the fiction of price control on livestock and meats discontinued.

We trust this information has been helpful to the committee. We shall be glad to submit any additional information that any of the members may want. We would like to have the privilege, Mr. Chairman, of submitting later some information pertinent to this subject.

The Chairman. You may incorporate any additional information you have in the record.

Mr. Crawford. Mr. Chairman.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Hardenbergh, we have the Gallup polls showing that an overwhelming number of the women of this country, the housewives, people who buy the family meat, are in favor of the continuation of the Office of Price Administration as now set up. Who is supporting this black-market operation that you have divulged here if it is not the housewives of this country?

Mr. Hardenbergh. May I quote? I hate to take further time to quote from a newspaper, but the Office of Price Administration has answered that question. May I read it?

Mr. Crawford. Yes.

Mr. Hardenbergh. In the Washington News of yesterday this article appears:

On another gloomy angle on the food situation, the Office of Price Administration admitted it was virtually powerless to curb a black market in meats "already bigger than anything during the war" and drastically reducing available meat supplies from normal sources right at a time when normal seasonal production let-downs are expected.

The President's statement came in answer to a question at his press conference on a suggestion by Herbert H. Lehman, retiring Director General of the United Nations Relief and Rehabilitation Administration, that wartime food
controls be reinstated in all nations participating in UNRRA as a method of helping starving peoples.

In declaring itself unable to do much to curb the mushrooming black market in meats, the Office of Price Administration cited its limited enforcement staff and a growing indifference by butchers and housewives to legal prices.

The agency said its only hope of stemming the black market trend was a plan "to shame the housewives of the country" into an observance of price ceilings.

Mr. Crawford. I have not seen that newspaper report. I did not know it was published. But it seems to me a perfectly ridiculous situation for 75 or 78 percent of the housewives to join in a poll asking that this be continued and then for those same housewives to help destroy the 500 meat packers, the sausage manufacturers—small, medium, and large—in all parts of the United States, for which you speak.

Now, let me ask you this: in your opinion, is this spread of the black market moving in the direction of eliminating these 500 meat packers, sausage manufacturers, from their legitimate business?

Mr. Hardenbergh. It very definitely is, sir.

Mr. Crawford. So we are destroying the historical meat industry from which we not only drew meat as a prime product, but all of the allied products which we salvage through orderly processing of the animal, as against a throwing away of these byproducts by black-market operation, who buys the animal, slaughters quickly, throws away the byproduct, and moves the prime meats to the market. Is that what is taking place?

Mr. Hardenbergh. I think that is the only deduction you can draw from these figures I have quoted showing the trend of the business away from the legitimate operator.

Mr. Crawford. So that, in turn, brings about the loss of all those basic proteins which went into other mixed feeds, for instance, poultry, and otherwise, and certainly, the black-market operator is not salvaging that, is he?

Mr. Hardenbergh. Very little of it, I suspect.

Mr. Crawford. And that, in turn, throws a greater shortage of fats of all kinds for soap manufacturing and otherwise on the market?

Mr. Hardenbergh. I think that is right.

Mr. Crawford. I think you have made a very enlightening statement. Would you go so far as to say that it is the consensus of opinion of all these 500 manufacturers whom you represent that these black-market operations now are entirely out of control in so far as the Office of Price Administration is concerned, and that there is little chance, if any, of recapturing control?

Mr. Hardenbergh. Yes, sir; and I quoted two letters from members which are typical of many communications we have had to the same end, that it is impossible to control and that the Office of Price Administration has an impossible task to do.

Mr. Crawford. If it is impossible for the Office of Price Administration to control this situation, with all of the powers that have been given and with all the voluntary assistance they have had from the public, how do you think the Treasury Department is ever going to catch up with the black market operators in capturing this income for taxation purposes, Mr. Hardenbergh, which they are undertaking?

Mr. Hardenbergh. I think my opinion coincides with that of Mr. Thiem in the article I read which suggests it is going to be very difficult.
Mr. Crawford. So then, in addition to destroying the regular meat packing industry, housewives and others are supporting the black-market operations, and destroying the income which flows to the Treasury of the United States, if the profits clear through legitimate manufacturers such as you represent, so that they can be taxed by the Department of Internal Revenue? That is going on, is it not?

Mr. Hardenbergh. Yes, sir.

Mr. Crawford. Well, we have a pretty nice operation there.

That is all I have.

The Chairman. Are there any further questions?

(No response.)

The Chairman. If not, you may stand aside, Mr. Hardenbergh.

Mr. Worley, we will hear from you now.

STATEMENT OF HON. EUGENE WORLEY, REPRESENTATIVE, STATE OF TEXAS

Mr. Worley. Mr. Chairman, for the record, my name is Eugene Worley, Representative from Texas.

Mr. Chairman, I am a Member of the House Committee on Post-war Economic Policy and Planning.

Originally, Mr. Chairman, Mr. Colmer, chairman of the committee, was supposed to do what I am going to try to do this morning, but the day before yesterday he had an attack of appendicitis and is in the Naval Hospital now recuperating from that.

I was asked to assist in presenting to your committee the results of the investigation commenced about 6 months ago by the House Post-war Economic Policy and Planning Committee. Frankly, we began the investigation to remove wartime controls. I believe all members went into that hearing with the hope that the committee could recommend that all wartime controls be removed immediately. However, the farther they got into the problem, the more difficult and the more complex we found our whole domestic and foreign economy to be, and we finally concluded that we had a choice of one of two evils: First, whether to continue controls at a minimum, as distasteful as they have been and will undoubtedly continue to be to a large number of people, or to wrestle with some economic dynamite, namely, inflation.

After considerable study, we have concluded that the conservative and safe thing for us to recommend to your committee and to the Congress is a modified continuance of price control for approximately another year.

We, as members of that committee appreciate fully the difficulty you gentlemen will have in trying to write a new law governing the new conditions. The recommendations we have made have, on the whole, been conservative. We have made those recommendations in the hope that they would be helpful to you and in the hope that the modifications we suggest will work.

Mr. Folson—Marion B. Folsom—is director of the staff. He has been assisted in this work by Mr. Edwin B. George. They have done an excellent job in security data, in addition to the hearings, which the committee held, before which labor, industry, consumers, agriculture, and all branches of our economy had an opportunity to be heard.
We have submitted two pamphlets covering the entire investigation. Those pamphlets are here and will be distributed to the members.

In addition, I would like to insert in the record a press release from the committee, at this point, if there is no objection.

The CHAIRMAN. Without objection, that may be done.

(The document above referred to is as follows:

The House Special Committee on Postwar Economic Policy and Planning today recommended in its Ninth Report that the Price Control Act be continued in modified form for another year. Chairman William M. Colmer (Democrat, Mississippi) announced, however, that the committee felt that effective control over inflationary forces would be impossible without the aid of strong fiscal and monetary counter measures.

"The committee approached the problem of wartime controls with the hope of being able to recommend a summary removal of most of them and the immediate return in our postwar economy to the American way of doing business without governmental restraints," Mr. Colmer said. "But after 5 months' of study of the many problems involved, in which extensive hearings were held and representatives of industry, labor, consumers, and Government were heard, the committee reluctantly reached the conclusion that such a course would most likely result in ruinous inflation and would react unfavorably not only to the wage earners and consumers but to business itself."

Mr. Colmer stated, "The committee in its deliberations was confronted with two evils, continuation of governmental controls on the one hand and a paralyzing blow to our reconversion program on the other. It chose the lesser."

The chairman further stated that as anxious as was the committee to see business freed from galling restraints as speedily as possible, their study had convinced them that the disease of inflation is still worse than the preventatives; that they had therefore felt it proper to recommend modification rather than elimination of existing price controls. "The unforeseen and unfortunate wave of strikes," Mr. Colmer continued, "has been a very important factor in slowing down our reconversion program, but it is our earnest hope that these labor-management disputes may soon be settled so that most of these controls can be removed long before the termination of the act.

"Even so," the chairman stated, "the committee is of the opinion that the administration of these controls, and particularly the OPA, can be greatly improved. Therefore, while recognizing the impossibility of attempting to legislate in detail for every industry and product, we are of the opinion that the Price Control Act should be amended and have tied our recommendations for continuation for a period of 1 year to the following proposed amendments:

1. Establish the best 3 years of the period of 1936-40 instead of the years 1936-39 as the base period for calculation of the "profit increase factor" used in determining prices under both the general and individual reconversion formulas.

2. Establish the average of the best 3 years of the period 1936-40 as the base for application of the "earning standard" except for situations in which the results would be inequitable. (This standard requires price adjustments whenever earnings on net worth before taxes for the industries or trades as a whole fall below those of the designated base period.)

3. In the case of essential "low-end" products (a) allow industry-wide current cost plus at least a reasonable profit (preferably historical margins) to manufacturers on a list designated jointly by CPA and OPA; and (b) permit retailers to pass on in full any dollar increase resulting from these concessions, and percentage increases where margins are already tight.

4. In the case of other products, substitute for the present "product standard" the requirement that prices be raised at least to the point of insuring recovery of total costs on any product.

5. Adopt a policy to eliminate product controls that embodies—

(a) the principle of requiring that specified commodities or groups of commodities be released from price control upon satisfaction of acute demands;

(b) standards for determining the fulfillment of this principle in each case; such criteria should include, singly or in combination, the attainment of a designated rate of production, the maintenance of that rate for a designated period of time, the achievement of a designated amount of production since August 18, 1945, and a limitation of inventories to stated proportions of the production rate;
(c) where establishment of such standards for a material or end-product in terms of physical units is impractical, the development of measures to accomplish the intended result through equivalent limitations for materials entering into the products concerned or products processed from such materials; and

(d) the provision that the standards set must be declared by OWAMR within 60 days after the extension of the Price Control Act and after consultation with the affected industries.

Additionally, the committee recommended to the OPA Administrator that in applying the earnings standards and the product standard, actual costs be substituted for so-called allowable costs beginning with second quarter 1946 experience; also that industries be defined as narrowly as possible in applying the earnings standards so that the profitable but perhaps specialized parts of a business would not obscure losses in other parts.

The report of the special committee reflected frank concern over the price inequities and product distortions found to be occurring under some of OPA's present rules. It did not charge OPA with complete responsibility for these undesirable results, pointing out that the existence of acute shortages of materials in a strong seller's market for finished goods would itself lead to abnormalities. Feeling that these have been unnecessarily exaggerated, however, by OPA's policies, the committee made the above recommendations which in its judgment would minimize existing inequities, stimulate production, insure the removal of controls immediately upon substantial lessening of the threat of serious inflation, and improve the production and distribution of essential low-cost products.

The committee's report also recommended the adoption of the following "important fiscal measures":

1. Maintenance for the present of Federal income-tax rates.
2. Curtailment of Federal expenditures.
3. Balancing of the budget in the fiscal year 1947 and in the following year creating a surplus to be applied against retirement of the public debt.
4. Continuance of control over consumer credit.
5. Legislation enabling the Federal Reserve authorities to increase substantially reserve requirements against commercial banks' demand and time deposits.
6. Request the cooperation of State and local governments in limiting current expenditures for public works.

The Colmer committee likewise recommended extension of the Second War Powers Act to expire coterminously with the Price Control Act on June 30, 1947. The reasons given for this recommendation lie in three separate problem areas, (1) the need for interlocking CPA and OPA actions in furthering the production of essential low-end goods, (2) persistence of world shortages requiring the use of allocation powers to insure American supplies and minimize international friction, and (3) the importance of maintaining inventory controls while the danger of large-scale speculation in this field remains serious.

"Our proposals are aimed at making price controls more equitable rather than at wholesale relaxation in a still dangerous period," explained Chairman Colmer. "We feel that standards considerably more liberal than those employed by OPA would still be consistent with its obligation to hold inflationary price movements in check. We have, therefore, driven at what we feel to be vulnerable spots in the present standards rather than at the general structure of price control.

"The OPA's present standard of equity is that if an industry earns as big a percentage return on investment as it did in 1936-39, it is not entitled to relief. That standard is no longer reasonable. We have suggested that it be liberalized," Mr. Colmer stated, "by substituting as a base the average of the three best years of the period 1936-40. In particular we were concerned about the people who might encounter temporary difficulties in moving from a war to a peace basis, and whose plight would be merely concealed by the use of trade-wide tests of fairness that were tight to begin with."

"The committee also came to feel," the chairman continued, "that much of the business resentment against OPA could be traced to inadequate allowances for individual products in a generally profitable business. OPA has always given some protection to such products but only in special cases has it allowed for actual costs, requiring the goods in effect to be made and sold at a loss. As a result, many products wanted by the public are not now made at all. The Congress would be assuming a serious responsibility if it ordered OPA to allow a profit on any product that any industry wanted to make. Business does not
run that way even in normal times and presumably could do so now only because
in its great need for goods the public has little bargaining power and competi-
tion cannot perform its usual function. Nevertheless, the committee does not
wish prices to be any more of an obstacle to the production of individual prod-
ucts than can be helped and, therefore, has suggested that full recovery of costs
be permitted on any individual product regardless of the over-all operations
of the industry. In the case of badly needed low-cost and low-margin staples
it went further, recommending an allowance of not only full costs but reasonable
profit as well. The situation is actually very complicated, and no simple rule can
be contrived that will stimulate production at just the right points and still be
free of inflationary dangers. The committee, therefore, approved the current
actions of CPA in continuing to direct a flow of materials to so-called low-end
products and in ordering their production where the public interest urgently
requires it."

"We sought earnestly," the Congressman said, "for a method of eliminating
control that would be built around positive and understandable goals rather
than be left to so rigid a test as 'an equivalence of supply and demand.' It is,
therefore, suggested that clear and attainable goals be set up by the Director of
OWMR for each major industry—after consultation with the industry—such as
the achievement and maintenance of a designated rate of production, with due
safeguards against inventory accumulation. Under this procedure managements
would be given an incentive to increase their output while business generally
would be reassured that price control was not to be fastened on it indefinitely."

"We feel," the chairman explained, "that in many instances controls could
undoubtedly be abandoned immediately, and others after completion of the
proposed study. The objective must always be to remove controls as soon as
possible."

In addition to Chairman Colmer, the committee is composed of the following,
many of whom are ranking members of important House committees; Cooper
(Democrat, Tennessee), Walter (Democrat, Pennsylvania), Zimmerman (Demo-
crat, Missouri), Voorhis (Democrat, California), Murdock (Democrat, Arizona),
Lynch (Democrat, New York), O'Brien (Democrat, Illinois), Fogarty (Demo-
crat, Rhode Island), Worley (Democrat, Texas), Gifford (Republican, Massa-
chusetts), Reece (Republican, Tennessee), Welch (Republican, California),
Wolverton (Republican, New Jersey), Hope (Republican, Kansas), Wolcott (Re-
publican, Michigan), LeFevre (Republican, New York), and Simpson (Repub-
lican, Illinois). It was assisted in its studies and preparation of the report by
its staff director, Marion B. Folsom, and its special consultants, Edwin B. George
and Robert J. Landry.

Mr. Worley. In the interest of saving time, I would like to present
Mr. Folsom, who will briefly summarize the recommendations which
the House Postwar Committee has made, as I say, recommendations
which we hope will be helpful to the members of this committee and
to Congress in arriving at a satisfactory solution to some of these com-
plex problems.

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

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Worley, are you placing in the record the report
also?

Mr. Worley. I will be glad to, but it is rather voluminous, and we
have had a large number of copies printed. Certainly, we would
have no objection, except in the interest of economy.

The Chairman. The report is on many other subjects as well, is it
not?

Mr. Worley. It pertains to the removal of all wartime controls and
restrictions, including price control.

The Chairman. I think we ought to try to keep our record down.

Mr. Kunkel. So do I.

Mr. Worley. The press release simply summarized a portion of
these recommendations.
Mr. Brown. That is sufficient. The report will be supplied to all
Members of the Congress, I presume.
Mr. Worley. Yes.
Mr. Kunkel. Do you have copies of the hearings available and
printed?
Mr. Worley. They are available.
The Chairman. The report on the matter under discussion will be
incorporated in the record, that is, the release.
Mr. Worley. Very well, sir. If there are no further questions, I
would like to present Mr. Folsom, director of the staff.
The Chairman. Mr. Folsom, you may take the stand.

STATEMENT OF MARION B. FOLSOM, DIRECTOR OF THE STAFF OF
THE SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND
PLANNING.

Mr. Folsom. Mr. Chairman, members of the committee, as Mr.
Worley indicated, the Postwar Committee has been studying this
problem intensively for the last 6 months. We engaged the services
of Mr. George, of Dun & Bradstreet, and who also was the assistant
to Mr. Donald Nelson in War Production Board. He has been de-
voting his full time for the last 6 months to talking to businessmen,
retailers, wholesalers, manufacturers, and also the Office of Price
Administration, going back and forth between business people and
the Office of Price Administration to try to find out what the present
situation is and what the difficulties are and see if we could offer some
constructive suggestions.
The committee, as a result of this study and also the hearings which
we have had, as Mr. Worley has indicated, has come to some definite
conclusions.
The first was that the Office of Price Administration should be
continued but on a modified basis. The second conclusion they
reached was the Office of Price Administration and price controls
alone will not be effective in controlling inflationary pressure. There
are a number of fiscal and financial monetary measures which are
equally important, and the committee listed six of those measures
which it felt should be adopted.
I will just read those six briefly:
Maintenance for the present of the Federal income tax rates;
Curtailment of Federal expenditure;
Balancing of the budget for the fiscal year 1947 and the following-
year creating a surplus to be applied against retirement of the public
debt;
Fourth, continuance of control over consumer credit;
Fifth, legislation enabling the Federal Reserve authorities to in-
crease substantially reserve requirements against commercial bank
demand and time deposits;
Sixth, request of cooperation of State and local governments for
eliminating expenditures for public works.
The committee considered first the over-all question as to whether
it was necessary to continue controls at all. We went back to 1919
and 1921 experience. That has probably been told you before, but,
as you know, there was a very sharp rise in prices after the last war,
followed by a very drastic decline which caused a great deal of trouble and hardship to business people and people generally.

It is true that the condition in 1919-21 was different in a number of respects from the conditions we face today. Prices during the war had risen more in 1918-19 than they have risen during this war, and the present short supply was not as great at that time. In other words, we had not gone without the things as we have this time, so we did not have the shortages or the accumulated demand. So also the pressure in many ways was less at that time than it is now.

On the other hand, the productive capacity of the country has increased much more during this war than it did at that time. So we are in a better position to meet the demand than we were then.

But on balance, a study of that condition, after the last war, would indicate that if you remove controls entirely now, you would be very apt to have a sharp increase in price.

Now, the second approach that the committee and the staff made was in considering the present situation, making some estimates as to what business conditions might be over the next year. We did not attempt to make any forecast because that is not our business, but the staff considered all the estimates that have been made—not all, but a number of estimates that have been made by some of the best experts in the country, both in business and in Government—and, as a result of analyzing those various estimates, we arrived at what seemed to be a conservative estimate as to the gross national product for the next fiscal year, beginning July 1, and we give the details of that in the report.

Roughly, it is an estimate of about $178,000,000,000 at 1944 prices, which is about a 40 percent increase over the 1940 level.

That would indicate—and there is not very much difference of opinion among the so-called experts as to that range—of course, it depends on a number of factors and nobody can make an accurate estimate as to what business is going to be a year from now—but indications are that we are going to operate at a very high level, well above prewar levels and that will cause a great pressure on the productive capacity of the country to meet it.

The third point is that there are, right now, a number of shortages in a number of important materials, such as building materials, tin, leather, and all sorts of products, which we have listed in the report.

Now, as a result of all those pressures, the committee felt that if we did remove controls now that you would be apt to have a rather sharp increase in prices of many products, and we felt that the danger of inflation was so great that the conservative course would be to guard against even a remote contingency of having a sharp increase in prices. And if it looks as though we are going to have one, then, the safest thing to do would be to keep your controls.

That led us into a study of what the present situation is. You have had many statements made to you by various witnesses, some that everything is going to pot now, and others that things are going along very well. The way we have sized it up, after our study, is that over-all production right now is quite high compared with prewar levels. The Federal Reserve index of production for January 1946, showed production at about 27 percent above 1940, and in No-
November it reached the highest peacetime level we have ever had. It has slowed down some since that time because of the strike situation, but during the last 2 or 3 months, production has been well above prewar levels, also the employment has hit the highest peacetime level—that is, before strikes developed. Employment in January was about 51.4 million compared with 46 million in 1940. That is fairly close to the wartime peak of 54 million. And that, of course, is the highest peacetime employment we have had.

Unemployment is only 2½ million, compared with 8 million in 1940.

Mr. George tells me, from the Dun & Bradstreet records, they show that business failures right now are the lowest on record. So the over-all picture is not as gloomy as many people have painted it.

On the other hand, when you look at the present situation objectively without bias or prejudice you must admit that there have been considerable complaints about inequities in the Office of Price Administration and in the whole price-control situation. There have not only been inequities in the way of squeezing down prices to a very low level if not disappearing entirely, but there have been delays in getting adjustments made, and there is also quite a widespread fear among businessmen that controls are going to be continued indefinitely.

We found that almost everywhere we went, and you probably found that same feeling in the businessmen who appeared before you, and when the staff presented the matter to the Postwar Committee, we found that quite a few of the Congressmen also had the fear that these controls were going to be continued indefinitely, unless something is written in the law to bring about decontrol.

Now, you must, on the other hand, realize that when you attempt to control prices for the whole economy, that you just cannot avoid inequities. It is simply inherent in the system. There is no way in the world to operate a perfect system of price control. It is the most difficult and intricate problem in business, and when you attempt to set prices for every commodity it is simply impossible. That is one of the main reasons why we should get rid of these controls as quickly as we possibly can.

It was with that background that the committee approached the problem of seeing if we could not find some way in which we could modify the present act and amend it in order to avoid some of these inequities. We felt that the approach would be that you ought to keep these controls on until the acute demands have been met. Not until you find a perfect balance between demand and supply, but try to hold it until these acute and very pressing demands are met.

Also, the main purpose should be to guard against accumulated inflation. That is, a spiral of inflation. Some price increases would lead to wage increases, again to price increases, and again wage increases, and so on. That is the main purpose of the Office of Price Administration.

Also, in any changes we make, we should not increase the administrative burden. Instead, we ought to lessen it.

It is was with that in mind that the committee has proposed a series of recommendations, and I think it might be well here if I pass out our
report and have you follow with me the recommendations which we have made.

I will read each one of the suggested amendments and then give you the background and the basis for our recommendation.

Mr. Crawford. Mr. Chairman.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Chairman, why not invite Mr. Gifford to sit up here with us?

The Chairman. We are glad to have Mr. Gifford come up here with us.

Mr. Folsom. Now, I will ask you to turn to page 29.

The purposes of the following amendments and administrative modifications are to minimize inequities, stimulate production, insure the removal of controls immediately upon substantial lessening of the threat of serious inflation, and improve the production and distribution of essential low-end products.

It is recommended that the Emergency Price Control Act be extended until June 30, 1947, subject to the amendments enumerated below.

1. Establish the best 3 years of the period 1936-40 instead of the years 1936-39 as the base period for calculation of the "profit-increase factor" used in determining prices under both the general and individual reconversion formulas.

2. Establish the average of the best 3 years of the period 1936-40 as the base for application of the "earnings standard" except for situations in which the results would be inequitable. (This standard requires price adjustments whenever earnings on net worth before taxes for the industries or trades as a whole fall below those of the designated base period.)

Now, you have probably had much discussion about this base formula. At present the years 1936-39 are being used. A fair analysis would show that those were not good years. During that time, of course, we had high unemployment—7 or 8 million. One of those years, 1938, was quite a bad year, in which we had a sharp decline from 1937.

Also it must be realized that we are now in a period of active business, and it is not fair to expect business concerns to get along with the low profit which they had during that period. It is a matter of equity. If other parts of the economy are operating at a much higher level, wages and salaries and so forth, there is no reason why you should not expect business to have a higher profit than what they had in a prewar period which was not very satisfactory.

Also, inherent in this formula are certain assumptions which the Office of Price Administration makes as to what conditions are going to be. They are not based on actual costs, as a reconversion formula, but on estimates. They make certain estimates as on volume, as to what the price of material or labor is going to be, productivity, and it is extremely difficult to estimate a year ahead whether productivity is going to increase or decrease.

They also have to make estimates as to what selling expenses are going to be. If the Office of Price Administration is wrong on those estimates, the products go down. So there should be some allowance made for mistakes in those estimates.

So we would not criticize the 1936-39 base during the war years. The situation was quite different then, because you did not have to worry so much about whether some of these civilian goods were produced or not, and you could get your production in other ways. But right now the situation is quite different.
We must also realize that in all these bases you take into consideration profit before taxes, and taxes are, of course, much higher than they were in 1936-39.

Now, the staff felt, and the committee agreed, that this was not an equitable base, so then we got busy to see if we could find some base that would be more equitable than that. We considered, first, just a flat percentage increase over that 1936-39 level. We found that that would not be fair, because it would give too high an increase to those in the upper range. For instance, this relief base, as you know, the Office of Price Administration on that will grant an increase from the profit for the industry as a whole, or its net worth falls below this 1936-39 level.

Now, in some industries, the profit in 1936-39 might be, say, 12 or 15 percent. In other industries it might be only 2 percent. If you give a flat increase of one-third, you would give a little relief to the people at the lower end, and you would give considerable increase to the people in the upper range. So we discarded that as not being fair.

The second plan which we are considered was one by which you would add a flat amount of profit to each range, a profit of 3 percent of net worth flat on each one. That means 2 percent industry would go up to 5 percent. A 10 percent industry would go to 13 percent, and a 15 percent industry to 18 percent. That would cut down the high ones but would give a very big increase to people in the low range and would cause a large distortion, too, of the whole industrial set-up. So we discarded that as not being fair.

Then we began looking into the different years, 1936, 1939, and 1940, and so forth. We found that 1940 was a very prosperous year compared to prewar standards, and it seemed to us the best bet would be to take the 5 years from 1936 to 1940 and pick out the three best years during that period and use the average of those 3 years for the base. We found if we applied that to industry as a whole, for all manufacturing companies, it would represent an increase of about 35 percent over-all, more in some industries, less in others. But if you give them the choice of those 5 years, the chance is fairly good that three of those years would be fairly prosperous years, and on the whole it would raise this level in an equitable way.

We have looked into the question, including 1941, and whether we should not use the average of 1936-41, but we found that in 1941 a number of industries were profiting tremendously from a big increase in war work, especially the metals industry. Profits that year increased sharply over the previous years, and we thought that would bring a number of inequities into the situation. So that is the recommendation that the committee makes.

Now, the objection might be raised that that is going to cause some additional administrative work. We have got to get from the industry the information about 1 year more. We now have the figures for each of the years 1936-39, so we would have to get it for the 1940 year. But upon checking with quite a few people, the staff reached the conclusion that that would cause very little additional work, and we thought industry would be glad to go to that extra work if they thought it would raise the price levels. So there would be no objection from the point of view of industry, and I do not think it means much more work
from the point of view of the Office of Price Administration and would certainly iron out a lot of the inequities we now have.

The second recommendation has to do with low-end products. That is No. 3 on page 29.

3. In the case of essential "low end" products (a) allow industry-wide current costs plus at least a reasonable profit (preferably historical margins) to manufacturers on a list designated jointly by CPA and OPA; and (b) permit retailers to pass on in full any dollar increase resulting from these concessions, and percentage increases where margins are already tight.

You have heard a great deal about these low-end products, products which are selling at low price and on which the margin in normal times is quite low. We have had an awful lot of trouble during the war, and it still persists, in getting these low-end products on the market.

There are a number of reasons for that: Mainly, because if concerns can make a higher profit on another product, it is natural, when they can sell almost anything they make, that they are going to sell the products on which they make the most profit. That is one of the most difficult problems the Office of Price Administration has had to face during the war and after the war. So some change is necessary in order to get production into these products, these low end products. The Office of Price Administration has recently made a number of changes, all in the right direction, allowing more profit.

The committee in its report argued against adopting a cost-plus program throughout, because the committee was very much afraid of the effect that would have on a spiral of increases. But in these low end products we do not see any other answer, in order to get production, but to tell the manufacturers that if they produce these products they are going to make at least a certain profit. And the profit will probably have to be, in some cases, even above the historical margin, if we are going to get production.

But then when it comes to passing those increases on, we feel that the dollar amount of those increases should be passed on by the retailer and the retailer not be asked to absorb them, but not to a percentage basis, because the percentage basis would mean a pyramiding of prices to the ultimate consumer.

We made quite a detailed study of this low end product situation in the textile industry, in which it has been discussed more than in any other. Those who are interested will find in this report an analysis of the low end product from that point of view, and I think it would be very illuminating.

As a result of that study, we learned three major lessons. The first was that in a low-wage-scale industry it is difficult to hold labor at high straight-time rates without a corresponding increase in price.

The second was that when huge demands and reduced supplies of basic materials begin to create a strong seller's market, the upgrading is almost certain to take place on a large scale.

The third was that these forces are so powerful that they can rarely be held in check by just upward price adjustments alone. In other words, you have to have channeling of materials through Civilian Production Administration as well as changes in the price situation if you are going to meet the problem and get out the goods in those low end fields.
The next recommendation of the committee, No. 4, is as follows:

In the case of other products, substitute for the present product standard the requirement that prices be raised at least to the point of insuring recovery of total cost on any product.

Under the present plan, as long as they are making an industry-wide profit, the manufacturers are guaranteed a return on the total factory cost of any one product. We found a great many complaints on that particular point, because factory costs do not include a great many other costs, and the manufacturers are losing considerable money on some individual products, just because they might be making an over-all profit above this relief base.

So the committee recommends that the manufacturer be allowed his total manufacturing and selling cost. The total costs are not just the factory costs alone.

Some people have suggested that the manufacturer should be allowed a profit on every item. But if you do that, you are getting into some of your cost-plus difficulties, and also you must realize that in normal times it is not customary for a manufacturer to make a profit that is above a total cost on every item. He might have some items on which he might not be making a profit, due to competition, and also he might want some loss leaders in a particular line in order to help out other parts of the line. So that would really be giving him a little more than he had before, if you go that far. But we think this is a very important adjustment which should be made in order to bring about production all along the line and cut down the number of inequities and complaints.

I might say in connection with this retail cost absorption, we are recommending that the retailer be permitted to pass on the dollar amount of increases allowed the manufacturer but not percentage-wise. As you know, the basis of Office of Price Administration policy so far has been that the retailer should absorb practically all of these increases in cost, because they point out that the volume of a retail distributing establishment is much higher than in prewar days and also, at least during the war and up to date, he has been able to cut down many expenses which he had in normal years, such as the returned goods item, very few credit losses, no forced sales. So on the whole, retail establishments have increased profits compared with prewar.

On the other hand, the situation is changing now, and many of those costs are beginning to increase, so the retailers have quite a legitimate complaint now that they should not be expected to absorb all the costs that they have been absorbing. It is true that the volume will hold up, but many of the expenses will rise, and also labor, wages, costs, materials, and everything else is going up, so it is a question as to whether they will not be squeezed out. That is why we are suggesting at least a limited change in the policy so that they will not be asked to absorb all the increase in the cost.

Also the change in the relief floors which we are suggesting—that is the change to the three best years, including 1940, will also hit the retailers whose profits are approaching this relief floor, so there will not be many cases where they will have to ask for relief.
The next recommendation which the committee makes has to do with the elimination of controls. I will read the recommendation first.

Adopt a policy to eliminate product controls that embodies—

(a) The principle of requiring that specified commodities or groups of commodities be released from price control upon satisfaction of acute demands;
(b) Standards for determining the fulfillment of this principle in each case; such criteria should include, singly or in combination, the attainment of a designated rate of production, shipments, or sales, the maintenance of that rate for a designated period of time, the achievement of a designated amount of production, shipments, or sales since August 18, 1945, and a limitation of inventories to stated proportions of the production rate;
(c) Where establishment of such standards for a material or end product in terms of physical units is impractical, the development of measures to accomplish the intended result through equivalent limitations for materials entering into the products concerned or products processed from such materials; and
(d) The provision that the standards set must be declared by OWMR within 60 days after the extension of the Price Control Act and after consultation with the affected industries.

Now, we felt, for the reasons I have indicated, that it would be very helpful if we could develop some formula in which these controls would go out more or less automatically, rather than leaving it up to the discretion of the administrator. We found that the business people, as indicated before, were very doubtful as to whether your controls would be eliminated fast enough if you did not have some provision of this sort. So we set about trying to find some way in which we could do that. The suggestion which has been made a number of times is that we ought to have simply a rule that if production reached, say, a hundred percent or 110 percent, or 75 percent of the 1940 level that the control would automatically go off. We feel a blanket rule like that, applying to industry as a whole, would not meet the situation, and because of the fact that we are estimating and we are already in a situation where the over-all production of the country is well above prewar levels. If you had a standard, say, equal to prewar level, you would not meet the situation especially in a number of these products that have been held off the market for a long time, and where there is still a tremendously built-up demand. And if you have a rate that might be fair for one industry, say, 10 percent above 1940, it would not meet the situation at all in another industry where there had been no products available to it for several years. So we could not find any one formula to meet all situations.

We then thought that the only fair basis would be to have Congress, in the extension of the act, state the policies and objectives along the lines we have indicated here and indicate that the Office of Price Administration and the Office of War Mobilization and Reconversion and Civilian Production Administration, if they would get together with the industry through the advisory committees, not only of manufacturers but also of the retailers and distributors, and see if they could not study the principal industries and set up a goal, and when that goal was reached, that controls would automatically go off.

Take the case of washing machines, automobiles, or anything like that. After sizing up what the outlook is for general business for the next year, they could say, “In this particular industry, if we can reach a production, say, 20 percent above 1940 level and maintain that production for a 2-month period—we do not want it so that you can reach it in 1 week and go down again—if we could maintain it for a 2-month period, and also to be sure that there is no manipulation of inventory
but a legitimate increase in production, that when that goal is reached, controls would automatically go off.”

We realize that you cannot apply that to every industry. In some cases you might have to say, such as in steel, “When steel production reaches a certain amount, off come controls.” In textiles, “When you reach such-and-such a yardage production a month, the controls would go off.”

If you attempt to apply that to every industry, of course, the thing would fall down of its own weight. But the committee feels that there are some controls that can be done away with immediately. There are a lot of unimportant items that really do not matter in the cost of living or in any other way and which are causing an awful lot of administrative troubles and headaches. If we take bold acts now, in getting rid of a lot of controls on the basis, as Mr. George indicated, of a calculated risk, knowing that you are taking some chance on some of these items going up but that over all it would not be very great and would add very little cost on the cost of living, then you can concentrate on these important items and set these goals on a realistic and fair basis, and then when the goals have been reached, the controls would go off.

That program would inspire an awful lot of confidence among business people, in the first place, showing that we really mean business in getting rid of these controls, and I think many controls would go off before June 30, 1947.

Now, if you follow the present standard of the Office of Price Administration, which is that you take controls off when you reach balance between supply and demand, in many important industries you will not reach that situation before June 30, 1947, and you might not reach it until sometime after that, because we expect an active demand for many years, and if you are going to measure it exactly on the equivalence of supply and demand, I am afraid you are going to have controls a long time.

What we think you should guard against is not a slight increase in price, say 10 or 15 percent, which might occur when some of these controls are removed, but that the main purpose is to guard against a spiraling of prices, a cumulative inflation. We think you can guard against that if you take the controls off when you meet the acute demands.

Now, in a number of cases, for instance—I have not studied this matter at all, but take the question of cigarettes. I should think the present situation of cigarettes is such that they have met the acute demand. You can go into a store now and buy cigarettes, any particular brand. You do not have any trouble and do not have to wait in line. So the acute demand has been met in that case.

In the case of general purpose machine tools, they are not difficult to get, and the manufacturers are now buying them when they want them. So the acute demand has been met in that case.

On the other hand, in other things like automobiles and other durable goods that have gone off the market for a long time, it will be several months before you can meet the demand. That, in general, is the plan which the committee recommends for incorporating in the law.

If you can, you will find probably some criticism from the point of view of the administrators as to the difficulty of applying these recom-
mendations. On the other hand, if you approach it in a realistic way with the main goal getting rid of controls as quickly as you can and eliminating controls on a lot of nonessentials, we feel this is a practical scheme that could be put into operation and achieve results.

We have studied a number of items on which the controls have been taken off to see what actually happened. We have those listed in the appendix of this report. I think you will be interested in looking over those. We found that—and I will not attempt to go into detail—in many cases prices went up 5 or 10 percent. In other cases they went up 25 or 30 percent. Furs was the best illustration of where prices went up pretty sharply afterward. But on the whole the evidence is not conclusive so far, but there is not, on the whole, a very sharp increase. We think it would be very effective and if the Office of Price Administration were to come out with a list of items which can be eliminated quickly. I noticed Canada has done that last week. They decontrolled a lot of items last year, and now they are continuing with a lot of other items. That inspires confidence.

The only other recommendation which the committee has made in the form of recommendations rather than in the form of amendments to be incorporate in the act, are on page 30. I will indicate briefly what they are:

We think that we ought to substitute the actual costs during the second quarter of 1946 instead of this estimate for the next 12 months, except in some cases where production is down very much below what would be considered normal. That could not be incorporated in the law very well, because in many cases it would not be fair, because production is still quite below normal.

Also, if these changes in the base formula, three best years 1936–40, are incorporated in the act, there is no reason why that change should not be made right away by the Office of Price Administration, instead of waiting until July 1 in order to give relief immediately. The same would be true about the low-end products change which we are making. As a matter of fact, the Office of Price Administration is already going in a pretty good direction along the lines of our recommendation.

We also think it is very important—and and we cannot incorporate this into the law, but it could be applied by the Office of Price Administration without difficulty—that they ought to narrow these earning standards to smaller groups. They include too large a number of companies or industries in one group, and if you get down to narrowing that field, you will find that many of the inequities and complaints will be met, because now they include too wide a range of products in the industry group, and by a little more work they can get those down to a narrower field.

Also, we think that the Office of Price Administration ought to seriously consider exempting small business to a greater extent than they are now exempting from the law.

Those, in general, Mr. Chairman, are the recommendations of the committee, and we had had the legislative counsel help us in drafting the amendments to carry out these recommendations, and I have them here, and I will submit them to you for incorporation in the record.

The CHAIRMAN. That may be done.
PROPOSED AMENDMENTS TO H. R. 5270

Renumber sections 3 and 4 of the bill as sections 4 and 5, respectively, and on page 1, after line 8, insert the following section:

"SEC. 3. It is declared to be the policy of Congress that the provisions of law relating to maximum price controls shall be so administered as to insure prompt removal of such controls, with respect to commodities or classes of commodities, upon satisfaction of acute demand therefor, stimulate production and distribution, assist in restoring normal patterns of production and distribution, and minimize inequities, and, in furtherance of these objectives, title I of the Emergency Price Control Act of 1942, as amended, is amended by adding at the end of such title the following new sections:

"'EARNINGS STANDARD AND RECONVERSION PROFIT FACTOR

"'Sec. 6. Wherever the provisions of any maximum price regulation or order or of any administrative standard governing the establishment or increase of maximum prices refer to the average rate of earnings on investment or net worth or to the average percentage or dollar profit margin or mark-up on selling price or costs which prevailed in an industry or individual firm in the years 1936-1939 or in any other peacetime period, the Administrator hereafter shall, except where he determines that the result would be inequitable to the industry or firm involved, use the average of the three most profitable years (either calendar or fiscal years, according to the prevailing accounting practices of the industry) during the period beginning January 1, 1936, and ending December 31, 1940.

"'ESSENTIAL LOW-END PRODUCTS

"'Sec. 7. (a) It shall be the duty of the Administrator of the Civilian Production Administration and the Price Administrator, acting jointly, to prepare and publish (and to modify from time to time as necessity may require) a list of the low-end products which are important in both the cost and standard of living.

"'(b) In the case of the low-end products included in the list prepared and published pursuant to subsection (a) of this section, no maximum price shall be established or maintained:

"'(1) if applicable to manufacturers, unless it makes allowance for industry-wide current costs, plus at least a reasonable profit (preferably historical margins) ; or

"'(2) if applicable to distributors in the case of commodities with respect to which increases in maximum prices have been permitted pursuant to paragraph (1) of this subsection, unless it permits distributors to pass on in full the resulting dollar increase, or, where the net realized margin is already abnormally narrow, unless it permits distributors to pass on prevailing percentage margins on the amount of the increase.

"'(c) For the purposes of this section—

"'(1) The term "low-end product" means any item, grade, style, or variety of a commodity which, relative to the other items, grades, styles, or varieties of that commodity, is low in price and yields a narrow margin of profit.

"'(2) The term "net realized margin" means the difference between the distributor's selling price of a commodity and the sum of the cost to the distributor of that commodity and the cost of handling and selling that commodity; such cost of handling and selling to be determined by store-wide or departmental expense rates, and such expense rates to be computed by the Administrator on a trade-wide basis or on an individual firm basis in accordance with the type of price regulation involved.

"'ADJUSTMENTS IN CASE OF PRODUCTS OTHER THAN ESSENTIAL LOW-END PRODUCTS

"'Sec. 8. No maximum price shall be established or maintained for any commodity produced in a volume equal to, or greater than, the volume in which it was produced in 1941, and not contained in the list of low-end products prepared and published pursuant to section 7, which will return to the producers thereof less than the average total cost, on an industry-wide basis, of producing and selling such commodity, but, except in situations where the Administrator determines
that the result would be inequitable to the industry involved, no allowance need be made for promotional costs greater than the per unit promotional costs incurred in 1941.

"REMOVAL OF PRICE CONTROLS"

"SEC. 9. (a) It is declared to be the policy of Congress that maximum price controls shall be removed, in the case of particular commodities or classes of commodities, upon satisfaction of acute demand therefor.

"(b) In order that industry will be apprised, at the earliest practicable time, of the conditions which must be met to bring about removal of maximum price controls, the Director of the Office of War Mobilization and Reconversion (hereafter in this section referred to as the ‘Director’) shall formulate, after consultation with representatives of the affected industries, and shall publicly announce at the earliest practicable time, but not later than September 1, 1946, the standards on the basis of which such controls will be removed in accordance with the policy declared in subsection (a).

"(c) The standards formulated under subsection (b) shall be established with respect to specified commodities or classes of commodities, and—

"'(1) If it is practicable to establish standards in terms of physical units, without specific reference to the situation in related or complementary industries, such standards shall set forth, either singly or in combination, (i) the rate of production, shipments, or sales to be attained and the period during which such rate is to be maintained, (ii) the amount of production, shipments, or sales to be achieved since August 18, 1945, and (iii) the extent to which inventories shall be limited in relation to the production rate. Such standards may also contain such other criteria as the Director may deem appropriate to effectuate the purposes of subsections (a) and (b).

"'(2) If it is not practicable, in the case of any particular commodity or class of commodities, to establish standards as provided in paragraph (1), the purposes of subsections (a) and (b) shall be accomplished by the establishment of standards expressed in terms of materials and components entering into the products concerned, or of products manufactured or produced in whole or in part from such materials or components.

"'(d) Nothing in this section shall limit the authority of the Administrator to adopt standards governing removal of price controls which will result in more expeditious removal of such controls than would be the case under standards established pursuant to this section.'"

Mr. Brown. You did not have a minority report?
Mr. Folsom. No.
Mr. Patman. I think the report is very interesting. It will be very helpful to this committee.

The Chairman. We were glad to have you come.

Mr. Crawford. May we ask some questions?

The Chairman. Yes.

Mr. Crawford. I never had the pleasure of meeting you before. I would like to have the record show, as far as I am concerned, I consider Mr. Edward George one of the best-balanced minds and one of the greatest public servants this country ever produced. I have great confidence in his report.

With whom were you connected before you joined the staff?

Mr. Folsom. I am down here on a part-time basis. I am treasurer of the Eastman Kodak Co.

Mr. Crawford. I notice a great similarity between these recommendations and the one made by the Committee for Economic Development. Do you see that same similarity?

Mr. Folsom. We worked in close touch with the various economies, and in general, I would say that the import was about the same. Our suggestions are quite a little different. On the whole they are the same.
Mr. Crawford. Could you give the committee the benefit of your contacts with your Office of Price Administration staff in the upper level, provided you have had those contacts.

Mr. Folsom. I would like to have Mr. George answer that. Mr. George has done all the work on this. He is the man who contacted all the industry people and the Office of Price Administration. I have talked only casually with some of the Office of Price Administration people myself. I would like to have Mr. George answer that.

Mr. Crawford. What is their reaction to these recommendations, first, as to the law, and second, as to administrative procedure?

Mr. George. Mr. Crawford, the reaction of individuals, of course, varies. I talked with many on a personal basis. It is difficult to translate that into the form of statement that ought to be made to reflect their official points of view. I would say on the whole they do understand the basis of our reasoning. They are not violently opposed to it. They have worries of their own. They do not like to go as far as we have gone. Some things they feel fairly strong opposition to. Others they do not. I do not believe at the present time they would be entirely safe to lift the earning standard as far as we have done.

I think with respect to the decontrol policy they feel we have gone too far. Our feeling was, after our numerous contacts with business, that business was in such a state of mind that one of the most important things that could be done was to give them assurance that there was an exit. We went further in our thinking than the Office of Price Administration is willing to go.

Mr. Crawford. What is the postwar policy of the planning committee with respect to the renewal of the Office of Price Administration if all of these proposals are defeated? In other words, does the committee still stand by the proposal to extend the Office of Price Administration in the event these amendments are not adopted?

Mr. Folsom. The committee recommended the extension of these amendments.

Mr. Worley. We will cross that bridge when we come to it.

Mr. Crawford. That is all right. I wanted to get that in the record. I would like to ask this question. I would like to have both men answer, Mr. Folsom and Mr. George. In your opinion, is there any practical chance for us to balance supply with demand unless recommendations 1, 2, 3, and 4 on page 29 are substantially put into the law?

Mr. Folsom. Do you want to answer the question?

Mr. George. It is difficult to say what the effect of any particular change in the law will have on business psychology. The probabilities are with the present prices and with the kind of markets we have ahead of us that in the main, business will come out all right. In a time such as the present, it is the fringes we have to worry about, and it is business' own feeling about prospects that we have to worry about. Business will feel let down a certain degree. It will feel it is being asked for rewards that are not commensurate with the efforts asked of them.

Mr. Crawford. Suppose citizen A is running a factory and producing an important commodity to our economy, and the present law and the present rules and regulations impose on him a price ceiling which does not permit him to cover his cost. Is there any practical reason why he should bring that production up into balance with demand?
Mr. George. Are you speaking about his total production?

Mr. Crawford. About his total production. It might be brick, for instance. It might be Celotex. It might be doors for houses. It might be overalls for working people, or gloves for working people. In other words, on what practical ground can we stand when we contend that the production of those specific items highly contribute to our economy? Shall it be brought into balance with supply if the Office of Price Administration says, "Thou shalt not have current cost"?

Mr. George. You cannot expect business to produce unless they make money.

Mr. Crawford. I think that is the real issue we are up against. Certainly, I have no objection to the Office of Price Administration being continued provided American economy can live under it. If it is demonstrated American economy cannot live under it, I do not propose to support it. I do not want to destroy the American economy.

What I have been trying to find out in these hearings from men who know production and who know business, is on what grounds have we to assume that we can ever come to a point of decontrol by this formula, which is not so bad, in my opinion, so long as the Office of Price Administration exercises those rules and regulations against which you protest by your recommendations of the basic law?

Mr. Folsom is a practical manufacturer. Would you mind giving us an answer to those questions?

Mr. Folsom. You can get through it some way or other, even if we do not make some change. There is no question but what it is going to slow up production. Right now it is not slowing up over-all production, as you might think, because most companies have such a great demand they can supply the things on which they make the most profit. Before long that is bound to have an effect on other producers, so the accumulative effect would be such that production is bound to slow up.

I am afraid this thing is going to fall of its own weight. That is going to cause trouble. By adopting some reasonable amendments along this line on the important items, you can keep it on a more realistic basis and tend to control inflationary measures until production gets to the point where we will not have to worry about a sharp increase in prices.

Mr. Crawford. From what you said, I think it is fair to reach this conclusion: That is why industry will proceed to produce, by reason of its volume, those things on which it is allowed a profit margin, discontinuing the production of those things on which the cost is not allowed and which are so badly needed by our people, that that operation encourages a new manufacturer to go into the production of the thing which the old manufacturer discontinued, the new manufacturer to impose a much higher price to the consuming public for that which would be produced and sold to the public at a lower price by the old manufacturer. Have you not said that, in substance?

Mr. Folsom. I was not thinking about new manufacturing as much as the fellow who would shift to some other product on which he could make a higher profit.

Mr. Crawford. That is the new manufacturer?

Mr. Folsom. I mean the same manufacturer.

Mr. Crawford. The same manufacturer shifts to a new product?
Mr. Folsom. He will concentrate more on products on which he can make a higher profit, of his old products.

Mr. Crawford. What happens to the product the old manufacturer discontinues making?

Mr. Folsom. That is why we have shortages. The cumulative effect will be bad on the whole economy.

Mr. Crawford. If that operation follows—and the record will certainly show that it has followed—if that operation does follow, it imposes the additional cost on the consuming public, does it not, and it also interferes and dampens down production and holds back the forthcoming of the full supply.

Mr. Folsom. That is the main purpose of these amendments.

Mr. Crawford. It seems to me that we face the proposition of correcting this in an orderly manner or forcing the public to correct it through a disorderly manner through the spread of black markets until finally the Office of Price Administration must cease to operate. Assume that must happen.

Mr. Folsom. There will be a strong tendency in that direction. I do not know how long it will take.

Mr. Crawford. I was interested in your statement, Mr. Folsom, to the effect that the Office of Price Administration could not do this job as far as inflation is concerned, you submitted six recommendations. They had to do with curtailing tax burdens, curtailing expenditures, and creating a surplus. It authorizes the Board to increase Federal Reserve requirements. I think the last was to dampen down spending for public works.

Mr. Folsom. Yes.

Mr. Crawford. How did the committee fail to particularly note or recommend or point out the significance, perhaps the overwhelming significance of placing the commercial banks where they positively cannot purchase Treasury issues.

Mr. Folsom. I did not read the rest. Among others is the composition of bank holdings of Government bonds. We stated in the report, also, the staff is now studying the whole business of financial and fiscal policies. The committee expects to issue a report soon on those subjects.

The committee had reached a conclusion that these six should be adopted. They were going to consider the other measures. We expect to have a report out on that sometime within the next 2 months.

Mr. Crawford. That will necessarily be a part of the financial element which has to do with prevention of inflation.

Mr. Folsom. It is very important. There is no question about that.

Mr. Crawford. If these commercial banks purchase the bonds direct from the Treasury, that is one proposition. If the Treasury says, "We are not going to issue any more," and then refunding issues are put out at a lower rate of interest and the banks are permitted to go into the market and absorb from individual holding corporations, partnerships, and individual citizens, the bonds which they previously had by reason of their carrying a higher rate of interest, it has the same inflationary effect if the bank bought it from the Treasury in the first place. The bonds are going into the bank portfolio. We face the problem of laying down a law to the bank by saying, "Thou shalt not purchase any Government issues and hold them." We may have
to face the proposition of saying to the citizen, "Thou shalt invest your savings in Government bonds, refunding issues, for instance, assuming you are on a balanced budget, instead of going out and buying goods with it, if we intend to prevent inflation."

I want to compliment the committee on pointing out that this is not an Office of Price Administration job. I think you have certainly convinced me that the committee's views are that the Office of Price Administration is just a mere incident to deal with acute shortages.

Mr. Folsom. I think it is very important that we consider that question of the Government bonds. The committee had not taken a position on it. It is important that we try to get bonds in the hands of individuals, rather than in the banks. To do that, you have got to have a higher rate.

Mr. Crawford. Exactly.

Mr. Folsom. I think you had testimony from Mr. Eccles on that same line. You cannot expect individuals to buy them.

Mr. Crawford. On page 30, under item 3, second line, you refer there to recommendation a (3) above. You mean 3 (a) on page 29.

Mr. George. Yes, sir.

Mr. Folsom. Yes.

Mr. George. To act immediately without waiting for extension of the law.

Mr. Crawford. That is all right.

Mr. Brown. We are all agreed that we should have full production. I think every man in business is entitled to a fair profit, especially so in peacetime.

Suppose a mill manufactures only overalls and another mill manufactures overalls and a half dozen other items. What is your formula?

Mr. Folsom. We attempted to cover that in (c) on page 30. You could have a private standard set up for the overall industry. That would apply to the second concern only to his overalls and not the other part of his business. That is being done in some cases now.

Mr. Brown. Is it fair for one manufacturer to make more profit than another on the same product?

Mr. Folsom. No. That would apply only to the overall part.

Mr. Brown. We had some testimony here, a fellow testified he manufactured several building materials. A man like that cannot stay in business.

Mr. Folsom. He should at least get back his total cost on his product. He at least ought to get that back. He makes his over-all profit for the company as a whole.

Mr. Brown. But the brick man has to raise his price to keep him in business.

Mr. Folsom. Do you want to comment on that?

Mr. Brown. We want that right.

Mr. Folsom. I do not see how you can set two prices.

Mr. Brown. That is right.

Mr. George. You can set two prices if you make allowance for the recovery of the complete cost by an individual manufacturer, provided the item is low. I cannot have complete equity all over the country as long as you have price control. As Mr. Folsom said, that is one of the reasons for wanting to get rid of it as soon as possible. If you can segregate industries as narrowly as possible with homoge-
neous groups of production so you have some ordinary data as to what the costs are, you can isolate situations like that and approach equity a little more closely, I think, than if you simply use broad categories and let every product make its way as best it can under a canopy of general big profit.

Mr. Brown. I want these people, all of them, to stay in business. I know production is the main weapon against inflation.

Mr. George. What we have tried to do is to find the best dividing line we can between the conditions that necessitate an objectionable control of this sort at all. There is such extreme inequity that the cost of preventing inflation is unbearable. We must find the compromise between those. These amendments in the aggregate try to do that. We try to acquire equity without risking the undermining of the system entirely. There is going to be an equity left.

I said to our committee, and they agree, as long as we have some price control, some inequity will remain, or it will not be effective.

Mr. Brown. There was a ceiling put on textile items. If they intended to put ceiling on textile items that does not reflect cost of cotton at the mill, you are going to put the millman out of business. That is why so many people are slowing down. What is your solution to that? Producers are storing goods. What is your solution?

These people are entitled, certainly, to the cost of the product. That is one way they hold down the cost of cotton. It is true the ceiling was increased. The ceiling was increased just a fraction. Instead of satisfying the people—it did not satisfy anyone. If you are going to raise the ceiling, raise it high enough to get a fair profit. If you do not do that, you are not going to get the goods. Do you agree with me?

Mr. George. I do in the main. It is difficult to apply general considerations that were made up with regard to operation in many, many diverse situations to a particular one and say, "Yes, this is it." I do think that in the main the thoughts and the purposes that underlie our amendments are in general agreement with the ideas you have been expressing.

Mr. Brown. Another thing, when demand is met by production, ceilings ought to be taken off. I think the psychology of that is all right. We expect to get rid of all ceilings as soon as production approaches demand. We should have controls on scarce articles. Do you agree with me?

Mr. George. Yes. Most of our recommendations are in the direction of your suggestions. As I said before, in the application of individual situations you have to sit across the table and find out where they match.

Mr. Brown. The thing that bothers me is how we are going to protect all these high-cost producers. We need all the producers we can get. I have thought about it for months. We cannot have two prices.

Miss Sumner. Did you read the housing reports, or did you know about Mr. Collet's plan by which he agreed to release price ceilings within a certain 3-month period, providing the industry produces sufficient goods within that time. Are you familiar with those programs he had with respect to the materials producers?

Mr. George. I have heard many suggestions of that sort. I do not know whether I have the ones in mind you are referring to.
Miss Sumner. May I suggest you look into those. It seems to me that the situation is very much like the one you have described here. It is in effect the same program. He offered a premium on price when the industry as a whole would reach a certain production by that time. I believe it was the clay people, the brick people and different ones came in here tearing their hair because obviously that put them in a situation with the conscientious people. People who were not too conscientious held produce and the others waited for their time when they were under control. Nobody got the premium.

Your problem is essentially the same. It would get the same kind of a reception from industry. Nobody is going to want that kind of a control.

Mr. George. There is one solid thought that lies behind that proposal. That is to provide incentive that industry understands.

Miss Sumner. Industry understood that; also the way to get around it.

Mr. George. I mean you should set up a goal. There should be a reasonable chance of satisfying the people within a reasonable length of time. They must have a goal they can meet that will exempt them from price control.

Miss Sumner. Where is your program a departure from that? It is a decomposed program.

Mr. Folsom. You have got to check your inventory to be sure no one is holding goods back from the market.

Miss Sumner. What kind of a program is it that makes industry produce. We have not got the kind of country where we make anybody produce.

Mr. Folsom. Here you set the goal; when you reach those goals, you decontrol. We think that in itself will give incentive to industry to try to achieve maximum production. In order to reach that level, industry has to produce.

Miss Sumner. What different incentive have you to give when Judge Collet promised them a price increase at the end of 3 months? The incentive is the same. He offered a price increase.

Mr. Folsom. If the manufacturer can make a reasonable profit, he has all the incentive he needs to produce. In order to correct the situation—

Miss Sumner. You mean in your other provision where you give him his cost? Here again, Congress never intended to deprive a man of some kind of profit. So, in effect, when you write another law saying we are not depriving you of some kind of profit, you figure as long as you have the Office of Price Administration misconstruing laws—I do not see where the industry is given any more to hope than it has today.

Mr. Folsom. We think it would.

Miss Sumner. What do you think is going to reform the Office of Price Administration personnel in the meantime? You cannot do it by law. You know yourself the thing that is preventing reconversion in industry is the book provision that prevents your changing book procedures in the past. They interpret it to say, “regardless of the fact this says we cannot change bookkeeping procedures, Congress intended to leave discretion” is an absolute contradiction. Is that not right?
Mr. Folsom. If you go to the current cost, you get rid of all those difficulties. You take current cost instead of the estimated cost; you get rid of a lot of those difficulties. But the one point I want to get, you indicated that if we adopt this formula, some people would hold back production so when price controls went off they would get a much higher price and therefore profit by it.

We say in here, if you adopt this formula, you have got to protect against accumulating inventories so one manufacturer will not be building up an inventory and holding it to take advantage of the price increase. The inventory at the end of your period must be the same as the beginning of the period.

Miss Sumner. I just heard of it when you first read it. It strikes me that we decided it was a usury proposition the way you stated it.

Mr. Folsom. I did not want to go into too much detail.

Mr. Buffett. Miss Sumner, do you yield?

Miss Sumner. I do not think we are permitted to, I want to ask you this: You were on the committee when they made this report on foreign lending, were you not?

Mr. Folsom. Yes.

Miss Sumner. You advocated Bretton Woods and continuing loans to foreign countries, did you not?

Mr. Folsom. The committee made definite recommendations. We stated certain conditions should be met if loans were made.

Miss Sumner. In other words, as I recall that report, it would be a situation where we would not only be getting Bretton Woods money, but we would be financing continuous loans to foreign governments.

Mr. Folsom. Under certain conditions.

Miss Sumner. This Bretton Woods money starts coming in here pretty soon.

Mr. Folsom. I do not think it is soon.

Miss Sumner. In your plans, when do you estimate this money starts coming in here?

Mr. Folsom. We did not go into Bretton Woods thoroughly. In making your report on this decontrol program, you thought something about Bretton Woods money and this export-import percent of dollars coming in.

Mr. Folsom. We considered what effect foreign buying is going to have.

Miss Sumner. Did you not give any consideration to stopping that money until goods came into plentiful supply so we could get decontrol and start into production before we let those dollars come in like locusts?

Mr. Folsom. The committee has not taken a position on this. I do not see how you can adopt a policy of doing no export business at all. That would be the equivalent of what I say.

Miss Sumner. You have not suggested putting any——

Mr. Folsom. Those products we have an over supply of, like machine tools, much of the money is going to be spent on items we have a plentiful supply of.

Miss Sumner. You have not put any control on those dollars to say what they will buy. You do not know whether they might buy nylons or white shirts.
Mr. Folsom. If we continue export controls under the War Powers Act—
Miss Sumner. Do they prevent scarce goods going out? I understand enough lumber to build 6,000 houses was exported. You do not advocate any limit on those dollars, what they are going to buy here? You did not mention in this report.
Mr. Folsom. We have not gone into the question of foreign loans.
Miss Sumner. Do you not think it is concerned?
Mr. Folsom. It is a pretty small percentage of the total business.
Miss Sumner. How many billion dollars do you expect to come in?
Mr. Folsom. It depends on whether the British loan goes through, primarily. It will be some time before the Bretton Woods money will be spent. The bank has not been set up. The loans have not been made. The Export-Import—
Miss Sumner. How much time do you think it will take?
Mr. Folsom. I am not qualified to testify. About two years.
Miss Sumner. You did not try to connect foreign export and the Office of Price Administration?
Mr. Folsom. No. We cannot say we are going to cut out export business.
Miss Sumner. Until this year, we have had freedom to produce what the people wanted at the price they wanted to pay. The situation changes under the Office of Price Administration.
Mr. Folsom. I do not think it would be a good policy of this country to stop export business. These countries now are not in the position to buy unless we make loans to them. If we expect to build up any postwar foreign trade at all, if we came out and said, "We are not going to let you buy anything over here," it would mean the business concerns would be losing their foreign market.
Miss Sumner. We are losing their domestic market.
Mr. Folsom. Business failures are the lowest they have ever been now.
Miss Sumner. They do not count mergers as business failures. They call that success.
The Chairman. Any further questions?
Mr. Kunkel. The questions Mr. Brown asked suggested the thought to me, you have not referred to subsidies in this report. Why did you not solve all these problems of getting increased production by the use of subsidies?
Mr. Folsom. The committee did not go into the question of subsidies. I submit I took no position. It is something that should be studied. We have not done it.
Mr. Kunkel. Neither the committee nor the staff?
Mr. Folsom. Mr. George has gone into that; we have not reached any conclusion.
Do you want to comment?
Mr. George. I am embarrassed by the question, probably because it is not separable from this problem. Subsidies fell by the wayside.
Mr. Kunkel. You spoke about there being an overproduction of machine tools. You mean there is an excess capacity existing?
Mr. Folsom. There is excess capacity.
Mr. George. Purpose tools.
Mr. Kunkel. That is all, Mr. Chairman.
The Chairman. Further questions?

Mr. Kilburn. I am wondering if your committee—when these hearings started, I was for the continuation of the Office of Price Administration myself. I did not know any better. We have had witnesses testifying, industry after industry testifying as long as the Office of Price Administration was in existence their production was going down. As a result of that, a year from now, many of them testified, that there would be more need for price control. In fact, one industry said they would have to be on for 10 years.

I am wondering if your committee considered that question.

Mr. Folsom. Over-all figures do not bear that out. There might be a tendency in that direction, but over-all, the figures do not indicate there has been that condition.

Mr. Kilburn. One lumber man only has 26 mills operating. He had 75.

Mr. Folsom. That is why we are recommending these changes. Production will slow up.

Mr. Kilburn. Does your committee think that whenever the Office of Price Administration is discontinued that there will be an impact of rise of prices?

Mr. Folsom. We suggest that it would be better for the whole economy if you adopt a decontrol policy under which you can release these controls gradually. If you wait and hold all of them until June 30 and cut them short, you might have a short increase. Coming over a period of time, it might not be so great. You will find it in the appendix of this report. We found quite a wide variation. On the whole, they were not more than 10 or 15 percent.

Mr. Kilburn. Yesterday we had petroleum people here. They testified they have the biggest supply of petroleum, but the Office of Price Administration will not release it.

Mr. Folsom. I do not know a thing about the petroleum situation. That is what we had in mind in the decontrol formula. The Office of War Mobilization and Reconversion would get together with that industry. If the industry shows them that is so, the control should go off. If you adopt this formula, they would have to do it.

Mr. Kilburn. It looks as if the Office of Price Administration will never give up any controls of their own volition.

Mr. Wolcott. If you start off by saying price controls shall come off any commodity on which there was a surplus, then that would take care of itself.

Mr. Folsom. They would have to go through the mechanics of getting in touch with the industry and stating that.

Mr. Wolcott. In answer to what Miss Sumner was fearing, there probably should be a provision that the burden of proof is on the Office of Price Administration to prove that production had not increased to the point that there are surpluses. We could very well follow through and make a defense for any suit of damages that production had increased at any point. The Office of Price Administration would be forced to take away the enforcement machinery after production of the commodity had reached a surplus point.

The Chairman. Any further questions?

Mr. Folger. I do not know whether Mr. Folsom—I do not remember whether I understood you correctly. I will ask you two questions.
Is it the report of the committee, or your personal opinion that controls should be eliminated when production comes into balance with demand.

Mr. Folsom. We say they ought to be eliminated before that point is reached.

Mr. Folger. I understood you to go further.

Mr. Folsom. You ought to get rid of the control when you reach the acute demand.

Mr. Folger. I think I understand what you mean.

Mr. George. It is when the edge is taken off competitive buying.

Mr. Folsom. What we are trying to do is replace a normal competitive situation by this control, because the normal competitive situation has been upset by abnormal conditions.

Mr. Folger. Would you ever get production equal to demand if you were hindered by the controls that kept down the production and the suggestion you made was “acute”?

Mrs. Woodhouse. I understand that the immediate effect of these policies would be to increase prices somewhat, probably. Has your staff made any estimates as to about how much the cost of living might go up, say in 6 months after these policies were adopted? I can see the point of presentation from business very well.

Mr. Folsom. I personally think it would be very slight, because many of these items are not important items. Probably a lot of them would not be passed on all the way down the line. On the other hand, you must realize there is bound to be an increase in prices next year, primarily due to the increase in wages, and regardless of whether we have these or not, you are going to have an increase in prices.

Mrs. Woodhouse. That is exactly my point. How are we going to prevent, when these prices are going up, the cost of living goes up, and then wages go up? Where are we going to cut it off, as it were, and stop it?

Mr. Folsom. You have to adopt these other measures. These other measures are probably more important than the Office of Price Administration.

Mrs. Woodhouse. I do not think anything you mention takes care of our wage question.

Mr. Folsom. We have not gone into the question of wage controls at all.

Mr. Woodhouse. From the point of the consumer, the cost-of-living question is very important.

Mr. George. These are fairly well guarded. The effort has been to come down full force on the areas of the most critical difficulty rather to insure profits and price increases generally along the line. In the case of low-end goods, which are an important item to the majority of consumers, we grant increases, but only on the reasoning that low-cost goods at a slightly higher price are still more economical than much more expensive goods they cannot afford. On other items we have been more careful. It amounts to a guaranty. In those cases we restrict the scope of the guaranty to recovery cost.

Some products eventually important do not fall by the wayside in this disturbed period of transition. We tried to strike a balance as well as we could between the necessities of consumers and enterprise.

Mrs. Woodhouse. I can see the increase to manufacturers very
clearly. We have to give that. The retailers have not been selling these goods. If the dollar falls, it will put up the price.

Mr. George. It is the same amount. It is not put up twice.

Mrs. Woodhouse. It passes through pyramids.

Mr. George. Sometimes these margins as cost creep up on the operators and the Office of Price Administration cannot keep pace, and those margins get pretty tight. I think that the Office of Price Administration would be willing to concede that. In many of these cases the percentage margin should be allowed on the amount of increase.

Mrs. Woodhouse. I can see that on the manufacturing end. I could not see your point as regards the retail.

Mr. George. The cost is still increasing.

Mrs. Woodhouse. I am not sure you can say that the per-unit cost is going down.

Mr. George. Do not know the answer accurately as to that as of this moment. The volume is increasing. There is a point of diminishing return and besides that, the rates are going up steadily in retail. They have not yet returned to the levels of prewar, but they are above the low points reached during the war. There is a reverse trend that is now evidenced.

Mrs. Woodhouse. I think you have a nice point there. It is convenient to have these services. They make department costs heavy.

Mr. George. I would not attempt to revise the retailers as to the kind of expenditures they should incur. Low end items cannot amount to substantial volumes. We tried to identify the major areas of difficulty. This was one. Any correction at any point is going to cost something. It is simply a question as to whether the cost is as important as the benefit. In this case we believe that the acceleration of production was more important than such cost as you mentioned within an identified area.

Mrs. Woodhouse. Thank you, Mr. Spence.

Mr. Talle. Is it the opinion that demand is something that is fixed and that all you have to do is lift production to that point?

Mr. George. It depends on what people you know and talk to. In my world I would not run across many opinions of that sort. Demand obviously is not fixed. It is responsive to many things.

Mr. Talle. Therefore, the sensitive element is pretty important, because in a free market, the function of market price is to equilibrate supply and demand. Your subsidy brings something into price that you do not have in free markets. It disturbs the situation. I gather that your committee had something like that in mind when you said you would decontrol at some point where acute demand is taken off.

Mr. George. That was our thought. You mean with reference to subsidies?

Mr. Talle. No. The statement you made a moment ago, that you would take off controls when acute demand had been satisfied. The individual is often forced to revise his buying schedule and to get along without some things he would like to have and cannot afford. If we were to wait for a point where demand and supply are in nice balance, we certainly would never reach it, not with all these unnatural things entering into the pricing.

Mr. George. We might reach it eventually. It will not be static.

Mr. Talle. Certainly; the shift is very rapid in an organized market like the stock exchange.
Mr. George. It is perfectly true that the satisfaction of demand will generate more demand. There is another reason we felt it would be unwise to insist upon a full equivalence of demand and supply before we released the control. It must not be forgotten a chance has been taken. It gives us qualms sometimes. It is not a clear and easy solution. Men can come forward; they can make a good case against it. They thought it was better to give business a sure answer it would not permanently be in a strait-jacket.

Mr. Talle. It is a chance you have got to take in the hope of getting back to the kind of economy we call free enterprise.

Mr. Kilburn. How do you tell when acute demand has been satisfied?

Mr. George. You cannot tell.

Mr. Kilburn. I do not think the Office of Price Administration knows that.

Mr. George. When we first talked this thing over, the question would come up. I only have one answer: less than the equivalent of supply and demand. It means more than a prewar rate. That has no relation to current levels of demand.

Mr. Talle. I am certainly grateful to you, gentlemen, for the work you are doing. It is a service to the American people. It is a service to the world. If free enterprise does not survive here, it is a dead cinch it is not going to prosper anywhere else.

The Chairman. I speak the sentiments of the committee that we thank you, Mr. Folsom and Mr. George for your testimony. You have made a long, intensive, and conscientious study.

Mr. Worley. We appreciate the fine reception we have received here. I would like to say, Mr. Crawford, that I had no intention of giving you a short answer when I said we will cross the bridge when we come to it. We do believe that the recommendations we have made will certainly go a long way toward getting us back to what we call a free enterprise system in the old American way of life.

The Chairman. The committee will adjourn until 2 o’clock this afternoon. We will hear other witnesses this afternoon.

(Whereupon, at 12:30 p.m., the hearing recessed, to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

The Chairman. The committee will be in order.

This afternoon we are giving the members of Congress an opportunity to testify with respect to the Office of Price Administration. The clerk will call the names of the members who have requested to be heard.

The Clerk. The first witness will be Mr. Sumners of Texas.

The Chairman. Mr. Sumners.

STATEMENT OF HON. HATTON W. SUMNERS, REPRESENTATIVE FROM THE STATE OF TEXAS

Mr. Sumners. Mr. Chairman, I appreciate the difficulties under which this committee is laboring. I appear briefly, with your permission, to suggest lessening of the discretion of the administrative agencies, if it can be worked out by your committee, especially in dealing with the rent that is allowed to small property owners.
I will illustrate what I have in mind. A woman in my city bought a 5-room brick-veneered house for $6,150. She rented this property for $60 a month, which, considering the cost of her property, cost of maintenance, I think anybody would say was a fair rental. The administrative agency allows her $45 a month for this $6,000 piece of property.

Insofar as I know—and I believe it is so—that is the only property she has, and it is about half paid for. And this woman is sick. The explanation which these people give for cutting this rent from the rent she had been able to get by contract was that they had examined comparable property in the neighborhood and found that in 1942—which was a time when there were a good many vacancies in that community—rental was from $40 to $50 a month. So they cut it in half and made it $45 a month, and that woman, with this property being all she has, and it is not paid for, has no recourse.

I can appreciate the difficulty, but that sort of conduct is building up an attitude of indignation and resentment, not only against that agency, but against, I am sorry to say, the whole organization of the Government. And these people do not seem to have sense enough to exercise proper discretion in matters of that sort. It does not seem that they can be trusted with the exercise of that discretion. I do not know what is to be done about it. I do not know whether you can draft legislation to take care of situations of that sort, but from the standpoint of justice to the people, and I believe from the standpoint of the exercise of a power that may be necessary for a good while, if it can be done, it ought to be done.

It imperils private ownership. It is creating all sorts of resentment throughout the country, and, as I have indicated, if the thing continues, we are going to have a pressure from our constituencies that is going to wipe out the Office of Price Administration, and possibly it could easily, as you gentlemen are aware, cause a run-away market and possibly a reaction, and reestablishment for a longer period of time than otherwise would be required.

I have some familiarity with the subject. I know you are very busy and there are other Members of Congress to be heard. But if there is any information I can give the committee, I will be glad to be of service. I know you have heard from a great many people.

The CHAIRMAN. That is an administrative matter which is rather difficult.

Mr. SUMNERS. It is tremendously difficult to guide administrative discussion, is it not?

The CHAIRMAN. I am sure the committee will give consideration to your views, Congressman.

Mr. CRAWFORD. Mr. Chairman, I have a question I would like to ask Judge Sumners.

The CHAIRMAN. Mr. Crawford.

Mr. CRAWFORD. You made a remark there about resentment growing up in the country.

Mr. SUMNERS. Yes. It is not good, and should be avoided.

Mr. CRAWFORD. Do you not think we had better correct some of this through orderly processes, or leave it to the people to make the correction through disorderly processes?
Mr. Sumners. Of course, the answer is very obvious. If you can do it, it ought to be done, and it ought to be done here, if you can do it.

Mr. Crawford. Well, you have been here long enough to know that we can do it here, if we want to do it.

Mr. Sumners. Well, I hope you can do it, because it is developing disregard for the authority of the Government.

Mr. Crawford. That is what I mean by disorderly processes.

Mr. Sumners. Producing what you would term, in general terms, black market activities, and a lack of support of the administrative processes, which makes it very difficult.

Thank you very much, Mr. Chairman.

The Chairman. Thank you.

Call the next witness, Mr. Clerk.

The Clerk. Mr. Lewis of Ohio.

(No response.)

The Clerk. He is not here just now.

Mr. Dirksen, of Illinois.

STATEMENT OF HON. EVERETT M. DIRKSEN, REPRESENTATIVE FROM THE STATE OF ILLINOIS

Mr. Dirksen. Mr. Chairman, I do appreciate the opportunity to come back to the committee on which I once had the honor to serve. I presume the committee has heard just about every argument on price control, both for and against, that probably could be advanced. But my primary purpose in coming here today is to get on the record with a series of amendments which, Mr. Chairman, I would like to have the privilege of including in your hearings.

I am quite familiar with the fact that oftentimes when argument has not been advanced in committee, it does not come with the best of grace on the floor of the House. So I thought I should indicate to the committee some of the amendments in which I am interested and which I possibly might want to offer on the floor at some time in more refined fashion than I have them spelled out here.

The first course would be to modify section 1 of title I of the bill. I do believe that the language ought to be modified in such sense that the emphasis ought to be placed on production, and probably some other objectives ought to be recited there. It does not require, necessarily, a tremendous modification, but I do believe that some emphasis ought to be placed on the whole question of production, so I have made a modification or change of section 1 of title I, and I will not burden the committee with reading it at the present time, but will submit a copy for the record.

The Chairman. That may be inserted in the record.

(Amendment to Title I)

Strike out all of section 1 of title I of the act of January 30, 1942, and insert the following:

"(a) It is hereby declared necessary to check inflation; to expedite the reconversion process; to stimulate maximum production of all goods and commodities; to facilitate demobilization, the retooling of industry and the recovery of an unrestricted free market; to bring about a price balance at the earliest possible
date whereby prices will accurately and honestly reflect the supply and demand condition with respect to all goods and commodities; to prevent speculative, unwarranted and abnormal increases in certain prices and rents; to eliminate and prevent profiteering, hoarding, manipulation and other disruptive practices; to protect persons with relatively fixed and limited incomes, consumers, wage earners, investors and persons dependent on life insurance, annuities and pensions against unfair and inequitable prices; to prevent hardship on persons engaged in business; to protect schools, universities and other institutions; to prevent a postwar collapse of values; to stabilize agriculture prices at fair and equitable levels; and provide for fair and equitable prices on a selected list of commodities which comprise the principal factors in the cost of living index for a temporary period until the decontrol of such prices can be effectuated in accordance with a decontrol formula as defined in this Act.

"(b) The provisions of this Act and all regulations, orders, price schedules and requirements thereunder shall terminate on June 30, 1947, or such earlier date as determined by the decontrol formula hereinafter set forth in this Act or by a concurrent resolution of the two Houses of Congress declaring that a further continuance of the authority granted by this Act is no longer necessary; except that as to offenses committed or rights or liabilities incurred prior to such termination date the provisions of this Act and such regulations, orders, 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) The provisions of this Act shall be applicable to the United States, its territories and possessions and the District of Columbia."

Mr. Dirksen. Now, I presume there must be dozens of amendments dealing with price ceilings, and I do want to offer an amendment for the consideration of the committee that will deal with this point.

It shall be the function and duty of the Administrator not only to protect the public against unfair and inequitable prices, but to encourage the maximum production of commodities and goods to which this Act may be applicable, to effectuate maximum production of such goods and commodities; the Administrator shall establish no price or price ceiling which does not reflect all current costs, which may be reasonably applied to each item, together with a margin of profit which reflects not less than the generally prevailing margin of profit for each such item during the calendar year 1941.

That follows, to some extent, I think, the language that was carried in the Patman Housing Act, and I believe it is reasonably sound. There may be some quarrel, of course, about the base year you pick out. But I would like to submit that for the record, Mr. Chairman, if you do not mind, so that it will have proper attention when the bill gets to the floor.

No. 3. I would like to submit to the attention of the committee what I regard as a so-called decontrol formula that I do believe ought to be written into the act. It reads as follows:

Whenever the production of any article or commodity to which this Act is applicable equals or exceeds by volume, for any quarterly period, the production of such article or commodity produced in the comparable quarter of the calendar year 1941, as determined by the Department of Commerce, all prices, price controls, price ceilings, and all rules, regulations, orders, and directives relating to such article or commodity, shall be fully and unconditionally removed not later than 30 days from the date that the Department of Commerce has certified to the Administrator that such volume has been produced. The Department of Commerce shall, at the close of each regular quarterly period, make an immediate and expeditious survey of production of all goods and commodities to which this Act is applicable, and certify to the Administrator forthwith the volume of production of such goods and articles, and whether the production thereof equals or exceeds the production of such goods or commodities for the comparable quarter of the calendar year 1941.

Now, I recognize, of course, that that is subject to modification. You could put it on a monthly basis rather than quarterly basis, but
I do believe it spells out a design for a statutory decontrol formula that is based upon production rather than upon supply and demand. If you are going to condition it on supply and demand, obviously the more goods that are exported from the country, the more this disparity or this unbalance develops, and the only thing I can see as a proper predicate or proper basis for a decontrol formula would be on the basis of production as compared with some anterior year.

Now, Mr. Chairman, amendment No. 4 deals with the progressive liquidation of the Office of Price Administration. It has been my experience over a long period of years on the House Appropriations Committee, that when you get up to the point where you are going to liquidate an agency, you suddenly find yourself up against the termination date, with the agency and all its facilities intact, and when that time comes, obviously you have real difficulty in bringing to a termination its functions.

In the case of the Office of Price Administration the last word we had before the Appropriations Committee recently, in connection with an urgent deficiency appropriation bill, was that with the urgent deficiency that we allowed, and it passed the House yesterday afternoon, that they will have approximately 33,000 people on the pay roll. If you continue the agency and you get up to June 30, 1947, or any other date that the committee and the House finally determine, here is a huge agency, and it is not so easy to liquidate them overnight. So here is the language, Mr. Chairman, I propose for progressive liquidation:

It will be an addition to section 2, paragraph O.

It shall be the duty of the Administrator to gradually eliminate all prices and price controls upon all goods and commodities, to which this Act is applicable, and to liquidate all functions and duties exercised by the Office of Price Administration so as to bring about the complete termination of such prices, price ceilings, and controls, not later than June 30, 1947.

The Administrator shall submit to Congress within 15 days after the elapse of each calendar month, during the effective period of this Act, a complete and detailed report, setting forth the progress made in pursuance of this subsection, the specific items on which prices, price ceilings and controls have been terminated, and the reduction in personnel as a result of such termination.

And, with the indulgence of the committee, I would like to have that inserted in the hearings.

The CHAIRMAN. Without objection, that may be inserted.

Mr. DIRKSEN. The next amendment deals with unemployment estimates.

It is rather interesting that the Department of Labor, the Stabilizer, and the Administrator of Price Controls made such a glaring error in their estimates of unemployment as of now, and even in an anterior date, and subsequent date. And it was on the basis of those mistaken estimates that of course, we followed the wrong line. Now, in my judgment, it is not the business of the Administrator of the Office of Price Administration to get out any unemployment statistics and if it is, I think they ought to be broken down so that they are intelligible, and that we might know what the method of computation is.

So I would suggest, Mr. Chairman, as an addition to section 2, paragraph P, this language:

The Administrator is expressly prohibited from publishing, releasing, or issuing any estimates of unemployment, unless such estimates specify each of the industrial areas of the United States, the number of persons estimated to be
unemployed in each such area, and the method by which such estimates or computations were prepared, and the exact date thereof.

The next proposal, Mr. Chairman, relates to court review. The committee probably knows that I had something to do with a court review amendment on other occasions. It was adopted by the House and was deleted in the Senate, and was left out of the bill in conference.

I would go further, I think, in the matter of court review than I did heretofore. I would strike out all of section 204 of existing law, and would substitute the following language:

Any person who is aggrieved by any action taken pursuant to any regulation or order issued under the authority of this Act may petition the district court of the district in which he resides or has his place of business for a review of such action, and such district court shall have jurisdiction to enjoin or set aside in whole or in part such action or dismiss the petition.

That is the exact language of the Patman housing bill with the exception of the last sentence, as it relates to court review.

Now, I would add, in the matter of enforcement, still another item to section 204, which would read somewhat as follows:

The Administrator shall take no action in law or equity against any person alleged to have violated any of the provisions of this Act unless the Administrator or any person designated by him shall have first confronted the person so charged with a full and complete statement of all facts and figures relating to such alleged violation, and an administrative determination has been made as to whether the alleged violation did occur and was willful, and whether the nature and degree of such alleged violation was such as to reasonably warrant legal or equitable action.

Mr. Chairman, if you will indulge me for just a moment, I will give you the background and the basis for that provision.

I do not know whether you are familiar with a speech that was made by the Honorable Scott Lucas, a Senator from Illinois, on the 26th day of February 1946. But there he took probably 40 or 50 minutes to direct the Senate's attention to the fact that on November 26 a directive had been issued by the Office of Price Administration, which is truly one of the most astonishing things I have ever read.

I will only quote the salient portions of it, but, by way of testimony to this memorandum, we were considering the deficiency appropriation bill at that time in the subcommittee, and it had gone to the Senate. The Senate cut the amount in two and reduced it from $1,854,000 to $927,000.

When Senator Lucas' remarks appeared, Mr. Porter, the Administrator of the Office of Price Administration, was very properly apprehensive about that appropriation, and so on the 5th day of March 1946, he sent me a letter and I quote this sentence—it relates, of course, to the remarks made by Senator Lucas—

Upon reading his remarks in the Congressional Record, I was satisfied that there was much justice in his criticism.

Now, with respect to this directive that was issued on November 26, 1945, just a few excerpts.

This, mind you, is a directive that went to all the field offices.

Prompt action must be taken on every report submitted from the field.

Treble damage, open-end complaints should be filed within 48 hours of the investigation as indicated by our publicity.

The newspapers should be advised daily of the names of the defendants and nature of the violations.
The attorneys should prepare in mimeograph form complaints, a safe number to reproduce the sum of the number of investigators, multiplied by 180. Attorneys should postpone all conferences with violators until after the suit is filed. Prior notice to retailers of the filing of the suit is not necessary and not recommended.

I am reading from one of the directives of the Office of Price Administration dated November 26, 1945.

Now, to continue:

There is no need to rush into early adjustment of the case. The basis for adjustment should be a certified self-audit, covering all categories under Maximum Price Regulation 580 and Maximum Price Regulation 330, sold by the retailer, during the period October 1 to 15, 1945, inclusive, for $1 or more. This finding should then be projected for a 12-month period from May 15, 1945, for Maximum Price Regulation 580.

That is the basis upon which, without legal action, they undertake to assess the damage that was done by a retailer.

Settlement may be made for this amount, that is, single damages, but the case may not be settled for less than single without prior approval of the regional office. Please note, no cases may be settled by office conferences. Suits must be filed in each instance.

Since our drive can reach only a minute proportion of retailers subject to Maximum Price Regulation 330 and Maximum Price Regulation 580, our prime purpose is to file a great number of lawsuits, so that the attendant publicity will effectually strengthen future compliance.

That is just a portion of this directive that was issued on November 26, 1945.

It seems to me it becomes our responsibility, then, to protect the citizens of this country by a proper review, and by proper restrictions written in the statute itself.

And so that accounts, then, for the last portion of this suggested amendment, with respect to violations and whether or not an American citizen shall have a decent show for his money before he is called into court.

Now, Mr. Chairman, I have another amendment here that relates to rents and reads as follows:

Any owner of real estate which is subject to price control, who claims that the rental of the same, as the rent ceilings fixed by law, will not produce a reasonable income upon the value of such real estate or the portion thereof used in the production of such income, may petition the Administrator to adjust the maximum rent ceiling applicable to his housing accommodation. The Administrator shall investigate or cause to be investigated the facts with respect to such situation, and shall give the petitioner an opportunity for a hearing and for submission of evidence, and shall enter an order prescribing a maximum rent ceiling for such housing accommodation, in an amount so as to permit a gross rental which, after payment of taxes and other reasonable costs of ownership, management, and operation, including depreciation and an allowance for vacancy, will provide a net return which is reasonable upon the value of such property or so much thereof as may be used in the production of such income.

Those are, in the main, Mr. Chairman, the amendments that I propose to refine and offer on the floor, but I offer them here for the consideration of the committee, and then, in addition, there are two other items to which I want to give some attention when the bill is up for consideration.

One deals with the maximum average price and the other with a prohibition upon cost absorption.
I came here only for the purpose of making the record this afternoon. So that I would not be foreclosed in court. I thank the committee for its indulgence.

Mr. Crawford. Mr. Chairman.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Dirksen, this matter of the directive that was referred to by the Senator, that was a directive issued by the Office of Price Administration to the field personnel; is that right?

Mr. Dirksen. That is correct.

Mr. Crawford. I have not seen that. Do you interpret that to mean that the publicity and stigmatization against the private citizens, carrying out the Office of Price Administration’s directives, occurs before the citizen knows what he is charged with?

Mr. Dirksen. It speaks for itself, because it says: “Office conferences should in no case be held and are not recommended.” In other words, sue him first, and put the tag on him, and then perhaps talk to him at some later period.

Mr. Crawford. Have you carried that far enough to find out that the private banking accounts in our commercial banks may also become involved in that procedure?

Mr. Dirksen. They probably could, if it is carried far enough.

Mr. Crawford. I refer you to the Wisconsin case, which has appeared in the reports, where the courts have held that the Office of Price Administration may force the bank officials to divulge to the Office of Price Administration private banking account transactions of the citizen before a case is filed against him. Before a case is filed, I said, which is a further injection of this principle of dealing with the citizen before he knows what he is charged with.

Mr. Dirksen. It is entirely possible.

Mr. Crawford. I understand that the attorney who handled the case has applied to this committee, upon some two or three or more occasions, for a chance to come here and inform us of what actually happened. I do not know whether he is going to be heard or not. But it affects every bank in the United States, probably a hundred million dollars of deposits, and I think the committee should hear the case, because I do not believe that we want the Office of Price Administration to proceed thus.

Mr. Dirksen. I might add, Mr. Chairman, that this matter of enforcement has provoked so much interest out home that finally warrants were issued for two Office of Price Administration investigators by the States attorney of Fulton County, which is in the congressional district represented by the Honorable Robert Chipfield, and they were finally released from jail on a habeas corpus proceeding and the matter has stirred no end of controversy out there. It has become extremely interesting and quite a cause celebre. It has not been fully adjudicated as yet, but I think Mr. Patman is familiar with what has happened, because the local papers in Peoria carried the information that possibly our distinguished colleague from Texas might come out there and sit in on the case and get first-hand knowledge of what it is all about.

Mr. Patman. I did not say a word about it.

Mr. Dirksen. That is right. I am telling you only what has appeared out in the papers in Peoria.
Mr. Patman. They just sent me a wire and asked me if I would come. I did not even answer the wire.

Mr. Dirksen. That is maybe correct.

Mr. Crawford. What is your amendment No. 3?

Mr. Dirksen. That is the decontrol formula.

Mr. Crawford. Are you familiar with the decontrol formula which appears in the House Committee on Postwar Economic Policy and Planning report?

Mr. Dirksen. I have not examined it.

Mr. Crawford. It was presented this morning. I wish you would take the time to read their formula and compare it with yours before your amendment is offered on the floor.

Mr. Dirksen. I have no pride of authorship about it. It is just a case of developing something that is workable and feasible.

Mr. Crawford. That is all I am interested in.

Mr. Dirksen. Yes.

Mr. Chairman, will you indulge me just 1 minute more?

The Chairman. Yes.

Mr. Dirksen. In connection with court review, I want to read into the record what Justice Roberts said in his dissenting opinion in the Jakas case in the October term, 1943, Supreme Court of the United States. Probably the committee is familiar with it, but I would like to have it appear as a part of my remarks, and I am reading now from the dissenting opinion of Justice Roberts, page 458:

When these cumulative burdens placed upon the protestant who seeks review are fairly appraised, it becomes apparent that he must carry an insupportable load, and that, in truth, the court review is a solemn farce in which the Emergency Court of Appeals, and this court, on certiorari, must go through a series of motions which look like judicial review, but, in fact, are nothing but a catalog of reasons why, under the scheme of the act, the courts are unable to say that the Administrator has exceeded the discretion vested in him.

There is a great jurist who calls it a "solemn farce," and it becomes the responsibility, I think, of the legislative branch to see that that sort of business is not perpetuated and does not continue any longer to the prejudice of the people who are trying to reconvert this country to a peacetime basis and to try to get production started.

I thank you, Mr. Chairman.

Mr. Folger. Mr. Dirksen, Mr. Crawford called your attention to the report of the Committee on Postwar Planning. That is report No. 9.

Mr. Dirksen. I shall be very happy to examine it.

The Chairman. Thank you.

The Clerk will call the next witness.

The Clerk. Mr. Voorhis of California.

STATEMENT OF HON. JERRY VOORHIS, REPRESENTATIVE FROM THE STATE OF CALIFORNIA

Mr. Voorhis. Mr. Chairman and gentlemen of the committee, there are several other Members of Congress waiting to testify, and for that reason I am going to ask the committee's permission to place in the record the entire statement I had hoped to make, and shorten it up very substantially, if you do not mind.

I would like to ask permission, in connection with my statement, to include in the record three charts. Is that permissible?
The CHAIRMAN. Very well. You may put them in the record. If we can get them printed, we will do so.
Mr. VOORHIS. Thank you. If it is possible.
Mr. KILBURN. We have to have cuts made of those charts.
Mr. VOORHIS. Is that an insurmountable difficulty?
Mr. SUNDSTROM. We have turned down quite a few so far.
The CHAIRMAN. I do not know what type of charts they are.
Mr. VOORHIS. If you want to turn me down, I would like you to turn me down right now, so I can save my breath.
The CHAIRMAN. We will see if we can do it, and we will let you know.
Mr. VOORHIS. Mr. Chairman, the things that I want to say have to do with general policy.
I am a member of the Committee on Postwar Policy and Planning, but, as such, I have not been consulted on the exact form of the amendments they propose. I do believe, however, that their general approach to the problem was pretty sound.
At the present time we have, in this country, about 180 billion dollars of deferred buying power. That is, bank deposits adjusted, plus cash in circulation outside banks, and does not even include bonds.
This should tell us two things: first, that it is necessary that we continue price control for otherwise the pressure of this money would force a tremendous inflation.
But the second thing it should tell us is that price control must be sufficiently flexible to permit two things to take place:
First, the achievement of absolutely maximum production, and, second, the making possible of a gradual adjustment of price, wage, and salary levels to the monetary situation.
Such an adjustment will have to come sooner or later, for, as we produce new goods, that production will itself generate almost enough buying power—no, not quite enough—it takes those goods off the market and this deferred buying power has to be absorbed some time.
It should be brought about gradually rather than allowed to take place by sudden convulsion. This means prices cannot be set successfully by mere reference to the past but must be set by realistic appraisal of the situation as it exists now.
There should be provision for decontrol, in my judgment, in the bill. That is for a removal of price ceilings at the point where production has been increased to a level high enough to, itself, be a preventative of inflation. In monopolistic industries this will not work successfully and continuance of price control is more necessary than in other fields, but there should be an element of reward to those industries and those lines of agriculture where production is brought up to a point representing, let us say, a certain percent of production in excess of that achieved in 1941 or some other year, or else to a volume which can be expected to reasonably satisfy the demand.
As I have said, we have in this country about 180 billion dollars of adjusted bank deposits plus money in circulation outside banks. This does not even include the large body of savings and war bonds. It represents three times as much money per capita as we had in 1929, and even at a somewhat higher price level would make possible the purchase of more than double the amount of goods that our people purchased in 1929.
America has a tremendous opportunity, if we pursue wise policies, to enjoy sustained full employment and full production for an indefinite period of time. To do so will require:

First, the continuance, for a period, of price control.

Second, the realistic application of price control with sufficient flexibility to bring about maximum production;

Third, the gradual upward adjustment of the incomes of the people and the gradual upward adjustment of some prices to make possible legitimate profitable operation. It will require a continuance of a sound, courageous tax policy; it will require certain changes in our monetary system, in order to render it unnecessary, in the future, for our nation to incur interest-bearing debt in order to maintain a steady volume of purchasing power in circulation, to ward off depression, deflation, and unemployment at any time they might threaten.

It is well to remember finally, Mr. Chairman, that the tremendous debt structure of our Nation amounting to some $450,000,000,000—that is, public and private, of course—makes it absolutely necessary that we maintain a high level of national production and income. Any tendency toward deflation anywhere along the line would be disastrous under present circumstances.

Now, Mr. Chairman, if I can have permission to extend my remarks, I will stop at that point.

The Chairman. You may have that permission.

(Testsimony of Congressman Jerry Voorhis before Banking and Currency Committee on bill to extend the OPA)

FEAR OF INFLATION

There was a time when inflation could have been prevented. That time is past. It was at the beginning of the war. Had we determined then to tax heavily enough to pay for the war currently, we should have had no inflation problem. But we didn't.

We failed to pay for even half the cost of the war out of taxes. The other half we paid for in two ways. One way was by honest, true borrowing—the borrowing of the savings of the people, the sale to the people for money they possessed because they earned and saved it, of Government bonds. This accounted for about 58 percent of our present national debt. As such it represents potential buying power in the hands of the people over and above their current earnings, which is and will remain inflationary buying power probably for a long time. But at least this portion of the national debt increase had the virtue of not increasing the amount of money in existence in the Nation. The other 42 percent of our national debt hangs about the necks of the American people for a very different reason. That amount—about $105 billion in all—is held by the banks, including $22 billion held by the Federal Reserve Banks. These Government interest-bearing obligations were bought by the banks with money they created on their books for the express purpose of using it to buy the bonds. It cost the banks nothing to create this money except a little fountain-pen ink. But because the banks have been and are allowed to usurp the essentially governmental power to create money—albeit in the form of demand deposits—they now have the American people $105 billion in debt to them. This part of the debt never should have been debt at all. If any money was to be created to help fight a war for national survival, it should have been done by the Congress or an agency thereof, and without a cent of capital debt or interest connected with it. But this was not done. Instead we inflated our currency—innflated it to the amount of over $5 billion. We permitted the banks to create that much new money and put the Nation that much in debt to them for no service rendered in return. We permitted this because we failed to tax enough to pay for the war. No wonder then that average bank earnings for all national banks in the year 1945 were almost 10 percent of all their capital funds—10 percent,
not of capital stock alone, but of capital stock plus surplus, plus undivided profits.

No wonder either that inflation is not a danger but a present fact with which, for a time at least, we have got to learn to live as best we can. We more than doubled the amount of money in existence in the United States of America from 1941 when we had $76,000,000,000 of cash and bank deposits to 1945 when we had $163,000,000,000. Either this backlog of demand will never be spent or else it will bring inflation when it is spent.

There are only two possible cures for inflation—taxes and production. A vast increase in production can enable us to catch up with the inflation of our money supply over a period of time. And courageous taxation now could partly make up for our failure to prevent the inflation when we should have prevented it—namely during the war. It could also help reduce the national debt.

There are three courses we can take. The first is to keep OPA and other agencies of control forever in order to prevent price inflation from resulting from the money inflation which has already taken place. Or we could tax all or most of the deferred savings out of the hands of the banks and the people and devote it to paying off a part of the debt which was caused by our failure to tax before.

The first of these alternatives is so alien to American tradition that it must be rejected, although I do not believe we can or should abolish OPA until supplies of goods have been increased to a level well above anything we had prewar. The second, or taxation alternative, while economically unassailable is politically quite impossible, though I hope for enough courage in Congress so that we will at least not reduce further the net Government revenue.

The third alternative therefore is the one that we must take. It is a mixed proposition. It requires the maintenance of high tax rates, but recognition that that will not be enough. And then it requires a willingness to face courageously the necessity of gradually absorbing the inflationary pressure of $163,000,000,000 of money seeking to be spent. It must be borne in mind that this can never be done by means of current production at any prewar price level. For current production will, itself, generates about 90 to 95 percent enough buying power to purchase what is being currently produced. Theoretically current production generates enough buying power to afford a full demand. In practice it always falls short. For prices include not only those costs which are distributed in wages, salaries, dividends and profits, but also reserves and depreciation accounts, business taxes and other items that do not get into the buying-power stream. But current production will generate almost enough new buying power to buy all that is produced. So where are the billions of deferred buying power or savings to find goods to buy—this year, next year or any other time? Only if there is full production over a long period of time and only if we deliberately seek to bring production and money supply gradually into line with one another can the inflationary pressure of these large savings be controlled. So if we are not going to pass a law saying no one can spend his savings at all, as I assume we are not going to do, we have to adjust the incomes of the people of the Nation upward in line with the facts of the present situation. And some prices, including a good many farm prices will have to be allowed to rise somewhat also. In this process we must keep sufficient controls to prevent the movement from getting out of hand, but accept it meanwhile not only as inevitable, but as a certain means of bringing about the constantly expanding rate of production upon which our salvation mainly depends. Incidentally, we shall by this process be reducing the real burden of our huge debt by the amount of the reduction in the buying power of the dollar which takes place. If I correctly understand it the recent price-wage announcement of the President is along these general lines.

Most of our present difficulties are arising not alone because we are in a period of adjustment and reconversion but also because of a lack of understanding of certain of the fundamental, and I am afraid, irresistible economic forces which are now at work. We cannot solve this problem by looking back at the years after the First World War or even to the ones just before World War II. Since a continuance of well-distributed high mass buying power must in this age of superabundant production possibilities be the key to our economic policy, the first task is to make certain that the income levels of the people are sufficiently high. From this point of view, wage increases become not a danger but rather an economic necessity and the only question is whether increases of 15 to 18 percent are going to be enough. As a matter of fact those increases should for
the time being primarily be calculated to prevent any decline in the standard of living of the people and even to make an allowance for a reasonable increase in that standard. I think, however, that few people will question the fact that wage and salary workers in America would altogether be willing to compromise on the basis of an approximate 20 percent increase in unit rates of pay. Now having once arrived at a fair basis of what wages and salaries should be, it becomes necessary to view the matter of prices from a realistic rather than a theoretical point of view. Of course in many cases wage increases can be granted without price increases. But it is self-evident that a fair price for any product is that price which covers the cost of production and leaves a fair profit for the producer whether he be a manufacturer, a farmer, or who he may be. I believe that the workers of the country, as well as all other elements in the population, believe that American business is entitled to a fair margin of profit.

Now there are a few facts regarding the relationships of production, prices and money supply which must be borne in mind. Let us take money first. In 1834 we had one-sixth of a billion dollars of cash money or its equivalent in bank deposits in the United States. Today we have approximately 1,000 times that much money plus bank deposits or $163,000,000,000. On a per capita basis we have about 120 times as much. We have five times as much money (including bank deposits) as we had at the end of World War I and almost three times as much as we had at the top of the boom in 1929. It took our Nation 158 years to build up a money supply of $78,000,000,000 which we had at the end of 1941. In the 3½ years which followed (that is from July 1945 until we added $85,000,000,000 more by the process of permitting the banks to create money which means that we more than doubled the money supply of America between 1941 and 1945. Under these circumstances it is idle to talk about wage and price levels in terms of prewar figures. The figures I have just given should prove conclusively that prices do not necessarily tend to increase anywhere nearly as fast as the supply of money increases. In the 100 years from June of 1845 to June of 1945, the money supply of America increased over 100 times per capita while wholesale commodity prices only doubled. This of course was due to vast increases in production. However, it is inconvertibly true that the volume of production moves up and down in the same direction as the volume of money. Indeed the graph line of production follows the money line either up or down as slavishly as a shadow follows a man. Carefully prepared records show that changes in the money line occur from two to six months before changes take place in the level of production. The fact of the matter is that today we have a sufficient money supply in America to buy even at the price levels that would probably pertain on the basis of the policy I am advocating, approximately twice the volume of goods that we bought in 1929. We ought not to be preventing farmers from staying in business of producing essential food supplies for America because of too inflexible a price policy. Neither ought we to prevent by the same means a full production of manufactured commodities. Let me say once again that I am far from advocating the abolition of the OPA. I shall vote, for its continuance beyond June 30 of this year, but I believe a more realistic policy is absolutely essential and I think the keynote of that policy must be that expanding production is the all-important need of the Nation. All the factors are present today which can make possible a tremendous production increase provided only we overcome our fear of higher incomes for the people on the one hand and our fear of reasonable and necessary price increases in cases where they are essential to bring about production. Everyone knows that we cannot expect to support and pay interest upon, let alone reduce our present staggering debt, unless we have high production and high national income.

It is my firm belief and vigorous contention that many of the problems connected with labor disputes which we have faced could be readily solved if only we would approach them from the standpoint of the policies which I am attempting to set forth in this speech. To illustrate some of these points I ask consent to include with my remarks three charts which should make clear the relationship between movements upward or downward in the volume of money of the country and movements upward and downward in the volume of production. It will be observed on charts 7 and 8 that every time a sharp decline in the volume of money in circulation, correspondingly it will be observed that every time we have obtained an increase in production it has been induced by an increase in the volume of money in circulation. By way of explanation the line numbered 2 on graph 7 and the line
Graph No. 1

Money and Population in the U.S.A.

No. 1 - Total Public Money (No. 2 + No. 4) in Billions of Dollars
No. 2 - Bank Deposits "Adjusted"
No. 3 - Demand Deposits "Adjusted"
No. 4 - Money in Circulation Outside the Banks
No. 5 - Population in Millions

83512 O - 46 - vol. 2 (Face p. 1256) No. 1
GRAPH NO. 7

MONEY AND PRODUCTION

No. 1- Total Public Money in Billions of Dollars
No. 2- Physical Volume of Production, 1926-30 Aver. Vol. = 100
No. 3- Industrial Production (Physical Volume) 1935-39 Aver. = 100
No. 4- Population in Millions

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1830 40 50 60 70 80 90 1900 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170 180 190 200 210 220 230 240 250 260 270 280 290 300 310 320 330 340 350 360 370 380 390 400

No's 1 2 3

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GRAPH NO. 8
MONEY, PRICES, AND PRODUCTION

No. 1: Total Public Money in Billions of Dollars
No. 2: Wholesale Commodity Prices, 1926 Prices = 100
No. 3: Physical Volume of Production, 1926-30 Aver. Vol. = 100
No. 4: Industrial Production (Phys. Vol.), 1935-39 Aver. = 100
No. 5: Population in Millions

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numbered 3 on graph 8 are the same line to represent the physical volume of production. Line 3 on graph 7 and line 4 on graph 8 are again the same line representing in this instance industrial production only. In both instances the correspondence in movements of these two lines with the movements of the money line will be observed to be very close and intimate. On graph 8 is charted the movement of wholesale commodity prices over a long period of time, with the year 1926 taken as a 100 points.

These graphs were prepared by Mr. A. W. Rees, of Piedmont, California, and I wish to acknowledge also my indebtedness to him for the studies he has made of this question and the opportunity he has given me to go over his scholarly work in preparing this testimony.

It will be observed that although our money supply has vastly increased through the years as I have already stated, commodity prices have remained fairly constant, a general downward trend having pertained to about the turn of the century and thereafter a general upward trend. Changes in commodity prices, however, have been nowhere near as great over periods of time as has the increase in money supply. The reason for this of course is that increased production has gone along with increases in the supply of money.

It is a fact that at present we have about $180,000,000,000 of deferred buying power available in the country. This should tell us two things. First that it is necessary that we continue price control for otherwise the pressure of this money would force a tremendous inflation, but the second thing it should tell us is that price control must be sufficiently flexible to permit two things to take place. First, the achievement of absolutely maximum production and second the making possible of a gradual adjustment of price, wage and salary levels to the monetary situation. Such an adjustment will have to come sooner or later. It should be brought about gradually rather than allowed to take place by a sudden convulsion. This means that prices cannot be set successfully by a mere reference to the past, but must be set by realistic appraisal of the situation as it exists today. There should be provisions for decontrol—that is for the removal of price ceilings at the point where production has been increased to a level high enough to itself be a preventive of inflation. In monopolistic industries this will not work successfully and continuance of price control is more necessary than in other fields, but there should be an element of reward to those industries and especially those lines of agriculture where production is brought up to a point representing, let us say a certain percent of production in excess of that achieved in 1941 or else to a volume of production which can be expected to reasonably satisfy the demand.

As I have said we have in this country about 180 million dollars of adjusted bank deposits plus money in circulation outside banks. This does not even include the large body of savings in war bonds. This represents three times as much money per capita as we had in 1929 and even at a somewhat higher price level would make possible the purchase of more than double the amount of goods that our people purchased in 1929. Hence America has a tremendous opportunity if we pursue wise policies to enjoy sustained full employment and full production for an indefinite period of time. To do so will require the continuance for a period of price control. It will require the realistic application of price control with sufficient flexibility to bring about maximum production. It will require the gradual upward adjustment of the incomes of the people and the gradual upward adjustment of some prices to make possible legitimate profitable operation. It will require a continuance of a sound and courageous tax policy. It will require certain changes in our monetary system in order to render it unnecessary in the future for our Nation to incur interest-bearing debt in order to maintain a steady volume of purchasing power in circulation and in order to ward off depression, deflation and unemployment at any time that they might threaten.

It is well to remember finally that the tremendous debt structure of our Nation amounting to some $450,000,000,000 makes it absolutely necessary that we maintain a high level of national production and income. Any tendency toward deflation anywhere along the line would be disastrous under present circumstances.

Mr. Kilburn, I was wondering if, before you prepared that, if you knew of the testimony that we have had before the committee here from industry after industry which has shown that under the Office of Price Administration their production is continually going
down. For example, sawmills are closing. One man who was running 75 is only running 26 now; another man who had 7,000, now has two. These people, according to the impression I got, said that as long as the Office of Price Administration continued, the production would go down.

Mr. Voorhis. Well, I do not believe that. Now—

Mr. Kilburn. In some lines.

Mr. Voorhis. I will answer it this way: Of course, I have not been here in the committee. I wish I could have been. But I have gotten a lot of that same testimony in my mail. My belief is this: As I say in my statement, I think it is absolutely essential that the principle that the Office of Price Administration should now follow is the principle of the encouragement of maximum production. I believe during the war you had a draft on production caused by the necessity of war demand, caused by all sorts of controls to get the production, which you do not have now in peacetime, and I think today therefore there is a somewhat different situation, and I think that should be the cardinal principle pursued.

I wrote a letter not long ago myself to the Administrator of the Office of Price Administration and suggested a review of prices in all building material fields in order to be sure that those prices were such as to bring about the increased production we have got to have. But I believe, myself, that we have to be a little careful about this sort of tendency, and I am afraid it exists. I think that there are in some places tendencies on the part of producers who would like very much to be out from under price control, to paint as black a picture as possible, and possibly, in some instances, even to hold back production in the thought that it may influence the action of Congress, and I think that you have got to remember that.

Now, then, where a price can be shown to be uneconomic, I think it ought to be changed, in the interests of getting production. I am very strong for that, and I believe it is true. But I do not think we can always just take the anti testimony at full face value. I think we have to have a few grains of salt around to take with it.

Mr. Kilburn. Do you think that price controls should be removed if supply is equal to demand?

Mr. Voorhis. Yes, I do. In fact, I offered an amendment to the bill a year ago which said that that policy should be the policy that should be pursued by the Office of Price Administration. Now, I recognize it is a complex problem that is involved in trying to apply that, and I am somewhat impressed by the argument of some of the staff of our Committee on Postwar Economic Policy and Planning to the effect that that is not a definite enough criterion, that it would be difficult to apply, and perhaps to apply the criterion of a certain high percentage, let us say, above a hundred percent of production in some past year, might be better. I do not know exactly how to do it. I do agree with that principle, and I think that it will maybe operate to say to these industries, “All right; if you do not like price control, let us see you get your production up to the point where you can legitimately ask for the removal in your case.” In other words, you offer an actual inducement for increased production under those circumstances.

Mr. Crawford. Mr. Chairman.
The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Voorhis, suppose I am operating a plant and every unit I turn out costs me money as related to my capital structure, that is, no profit on the operation. You say to me in substance, "Now, Crawford, you go ahead and go broke quickly by pushing up your production to demonstrate to me that you want to reach the full equality of supply with demand, and then we will take off controls." That is what you just advocated.

Mr. Voorhis. If the gentleman will pardon me; he did not listen to my statement at all.

Mr. Crawford. Yes; I did; because you did not take into your statement the conception that a man may be running at a loss.

Mr. Voorhis. I certainly did. I do not like to contradict the gentleman.

Mr. Crawford. I will stand on the record. I wish you would make it clear.

Mr. Voorhis. May I say to the gentleman from Michigan that the whole purpose of my coming up here this morning was to appeal for a realistic policy with regard to price control, and if he cares to completely twist my testimony around—

Mr. Crawford. I do not want to twist it.

Mr. Voorhis. It is his privilege to do it.

Mr. Crawford. I do not want to twist it at all, and you did not have the right to make that statement. You stood here and argued for a sensible approach.

Mr. Voorhis. I did.

Mr. Crawford. I agreed with you that far. Then, you told the gentleman that you did not believe the statements these producers had made to the committee.

Mr. Voorhis. I did not make as raw a statement as that, Mr. Crawford. I said that I believed I had heard the same statements, that I believed there were many instances where prices needed adjustment, and should be adjusted; that I had asked for a review of all prices in the building material field with that very thing in view, that I did not think the committee should expect to take its action only on the basis of the unilateral testimony of the people whose businesses are involved. I think you have to go behind that in some instances.

Mr. Crawford. I am talking about the fellow who is running at a loss.

Mr. Voorhis. I do not think he should have run at a loss.

Mr. Crawford. And who says, "Unless I get relief I must close down?" You came back with the proposition that industry be told to get their production up high so controls could be removed. How is he going to get his production up high if he is running at a loss?

Mr. Voorhis. Obviously, he cannot.

Mr. Crawford. That is the only point I make.

Mr. Voorhis. Obviously, he cannot.

Mr. Crawford. Perhaps we agree.

Mr. Voorhis. I do not think he should be asked to, and in instances of that kind I think there should be a price adjustment. But the question I was asked when I made that statement was whether or not I believed there should be provision for the removal of price ceilings when production approached demand, and got up to the point where
supply was equal to demand, and I answered that question by saying
that I did believe in that principle, had offered it myself as an amend-
ment to the bill a year ago, but that I had been impressed by some
of the arguments that it was a difficult criterion to apply, and that
maybe a sharper criterion might be needed, and that I thought it would
be a healthy thing to say to the industry—and when I said this, I had
no reference to the particular relationship of prices to cost—I thought
it would be a healthy thing to say to industry that if production was
increased to such and such a point, controls would be lifted, because
I believed it would be an inducement to increase production. Which
I think it the main answer to most of our problems.
Mr. Crawfod. But you want them to be allowed cost to bring that
production, too; is that it?
Mr. Voorhis. I do.
Mr. Crawfod. That is all. Thank you.
Mr. Folger. Mr. Chairman, I have to leave. I would like to be
excused, and would like you to explain to these other gentlemen that
I have to go.
The Chairman. Thank you, Mr. Voorhis. If there is anything you
desire to insert in the record, you may do so.
Mr. Voorhis. Thank you very much.
The Chairman. The clerk will call the next witness.
The Clerk. Mr. White, of Idaho.
(No response.)
The Clerk. Mr. Murray, of Wisconsin.
(No response.)
The Clerk. Mr. Mundt, of South Dakota.
(No response.)
The Clerk. Mr. Quinn, of New York.

STATEMENT OF HON. PETER A. QUINN, REPRESENTATIVE FROM
THE STATE OF NEW YORK

Mr. Quinn. Mr. Chairman and mem of the committee, I came in to
tell you what a marvelous day it is out and to say two things besides:
I have never been able to understand if, by keeping the Office of
Price Administration, we can bring production up to consumption,
why, in the name of heaven, we should ever want to give up the Office
of Price Administration, because that is the toughest thing in the
world to do. If we can do it under present conditions, then, there are
no conditions that we ought not to face by managing prices.
The second thing I would like to put in the record is that so far as
I have been able to read, or hear testimony about here, our wisdom on
this subject, especially from the proponents of price control, starts
largely with current events, and promises of men who pretend that they
can come on, after no experience in the field, from Louisville, new to
the situation, build up a new organization from scratch, and expedite
the expediter, who cannot expedite the prices that we need in order to
get moving, after a good many years of experience. Now, as a farmer
and a lumberman, I find it totally impossible to figure out what the
price of lumber should be now, although I am in that business, because
nobody can tell what price should be offered to labor to induce them
to come from other factories and from other businesses to do the lum-
ber business, to cut lumber. The Office of Price Administration price is now 66 cents an hour. Industrial prices are $1.10 or $1.20. We do not know what we are going to have to pay in order to get double production, or production and a half to meet the market. No man can be wise enough to predict what that price must be. No man sitting in Washington can tell. Not even those in the industry can tell, until they have a chance to work it out, and whatever the price is, that must be the price, in order to get lumber moving.

Thank you very much.

The CHAIRMAN. Call the next witness, Mr. Clerk.

The CLERK. Mr. Miller from Nebraska.

STATEMENT OF HON. A. L. MILLER, REPRESENTATIVE FROM THE STATE OF NEBRASKA

Mr. MILLER. Mr. Chairman, members of the committee, I appreciate the opportunity of appearing here briefly to discuss some phases of the Office of Price Administration.

I have a prepared statement that will take me about 4 or 5 minutes to read, and then I will make some remarks for 2 or 3 minutes, if you will indulge me that long.

It seems, Mr. Chairman, that the price ceilings as presently operated will follow the spark plugs of recovery.

Price ceilings and the control which controls profits, tamper with the very mainsprings of our economy. An unreasonable lid on prices will dry up production; jobs will disappear.

The incentive to produce will be gone.

True, free competition is the hallmark of our free-enterprise system and this cannot be attained under Government regulations, which eliminate competition. Rigid price control which denies profit, places upon industry a harness of tyranny and causes stagnation with economic atrophy.

Manufacturers by the thousands have been trying to find out through the Office of Price Administration what are the legal ceiling prices for articles they want to manufacture. These factories have the materials, the labor, and know-how. But the Office of Price Administration, by keeping a tight lid on these prices, prevents them from soliciting sales or going to work, and thus nullifies the entire program of reconversion.

They can put business into economic oblivion.

Business should not be forced to come to Washington and stand, hat in hand, before some bureaucrat, begging for a price which will permit him to supply a hungry public with desired products. How can industry be expected to provide millions of jobs if, through rigid price ceilings and controls by the Office of Price Administration, they are denied a reasonable profit?

John Q. Public has one-hundred-and-forty-odd-billion dollars in his pocket and he is anxious to buy everything from hairpins to helicopters. Price means nothing unless there is something to buy. If you are hungry and have money in your pocket, you will pay a dollar for a doughnut to satisfy your hunger. Price is everything. It is the instrument for getting things done, agreed on between parties to a transaction, the employer, the employee, the seller, the buyer, the producer, the customer. It keeps production flowing.
The Office of Price Administration regulates prices on more than 8,000,000 separate items, by their own testimony. The record shows it is taking the Office of Price Administration several months to establish what they call proper ceilings on new items. Government never moves quickly. The individual with his own money invested needs a quick decision.

Democracy is a system of production, if you please. The Office of Price Administration, by refusing to give proper consideration to the increased cost of material and labor, is following a destructive delaying policy which will cause unemployment, which may reach a high point.

This brings on scarcity, black markets, and inflation. Red tape and regimentation get tangled up in their own feet.

Democracy is direct, voluntary employment of the individual, by the individual, and for the individual. We should not let democracy slip overboard on the icy decks of price freezing and work freezing. If you do not have freedom to negotiate prices and wages, there may be no transactions.

Chester Bowles, as Administrator of the Office of Price Administration, recently, when he was Administrator, testified before this committee, I think some time last year.

We must maintain every bit of tight controls in the future on all portions of the cost of living. The Office of Price Administration is insisting on tight price controls on all things. We have an interest in profits when a price increase is requested. This, in effect, is a simple statement of our objectives in the coming year.

Now, let us take a look at what tight control of prices will do. In this reconversion period, the Office of Price Administration should limit their activities to the necessary items of cost of living. They must permit industry the same margin of profit over production costs as they had before going into war work. Clipping the dollar's power and freedom to buy with a price ceiling, clipping the dollar's right to be earned with a wage ceiling, and clipping the dollar's right to be negotiated or used at all, even with a ration card, are not a postwar expedient nor an efficiency recourse, nor an improvement for any purpose.

Rigid price fixing places a stranglehold upon industry. Price controls must be framed and administered in the light of how it will stimulate production and employment and not with a view of their perpetuation. Unless this is done, many little fellows will close their factories and go fishing. Establish a permanent Office of Price Administration and the bureaucrats will blueprint and regiment the citizen and make him do a physical, mental, and ritualistic goosestep, with the tune being played in Washington.

Now, you have submitted the number of prices they are trying to control. Eight million-odd was the last number that I had. Recently they have taken off price ceilings upon bird cages, teething rings, manhole covers, but I believe they still continue price ceilings on hula-hula pictures, because, in the register, Federal Register, of September 13, 1945, you will find, on page 11711, a whole page of ceilings on hula-hula girl pictures.

Now, I submit to this committee that that is a ridiculous situation. That the Office of Price Administration should be trying to regulate
and control so many unnecessary items of living. Perhaps hula-hula girl pictures are necessary some place, but, of course, not in the lives of men that reach that age in life, at least, where they are not considered in this area.

Now, I would like to submit to this committee, and expect to offer an amendment, if it is not offered, for the floor, and I want to do it for the record now, an amendment which will, in effect, place the rationing of sugar in the Agriculture Department. It is the only food that presently is being rationed.

It is my opinion that all food should be placed in the Agriculture Department. It is further my humble opinion that other necessary items of living—and that does not include hula-hula girl pictures—

Mr. Patman. You see, the Agricultural Department has no rationing machinery.

Mr. Miller. Well, set them up.

Mr. Patman. Well, you would have to set them up in 3,000 counties.

Mr. Miller. Sugar rationing.

Mr. Patman. Yes; you see, the Office of Price Administration only administers it. They do not ration it. The Civilian Production Administration does that.

Mr. Miller. I understand that perfectly. Yes, I understand that, Mr. Patman.

Mr. Patman. The point I am making, Doctor, is that you do not want to require a different set-up.

Mr. Miller. I want to get rid of the Office of Price Administration entirely and I want to place the power of rent control in the Federal Housing Agency or with the States. In other words, so we can get rid of 33,000 employees in the Office of Price Administration now that are using the methods which, in many cases, are repulsive to our people.

I just came back from Nebraska and talked with two merchants who were running a little store. One of them told me that—he said,

Doctor, I am writing a letter today to the Office of Price Administration to tell them to come and get me. My father was in business in this town for 30 years; I have been in business here 20 years; and under their present maximum price regulation order, or price absorption policy or mark-up policy on women's wearing apparel, I cannot stay in business.

He said:

I think I am justified, by the matter of self-preservation, to go ahead and sell these things as I was doing before the Office of Price Administration came into the picture.

He said:

They are interfering with the way in which I do business, and I think that is contrary to law.

Some of you Members may have to go out and bail this poor fellow out of jail, because he is certainly going to do just that. He is not going to close his doors and deny his family and patrons that come to him the right to enjoy some things that he has to sell.

I hope this committee will give serious consideration to placing those restrictions on the Office of Price Administration which will prevent them from interfering with the usual way of a man doing business, before they came into the picture.
If the Office of Price Administration can bring on full production, of course, it is only natural that when full production is reached, in spite of the Office of Price Administration, that they will want to continue it. There ought to be some machinery set up to bring their operations on the economy of this country to an end. That concludes my statement, Mr. Chairman.

The Chairman. Call the next witness.

The Clerk. Mr. Lewis of Ohio.

STATEMENT OF HON. EARL R. LEWIS, REPRESENTATIVE FROM THE STATE OF OHIO

Mr. Lewis. Mr. Chairman, I appreciate this opportunity to appear before you. I think that the sooner we can free the economy of this country from Government control, the better off our people will be, and the better our whole system of business and economic life will be.

There are, it seems to me, probably three basic commodities upon which controls should be retained.

Those are food, clothing, and rents, until such time as these become plentiful, and the law of supply and demand can be permitted to operate.

There are a number of industries, in this country, that are of no consequence in this whole picture of price controls. I have two of them in my district. One is the pottery industry and the other is the glassware industry. There is no reason that I can think of why we should continue control over the prices of those industries or their products.

Competition, within the industry, is such that we could immediately lift all price ceilings on those commodities without any danger of inflation or runaway prices at all.

Now, there are a number, of course, of other industries with which this could be done. One of them is in my district, involving the making of wax paper. That is an industry that competition will take control of. The other is the making of caskets, burial caskets. There is no reason in the world, it seems to me, why these controls should be continued over those industries.

There is no possibility of inflation in the prices of either one of those commodities any more in the case of wax paper than there is in the case of glassware or pottery.

I am submitting this for your consideration, and I trust you will give it consideration, because daily my mail is flooded with protests from people in business who are doing their very best, but are hamstrung by these price controls, and by the regulations of the Office of Price Administration that have no relationship at all to the thing that the Office of Price Administration is set up to do. They simply constitute an irritation, a continuing irritation, that the people are demanding to be released from.

The Chairman. Call the next witness, Mr. Clerk.

The Clerk. Mr. White of Idaho.
STATEMENT OF HON. COMPTON I. WHITE, REPRESENTATIVE OF THE STATE OF IDAHO

Mr. White. Mr. Chairman and members of the committee. As the member from one of the greatest timber producing congressional districts in the United States, I think that the First Congressional District of Idaho stands preeminently in the production of timber, particularly Government-owned timber.

In considering the matter of the Price Control Act and the Office of Price Administration, I want to say to you that I am unalterably in favor of the Office of Price Administration.

Going back to the causes of the last depression, as a result of the last war, when the war came on, and there was no competition and no restraint on prices, we saw everything that the basic industries used—and I might say that I have been engaged in three great basic industries of the country; that is, agriculture, lumber, and mining, have had first-hand experience in them—I saw, as a result of the last war, I saw barbed wire go from $1.40 a roll to $6 a roll. I saw wire used by the farmers go from $3.50 a bundle to $6.50 a bundle.

I saw lumber that was selling—No. 1 Common, White Pine—at around $40 a thousand, go to $90 a thousand for only 6-inch or narrower boards. If you wanted it wider, you had to buy more.

As a result of the last war, the greatest amount of money we had in circulation was about 6½ billion dollars. Today we have better than $29,000,000,000 in circulation, besides credit. And if we do not hold the line pretty soon our national economy will be out of adjustment. You will find that it will be necessary for the utilities, the power companies, the telephone companies, the telegraph companies, and the railroads, all will come in clamoring for increases in their rates, and it will just be a spiral of increasing prices.

The laborers have been struggling to get their income up, and when everything else goes up, they will be back for more. And there will be no end to it. So, under these circumstances, I am absolutely in favor of maintaining price controls. It is the only salvation for this country.

My purpose in coming before your committee this afternoon is to suggest certain modifications in the price-control legislation, and I would like to file with your committee, without taking the time of the committee to read them, two letters, one addressed to Senator Gossett, of which a copy has been sent to me, on lumber conditions and the need for modifications of the rules applied by the Office of Price Administration to the lumber industry, by one of the leading lumbermen of my State. I think the great warehousing company, and Mr. Billings, their manager, represents one of the greatest concerns in the lumber industry.

The other letter is from a county chairman who is active in business in northern Idaho, Mr. Robert Dowell. If I might insert these two letters at this point in the record, I will appreciate it and I want to close by saying that we must have protection in the form of price controls in this country, and I think, from all the communications
that have come to my desk, that that is the sentiment of the majority of the people of the United States.

Thank you.

The CHAIRMAN. Thank you. You may insert the letters at this point.

(The letters above referred to are as follows:)

POTLATCH FORESTS, INC.,
Lewiston, Idaho, March 1, 1946.

Hon. CHARLES C. GOSSETT,
United States Senate, Washington, D. C.

DEAR SENATOR: Complaining calls for helpful and constructive criticism and this probably is as true of OPA matters as of any others. So I feel that I should pass on to you some suggestions for widening the bottleneck through which OPA is funneling the lumber production of the western pine area.

1. The act should require specifically that OPA established ceiling prices which will permit at least 90 percent of the industry to recover the cost of production. The refusal of OPA to permit more than 75 percent of the industry covered by a ceiling price to break even or make a profit has resulted in a progressive elimination of operations which couldn't exist under the unrealistic ceilings. Production has declined more than 25 percent since 1942 in the face of a continuing demand for more lumber. This decline has resulted both from mills going completely out of business and from decreased production of those remaining.

2. In determining the adequacy of ceiling prices, OPA should be required to disregard the over-all profits of producers and to limit its consideration to the particular ceiling under consideration. The policy of considering the over-all profits from all products, including profits from products not under consideration has resulted in an unnatural channeling of lumber into what are normally by-product industries, and in many cases, has resulted in a discontinuance of lumber production. OPA has already dropped this unrealistic policy as to some industries. It is still being applied in the case of the lumber industry.

3. The act should require specifically that OPA consider the market value of standing timber instead of its book value in analyzing costs to determine whether price ceilings need to be changed. An operator who owns timber worth $7.50 per thousand is not encouraged to use that timber when he must sell the product at a price based on a timber cost of $3.

Further, since cost reports are generally obtainable only from the larger and better managed operations, many of whom acquired their timber many years ago at low cost, the cost data used in determining price ceilings reflects a much lower stumpage cost than a large percentage of the industry must currently pay. Those who buy their timber currently are thus discouraged from starting to operate. Our company bought some of its timber over 40 years ago. It is not fair to our competitors to use our book figures or costs in fixing lumber ceilings if they have to pay current State of Idaho and United States Forest Service prices for stumpage.

4. The act should be amended to require that OPA act on recommendations of industry advisory committees within a specified time. The delay in granting price relief when it is justified has resulted in substantial losses in production. OPA is the outstanding exponent of "too little and too late." It should be required by law to act more promptly. Always remember that these OPA industry advisory committees are actually chosen and appointed by OPA and have official status. Why, then, not act promptly on their recommendations?

5. OPA should be required to base its price determinations on current costs rather than on the costs of a past period, in many cases more than a year previous. In a period of rising costs, it is obvious that price ceiling determinations based on historic costs are not realistic. I commented at length on this in my letter to the Portland OPA office, copy of which I sent you.

I much appreciate your interest in this thing, and I hope you have the time and stamina to stay with it. It is an unholy mess.

Very truly yours,

POTLATCH FORESTS, INC.,
— Vice President.
Bonner County Democratic Central Committee,
Priest River, Idaho, March 5, 1946.

Hon. Compton I. White,
House Office Building, Washington, D.C.

Dear Congressman White: I am writing you with regard to price relief for western pine manufacturers which is seriously handicapping production of lumber in this area.

As you probably know the southern pine and the Pacific coast manufacturers have very recently been given a price raise but to date nothing has been done for the inland mills.

We here in Priest River are particularly interested in the operation of the E. C. Olson & Sons Lumber Co. which, when operating, employs about 150 men. This operation was started in December 1932 and has operated continuously since that time with only short shut-downs for necessary repairs, until last December.

Their mill has been closed since that time and it is very doubtful if they will be able to again resume operations unless substantial price relief is granted.

Mr. E. C. Olson, together with others from our Western States plan on being in Washington, D.C., next week with a view of discussing their problems with their Representatives in Congress. Any assistance you can offer him will be very much appreciated by me and all the people of this vicinity.

Thank you very much for your kind attention to this matter and with very best personal wishes.

Yours sincerely,

Robert E. Dow, Chairman.

The Clerk, Mr. Murray of Wisconsin.

STATEMENT OF HON. REID F. MURRAY, REPRESENTATIVE FROM THE STATE OF WISCONSIN

Mr. Murray. Mr. Chairman, there are just a couple of points I would like to bring out before this distinguished committee. First of all, I would not waste your time if I thought agricultural products were going to be removed from under the Office of Price Administration and centered in the hands of the Secretary of Agriculture.

It seems that there is a general feeling that that should be done at this time, but in case it is not done, I hope that the Office of Price Administration at least will follow the law in connection with agriculture, which, in my opinion, they have not been doing in the past.

It is easy to sit and listen to people talk about the Office of Price Administration, the letters they get about it, and I notice they all believe it except when it affects them, and then they do not seem to be so much in favor of it. In general, that is the nice thing. It is nice to have the Lawyers Guild give Chester Bowles a banquet and have everybody come there to throw the five bucks in the plate who want to, and the man who produced the food for the banquet probably did not get 50 cents for it.

The time is coming when, if people of this country want to eat, they had better begin doing some thinking about it, because we are headed on the downgrade in the production of all food products at this time. That is reflected in the 30 percent decrease in evaporated milk, 30 percent decrease in butter of a year ago, and a 15 percent decrease as of today in the production of cheese.

I have been, within the last few days, out in my own State, which produces over an eighth of the milk of the Nation, and somebody
should be doing something about some of these things if they expect to have food not only to feed the rest of the world, but to feed the American people.

I presume that if this were put under the Secretary of Agriculture that many of these inequities could be corrected, so that there would not be the present attitude which exists at the present time.

There is one more point I would like to take up, and that is in connection with whether the Office of Price Administration has the authority to go into a bank and take the books of anyone they want to, and look at the books. Maybe the Banking and Currency Committee intended it to be that way when they passed the original legislation. I do not know. I do not think that they many Members of Congress thought that they were delegating that power to any one agency. That is causing a disturbance, where some little fellow is accused of some violation of the Office of Price Administration regulations—and another thing I cannot understand is how they have so much time to pick out some small fry and put him on the pan and let the big fry get away with the things with which they do get away. But that is an important phase in my particular district, this matter of going into banks and asking to see so and so's account during all these years. If that is the law, it is all right, and I do not want to protect anybody who is doing something he should not do, but I think it is something I would like to have cleared up before I have to vote either for or against the Office of Price Administration again.

Getting back to the food business for just a minute, I would like someone in the Office of Price Administration, or anyone who wants to apologize for them, tell me what sense there has been in keeping as many products as they have under control. I would like to start out by asking them why we have any price control in the poultry industry, when poultry has been selling far below cost of production for 6 months, and all it has done is to give the man who sold it to the consumer a chance to ask more by telling him that the Office of Price Administration price is so and so, inferring that he had to charge what the Office of Price Administration ceiling was. That has been going on for 6 months. Poultry in my country is bringing 15 cents a pound and it is probably the same all through the Midwest, 15 to 22 cents for heavy hens, and I do not know any reason why they had to have price control on that, or any other article that is in abundance. It just seems that there is more interest in control for control's sake than there is in producing food for people to eat.

That is about all I wish to say at this time, because I just have a feeling that this food matter is going to be transferred over to one man, so that at least we will know which way we are going, and in what direction the people must go, because if not, we are getting to a point where it is serious. During the war we could wave the flag, but now they wave the dollar bill, and there are many things in the picture there that were not there during the war. I am not a calamity hollerer and I am not trying to foretell the future, but I know there is an emergency committee down in the White House trying to divide up something we do not have, trying to divide up a scarcity and we just do not have the stock pile in this country now to give any country any great amount of food. I think every one of us, every real American wants President Truman to be able to fulfill the commitment he
made at Potsdam as far as food is concerned, and I think it can be done, I think the facilities are here to do it, and if it is not done, it is just going to be the result of bad administration on our part in not seeing that these different agencies play ball together and have an adequate amount of food produced in this country.

I realize that at the present time they have to tell Poland, and country after country, that we cannot fulfill our commitments. That should not have been necessary. We could have had the stock pile to do it, and it would have been done, if it had not been for certain governmental agencies taking the attitude they did, and I am sure that the Office of Price Administration must take its share of the credit or discredit for not being able to perform that feat. That is all, Mr. Chairman.

Mr. Kilburn. Mr. Murray, I would like to get your opinion as to whether or not you think the Office of Price Administration could ever set prices on dairy products, which would be fair in view of the very intricate relationship between products. Butter, for instance, is way out of line. Do you think they can ever do that?

Mr. Murray. The Pace committee just got out a report, made an exhaustive study on the matter, and I might say that that was probably more or less the Agriculture Department rather than the Office of Price Administration, but there is at the present time the right relationship, I say that, regardless of all the talk you have heard to the contrary, the relation of butter to powder, skim, cheese, evaporated milk, the relationship within the last year has been just about as near as you can get it.

Mr. Kilburn. Why cannot you get butter, then?

Mr. Murray. The reason you cannot get butter is the same reason why you cannot get natural cheese.

Mr. Kilburn. You get milk.

Mr. Murray. Why can you not get evaporated milk in many places? Why do women in El Paso, within the last 3 weeks, stand 50 in line at the grocery store trying to get milk for their babies? That is a matter of maldistribution. That is not a matter of not having the product. We have the product at this time, and I am sorry to see, every week and every month, that we are on the downgrade and there are certain things that are causing us to be on the downgrade when we should be on the upgrade with the demand there is for dairy products at this time in this country, and all over the world. We should have more labor instead of less—more production.

Mr. Kilburn. Do you think we are going on the downgrade in dairy products because of price control?

Mr. Murray. No; I do not think so. That is only one small part of it. The confusion is more than anything else in connection with it, and it is all mixed up with other things that enter into it. Now, I know the chairman and several of these members were down to the dairy meeting, and I sat there and listened to them that night. We heard five of them, and they spent all their time making the Office of Price Administration the whipping boy. That is not the answer to it. I know what is in the back of their minds, because I was born and raised with them. I know what they were really complaining about. They just figured if someone can tell them in Washington for 5 years more how much they are going to get for milk, that maybe
they will tell them forever and maybe they will get a President who will tell them that maybe they should have only half as much as they think they should have, and that is what is causing them to make the statements they made that night.

I have never had a letter, during all this war period—and I got one out of every hundred, in the United States in my district—and I cannot recall one letter that I have ever had from milk producers who wanted more money for their product.

Mr. Kilburn. Why is production going down?

Mr. Murray. For many reasons. One of them is a matter that the labor situation is getting worse every day. The second is that they are not producing any machinery to raise the production with, and as these feeds go into other—for example, down in your State, or down in Massachusetts, where they get $4 per hundredweight for milk, is it not easy to see where they drive feed away from areas where they get $2.68 a hundredweight for milk? They got less for milk in 1945; they got 4 cents a hundred less. That may not be much, but at least it is less. They take that feed, naturally, to the sections that they get the more for their product, and that is the reason—not so much in your State—but Massachusetts and New England they are getting $4.30 a hundred today without subsidy.

Mr. Kilburn. But you still cannot get butter.

Mr. Murray. That is a different story again. There are a lot of things you cannot get. You cannot get natural cheese.

Mr. Kilburn. The ceiling price on butter is why you cannot get butter, is it not?

Mr. Murray. That is only a part of it. I want to be fair to the Office of Price Administration. They do enough bad things without me acusing them of anything they do not do. That is only a part of the story. Because the butter, plus the powdered skim, on the formula set up, is supposed to yield—and it does yield—$2.65 a hundredweight for milk. The set-up for cheese is supposed to yield $2.65. It did not quite do it in Wisconsin, but, anyway, that is the formula. Other States got a little more. And the evaporated milk is along in that line.

So that we see it on butter and when there is the demand for the fluid milk there is, naturally, it is easier to get it out of the butter because that is the first place they go to get it.

Now, if I may take the time to answer the gentleman's question, to me it is simple enough that for 25 years we have had agricultural colleges from one end of the country to the other telling us the wonderful food that milk is, and so on, but you want to remember there have been long periods in there when people did not have the money to buy the milk. Now all at once they have the money to buy the milk and they are taking the milk in bottles. Whereas before the war 29 percent of the milk of the Nation went into bottles, today the last figure I saw was 45 percent of the milk and it would not surprise me if it was now 55 percent.

So we have not taken any great drop in the production of milk. But we have had a big increase in population, our problem is getting worse, and we are getting a larger percentage number of children, and the milk production, if we could maintain it the way it is today, we would be all right, but there are so many factors that are sending us down
that I do not think we are going to have it, because we cannot always have the weather we have had in the last 3 or 4 years. We have the machinery problem, the labor problem, which is still worse, and the situation is getting serious. So I would like to see us take a position that will increase food production, increase milk production. But we have not taken that step yet.

Mr. Talle. Mr. Murray, do you choose to comment on what is called reconstituted milk?

Mr. Murray. Well, what they have done is this: I have nothing against it. I notice in the Pace report that it is inferred there is something wrong about that. They go out in Iowa where the distinguished gentleman lives, and they buy cream, and freeze it; 35 to 40 percent butterfat, and they send it largely to the South. And every one of the dairymen who were at that meeting, I asked several from the South, and they said they were using this blended or reconstituted milk.

They take the cream, then they condense the skimmed milk, and you might be interested in knowing that the condensed skimmed milk has been almost doubled in the last few years. They take that in their plant, put water in it and sell it for bottled milk. Had it not been for that, many of the places in the South during all this time would not have had any bottled milk.

But that is purely a mechanical process. There is no reason—there is only one question there, and that is they have not a very good idea of what the sanitary conditions were where the cream was produced. That is the thing that has jumped this consumption of fluid milk from 29 percent up to 45 percent—that is the last figure I saw, but I personally think it is 50 or 55 percent of the milk today, and they have done it through this blended milk.

There is where the Office of Price Administration is wrong, and I do not like to have to uphold these southerners, because I have found they are able to take care of themselves around here, but I will explain that.

If you were in the milk business down South, and a man came to me last week and wanted to know why those dairies were closing down. An Office of Price Administration regulation allowed them only 15 cents a quart for milk and with increased costs they could not retail it for more than 15 cents a quart. Therefore, they brought in outside milk, and they could bring that in and sell it for 20 cents. I would like to have a monopoly so that no one could get any milk they did not get from Wisconsin, but I do not think the rest of you would want that to be that way, and I do not think the Office of Price Administration is using good judgment in now allowing those milk people to pay the southern milk producers as much. He is not doing anything about inflation, he is not helping the consumers of those cities any by making them use this blended milk. At least, they should give the local people a chance to get as much for their milk as for the milk imported.

Those are the things that aggravate me against the Office of Price Administration, just things like that. That has nothing to do with my district. As a matter of fact, I am taking the other side. But if they were really interested in feeding the people instead of talking so much about inflation, they would have had that corrected long ago. We have run into that in our own little towns in Wisconsin.
LaFayette Patterson was out there, and I took him out there to see the fellow, and try to straighten it out. He was asking 11 cents a quart for his milk. He had been getting 10. They would not let him do it. He was going to do it another way, and I told him, "Life is too short. You do not want to do it that way. You are better off to close your doors than do that, young fellow." And he closed his doors. This chap 12 miles away brought milk to that town and sold it for 12 cents a quart. What did that have to do with inflation? What did that have to do with protecting the consumer? That applies to this southern milk situation.

Mr. Talle. How are your vegetable growers, especially your potato growers, getting along?

Mr. Murray. Our State has gone down so much in the potato business that the only thing has been on the support price, and that is another thing I want the committee to do away with, that Steagall amendment, because that is one of the greatest acts this committee ever brought out, and there was a disposition on somebody's part not to support the Steagall amendment on potatoes for 1946, but within the last couple of days they have come out with a new support that is somewhere in keeping with the Steagall amendment because we cannot, any of us, sit here and let them throw Steagall amendment out. With all due respect to our city cousins—and I would like to get somewhere near what our city cousins have, and I think every fair-minded person wants that Steagall amendment lived up to, because that was the thing that stepped up this production. That was the greatest individual thing that got food at the time we wanted that food. I do not think any Member of Congress wants to go and say, "Well, now, that was on there, but it is over with," and figure out some excuse. I am sure that, reading the reports of the chairman of the Small Business Committee, and what he said about it, I am sure that at least one member of this committee agrees with me.

Mr. Patman. I thoroughly agree with you. I understand what you are talking about.

Mr. Talle. Mr. Steagall was a very fine public servant.

Mr. Murray. I think that amendment did more—the rural people know a good deal more than people think they do. Lots of times people down here think they do not know much, but they know they can get more for a 300,000,000-bushel potato crop than for a 400,000,000 one. And the Steagall amendment gave them a chance to produce the food to win this war without losing their shirts. That is the thing that stepped up that production in 1942, and that is one of the greatest step-ups of production we ever saw, 1942. The Steagall amendment was the thing that made that possible, and I surely know that every member of the committee—I feel we must all keep that in mind, and continue that along through the whole procedure.

But I have been mixed up with the Office of Price Administration enough to believe that we have gotten to a point now where we have to have somebody personally responsible—whether it is the Secretary of Agriculture or who, I do not know, but we have to have it so that we do not get too many stories about too many subjects. It takes too long to iron them out.

Take cabbages, for example. They would not even place the ceiling on kraut last fall. That is a small crop and I do not want to make a
mountain out of an ant hill. But it was an important thing to the man who raised those cabbages. I happen to have just a little part of one county, and I happened to go to their meeting and, after pleading and pleading, the Office of Price Administration took the ceiling off from kraut, but they waited so long there is thousands of acres of cabbages froze up there. I said at this time there does not seem to be any correlation between the different agencies. That cabbage could just as well have been put to use. The same thing is true of potatoes, as far as that is concerned. We have wasted millions of bushels that should have been devoted to home use, and we would at least have enough to fulfill our commitment with UNRRA and that is something we have not got at the present time.

Mr. Talle. Some queer things happened in my State, some time ago. The price of potatoes was fixed at a certain point except for a few counties, and I had a great old time getting the price for those few counties brought up to the price paid in the other counties of the State, and when I asked why that decision was made at the outset, nobody could tell me.

Mr. Murray. That might be, but were they below the 90 percent of parity floor?

Mr. Talle. Yes.

Mr. Murray. Well, then you had a grievance. But I might say there are potato growers in the Red River Valley, I do not think they have too much grievance against the Office of Price Administration nor War Food Administration, because neither the Office of Price Administration nor War Food Administration said they were going to take all the potatoes one day. You have to use judgment. They told the people to keep the potatoes until they could take them and they would give them a 90 percent parity floor. They were in a hurry and sold them for 50 cents. That is the only place that I know of where they did not fulfill the Steagall amendment on potatoes. But they did a good job as far as Wisconsin potatoes were concerned.

Mr. Talle. This is the first time I have mentioned it, but it took a lot of effort to have that change made.

Mr. Murray. Well, I never wanted to blame the War Food nor the Office of Price Administration for the Red River Valley situation. They just asked for a little time to iron it out. They did not have a place to store all the potatoes. They knew the war was over, and they remembered the other war, when prices went down, and they thought they should get their money while there was still a little money left, and they got anxious and were willing to take 60 cents and settle up for it.

In these cases in your county, if there was not a 90 percent parity, they were wrong, and you got it corrected. That is what you are a Congressman for.

Mr. Patman. I want to commend the gentleman for his statement about the Steagall amendment and the Commodity Credit provision. I agree with you that that helped production more than anything else, because it let the farmers know they would not be let down if they would go out and produce the food, that we would guarantee them so much for it. And let us not forget that we need this food now, and we need that amendment on the statute books. It is there. It guarantees these farmers that return for 2 years after the next first day of January after the declaration of peace.
Mr. Murray. That is right.
Mr. Patman. We know it is for three harvest years now.
Mr. Murray. Of course. But the other part of that is this: the Secretary of Agriculture can discontinue it by giving ample notice.
Mr. Patman. How much time?
Mr. Murray. Ample time. I have forgotten the wording. But I remember when they had that egg business last fall, I said the Secretary ought to put it out in time for them to get their house in order. In other words, the public must have some protection even against us farmers, you know. They have to have a little. I do not believe in giving them too much, but I think they ought to have a little, and I think that Marvin Jones started—
Mr. Patman. We are talking about two different things.
Mr. Murray. No.
Mr. Patman. There is a difference between the five basic commodities and the Steagall amendment.
Mr. Murray. I do not happen to come under the basic ones, because I do not come under that, and that is the reason I wanted to be under the Steagall amendment. The point I want to make there is that Marvin Jones, if you will look it up, you will see that Marvin Jones, for this last year—and I wish he were there yet, as far as I am concerned—Marvin Jones, on green peas, only guaranteed the price for the number of bushels of dried peas. That showed that the domestic people, and I presume the French people—he only guaranteed it for the amount that we wanted. Therefore, the public is entitled to some protection even under the Steagall amendment. I do not think the Steagall amendment means that you and I and everyone else can go out and raise three or four hundred thousand bushels of potatoes apiece and the Government has to give us 90 percent of parity. I do not think this committee ever meant that. Am I right?
Mr. Patman. There is a difference between the Steagall amendment and the basic commodities.
Mr. Murray. Oh, well, they have the loan, but they are subject to acreage reduction, and the other is subject, too. I say that because I do not think the rural people would have a right to ask for 90 percent of parity for the next 10 years and produce all they wanted to produce, and the Secretary can control that by saying that he will give it for so much, and then they can just make themselves a suit according to the cloth they have to make it with.

The Chairman. The clerk will call the next witness.

The Clerk. Mr. Mundt from South Dakota.

STATEMENT OF HON. KARL E. MUNDT, REPRESENTATIVE FROM THE STATE OF SOUTH DAKOTA

Mr. Mundt. Mr. Chairman, members of the committee, I think it is generally accepted now, all over the country, that the sole reason for asking for the extension of the Office of Price Administration is the fact that, due to the war and its aftermath, there is a dislocation between the supply and demand which would enable the pressure of this artificial demand to force prices to an inflationary level, and I hope that if the Office of Price Administration is extended at this time, we recognize the fact that there is just that one reason for its extension,
and write into the legislation something which will enable a gradual decontrolling process to take place on products and on items which are no longer in short supply, and it is to that particular aspect of the problem that I would like to address the committee very briefly.

I do not think anybody on this committee—I am certain that the general American public does not—wants the Office of Price Administration to become a permanent institution. On the other hand, no right-thinking man wants it abolished before the general economy is in such a condition that the public can be protected and so that maldistribution will not take place and cause tremendous dislocations of products, and tremendous inflationary spirals of prices.

I would like to propose for the serious consideration of you gentlemen of the committee the following amendment, to be written into the extension of the Office of Price Administration. Not necessarily in the language in which I propose it, but in substance, to cover the objectives sought in this amendment. As I have phrased it, it reads like this:

*Provided, however,* that the authority of the Office of Price Administration to fix prices on any commodity or product shall automatically terminate when that commodity or product can be demonstrated to have been in production for 3 months at the average monthly rate in which it was produced during the calendar year of 1939: *Provided, further, however,* that each purveyor thus exempt from price controls is prohibited from adjusting his prices upward by more than 10 percent in any 90-day period during the life of this act.

In my opinion, such an amendment, or an amendment which will carry out the substance of that suggestion, will achieve the following beneficial results:

In the first place, it will establish a definite program of termination for the functions of the Office of Price Administration.

It will set up a definite, understandable, demonstrable rule of thumb, by which industries and the producers of products can have themselves exempt from the functioning of the Office of Price Administration control, when the statistics show that production has reached a normal level over an adequate period of time.

No. 2. I think it is important that if some such self-liquidating phraseology is adopted in the extension of the act, that the criterion of production, rather than the criterion of demand, be written into the amendment, because demand is an intangible thing, which is very difficult to measure in any economic period of short supply. The people in your communities and mine, today, for example, who want to buy a refrigerator, or a radio, or an automobile, are putting in orders with several different suppliers, and so what appears to be demand for four automobiles may actually be the demand for one automobile. A man can cancel the order which he does not desire to substantiate with the cash payment when the cars become available.

That is the reason I urge the committee utilize a production figure, which is measurable, which can be found in the Census Bureau, and in the Department of Commerce, and which can be supplied by industries, which can be demonstrated by license numbers, in the case of automobiles, and many other ways. You can determine what the actual production is.

The third benefit which I conceive from such an amendment is this: I think it will tend to stimulate the production of some items which are now short, which are in the low-profit category, because all busi-
ness people, both in the retail and manufacturing business, would like to be free from the red tape and from the infringements of Office of Price Administration regulations. There will be this added incentive, then, to produce sufficient supplies of products, even at a low-profit margin, if they realize that the wheels of production have started to spin rapidly enough, so that there has been normal supply for a 90-day period, that particular product will come out from under the wing of the Office of Price Administration. You will have that added pressure stimulating production, and production, in the final analysis, is the answer to the challenge of inflation, and production certainly is the answer to whether or not we need an extension of the Office of Price Administration controls.

The fourth benefit which I envisage in this amendment is this: That such a provision will tend to prevent hoarding of supplies by jobbers and wholesalers, and processors, and anybody else who might have control of the product before it reaches the hands of the actual consumer, because of the provision that there can be no sharp zooming of prices, even after the product has come out from under the Office of Price Administration controls. I put in that proviso for that reason. There cannot be an upward adjustment of more than 10 percent in any 90-day period, even when the product is no longer subject to the whims and caprices of Office of Price Administration statisticians and economists. It will be a definite curtailment on their authority, and still it will be a lid, as it were, which cannot be taken off entirely, so that because of a temporary shortage in a particular area there can be a tremendous zooming of prices which would be highly undesirable and ruinous to the average consumer.

Mr. Chairman, that is all I have to say. I simply want to emphasize the fact that I think an intelligent approach to the problem of the extension of the Office of Price Administration at this time calls for some type of language in the Extension Act which will provide, within itself, automatic terminal facilities which will be demonstrable by actual statistics, and which will not be the occasion for argument and dispute.

Unless there are some question, that concludes my testimony.

Mr. Kilburn. I would like to ask Mr. Mundt what would happen under your amendment to a product which is now losing money. That would never get out from under control.

Mr. Mundt. A product which is losing money will never get out from under Office of Price Administration controls, anyhow, as long as we have an Office of Price Administration Act. It is hoped that the pressure of public opinion concentrating on that particular problem would force the Office of Price Administration to make adjustments in prices on that product such as to bring it back into production. It is true that if the Office of Price Administration, through sinister motives, were to desire to keep a product from coming out from under control, it could put a low price on it so that it would be unprofitable to manufacture it so it could never meet that criterion.

Mr. Kilburn. Some of their prices have kept production down, according to the testimony here. Production is going down.

Mr. Mundt. I think that is undeniably true, in certain products.

Mr. Kilburn. And under your amendment, of course, that situation would continue?
Mr. MUNDT. Right. And if some amendment as I propose is adopted, it will, as of today, or would, as of today, eliminate from the field in which the Office of Price Administration operates a great many products which now meet this criterion, and enable us to reduce the field of products in which the Office of Price Administration is interested, whereby we could spotlight more readily those instances where the Office of Price Administration has placed a price which is too low and has discriminated against products and kept them out of production. It would make it easier for public opinion, for the Members of Congress, for the people in the Office of Price Administration itself to detect that problem and to solve it, granting their good intentions, and, of course, unless we grant their good intentions, the whole Office of Price Administration thing becomes a fiasco.

Mr. WOLCOTT. That would apply to an individual industry, but your argument is when the supply reaches a certain percentage of demand, the price control could come off that particular product. That would benefit the industry which is operating at a loss.

Mr. MUNDT. Yes.

Mr. WOLCOTT. In the competitive field, the over-all supply, when it reached a certain percentage of the over-all demand, and the controls came off, it would take care of it?

Mr. MUNDT. That is right. It would take care of the marginal case which was unable to make a profit at a certain price level.

Thank you, gentlemen.

The CHAIRMAN. Mr. Dondero, you are next.

STATEMENT OF HON. GEORGE A. DONDERO, REPRESENTATIVE FROM THE STATE OF MICHIGAN

Mr. DONDERO. Mr. Chairman, I was in the city of Detroit, Mich., yesterday, and in the public press of that city appeared the statement made by Mr. Porter that if rent control was abolished that rent would increase 55 percent in this country. I do not know the accuracy of that statement. Neither do I question it. But I do know this: That if Mr. Porter, whom I know personally, and for whom I have a very high regard, if his statement is only 25 percent accurate, that statement, in my opinion, is a very bold admission of the injustice and the inequity imposed upon the small property owners of this country, in the rent ceilings which now exist, and particularly in the metropolitan area of Detroit.

Two things are happening back in my section of the country, which, in my opinion, are contributing to the housing shortage, and which Congress is trying to correct and relieve. One is this: Wherever the owner of property is called upon to render essential services, those property owners are resisting to the utmost the inclusion of any other individual to come into their property and exist or live with the tenants now in possession, on the ground that it imposes upon them additional costs of maintenance, light, heat, gas, water, and janitor service. And for that reason those people are not permitted to come into that space, even though the space is adequate perhaps to accommodate one or two or more people.

That is No. 1.
The other thing that is happening in my section of the land, which I think is contributing materially to the housing shortage of the country, is this: Wherever an apartment building, or a house, a double house, or any other residence where people live, is in or near a commercial center of the town, the ground floor or basement apartments and even the second floor are now being converted for commercial purposes and people who lived in those apartments are being evicted, and thereby forced to seek residence or home or shelter elsewhere, and the owners of the property are doing that in order to relieve themselves from the burden of trying to carry the property under existing rents, which they cannot do. It is no secret that taxes in some of the communities of my district have increased from 33 1/3 to 40 percent since the rent ceiling was fixed in that area, as of April 1, 1941. That is the situation.

Now, I have no faith or confidence that an increase in rents is going to be granted by the Office of Price Administration as an administrative function. If the small property owners of this country—and they constitute that segment of our population who, in their earning and productive years, have saved enough or accumulated enough to acquire a little extra property, which they could rent in their declining years, and thereby have an income to sustain them and keep them independent of any Government support—that segment of our population, in my opinion, will not receive any relief from the rent ceiling, unless this committee does it. I have seen too many cases, and too many have been brought to my attention in the last 5 years, to not believe that the only relief that those people can get is at the hands of this committee in considering an increase in the rent at least for those people and thereby have it presented to the Congress of the United States.

That is all I have to say, but it did strike me and challenged my attention, that when we admit, through a Government agency, that rent would increase 50 or 55 percent if all rent controls were abolished, we are admitting our guilt that an injustice and inequities are imposed upon those people from which they have not been granted any relief in the last 5 years.

Thank you.

The Clerk. Mr. Boren of Oklahoma.

STATEMENT OF HON. LYLE H. BOREN, REPRESENTATIVE FROM THE STATE OF OKLAHOMA

Mr. Boren. Mr. Chairman and gentlemen of the committee, it is my view that however desirable the prevention of price rises might be, that the tyranny of the Office of Price Administration, the evils of its present administration as it now is constituted, outweigh those benefits, and if I have to make a choice between voting for the continuance of the Office of Price Administration or its abolition, on the basis of the present law and administration, I would be compelled in good conscience to vote for its abolition, today or tomorrow or any day.

I am here today to request this committee to correct the frailties in the law so that its benefits can be maintained without its evils, and to request this committee to give particular thought to regulating in the law the regulators, so that their regulation will be within the spirit of the objective that this committee and the Congress had in mind in the act.
I do not intend to take the time of the committee because I know you have been holding long and detailed hearings on every phase of this problem, but I do want to say that in almost every field of productive enterprise in the district that I represent, and since I sat as chairman of a committee which, for the last 2½ to 3 years, has had the particular problem of making studies on Maximum Price Regulation regulations and so on, I want to say that I can, if you choose, give you, on the dairy business and many others, out of personal experience and out of information collected, positive proof that the Office of Price Administration, in its present practices, its dilatory tactics, in many instances, has prevented production and in many others unnecessarily delayed it, and that its policies have abolished, in many instances, established sources of production, and in many other instances has militated against a return to normal production.

And in one more generality, I want to say that it is my conception that this committee intended, and that the Congress thought it was voting for, a program that would place price ceilings, ceilings against which the price of things would not rise. I think, for example, that it is sound to assume that a can of tomatoes of a certain quality should not cost more than, say, 15 cents, anywhere, in any store, any place you might go to buy it, if that is a reasonable ceiling for that product.

But that has not been the approach to the problem, and the faults, as I see them, have been in the lack of that approach, and I specifically request that the committee change the present law on that provision which provides that when a man is cited for noncompliance, or when an Office of Price Administration official goes to a store and says, "Your store is not complying," that man is then called before a panel, which panel has no authority in itself, if he admits he is out of compliance, except to issue him a fine, and if he does not admit it, except to certify him back to the Office of Price Administration Trial Division for a trial in court. I do not know the paragraph of the law from memory, but I am sure you know what I am talking about.

Recently, in a county which has only one town larger than seven or eight hundred people, and that has 25,000 people, 88 grocers were named as being out of compliance. I assume that is almost all of the grocers. I cannot imagine a town of 25,000 people having many more than that. When they were brought before the panel, only about 37 of them were found to be out of compliance. That is, 37 plead guilty. I do not know what happened to the rest of the cases. But these 37 paid fines of $25 to $50, and they paid those fines for this reason: Those 88 grocers were not crooks. There might have been one crook amongst them—that is, a man who was deliberate in violating the spirit of the act, and I think this committee ought to see to it that the processes are such that you simply go out and arrest the action of the man who is in deliberate violation.

If you could pay $25 and have no more trouble, because you had sold some one item for one penny more than it was supposed to sell for, and the items affected were Hershey's chocolate and Skinner's chocolate, a little bar that sells for 12 or 13 cents—at one time Skinner's chocolate sold for 13 cents and Hershey's was 12, but the Office of Price Administration sought to reverse that later, so at least fifty-and-odd of these grocers were cited on that one thing. They went in and paid it. Why did they do it? Because $25 was cheaper than going 70 miles away to Oklahoma City to the nearest Federal
court and hire a lawyer and plead their defense in that court. And
time after time that has happened. I appeal to you particularly
for you to correct that provision in the law and its abuses.

I want to say that in the dairy business in my home town there
were four dairies when the war began. Today there is one. The
price of a quart of milk laid down at my door in my home town
before the war was 12 cents. Today it is 17. At the time the other
three dairies were about to go out of business, they appealed to the
Office of Price Administration for a price of 12 cents a quart for
milk and they were not granted it for such a long period of time that
by the time they finally got down to granting a price increase, there
was only one left to get the benefit of it. And right today the milk
ceiling in the town of Ada, Okla., the whole milk, where the farmers
sell a can of milk, is so different from the price ceiling at Shawnee,
Okla., both towns of about the same size, that the milk from Ada is
going to Shawnee instead of to Ada. The same thing is true in in-
stance after instance.

I appeal to you to do something.
I would like to see the maintenance of a price control system that
would prevent any runaway prices from some reasonable ceilings on
the basic commodities that are sources of great concern to us. But
I appeal to you to eliminate in this act this arbitrary decision as to
what the price of a can of tomatoes will sell for at this store, and at
the next store for something else and all those other inequities that
are leading to disruption in manufacturing.

I do know from personal investigation, for instance, a man who
was selling a $2 shirt. This man had labor costs and other costs; be-
cause they would not permit him to raise the price to $2.10, he comes
in as a new manufacturer of something different, like ladies' blouses
or men's shorts, and he began to sell men's shorts, that used to sell for
75 cents, for $1.50, and the shorts man, because he could not get his
price raised to 75 cents, turned around and started to make shirts and
sells them for $3. So there is a disruption of the manufacturing
processes.

I want to say to the committee that what I have to say is the result
of my personal experience and my work as chairman of the committee
referred to as the Boren committee. We have reams of testimony
on these points. Although I personally do not operate any business
except the farm, and have the direct management of it, I can tell you
why I did not sell cattle and my neighbors did not sell them when
beef was short, and how we sell them or keep them, according to the
Office of Price Administration's mistakes. I know about that from
personal experience, but I am also financially interested and on the
board of directors and management of a wholesale business, a local
Chrysler-Plymouth motorcar dealership and two or three other busi-
ness firms, so I have some reason to say what I do out of actual business
experience and know what governs our policies within those busi-
nesses, where these impossible price regulations affect us.

Unless there are questions, I have nothing further to say, Mr.
Chairman.

The Chairman. Call the next witness, Mr. Clerk.
The Clerk. Mr. Gossett of Texas.
STATEMENT OF HON. ED GOSSETT, REPRESENTATIVE FROM THE STATE OF TEXAS

Mr. Gossett. First, I will extend my sympathy to the committee. I know that you are laboring with a most complicated, involved and difficult problem, and that you have sat long and patiently, and that you are going to do the very best job you can.

I will confine my remarks to a matter of general policy, and I will not go into the detail of the Price Control Act.

In the first place, I am greatly concerned that in the pending Extension Act, that the committee give serious consideration to writing into the act a formula that has been agreed upon, I think, by all those in the Administration, and by everybody else that I know, to wit: That no price control shall be imposed on any commodity of which there is a normal and adequate supply.

I have in my hand here a letter just received in the morning's mail from the present Administrator, the Honorable Paul A. Porter. I will not read all of the letter. It is on a particular subject matter, but he states:

Some time ago Mr. Bowles announced a policy of removing all price controls as soon as the need for them disappears.

Well, all administrators have agreed that that is a policy that we should follow. Now the thing that embarrasses me, and I am sure that embarrasses all members of the committee and all Members of Congress, is the constant criticism that all of us get for not exercising congressional powers and not setting policies in legislation. We are also being upbraided for delegating too much authority to the executive branch of Government.

The folks throughout the country say, "Well, now, that is the business of Congress. Why do you not do this? Why do you not get some of your powers back?"

If the Administration agrees that this is a sound policy—that is that price controls should not be imposed on any commodity of which there is a normal and adequate supply, it seems to me that we certainly ought to write that provision into the law. I am not suggesting any verbiage or just how such an amendment should be written, but whether price controls are extended or not, I think if they are extended that we certainly should write into the act that provision. I think it would give confidence to the business interests of the country, it would give confidence to every citizen that we intend to maintain the traditional American system of government and our usual ways of doing business and that if and when production catches up with demand in any particular field, price controls will no longer be imposed.

I just beseech the committee to do a thing that I feel it already has in mind doing, and that is not to leave such an important policy to the Administrative determination but rather to write it into the act and say that Congress is determining, as a matter of policy, that price controls will not be imposed any longer than they are actually needed, and that they are not needed when the production or the supply of a particular commodity or product reaches normal or adequate demand.
We have a number of items that could be released under such a formula. That is the only purpose I had in coming here, because on that one thing at least I have my mind definitely made up, and I do not believe there is any logical objection to such a policy. I hope that the committee will write that into the law.

Thank you.

Mr. Kilburn. Mr. Chairman, I wonder if Mr. Gossett knows that yesterday afternoon we had testimony from the petroleum people who said there is a bigger supply of petroleum in this country now than we have ever had. They tried to get out from under price control but they cannot.

Mr. Gossett. I might say to the gentlemen, that I think certainly that the petroleum industry should be taken out from under price controls. I am fully convinced that the alleged shortage of fuel oil, for example, on the eastern seaboard and in certain localities has been a result of price control. In my section of the country, I represent perhaps the district that has the largest number of independent oil men of any district in the world, and many of them have been going out of business under existing ceilings.

My concern in this whole business is largely for the small business structure of the country, and I think it would be far better for the consumer, the country as a whole, to let the petroleum industry out from under price controls and let the normal business procedure have full sway.

The petroleum industry is not the only industry in which there is normal and adequate supply in my opinion, but certainly it is the outstanding example of one for which there is no further need of price controls.

Mr. Wolcott. Do you think we have to wait until there is a surplus before we remove price controls?

Mr. Gossett. No, I do not think so. But if there is a surplus certainly nobody, by any stretch of the imagination, could further contend that price controls are necessary, unless he advocates a complete regimentation of the Nation's economy as a permanent policy of Government, and I do not understand anybody to be so contending before this committee.

Mr. Wolcott. Do you think it would be perfectly safe to remove controls when production reached a certain percentage of the demand?

Mr. Gossett. I think that would be a very sound policy. I would like to see that tried. But I am just saying that in my feeble way I cannot see any argument in the world for continuing price controls on anything which is in normal supply.

I may not have made myself clear. I think it is terribly important that it be written into the act and not left to administrative discretion, because it is a congressional duty to determine policy and that should be determined as a matter of policy.

The Chairman. Does that conclude the congressional witnesses?

The Clerk. Yes, sir.

Mr. Wolcott. Mr. Chairman, may I at this point insert in the record a letter to Forest A. Harness by W. R. Sinclair?

The Chairman. That may be inserted.
(The above-referred to letter is as follows:)

**KINGAN & CO.,**

**Indianapolis 6, Ind., March 15, 1946.**

**HON. FOREST A. HARNESS,**

**House Office Building, Washington, D. C.**

**DEAR MR. HARNESS: I feel compelled to call to your attention the situation that prevails in the livestock markets and the effect it is having on our business under present OPA regulations imposing ceilings on livestock, namely MPR 574 on cattle and MPR 469 on hogs.**

There is such widespread violation of both of these orders in the sale of livestock for slaughter that the black market has grown to enormous proportions, which the OPA enforcement division seems powerless to curb. The result is a most serious diversion of both cattle and hogs from the normal established commercial channels.

The closer to the eastern seaboard the livestock markets are, the worse is the black market in livestock. It is rampant in the State of Indiana. The result of these operations places the legitimate operator, who is observing the regulations, in an impossible position because of lack of volume.

Kingan is now in its one hundred and first year. The affairs of the company have always been conducted along honest lines. This is still the policy of the company, and the management cannot remain silent and see the business crippled while bootleggers in meat are violating Federal regulations with impunity.

In markets where unscrupulous buyers are most active (Indianapolis is an outstanding example) it has become impossible for the legitimate operators to obtain anything like normal supplies of livestock. During the past month it has been practically impossible for our Indianapolis plant to buy any cattle at all in compliance with MPR 574. Although we have been in the market every day for every head we could purchase legally, we could not obtain enough cattle to give our killing gang work for more than 1 or 2 days each week, with the result that we have been compelled to lay off about 200 production employees.

The cattle shortage not only limits our killing operations but also curtails the volume of important manufacturing departments that draw a large part of their raw material from cattle. The operation of our distributive sales organization is likewise crippled. We have been compelled to close about 50 of our 250 sales routes in the past 9 months because of lack of volume, and we are working many others on an every-other-week basis.

During November and December 1945 we were able to obtain a fairly normal volume in our beef division and still stay in compliance with MPR 574. For the past 6 weeks, however, the Indianapolis live cattle market has been consistently 50 to 75 cents per 100 pounds over the limit we figure we could pay for live cattle and buy them legally. Our purchases have represented only a small proportion of the receipts at this market and of our normal volume.

The situation on cattle in our plants at Richmond, Va., Orangeburg, S. C., and Dothan, Ala., is just as bad, and in some cases worse, as is indicated by the following table:

<table>
<thead>
<tr>
<th>Plant</th>
<th>Cattle kill (number of head)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Normal weekly kill</td>
</tr>
<tr>
<td>Indianapolis, Ind.</td>
<td>2,500 to 3,000</td>
</tr>
<tr>
<td>Richmond, Va.</td>
<td>300 to 400</td>
</tr>
<tr>
<td>Orangeburg, S. C.</td>
<td>200 to 300</td>
</tr>
<tr>
<td>Dothan, Ala.</td>
<td>300 to 400</td>
</tr>
</tbody>
</table>

Thus the aggregate decline from normal in the volume of cattle killed in the past 6 weeks in these four plants of Kingan & Co. is 72 percent.

The situation in hogs has been bad also, although our decline in volume has not been quite so serious. In the public markets the ceiling prices are reason-
ably well observed, but the hogs are not coming to the public markets in normal numbers. Buyers who are not bothered by the rules have been picking up the hogs at country points at prices more attractive than the legal ceilings at the central markets. Several days in February we saw only a handful of hogs in the Indianapolis yards, and our Richmond and Orangeburg plants have been unable to buy hogs through their established sources. Our hog-killing gangs are getting about half a week's work.

The Bureau of Agricultural Economics, United States Department of Agriculture, publishes statistics in a pamphlet entitled "The Livestock and Wool Situation." In the January-February issue (on p. 12 under the caption "Recent developments") are given figures on the total United States meat output and meat produced under Federal inspection, the difference between the two indicating the production of noninspected meat. The figures show that production of federally inspected meat declined 14.5 percent in the year '45 compared to '44, whereas noninspected production increased 7.3 percent in the same period.

In our judgment this understates the diversion from normal commercial channels during '45, because no one can get statistics on the enormous volume of livestock that is being slaughtered locally in country towns. Even so, the figures indicate a switch of over 1,000,000,000 pounds from production under Federal inspection to noninspected production. In the past 6 weeks the situation has become materially worse than it was in '45.

If these tendencies are not checked, the business of legitimate operators, such as Kingan & Co., will gradually come to a standstill. Further reduction in employees will be unavoidable, because we cannot continue indefinitely "making work" for our gangs to give them the guaranteed time of 36 hours a week.

Meantime even controls over meat prices have failed to produce the benefits claimed for them, since millions of consumers are compelled to pay higher than ceiling prices for their meat. Otherwise the black-market killers could not flourish and pay higher than ceiling prices for their livestock.

The Kingan management fully recognizes the dangers of inflation but believes that people who claim the cost of meat to the consuming public is being held down by retail ceilings are misleading the public, because it just isn't so.

This business might be able to operate under a reasonable schedule of meat ceiling prices alone but it cannot operate if it cannot buy livestock. We have made numerous efforts to get OPA to do something about it—without success. We have reluctantly reached the conclusion that the enforcement of the present livestock ceiling prices is impossible; and our management has concluded that the only thing to do is to urge removal of present livestock ceilings.

We recognize that if they are taken off we are likely to have a tough time making any money in the business; but at least we shall have opportunity, without breaking the law and being subject to jail sentence and penalties of hundreds of thousands of dollars in fines and subsidies, to get our people back to work, and to preserve the hard-earned position the company has taken so many years to establish in the trade. If ceilings on meat won't work without ceilings on livestock, then our only choice can be to recommend the removal of both.

This question is timely because of the present consideration by Congress of renewal of the Price Control Act for a period extending beyond June 30, 1946. We hope that if this is done, ceiling prices on livestock at least will be eliminated as unfair and unenforceable.

Very truly yours,

W. R. Sinclair.

The Chairman. There is another witness, Mr. Pace, who asked to appear at the time the fruits and vegetable witnesses appeared. As a result of a misunderstanding he did not appear. He is here now and we will hear him.
STATEMENT OF MURL E. PACE, GENERAL MANAGER, UNITED GROWERS AND SHIPPERS ASSOCIATION

Mr. Pace. Mr. Chairman and members of the committee, I am Murl E. Pace, general manager of United Shippers Association.

Our association is a professional organization, representing the producers, packers, and marketing organizations handling approximately 40 percent of Florida’s citrus crop annually, the comments which we may have to make relative to the subject under consideration, for my own personal knowledge, meet with the general approval of other Florida citrus interests.

The views of our group will be expressed to your committee by our economic council. I may say here that we have a prepared statement that would take some 15 or 20 minutes to deliver, but we are mindful of the possible lateness of the hour and of your feelings, and we will only undertake to hit a few of the more important points and file the statement in full for the record.

The CHAIRMAN. YOU may do so.

(The following is the statement:)

STATEMENT BEFORE THE BANKING AND CURRENCY COMMITTEE, HOUSE OF REPRESENTATIVES, SEVENTY-NINTH CONGRESS, SECOND SESSION, BY J. WAYNE REITZ, ECONOMIC COUNSEL, UNITED GROWERS AND SHIPPERS ASSOCIATION, ORLANDO, FLA.

I appear here today on behalf of the United Growers and Shippers Association with the belief that there no longer exists any need for continuing price control on fresh citrus fruits. We take this position in accordance with the announced policy of the former Administrator of the Office of Price Administration, Mr. Chester Bowles. This policy, which has been announced and consistently reiterated, even by the President of the United States on September 6, 1945, is that when the supply of any commodity comes in balance with demand, price controls shall be eliminated. We agree with this announced policy of the Office of Price Administration. We do contend, however, that in the administration of this announced policy, the Office of Price Administration has exercised too much administrative discretion and has failed to establish yardsticks which can be used in decontrol.

That the supply of citrus fruits in the United States justifies the removal of price ceilings in accordance with this policy can be demonstrated. We call attention to the fact that in the last 2 years of production ending with the 1944-45 season, United States producers have increased their output of oranges by 71 percent over the 5-year prewar period. In the case of Florida producers the increase in orange production during the 2 years ending with the 1944-45 season has been 106 percent. Grapefruit production in the United States has increased in these 2 years 86 percent over the prewar period. For Florida the increase has been 61 percent. We know of no major agricultural commodity, except soybeans and possibly peanuts, which has shown a greater expansion in production during the war period than has occurred in the case of citrus fruits. Yet prior to the war our markets were well supplied with such fruits as judged by low returns to producers. Furthermore, the trend in supply is ever upward. During the present season the total production of citrus fruits in the United States is set at 187,000,000 boxes,1 or 9,000,000 boxes higher than any previous year. Of this amount, Florida alone will produce 86,000,000 boxes, and it is estimated that within the next 5 years the output from Florida may easily reach 125,000,000 boxes.

At the time we have the largest crop on record, we are faced with a considerable reductions in one important outlet. Last year, Government purchases of

1 Capacity of boxes: Florida and Texas, 1½ bushels; California and Arizona, 1½ bushels.
canned citrus products totaled approximately 19,000,000 cases. This year purchases by the Government will be under 1,000,000 cases, or less than one-nineteenth of last season. Therefore, when one considers the over-all supply of both fresh and canned citrus, the adequacy of the supply for American consumers becomes apparent. We feel that when any commodity, whether it be agricultural or otherwise, reaches such a supply level, the need for price control no longer remains.

As evidence that supply is in balance with demand, we submit in table 1 attached hereto, data showing the reflected ceiling prices to Florida orange growers and the actual price received by months for the 1943-44 season through February 1946.

We call attention to the fact that there is no ceiling on the grower, but that in establishing f. o. b. ceilings, which is the first level of control, ceilings wherever established must reflect to the grower a minimum price as provided for under the Stabilization Act. In comparing this reflected ceiling price with the actual price over a period of 25 months of price control of Florida citrus ending with February 1946, there are only 3 months in the entire period when growers received a price in excess of this reflected monthly price. In two of these months the price was in excess by 2 cents and in another by 32 cents. During the 22 months out of the 25 when actual prices to the grower were below the reflected ceiling, the range was from a minus 2 to 120 cents. While this comparison deals with a reflected ceiling price which was not directly under control, it definitely shows that had supplies been consistently below demand growers would have received ceiling or above ceiling levels for their fruit. More definitely the data show that the supply of citrus fruits was such, during this 25-month period, as to not justify price control.

When a similar comparison is made between auction ceiling prices on the 10 citrus auctions of the country and the actual auction price, differences between ceiling and actual prices are even greater than for grower prices. In the same period mentioned above, oranges from the interior of Florida, which represent approximately 85 percent of Florida orange shipments, were consistently below ceiling except for the first week of November 1944 which shows a plus 1 cent. This is a discrepancy in handling weekly statistics in connection with a hazard price adjustment made during the week. In the 23 months shown when actual prices were below ceiling the monthly range was from a minus 2 cents to a minus $1.60. In 14 of the 23 months the difference was over 40 cents. Even during the much publicized period of decontrol from November 19, 1945, to January 4, 1946, the monthly average auction price remained under ceiling levels for Florida interior oranges.

What has been said about Florida oranges is equally true for Florida grapefruit, but we shall not labor the record with additional statistics, except for filing herewith tables 3 and 4 which are comparable to the orange tables referred to. We do wish to point out, however, that again during the much publicized suspension of ceilings from November 19, 1945, to January 4, 1946, Florida grapefruit prices at auction were below ceiling. On the 5 days prior to reinvoicing ceilings auction prices for Florida grapefruit ranged on a daily basis from 10 to 56 cents per box below ceiling. Surely such a price situation is evidence enough that supply has more than equaled with demand as measured by ceiling price level.

In light of the above, we believe that the Office of Price Administration is being most arbitrary in carrying out its announced policy of decontrol as applied to fresh citrus fruits. It is our belief that Congress should, by amendment, establish a yardstick which would make it mandatory for the Office of Price Administration to remove controls whenever a commodity reaches a supply situation as now prevails on fresh citrus fruits. Furthermore, we believe that the administrative decision in interpreting the yardstick prescribed should rest with the Department of Agriculture and not with the Office of Price Administration. This latter recommendation is made for three reasons. (1) The Department of Agriculture has the basic data for making the needed evaluation and the workers therein are constantly studying the forces affecting market prices, (2) they can be more objective in their evaluations since the perpetuation of an agency is not at stake, (3) the Office of Price Administration is, by necessity we presume, too susceptible to pressure groups which decry decontrol irrespective of the facts as they pertain to individual commodities.

The recommendations hereinbefore are made not because we feel Florida producers would receive higher than ceiling prices on a seasonal basis. The data already presented reveal that such has not been nor would be the case.
Rather we feel that the average seasonal price to the grower might be slightly increased, yet still below ceiling levels. At the same time the average seasonal price to the consumer could well be decreased. This may seem a paradox. Again the experiences in price control gives every indication that such a condition would prevail. For basic evidence we submit figure I which shows the relationship between the percent of the consumer's dollar expended for oranges which is returned to the grower, and the price paid per dozen. It is a well understood principle that when the price paid by the consumer for farm products increases the percent of the consumer's dollar going to the producer increases. This is because of the relative fixity of marketing costs. As will be observed in figure I there is a close relationship in these two factors for the period 1932 through 1942, i.e., as the price increases the percent of the consumer's dollar going to the farmer also increases.

What happens under price control? The relationship no longer holds. We realize that this line of relationship cannot go up indefinitely but rather would tend to level off at current prices by returning 55 to 56 percent of the consumer's dollar to the grower. Instead of returning this amount, only from 40 to 46 percent has been returned.

We attribute this abnormal relationship to the mechanics of price control. In the first place, the margins allowed the distributive interests are in excess of normal margins prior to price control, even when a justified increase is allowed for operating costs. Thus, even when prices are at ceiling levels from grower through to consumer, the regulation prevents the percentage of the consumer's dollars which would normally be returned to the grower at prevailing prices from being returned. But this is not all nor the most important reason. As previously mentioned, during most of the period of price control, prices at the tree and at auction markets were below ceiling. While these below ceilings prevailed, a vast number of retail stores continued to sell oranges at ceiling levels in line with the weekly community announcements of the Office of Price Administration which established ceilings on an "overriding" basis, i.e., as though prices were at ceiling at all levels. Consequently we find that in periods of seasonal short supply the distributive interests were guaranteed a legal minimum mark-up in excess of previous relationships, and when supplies were ample a large segment of the trade continued to sell at ceilings, and thereby derived a windfall profit.

Now it is our considered judgment that by removing price controls on citrus fruits competitive forces will reduce distributors' margins in periods of short supply, as is normally the case. Thus, without necessarily raising the price to the consumer over current ceilings a larger part of the consumer's dollar will be returned to the grower. Again, when supplies are ample, as has been the case during most of price control, competitive forces will adjust prices accordingly to the mutual advantage of producers and consumer. As the situation now stands, many handlers no longer stop to figure at what margin they can or would operate, but out of apparent habit accept the announced ceilings of the Office of Price Administration, which in many instances are above the legal maximum. Thus the consumer continues to pay higher price than is justified by supply conditions, and the producer suffers because this arbitrarily influenced price level further backs up supplies and reduces the price at the grower level. This will be even more true in the future than over the past 2 years. A return to competition would correct these practices and injustices.

To summarize, we emphasize the tremendous supply of citrus fruit now available and the prospect for the future. We further emphasize the necessity for all factors in the industry to again become accustomed to competitive practices so as to be in a position to develop better marketing practices, now largely dormant, in handling the ever-increasing size of our crop. This latter and necessary objective is of importance to all factors from the producer to the consumer cannot be attained under the impediments of price control. Consequently, we return to our original recommendation that the Congress, by amendment, exclude citrus and other commodities with similar supply and demand situations from price control. This can be attained by outright exclusion, but in the absence thereof, an appropriate yardstick should be established with the administrative decision for its application being placed in the Department of Agriculture.

2 Price per dozen is used since this is the manner in which reported by the U. S. Department of Agriculture. It is recognized that the more commonly accepted pricing method is by the pound.

Mr. Pace. In qualifying or explaining the qualifications of one of my associates who will present our views, he is, I would like to say, a graduate of Colorado State College, from which he received his bachelor's degree. He received his master's degree from the University of Illinois, and a degree from the University of Wisconsin and for a number of years prior to entering our employ was professor of agriculture economics at the University of Florida.

With your permission, I now present Dr. J. Wayne Reitz.

Mr. Reitz. Mr. Chairman and members of the committee, I appear here today on behalf of the United Growers and Shippers Association with the belief that there no longer exists any need for continuing price control on fresh citrus fruits.

STATEMENT OF J. WAYNE REITZ, ECONOMIC COUNSEL, UNITED GROWERS AND SHIPPERS ASSOCIATION, ORLANDO, FLA.

Mr. Reitz. We take this position in accordance with the announced policy of the former Administrator of the Office of Price Administration, Mr. Chester Bowles. This policy, which has been announced and consistently reiterated, is that when the supply of any commodity comes in balance with demand, price controls shall be eliminated.

We agree with this announced policy of the Office of Price Administration. We do contend, however, that in the administration of this announced policy, the Office of Price Administration has exercised too much administrative discretion and has failed to establish yardsticks which can be used in decontrol.

That the supply of citrus fruits in the United States justifies the removal of price ceilings in accordance with this policy can be demonstrated. We call attention to the fact that in the last 2 years of production ending with the 1944-45 season, United States producers have increased their output of oranges by 71 percent over the 5-year prewar period.

In the case of Florida producers, the increase in orange production during the 2 years ending with the 1944-45 season has been 106 percent. Grapefruit production in the United States has increased in these 2 years 86 percent over the prewar period. For Florida the increase has been 61 percent. We know of no major agricultural commodity, except soybeans and possibly peanuts, which has shown a greater expansion in production during the war period than has occurred in the case of citrus fruits.

Yet prior to the war our markets were well supplied with such fruits as judged by low returns to producers. Furthermore, the trend in supply is ever upward. During the present season the total production of citrus fruits in the United States is set at 187,000,000 boxes—capacity of boxes: Florida and Texas, 13½ bushels; California and Arizona, 1½ bushels—or 9,000,000 boxes higher than any previous year. Of this amount, Florida alone will produce 86,000,000 boxes, and it is estimated that within the next 5 years the output from Florida may easily reach 125,000,000 boxes.

At the time we have the largest crop on record, we are faced with a considerable reduction in one important outlet. Last year, Government purchases of canned citrus products totaled approximately 19,
000,000 cases. This year purchases by the Government will be under 1,000,000 cases, or less than one-nineteenth of last season. Therefore, when one considers the over-all supply of both fresh and canned citrus, the adequacy of the supply for American consumers becomes apparent. We feel that when any commodity, whether it be agricultural or otherwise, reaches such a supply level, the need for price control no longer remains.

As evidence that supply is in balance with demand, we submit in table 1, attached hereto, data showing the reflected ceiling prices to Florida orange growers and the actual price received by months for the 1943–44 season through February 1946.

We call attention to the fact that there is no ceiling on the grower, but that in establishing free-on-board ceilings, which is the first level of control, ceilings wherever established must reflect to the grower a minimum price as provided for under the Stabilization Act.

In comparing this reflected ceiling price with the actual price over a period of 25 months of price control of Florida citrus ending with February 1946, there are only 3 months in the entire period when growers received a price in excess of this reflected monthly price. In two of these months the price was in excess by 2 cents and in another by 32 cents.

During the 22 months out of the 25 when actual prices to the grower were below the reflected ceiling, the range was from a minus 2 to 120 cents. While this comparison deals with a reflected ceiling price which was not directly under control, it definitely shows that, had supplies been consistently below demand, growers would have received ceiling or above ceiling levels for their fruit. More definitely the data show that the supply of citrus fruits was such, during this 25-month period, as not to justify price control.

When a similar comparison is made between auction ceiling prices on the 10 citrus auctions of the country and the actual auction price, differences between ceiling and actual prices are even greater than for grower prices.

In the same period mentioned above oranges from the interior of Florida, which represent approximately 95 percent of Florida orange shipments, were consistently below ceiling except for the first week of November 1944 which shows a plus 1 cent. This is a discrepancy in handling weekly statistics in connection with a hazard price adjustment made during the week.

In the 23 months shown when actual prices were below ceiling the monthly range was from a minus 2 cents to a minus $1.60. In 14 of the 23 months the difference was over 40 cents. Even during the much publicized period of decontrol from November 19, 1945, to January 4, 1946, the monthly average auction price remained under ceiling levels for Florida interior oranges.

What has been said about Florida oranges is equally true for Florida grapefruit, but we shall not labor the record with additional statistics, except for filing herewith tables 3 and 4 which are comparable to the orange tables referred to.

We do wish to point out, however, that again during the much publicized suspension of ceilings from November 19, 1945, to January
4, 1946, Florida grapefruit prices at auction were below ceiling. On the 5 days prior to reinvoking ceilings auction prices for Florida grapefruit ranged on a daily basis from 10 to 56 cents per box below ceiling. Surely such a price situation is evidence enough that supply has more than equated with demand as measured by ceiling price level.

In light of the above, we believe that the Office of Price Administration is being most arbitrary in carrying out its announced policy of decontrol as applied to fresh citrus fruits.

It is our belief that Congress should, by amendment, establish a yardstick which would make it mandatory for the Office of Price Administration to remove controls whenever a commodity reaches a supply situation as now prevails on fresh citrus fruits. Furthermore, we believe that the administrative decision in interpreting the yardstick prescribed should rest with the Department of Agriculture and not with the Office of Price Administration. This latter recommendation is made for three reasons:

First, the Department of Agriculture has the basic data for making the needed evaluation and the workers therein are constantly studying the forces affecting market prices.

Second, they can be more objective in their evaluations since the perpetuation of an agency is not at stake.

Third, the Office of Price Administration is, by necessity we presume, too susceptible to pressure groups which decry decontrol irrespective of the facts as they pertain to individual commodities.

The recommendations hereinafter are made not because we feel Florida producers would receive higher than ceiling prices on a seasonable basis. The data already presented reveal that such has not been nor would be the case. Rather we feel that the average seasonal price to the grower might be slightly increased, yet still below ceiling levels. At the same time, the average seasonal price to the consumer could well be decreased.

This may seem a paradox. Again the experiences in price control give every indication that such a condition would prevail. For basic evidence we submit figure 1 which shows the relationship between the percent of the consumer's dollar expended for oranges which is returned to the grower, and the price paid per dozen. Price per dozen is used since this is the manner in which reported by the United States Department of Agriculture. It is recognized that the more commonly accepted pricing method is by the pound.

It is a well-understood principle that when the price paid by the consumer for farm products increases the percent of consumer's dollar going to the producer increases. This is because of the relative fixity of marketing costs. As will be observed in figure 1 there is a close relationship in these two factors for the period 1932 through 1942, i. e., as the price increases the percent of the consumer's dollar going to the farmer also increases.

What happens under price control? The relationship no longer holds. We realize that this line of relationship cannot go up indefinitely but rather would tend to level off at current prices by returning 55 to 56 percent of the consumer's dollar to the grower. Instead of returning this amount, only from 40 to 46 percent has been returned.

We attribute this abnormal relationship to the mechanics of price
control. In the first place, the margins allowed the distributive interests are in excess of normal margins prior to price control, even when a justified increase is allowed for operating costs. Thus, even when prices are at ceiling levels from grower through to consumer, the regulation prevents the percentage of the consumer's dollars which would normally be returned to the grower at prevailing prices from being returned.

But this is not all nor the most important reason. As previously mentioned, during most of the period of price control, prices at the tree and at auction markets were below ceiling. While these below ceilings prevailed, a vast number of retail stores continued to sell oranges at ceiling levels in line with the weekly community announcements of the Office of Price Administration which established ceilings on an overriding basis, i.e., as though prices were at ceiling at all levels.

Consequently we find that in periods of seasonal short supply the distributive interests were guaranteed a legal minimum mark-up in excess of previous relationships, and when supplies were ample a large segment of the trade continued to sell at ceilings, and thereby derived a windfall profit.

Now, it is our considered judgment that by removing price controls on citrus fruits competitive forces will reduce distributors' margins in periods of short supply, as is normally the case.

Thus, without necessarily raising the price to the consumer over current ceilings a larger part of the consumer's dollar will be returned to the grower. Again, when supplies are ample, as has been the case during most of price control, competitive forces will adjust prices accordingly to the mutual advantage of producers and consumers.

As the situation now stands, many handlers no longer stop to figure at what margin they can or would operate, but out of apparent habit accept the announced ceilings of the Office of Price Administration, which in many instances are above the legal maximum. (See War-time Price Control of Fresh Citrus Fruits, by J. Wayne Reitz, Journal of Farm Economics, vol. XXVII, No. 3, August 1945, pp. 562–568.)

Thus the consumer continues to pay higher price than is justified by supply conditions, and the producer suffers because this arbitrarily influenced price level further backs up supplies and reduces the price at the grower level. This will be even more true in the future than over the past two years. A return to competition would correct these practices and injustices.

To summarize, we emphasize the tremendous supply of citrus fruit now available and the prospect for the future.

We further emphasize the necessity for all factors in the industry to again become accustomed to competitive practices so as to be in a position to develop better marketing practices, now largely dormant, in handling the ever-increasing size of our crop.

This latter and necessary objective of importance to all factors from the producer to the consumer cannot be attained under the impediments of price control. Consequently, we return to our original recommendation that the Congress, by amendment, exclude citrus and other commodities with similar supply and demand situations from price control. This can be attained by outright exclusion, but
in the absence thereof, an appropriate yardstick should be established with the administrative decision for its application being placed in the Department of Agriculture.

Now if there are any questions, I will be glad to answer them.

Mr. Wolcott. Mr. Reitz, I understand that citrus fruits have been selling under ceiling most of the time. What was the reason for the price going up when controls were taken off last fall?

Mr. Reitz. Well, as you will recall, the prices on some fruit at auction did increase for about a week right around Christmas time.

Mr. Wolcott. Here in Washington, they became almost prohibitive.

Mr. Reitz. They were high in some stores around Christmastime. That, of course, is a normal seasonal pattern in prices that we expect to have an increase in price at Christmastime. We still maintain that while without control we would have some prices that would be up above the ceiling levels, that we sell during the season below ceiling levels to such a large extent that over the whole period of our marketing season, prices we feel would be below ceiling.

But I am very glad you asked that question for this additional reason. You state that they were out of reason here in Washington. That may have been true at some stores, but I have here a full-page advertisement, which just happens to be from one chain store here in Washington—it is a Safeway Store—I have the full-page advertisement for December 27, 1945, from the Washington Evening Star.

Mr. Wolcott. When did the controls come off?

Mr. Reitz. The controls went back on on January 4.

Mr. Wolcott. They were off at that time?

Mr. Reitz. They were off; yes. They went back on on January 4. Ten pounds of sweet juicy Florida oranges, 65 cents. The Office of Price Administration overwriting ceiling in Washington, D. C., at that time had it been in effect, would have been a little over 8 cents a pound. In other words, here was a great chain store system, within the District of Columbia, selling 10 pounds of oranges for 6½ cents, right at the time when there was the most hollering for this decontrol on citrus, when the ceiling was just over 8 cents a pound.

Mr. Wolcott. The point I wanted to bring out is that quite a lot was made of that locally by the Office of Price Administration who used that as an example of what would happen if price control was taken off.

Mr. Reitz. I feel, if I may comment on that statement, that the Office of Price Administration has used largely fringe cases, in the decontrol period on citrus fruits, and has used them, may I say, somewhat unethically, in overplaying the significance of decontrol on citrus.

Mr. Wolcott. That is just the point. There is a seasonal increase in the cost of citrus fruits at the time they took off controls, is that it?

Mr. Reitz. There was a seasonal increase. There is a normal seasonal increase starting along about the end of November and extending in through and past Christmas.

Mr. Wolcott. There is then a decline?

Mr. Reitz. Yes, sir.
Mr. Wolcott. So it was only natural that if they took controls off at a time when there would ordinarily have been a seasonal increase that prices would go up, but they would have dropped back in January?

Mr. Reitz. That is true.

Mr. Wolcott. So that if they had taken off controls not in December but in January, when there is a seasonal decline, there likely would have been a decline in prices?

Mr. Reitz. Had they taken off controls after the first of January, we would have had no occasion for putting them back on, but I still maintain there was no occasion for putting them back on when they did.

Mr. Wolcott. That is the point I want to bring out. The unethical practice, if it is unethical, of their having used citrus fruits as a guinea pig to take advantage of the seasonal fluctuation, which is what would happen if price controls were taken off all commodities?

Mr. Reitz. While the Office of Price Administration did take them off prior to a normal seasonal increase in prices, we do not choose to state that the Office of Price Administration did that maliciously, that is decontrol. Some people feel that. But we do not make that charge, because at no time did we withdraw our request for removing controls. But the charge that I do make is that they have used the experience during the period of decontrol unethically in overemphasizing the importance of a few fringe price increases, when as a matter of fact, every housewife in any important shopping center of eastern United States where Florida ships citrus, coming into any supermarket, according to the surveys of the Florida Citrus Commission taken from newspaper advertisements the country over, just like this one, and buy Florida citrus fruits at below-ceiling prices.

There may have been certain other types of citrus fruits for which she had to pay above-ceiling prices, but she still had the choice of good Florida citrus fruit at below-ceiling prices, and therefore we maintain that the housewife had no legitimate complaint, as long as that case prevailed.

Now, if the Office of Price Administration wishes to continue to police the housewife and make her decisions for her and not give her an opportunity to shop in the future then that is another question.

Mr. Tallie. Was there not also a weather difficulty and also a transportation difficulty which kept supply from moving to retail outlets?

Mr. Reitz. That is correct. We were very short of refrigerator cars for all citrus areas at that particular time.

I might also add that some of these reported high prices reflected only the superior qualities and grade of fruit, and if anyone wishes to buy superior qualities of fruit, and wishes to pay for them, that should be their privilege.

We have had reported a case where oranges were 84 cents a dozen in one place. That seemed high for Florida oranges. The report was that it was above ceiling, but on the basis of size, they were large oranges, and it was still at the old ceiling price.
EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942

(The tables and figures referred to above are as follows):

### Table 1. On-tree prices received for oranges by Florida growers and reflected on-tree prices under MPR 426, seasons 1943-44 to date

<table>
<thead>
<tr>
<th>Season and month</th>
<th>Reflecteed ceiling price</th>
<th>Actual price received</th>
<th>Difference</th>
</tr>
</thead>
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<tr>
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<td>November</td>
<td>2.30</td>
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</tr>
<tr>
<td>March</td>
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<tr>
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<td>2.60</td>
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<tr>
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<td>2.20</td>
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<tr>
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<td>2.49</td>
<td>-1.09</td>
</tr>
<tr>
<td>1944-45:</td>
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</tr>
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<tr>
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<td>1.98</td>
<td>-0.32</td>
</tr>
<tr>
<td>1945-46:</td>
<td></td>
<td></td>
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</tr>
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</tr>
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<tr>
<td>February</td>
<td>2.30</td>
<td>2.11</td>
<td>-0.19</td>
</tr>
</tbody>
</table>

1 Reflecteed ceiling prices under MPR 426 less allowance of $1.20 per box to pick, haul and pack. This is the amount used by OPA in arriving at an f. o. b. ceiling price.
2 From Agriculture Prices, Bureau of Agricultural Economics, USDA monthly.
3 Ceiling prices from Nov. 7, 1944, to Mar. 1, 1945, varied from schedules shown in MPR 426 because of hazard adjustments resulting from the Oct. 19, 1944, hurricane.

### Table 2. Relation of ceiling prices per box under MPR 426 in 10 auction markets, with actual auction prices, Florida interior oranges, 1943-44 season to date

<table>
<thead>
<tr>
<th>Season and month</th>
<th>Ceiling price</th>
<th>Actual price</th>
<th>Difference</th>
</tr>
</thead>
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<tr>
<td>1943-44:</td>
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<td></td>
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<tr>
<td>October</td>
<td>$4.57</td>
<td>$4.30</td>
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<td>November</td>
<td>4.57</td>
<td>3.75</td>
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<td>4.57</td>
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<td>1.57</td>
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<td>4.57</td>
<td>3.30</td>
<td>1.27</td>
</tr>
<tr>
<td>March</td>
<td>4.87</td>
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<tr>
<td>April</td>
<td>4.87</td>
<td>3.88</td>
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<tr>
<td>May</td>
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<td>4.14</td>
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</tr>
<tr>
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<td>1944-45:</td>
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<td></td>
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<tr>
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<td>-0.11</td>
</tr>
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<tr>
<td>1945-46:</td>
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<tr>
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<tr>
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<tr>
<td>February</td>
<td>4.57</td>
<td>4.05</td>
<td>-0.52</td>
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</table>

1 Represents approximately 95 percent of the total Florida orange shipments.
2 Computed from MPR 426 allowing $1.12 over f. o. b. ceilings for freight and protective service allowance and auction mark-ups.
3 Computed from Annual and Weekly Summaries, Market News Service, USDA, Lakeland, Fla.
4 Ceilings varied from Nov. 7, 1944, to Mar. 1, 1945, from MPR 426 schedules because of hazard adjustments reflecting losses in the Oct. 19, 1944, hurricane.
### Table 3—On-tree prices received for grapefruit by Florida growers and reflected on-tree prices under MPR 426, seasons 1943-44 to date

<table>
<thead>
<tr>
<th>Season and month</th>
<th>Reflected ceiling price</th>
<th>Actual price received</th>
<th>Difference</th>
<th>Season and month</th>
<th>Reflected ceiling price</th>
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<td>1944-45—Con.</td>
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<tr>
<td>October</td>
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<tr>
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<td>1.92</td>
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<td>1945-46:</td>
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<tr>
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<tr>
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<tr>
<td>February</td>
<td>2.01</td>
<td>2.01</td>
<td>$0.00</td>
<td>May</td>
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<td>2.01</td>
<td>2.01</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

1 F. O. B. ceiling prices under MPR 426 less allowance of $1.05 per box to pick, haul and pack. This is the amount used by OPA in arriving at an f. o. b. ceiling price.
2 From "Agriculture Prices" Bureau of Agricultural Economics, USDA Monthly.
3 Ceiling prices from Nov. 7, 1944 to end of season varied from schedules shown in MPR 426 because of hazard adjustments resulting from the October 19, 1944, hurricane.
4 After Nov. 6, 1944.

### Table 4—Relation of ceiling prices per box under MPR 426 in 10 auction markets with actual auction prices, Florida interiors\(^1\) grapefruit, 1943-44 season to date

<table>
<thead>
<tr>
<th>Season and month</th>
<th>Ceiling price</th>
<th>Actual price</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-44:</td>
<td>$3.57</td>
<td>$3.57</td>
<td>$0.00</td>
</tr>
<tr>
<td>October</td>
<td>3.57</td>
<td>3.57</td>
<td>$0.00</td>
</tr>
<tr>
<td>November</td>
<td>3.57</td>
<td>3.57</td>
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<tr>
<td>December</td>
<td>3.57</td>
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<td>January</td>
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<td>June</td>
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<tr>
<td>July</td>
<td>3.57</td>
<td>3.57</td>
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</tr>
<tr>
<td>1944-45:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>3.57</td>
<td>3.57</td>
<td>$0.00</td>
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<tr>
<td>November</td>
<td>3.57</td>
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<td>February</td>
<td>3.57</td>
<td>3.57</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

1 Represents approximately 80 percent of the total Florida grapefruit shipments.
2 Computed from MPR 426 allowing $1.00 over f. o. b. ceilings for freight and protective service allowance and auction mark-ups.
3 Computed from Annual and Weekly Summaries Market News Service, USDA, Lakeland, Fla.
4 Ceilings varied from Nov. 6, 1944, to end of season from MPR 426 schedules because of hazard adjustments reflecting losses in the Oct. 19, 1944, hurricane.
5 After Nov. 6, 1944.
FIGURE I.—RELATION OF CONSUMER’S DOLLAR RETURNED TO GROWERS TO RETAIL PRICE PER DOZEN ORANGES, UNITED STATES, 1932-45

*Average of October and November 1945.
Only the data for the years 1932 through 1945, during which period there was no price control or at the retail level only, were used in fitting the regression line. The price per dozen is based on 0.0613 box of oranges.

The CHAIRMAN. The committee will adjourn to meet tomorrow morning at 10 o’clock.
(Whereupon the hearing then at 4:30 p.m., March 22, 1946, adjourned to meet at 10 a.m., March 23, 1946.)
STATEMENT OF HON. CARL VINSON, CHAIRMAN OF THE NAVAL AFFAIRS COMMITTEE OF THE HOUSE OF REPRESENTATIVES

Mr. Vinson. I appreciate the opportunity of appearing before this distinguished committee, Mr. Chairman, to express the viewpoints I have with reference to two amendments which I am suggesting.

Mr. Chairman, the price-control law has been necessary during the war, and it cannot be doubted that some advantage would follow its reenactment, but in a restricted form, applicable only to a limited number of commodities which are necessary to daily living and should be specifically named in the act, and applicable also to rent control in declared defense areas on residential property, with a definite allowance to property owners for increased costs since 1942.

But in the long run the greatest guaranty against exhorbitant prices is maximum production. We cannot throw price control out overnight. But we must return to that old law of supply and demand as soon as possible. When the supply is at least as great as the demand on a commodity, we will have reasonable price competition.

Therefore, when the proposed extension of the Office of Price Administration is brought to the floor of the House, I intend to offer the following amendment:

In line 5 on page 1 strike the period and insert in lieu thereof the following:

and by striking the period after the words “or offense” and inserting in lieu thereof the following: “: Provided, That when there exists a surplus of any commodity, all provisions of this Act, and regulations, orders, price schedules, and requirements thereunder, shall terminate upon the determination by the Price Administrator of such a surplus.”

This amendment is directed at a natural and automatic demobilization of the Office of Price Administration and price control.

Mr. Brown. Will the gentleman allow an interruption there?

Mr. Vinson. Yes.
Mr. Brown. There have been some amendments submitted which are somewhat similar to that one. I have also repeatedly stated that I would favor an amendment requiring decontrol when a supply catches up with the demand. I think that meets your suggestion, does it not?

Mr. Vinson. Yes, sir.

This amendment is directed at a natural and automatic demobilization of the Office of Price Administration and price control. To keep price control as long as it is needed—but not any longer. To replace gradually the price-control law with the old law of supply and demand as the supply of a commodity exceeds the demand—as surpluses of actual necessities become realities instead of dreams.

This amendment offers the orderly way in which to get away gradually and orderly from emergency regulations. It is fair to all concerned. It does not disrupt the Office of Price Administration and yet it would avoid any undue delay in the lifting of restrictions that hamper reconversion and maximum production.

In other words, this amendment is an automatic reconversion amendment, pure and simple.

Just as soon as there is a surplus of a commodity, and the surplus is declared to exist by the Office of Price Administration, then there is no necessity for regulation by the Office of Price Administration because there can be no justification for having regulations when there is a surplus of a commodity.

Mr. Patman. If we were to put an amendment like that into the bill, do you think it would receive the unanimous approval of the House, or a substantial vote in the House?

Mr. Vinson. Well, I cannot tell offhand what the temper of the House will be when various bills are considered, but I consider it fundamentally sound, when there is a surplus of a commodity, that we cannot justify control over the commodity, because the law of supply and demand will regulate the price. The theory of the Office of Price Administration is that when there is a scarcity and a great demand for a commodity, that we should have a ceiling put on that commodity to keep that article from becoming subject to runaway prices.

Mr. Patman. That has been the contention of Mr. Brown since these hearings began.

Mr. Vinson. Well, all great minds run along the same channels.

Mr. Patman. If an amendment such as that is introduced, will you yourself support the bill?

Mr. Vinson. Of course I am supporting the bill. And I am trying to help you write a bill that the country will support.

Mr. Patman. That is what I wanted to know.

Mr. Vinson. And therefore I suggest that the bill should be restricted in its form and applicable only to the necessities of life; there is no justification for Office of Price Administration controls on a great many articles which do not enter into the actual cost of living.

Mr. Patman. Well you are going beyond what I thought you were saying; I thought you were just insisting that where supply reached demand, price controls should be removed. But if you are going to have another proposal to restrict the control on certain commodities, the result might be devastating.
Mr. Vinson. Let me read you my criterion of what kind of a bill should be submitted to the Congress. This is just my opinion, and it may not appeal to anyone else.

The price-control law has been necessary during the war, and it cannot be doubted that some advantage would follow its reenactment, but in a restricted form, applicable only to a limited number of commodities which are necessary to daily living and should be specifically named in the act. That is the standard and the yardstick that I am advocating.

Mr. Patman. Well, that is a sort of Mother Hubbard proposal.

Mr. Vinson. Well, it is not Mother Hubbard.

Mr. Patman. I wish you would name those commodities. Would you say food, shelter, and clothing?

Mr. Vinson. Exactly. I will go one step further and say that it should also be applicable to rent control in declared defense areas on residential property with a definite allowance to property owners for increased costs since 1941.

Mr. Patman. Thank you very much.

Mr. Brown. I would like to say something for the benefit of the committee. Mr. Vinson has been one of those for a long time fighting against the discrepancy in pulpwood prices between his section of the country and other sections of the country. I want to tell Mr. Vinson that a resolution was passed by the Georgia Legislature, in that connection, which resolution I submitted to Mr. Bowles when he testified, and he said he was going to take it into consideration. And I notice that after I did submit it, he did raise the price of pulpwood for that area.

I would like the distinguished gentleman to know that, because I think he is very interested in the pulpwood situation. I think the price of pulpwood in our part of the country should be as high as it is in other sections of the country.

Mr. Vinson. Yes. Now I desire to offer for the consideration of the committee another amendment:

After line 21 on page 4 add the following section:

Sec. 5 Subsection (a) of section 3 of the Emergency Price Control Act of 1942, as amended, is amended by striking the period at the end of the subsection and inserting in lieu thereof the following: "Provided, That no maximum price shall be imposed on pulpwood in any State at a price less than 83 per centum of the highest maximum price established for pulpwood derived from trees of the same genus in any other State, zone, or region, except that fair and equitable differentials may be established between peeled and rough pulpwood."

Now, what is the justification for that amendment? The purpose of this amendment is to bring the ceiling on southern-pine pulpwood up to the level of the minimum ceiling established for pine pulpwood in other areas. As set forth in a table which I am about to read to you, the ceiling on rough pine pulpwood is $9 per cord in most Southern States, whereas the ceiling prices for pine pulpwood range from $11 to $13.25 per cord in other areas.

The present ceilings per cord for rough pine pulpwood in the South is $9; the Lake States, $12.75; in the Northeast, $11 to $13.25.

Now as stated by my distinguished colleague from Georgia, Mr. Brown, he and others of us have been fighting for a long time to see that pulpwood in the South receives the same consideration and the same treatment as the same type of pulpwood in other areas of the country,
and as the result of that long fight, February 20, it was raised about 40 cents per cord. But it is still some $2 under the prevailing price of pulpwood in other sections of the country.

Assuming that the maximum ceiling remained unchanged, at $13.25 per cord, the proposed amendment would require the Office of Price Administration to raise the ceiling on rough southern pine to $11 but would not require any changes in maximum prices for rough pine in other areas.

Now $11 is 83 percent of $13.25. The maximum ceiling price in other sections of the country is $13.25, and to be mathematically accurate, 84 percent is $10.99\%4.

I offer this amendment for the following reason:

1. The ceiling price on rough southern pine pulpwood is $2 per cord lower than the lowest ceiling in effect for rough pine pulpwood in other areas. Until February 20, when the Office of Price Administration granted an increase of $1.40 per cord in the ceiling price of southern pulpwood, price-control regulations were holding southern pine $3.40 per cord below the lowest price of pine pulpwood in other areas.

2. In setting up its schedules of maximum prices for pulpwood, the Office of Price Administration attempted to freeze prices at the levels prevailing when price control was applied. The effect of this was to freeze southern pulpwood at an unfair price disadvantage growing out of conditions which existed before the war and to prevent natural forces from overcoming this unfair disadvantage as conditions changed.

3. Prewar pulpwood prices in the South were exploitative prices which permitted pulp mills huge profits, kept cutters and haulers on starvation wages, and gave southern farmers almost no return for growing this important natural resource.

4. Pulp production is a comparatively new industry in the South. Wood supplies have been plentiful there and up until the war the mills were able to get pulpwood at prices that were ruinously low for everyone concerned except the mills. This was true for several reasons: (a) General economic distress in the South, (b) an unawareness on the part of many farmers of the real value of their wood, and (c) a lack of competition between mills in many areas which forced farmers to take the price offered by a single mill or else not sell. Under such conditions some mills have made enormous profits and have paid for themselves in an amazingly short time.

5. Costs of cutting and hauling pulpwood have increased tremendously in the South during the war. Stumpage prices have also increased to a limited extent, but in the majority of cases the farmer who grows pulpwood is still getting a woefully inadequate return.

6. Authorities have refuted claims that southern pulp is inferior to pulp made from wood grown in other areas. In view of the fact that they have stated that high-quality products can be made from southern pine, the present Office of Price Administration price differentials of $2 to $4.25 between southern and northern pine cannot be defended on a quality basis. In fairness to the South, southern producers should be given a maximum price comparable with the maximum price of pulpwood derived from the same kind of trees in other areas. At the very least, southern producers should have a ceiling for
rough pine pulpwood as high as the lowest ceiling set on pine in other areas.

7. Ceiling prices should allow farmers a fair return for growing pulpwood taking into account the wartime increases in cutting and hauling costs. And, in determining what is a fair return to farmers, it should be borne in mind that prewar returns were far too low in the South. An allowance should also be made for the substantial increase in timberland prices which has occurred since 1940.

I will not take up the time of the committee, but I have a great many statistical facts and figures going to show the prevailing price in various sections of the South, and in the other sections of the country. But this is very important—and it comes from the authorities, the forestry laboratory—it is sometimes said that southern pulp is inferior to pulp made from wood grown in other areas. However, in many cases southern pulp is successfully used in the same type of products as supposedly superior products from other areas.

Concerning newsprint, for example, the United States Forestry Products Laboratory at Madison, Wis., says:

The suitability of certain species native to different regions for the manufacture of this product is attested by the fact that standard newsprint is being successfully manufactured in these regions. Thus, in Canada and in the Northern States newsprint is made largely from white spruce and balsam fir. On the west coast it is made from the western hemlock and some firs.

In the South, it is made from yellow pine.

Further quoting:

High-grade wrapping paper and containing boards are made from both southern and northern pine as well as western hemlock and Douglas firs. Both southern and northern pine are suitable for white bond and writing paper. A generalization between the properties of northern and southern pine might be made because of the somewhat higher springwood content of the former. Kraft pulpwood made from pine contains large proportion of springwood, and is suitable for paper having smooth surface and relatively high bursting strength. Thus it is well adapted to the manufacturing facilities of final products than brown wrapping paper and shipping board. Nevertheless, high quality products are made from both northern and southern pine.

Now, Mr. Chairman, that is an amendment that I suggest in order to give justice to the pulpwood industry in the South, and I sincerely trust that when this committee begins to write up this bill, it will not permit this discrimination against the southern pulpwood to endure, because here is the forestry laboratory report, showing that it can be used for identically the same kind of material for which northern spruce and western spruce and Canadian spruce is used.

I thank you.

Mr. Crawford. Mr. Chairman, may I ask Mr. Vinson a question?

The Chairman. Mr. Crawford.

Mr. Crawford. If I understood your recommendation with respect to restricting the Office of Price Administration, you are asking that we write into the law the specific items on which we want the Office of Price Administration controls?

Mr. Vinson. That is correct. If it can be written with such flexibility that it applies to what you would classify in ordinary daily living as “necessities of life.”

Mr. Crawford. I think you have made a very fine statement. I wanted to be sure that I understood what you meant, when you said
you were willing to go along with the bill provided the amendments were put into it.

Mr. Vinson. Of course, I may even go further than that, because we cannot have inflation in this country; it would be the most ruinous thing that happened if there was not some kind of control. In fixing this control, let us be realistic and try to fix a control that will eliminate the harassment of the American people which has been going on due to such broad controls in the past.

Mr. Crawford. That has been my objection since these hearings began.

Mr. Vinson. Yes, sir.

Mr. Brown. Mr. Chairman.

The Chairman. Mr. Brown.

Mr. Brown. Of course, you realize, Mr. Vinson, the difficulty of writing into this bill the number of commodities on which controls should be maintained. Do you realize that there are 8,000,000 different commodities?

Mr. Vinson. I would leave that to the discretion of the Office of Price Administration officials, in that it only applies to those articles which are determined by the Administrator to be applicable and necessary to the ordinary daily living. You do not have to enumerate socks, and underclothes, and shoes, and collars, and meat and a meal and all those things. But how can you justify, and how can Congress justify, putting a price control on articles that have no direct bearing on the ordinary cost of living of the American citizen? For instance, how can you justify putting a price control on liquor? Liquor has no bearing on the ordinary life of the American citizen, but the clothes that he wears and the food that he eats, do have a bearing on it.

Mr. Brown. I wish to congratulate the gentleman on his success as chairman of the Naval Affairs Committee, and he is successful because he always has a short bill with little explanation.

Mr. Vinson. That is right.

Mr. Brown. If we undertake to put all the things you outlined into this bill, it will reach from here to New York City.

Mr. Vinson. You can write a bill without enumerating every article. You can write a bill in restricted form. That is what I am advocating.

Mr. Brown. You have very good assistants in your committee, Mr. Vinson; I would be very happy to have you write the kind of bill you would like to see and have you send it up here, and I will see that it gets very careful consideration.

Mr. Vinson. Of course, I am merely suggesting fundamental principles that should be incorporated in the legislation that is submitted to the House, and it is certain that the sky should not be the limit.

What brought about all this criticism of the Office of Price Administration? It is the interference with the ordinary daily life of the people as a whole, who have been harrassed, and the rank and file of the people want the Office of Price Administration, but they want it in a restricted form, applicable to certain things, and they do not want to have the sky the limit.
The Chairman. Do you not think, Mr. Vinson, that these matters of which you speak are essentially administrative, and that if we attempted to do that we would have to name every article?

Mr. Vinson. Yes, it should be administrative, and therefore you could put it in the bill by using such words which would bring about the restriction. Of course it is administrative. It is purely administration.

Mr. Patman. A great many witnesses have demonstrated that they want the Office of Price Administration controls kept on everyone but themselves.

Mr. Vinson. I want them on everything that has the bearing on the ordinary daily life of the people.

Mr. Patman. I know that you are not pleading the case for any particular commodity.

Mr. Vinson. Not a bit.

The Chairman. My people are very much interested in tobacco. I should think they would like to have tobacco treated separately, because that is the most important crop of our farmers. I do not see how we could meet that situation by putting an amendment into the bill.

Mr. Vinson. Well, I would say that tobacco enters into the ordinary living of every citizen of the country. I would say that tobacco is considered, by habit, to have become an absolute necessity of the people because of its soothing qualities.

But I am not on debatable ground, Mr. Chairman, when I talk about doing justice to the pulpwood growers in the South. That is firm ground, beyond a shadow of a doubt. There should not be any discrimination on that account, and I used the figure 83 percent because the maximum ceiling price in other sections is up to $13.25 and 83 percent of that is $11.

Mr. Brown. I think the gentleman is on very firm ground when he advocates removal of price controls when the demand is satisfied by production. I think that would clear up most of the complaints.

Miss Sumner. I do not think there is any question that the members would like to vote for a broad bill, provided they could have one, but I think you would like to know that when the bill first came up, when the matter of price control first arose, I felt that it was unconstitutional to put through a bill as broad as we were putting through, and I offered an amendment almost exactly like yours, and a couple of years later I discovered that England does not cover luxuries.

Mr. Vinson. That is right, exactly.

Miss Sumner. Canadian price control cuts out luxuries.

Mr. Vinson. That is true.

Miss Sumner. But the committee did not accept it, and when I went to talk to the attorneys for the Office of Price Administration in an effort to persuade them to accept it, I had the interesting comment from Mr. Ginsberg, that he did not feel we ought to have any law like that because it was unfair to control one citizen without controlling the rest of them.

Mr. Vinson. You can justify an Office of Price Administration price control on luxuries.
Miss Sumner. Of course, his point of view was a complete perversion of the Constitution, because at that rate we would have everybody in jail.

Mr. Patman. I think you are entirely wrong about that, as it affects wartime. We had a different problem; we did not want to encourage people going into businesses that were not essential to the war effort.

In other words, if you took price control off watermelons, for example, and let watermelons go very high—

Mr. Vinson. Well, that is what they did.

Mr. Patman. The farmers would quit growing potatoes and tomatoes and other items of that nature and grow watermelons.

Also, if you did not have price control on slot machines, pianos, and things of that nature, people would stop making the things essential to the war effort and would go into the production of those materials.

Mr. Vinson. That does not follow at all.

Mr. Patman. It does follow. We only have so much of raw materials; we had a limited amount of supplies, and the point was that we wanted to channel those materials and supplies into the things most essential for the war. Our labor supply was short. We did not want to encourage labor to leave the essential occupations and go into the makings of things that were not essential.

There were other questions involved there. I think it was a discreet policy and a wise policy that was followed.

The Chairman. Thank you very much for your testimony, Mr. Vinson.

Mr. Vinson. Thank you, Mr. Chairman.

The Chairman. We will now hear from Mrs. Reed.

STATEMENT OF MRS. JAMES A. REED, PRESIDENT, DONNELLY GARMENT CO., KANSAS CITY, MO.

Mrs. Reed. I thank the committee for giving me this opportunity to appear.

The Chairman. Identify yourself, Mrs. Reed.

Mrs. Reed. I am Mrs. James A. Reed, president of the Donnelly Garment Co. of Kansas City, Mo., manufacturer of Nelly Don dresses.

I manufacture good quality, low-priced dresses which are sold directly to approximately 2,000 accounts throughout the United States, and retailing from $2.95 to $14.95 each. I have about 1,500 employees in two factories in Kansas City, Mo., and St. Joseph, Mo.

I am not coming here to urge higher prices, or to ask for any increase in prices. If this Congress is to continue price control then I respectfully submit that the extension carry with it specific limitations of power and directives of policy which will eliminate the evils of the present price-control system. In this connection, Mr. Ralph E. Flanders has already testified before this committee as follows:

Price control at present is unworkable and unfair. We must look for legislative standards and administrative procedure which will operate quickly without impending production or creating major inequities.

Again he stated:

I do not think 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
Price controls as it exists today is one of the biggest obstacles to production. In my industry, one of the chief obstacles is the maximum average price regulation of the Office of Price Administration. This regulation was put into effect on June 1, 1945, over an industry-wide protest. At that time many industry advisory committee meetings were held and the maximum average price regulation was arbitrarily forced upon my industry over its earnest plea that the regulation was not practicable and that it would greatly hamper the production of good quality low-priced dresses. On several occasions and specifically at the industry advisory committee meeting held in May 1945, the head of the Apparel Division of the Office of Price Administration, admitted that the maximum average price regulation could not be complied with. At the same time, he announced that it would not be revoked even though it would not work, because word had come down from above that it would not be withdrawn.

This regulation has been in effect for 10 months. It is supposed to increase the supply of low-priced dresses; actually it decreases the supply of low-priced dresses in favor of those selling at higher prices. It penalizes old established firms with several price lines.

Under the maximum average price regulation I am not permitted to sell as many $6.95 to $14.95 dresses as I could produce because I cannot obtain sufficient material for $2.95 to $4.95 dresses, to average out against the $6.95 to $14.95 dresses. This regulation then curtails by production of $6.95 to $14.95 dresses, even though its supposed purpose was to increase their supply. And I maintain that a dress that a woman can wear at any time in the daytime, which costs from $6.95 to $14.95 is a low-priced dress. The same type and quality of material that I cannot manufacture into the dresses of this price range is sold in $19.95 and $29.95 dresses, and even in those selling as high as $49.95, with the Office of Price Administration's blessing. Some manufacturers are free to produce these higher-priced dresses because they had ceased to manufacture the lower-price groups by 1943, or manufactured only one price line instead of several in 1943, or they come under contractor's regulations, or they are new in the business, or they escape the maximum average price regulations for other reasons.

When Mr. Bowles announced his low-priced textile program 14 months ago, he promised to increase the supply of good-quality low-priced clothing, and to roll back the cost thereof. I quote from the press release of January 23, 1945:

For consumers it would mean:
1. A greater proportion of the supply of apparel will be in the low and medium price essential garments, beginning to appear in the stores by late spring.
2. Reduction of currently inflated clothing prices by 6 or 7%.
3. Every effort will be made to improve quality of clothing for the price.

Mr. Bowles' program has been in effect for 10 months and his forecast has not materialized.

I have been in the dress business for 30 years, which would take me back to the beginning of the First World War, and even during that period I have never seen in the stores as poor quality, badly made dresses as there are today.

At a recent meeting in New York a Government representative announced that the reason priorities for dress goods had to be reduced
to approximately 70 percent was that there were 2,000 new businesses that had to share in the materials. Two thousand new manufacturers are a lot of manufacturers. I have an account in every city and town of any size, including some very small towns, in the United States and I have only 2,000 accounts. I am told there were about 8,000 manufacturers who came under the original Office of Price Administration order for women’s and children’s outerwear garments. This shows what is happening to the garment business and, to my mind, accounts for the large quantity of badly made, high-priced, junky merchandise fostered by the maximum average price regulation.

Mr. Bowles has not come before you and acknowledged the failure of the maximum average price program in the garment industry. In fact, he has not even shown you any charts of what has happened to the price of clothing during the last 10 months under maximum average price regulation. In place of acknowledging the failure of maximum average price and doing away with this regulation in accordance with industry’s plea he, having gained control of Civilian Production Administration, has now issued a new order by that agency compelling the mills to go back to the war goods they were producing in 1942 to 1944. Production at that time was geared to provide materials for wartime needs. Do we want to freeze our cotton mills in the production of the qualities of 1943, or any of the 10 years previous to 1943? In 1943 we were in a terrible war and even my plant was running up to 75 percent of its production on war orders; our first energy and effort was on war production. The preceding 10 years were depression years. In America must our cotton mills turn out practically nothing but vast quantities of low-end and staple merchandise? Must we import our fine cottons if we are to have them at all? Cotton is too important in America to tie it down to false economic ideas. American mills can make beautiful fine cottons, as fine as any other country, and I think we are doing the cotton-producing States, as well as all America, a great disservice by trying to regiment our mills to low-quality and war-needs cotton materials.

The English cotton mills are already soliciting business in America on fine cottons. I know that because they are soliciting my business. As a result of Office of Price Administration control policies my company has been forced into a position of going to the British to buy fine cottons. I have placed an order for 100,000 yards of two-ply/120 voiles and am promised the first 100,000 yards that came off their looms. That 100,000 yards is just a starter for what I can use in the way of fine voiles. I could use, and make up, and sell, at very low prices, at which women would want those dresses, if I did not have those regulations, 1,000,000 or 2,000,000 yards of voiles. That 100,000 yards would just about take care of the needs of Washington women for fine voiles. I placed this order for English goods because our mills are so tied up with regulations that I saw no possible chance of obtaining that material in America.

The experience of the past 10 months has demonstrated the impossibility of meeting a shortage of good-quality low-priced merchandise with detailed regulations. We need less regulation, not more regulation. If Congress feels it is best under all the circumstances to continue the Office of Price Administration I sincerely hope they will write into the act such limitations of power and directives of policy as will streamline the operation of this agency.
In a previous extension of price control Congress wrote into the act a provision that no pricing department of the Office of Price Administration could be headed by anyone who did not have at least 5 years' business experience. It was an attempt to eliminate impractical and unworkable regulations. Today those of us who have dealings and conferences with the Office of Price Administration often find the decisions of any practical minded department head in the Office of Price Administration completely overridden by the decisions of a corps of career economists and legal advisers who work in first one department of the Government and then another, whose impractical theories have never been tested in business life and whose philosophy of life and economy is tainted with principles on which business and industry in America could never have developed. They are the real heads of the Office of Price Administration—they dictate its policies and write its orders. If this Congress in extending the Price Control Act will take cognizance of bypassing activity on its previous legislation and write into the act a death sentence for the stifling activity of these career economists it will do more than anything else to disentangle the strangulation on production and industry.

Specifically, I recommend that any extension of the Office of Price Administration be for 6 months only in the textile and clothing industry. The maximum average price regulation and all other regulations that interfere with production should be removed at once. The industry should be advised that other price controls will be gradually relaxed so that by December 31, 1946, all controls will be off. We have the raw material, we have the mills, and we have the clothing plants to more than take care of all of the textile and clothing needs of this country, and some to share with other countries.

In summary may I again urge that if Congress is to continue price control it should at the same time define its duties and powers to reshape it for transition needs. In that reshaping such regulations as the maximum average price regulation and all other regulations that interfere with production should be prohibited. Failing to do this we should be prepared for greater scarcities, higher prices, and a public that will hold Congress responsible for the entire situation. I am using some of Mr. Bowles' ideas in trying to scare you when I say that.

May I show you a few dresses that will demonstrate how the maximum average price regulation is creating higher rather than lower priced merchandise.

Now may I show you a few dresses that will demonstrate the maximum average price regulation which is creating higher prices rather than lower prices.

I want to explain that when I show you these dresses, I do not mean that every woman would prefer my dresses; I just show you some dresses that I sell at $8.95, and the identical material is in a $25 or $22 dress, and the same quality goes up into dresses as high as $49.50.

There are women who might prefer to pay $49.50 for this gingham dress which I hold in my hand, but when Mr. Bowles, night after night, or when some of his emissaries, say over the radio that he is going to bring more medium- and lower-priced dresses into the stores for women to buy, and then when he puts out a regulation which
limits the manufacturer of these medium- and low-priced dresses, I do not think that he is telling the women the entire truth.

I do not know what excuse he would have—well, of course he has plenty of reasons in his own mind, I suppose, but the result is what I am talking about.

Mr. Brown. Do you have any of those short dresses which have just arrived in Washington? I noticed in the newspapers this morning that they are not allowed to sell them.

Mrs. Reed. I do not make those. Of course, there are times when women would prefer shorter dresses; I understand they are going to discuss in April whether they can have those spring dresses. But it is the 22d of March today, and even in Washington I would think today was a spring day. But you see, that is what they do; they wait sometimes until the season is half over before they give you a decision. That is one of the worst things about the Office of Price Administration. Everything is behind. We have almost reached the end of the quarter before we know what merchandise we are going to have the next time.

We have invoices that just came through which were sent to us for O. K., on merchandise which we bought last October. Then they have this escalator clause for the mills, and they billed us with escalator prices for goods which we received last October.

At that time we marked them at the price they had marked them with, and we sold our commodities. Now they come along and want this escalator clause, almost 6 months after we have disposed of the goods. We could not put that in our price at that time, because we would be in jail, or whatever other things they do to you.

Mr. Crawford. Mrs. Reed, it has been testified here by merchants that the underwear which was purchased for delivery last fall, to be sold for the winter season, is just now being delivered. So apparently it runs through the entire clothing industry.

You referred to the escalator clause; there is no way in which you can go back and charge those customers whom you billed months ago, and to whom you delivered the goods, for the step-up in price as the result of the escalator clause information that comes to you at this time, is there?

Mrs. Reed. It would be very difficult for me to find out, because I have 2,000 accounts. And the further down it goes, the more people there are. And if the retailer were to try to call up a woman and say: "The dress is now 5 cents more," I do not think he would be very happy, or that she would be very happy. Although, I believe the retailer must absorb those extra costs.

Mr. Crawford. With the benefit of your 80 years' experience, do you think American industry can operate under that kind of procedure?

Mrs. Reed. Mr. Crawford, I know it cannot.

Mr. Crawford. And if we want to destroy it, that is a good way to go about it.

Mrs. Reed. My business is one of the largest of its kind in the country, but it is a small business compared to the general economy of the country, and what happens to it does not really make very much difference, in all probability. It makes a great deal of difference to a
few people, but under such regulations as the MAP I know that I
cannot continue to stay in business.

After all, I am down here, and I can afford to come to Washington
and wait around a month before being able to speak to you gentlemen,
and to pay my hotel bills. But I know there are people out in my own
little town who could not afford to do that, and I do not like to take
the time; it is not doing my business any good to spend that much
time away from it; but it is not just my own business which is affected.

These regulations of the Office of Price Administration are just
like the laws of the Medes and the Persians; they are just a law.
Now whether you can comply with them or not, they do not seem to
care. They make a statement that they are going to make a change,
and you come down and talk to them—and I will say they are very
nice gentlemen, and they are very sympathetic, and they are going to
do something about it—but I know that when these economists are
called in, and they have their charts and they have their statistics,
and they find that, in the average of the industry, a certain thing has
happened, why then it is just too bad.

Of course, during the war their general answer was:

Well, you know, we have casualties; these boys are dying, so we should not
complain about a few businesses dying.

Of course, I did not complain about anything just so long as I could
keep my business going during the war. But now it is a very serious
thing, and it is a serious thing with all business to try to work under
these regulations, one part of which—and it is your basic part—will
not work.

In our case, they do not have a sufficient low-priced cotton goods to
average out. Therefore, I cannot make these dresses.

Here is a dress that is made up of so-called balloon cloth. I do not
know whether it is really balloon cloth; I do not know whether it ever
had anything to do with a balloon, but it was cloth that was released
after the war was over.

That dress sells for $22.50.

Now, I have another balloon cloth dress. One that I made. You
may not like the style. But I say, as far as the quality of manufacture
and the fit and the other things that go into a garment are concerned,
I know mine is comparable—if anything, I think it is better. But
here is a dress which sells at $10.95.

Miss SUMNER. The same material?
Mrs. REED. The same identical material.
Miss SUMNER. There is no comparison. The $22 dress does not
look as good.
Mrs. REED. Well, some people might like it better.
Miss SUMNER. Well, there is no point in being modest. Comparing
the two, I think yours is much better.

Mrs. REED. However, I am sure this was bought in a legitimate
shop, and I am sure it is not black-market merchandise. I told you
there are so many different ways in which you can make a dress.

Here is a little dress which my retailers sell for $7.95, and I am
making that now and my surcharge is getting so high on what I am
doing, namely making $7.95 garments, that I am going to have to
close my factory, probably along in April, just to wait to catch up.
Mr. Crawford. What do you mean by your "surcharge"?

Mrs. Reed. Well, for every one of these $7.95 dresses I ship, I have to ship two or three—I do not know exactly how the figures run—of the $2.95 garments.

Mr. Crawford. In other words, you have to operate within your MAP?

Mrs. Reed. That is right.

Mr. Crawford. That is what you mean by your "surcharge"?

Mrs. Reed. That is right.

Mr. Crawford. The total goods shipped must not average more than your maximum average price as of what date?

Mrs. Reed. That is right?

Mr. Crawford. What year?

Mrs. Reed. 1943.

Miss Sumner. Mrs. Reed, I do not think that anybody has ever explained that MAP regulation in just a few simple words that an ordinary person can understand it. I am not certain that I have it clear in mind either. Could you, in a sentence or two, explain what it amounts to?

Mrs. Reed. Well, they decided that there was not as much low-priced merchandise as there should be, so they decided that everybody had to make the same proportion of low-priced merchandise as they made of higher-priced merchandise—if you had several lines. Well, of course, some manufacturers were smart and by 1943 they had stopped making the lower-priced lines.

In my own particular instance, I sell my merchandise under my own name, and I have established a number of accounts; a number of my accounts have "Nelly Don" departments, so I just kept on making the same price lines.

In 1943 I had a lot of war-work to do, of course, and I did not make as many high-priced dresses. I used some of my best operators to do the war work.

Miss Sumner. Do you mean to say that if you did so much at $20 and so much at $10, then this MAP came along and said that you had to continue to do say, 10 percent of $20 and the rest at $10.

Mrs. Reed. Yes; the average would be about, say, $15, but the materials are not available for the low-priced merchandise, and so I am in the position of the shirt manufacturers who could not ship out their better quality because they did not have enough of the lower quality, and of course the way it came out in the newspapers was that these people were withholding the shirts to break the Office of Price Administration and get a higher price. They were not asking for a higher price. I bought shirts for my son in New York, and paid $6.50 for them, and I would have preferred to have had some of the $3.50 white Manhattan shirts or even $5 shirts. It was a better shirt. The $6.50 shirt I bought was about a $3.50 shirt anyhow, but that boy of mine is about 15 years old, and I am trying to get him to wear a few white shirts, so I bought the white shirts even at the higher price.

Miss Sumner. Did I understand you to say that other people who were not in your situation, where you wanted to keep your regular customers, simply went out of the low-priced field?

Mrs. Reed. Some of them did. Of course, all of them did not. If I was the only one who had done that, that would be something. But
a great many of them did not, and some did. That is one reason why you can buy more higher-priced merchandise. But that is also one reason why this thing is not equitable.

Mr. Crawford. If I start out as a new manufacturer, however, I have no MAP within which I have to operate; is that right?

Mrs. Reed. That is true.

Mr. Crawford. So everything I can put on can be sold, for instance, at $22.95 or higher and I can ship everything I make?

Mrs. Reed. That is right.

Mr. Crawford. Without any thought of the $2.95 or the $6.95 or the $14.95 article.

Mrs. Reed. That is right.

Mr. Crawford. Let us develop this point, because it is fundamental to this whole picture, and you will either have to get out of it or you will not have any low-priced goods. Now you cannot get your $2.95 dress material because it is not on the market, is that right?

Mrs. Reed. That is right.

Mr. Crawford. So then, if you cannot get the $2.95 dress material, you are not permitted to ship the $8.95 dress, or the $14.95 dress, although that material is available to you?

Mrs. Reed. That is right.

Mr. Crawford. So then, if you cannot ship your $8.95 and your $14.95 dresses because of the fact that you have no $2.95 or $8.95 material, that prevents you from shipping any of the three groups of dresses?

Mrs. Reed. That is true.

Mr. Crawford. If you go beyond your average price.

Mrs. Reed. That is true.

Mr. Crawford. Now the man producing and selling the $22.50 dress, he can throw that on the market and the women of this country would have to buy it or do without.

Mrs. Reed. That is true.

Mr. Crawford. Instead of buying your $8.95 to $14.95 dresses.

Mrs. Reed. That is true.

Mr. Crawford. Is that the actual situation?

Mrs. Reed. That is exactly the situation.

I have a little seersucker two-piece garment that will very well illustrate that point.

In my St. Joseph, Mo., factory, which I opened and in which I did only war work, I made a great many very similar garments to this one for the Wacs and the Waves—for the Government, that is. So after that work was over, I had done a lot of work for the Navy, and they let me buy 160,000 yards of this seersucker material.

I tried to close that factory when I found how little material there was, but I had a delegation from the plant, and from the chamber of commerce, and from some of my personal friends in St. Joseph, and they said:

"You just cannot do that to us; you have got to run this plant."

I said: "Well, it is difficult to get materials, and it is difficult enough to live under my MAP and take care of my own plant."

They said: "This is just as much your plant as the Kansas City plant."
So then I went around to some of these officers for whom we had done some favors, in pushing through merchandise, and I said: “You must get us some material for that St. Joseph plant. They did a good job for you up there, and those women want to work.”

So they gave us this seersucker. Now I am selling this little two-piece seersucker, which does not look like very much from a distance, but is really a nice garment, for $8.95—that is the retail price. That puts a surcharge on everything I make. I did not make any $2.95 garments in St. Joseph, but now, if I had sold this plant to my brother-in-law, or one of my nephews, or somebody else in the family, they could have gone to the Office of Price Administration and said: “I have no MAP; I was not in business. I have this plant which did war work and we want to make a seersucker suit,” and they could have gotten a price of $22.50 or $25 minimum.

I understand you have to start out a little higher than the price you really want. You have to start out for about $35 if you want a $25 maximum. And then maybe you will get $30. There is a certain percentage which you can figure on getting.

Mr. Crawford. Do you mean to say that the trade will absorb that quality and style garment today at a price as high as $22.50?

Mrs. Reed. I do say that similar garments are made and sold. I will show you one for $25 that is not as good as that.

Mr. Crawford. That is what we want to know.

Mrs. Reed. Well, here is a blouse that sells for $9.95, which is made out of the same, identical material. Now, I cannot make a blouse that would sell for more than $2.25 because during the month of March 1943 I made about 30 dozen blouses at that price. It is just one of those things; I had a little material left over, and several of my accounts wanted some blouses—they were getting scarce—so I made a few blouses. Now I am tied to that. I cannot make a blouse that would sell for more than $2.25 because I sold those 30 or 40 dozen in 1943, March of 1943.

Here is a blouse made out of the same material, seersucker; I am making a little two-piece suit out of this material and retailing it for $8.95, and I do not want any more profit than that on it, even if there is not any Office of Price Administration or any regulation at all; I would still sell that for $8.95. I have sold thousands and thousands of dozens of them before the war, and I would now. I would not put any higher price on that because I want to sell a great quantity.

My manufacturing is done on a mass-production basis, and I have to have volume. If I have volume I can do all right. If I do not have volume I cannot make any money no matter how big a profit there is. But there is your blouse at $9.95, a dollar more than the two-piece suit which I make.

Mr. Crawford. If you were permitted to do so, at what price could you place that blouse on the market, made of that material, today?

Mrs. Reed. Well, I would saw at about either $3.95 or $4.95. Not to exceed $4.95. But I think $3.95.

Mr. Crawford. Under the Office of Price Administration rules, the housewife is paying about 275-percent mark-up?

Mrs. Reed. That is right.

Here is another little two-piece suit; this is made of the nicest material, I think, made in America. A woman is running the mills. I do not mean she is running them, but she is designing and she is
doing a very nice job. This does not really show her ability, but it is really a very nice quality, a very fine yarn. It retails for $10.95. I think some of your wives might wear it. I wear it in the summer. I like it.

Miss Sumner. I would wear it.

Mrs. Reed. I think it is very nice when it gets very warm out in the Middle West or in Washington, when one likes to wear that sort of a garment.

Now, this dress is made of the same material. The stripe is a little different, there is not any better or higher-priced cotton made in America today than this woman makes; that sells for $29.50.

You would hardly be seen going down the street in Washington, a person in your position or in mine, in that one, and yet the other one, we would be very proud to wear—the suit of the same material.

Miss Sumner. Are they same material?

Mrs. Reed. They are the identical material. This is a little wider stripe, but it is the same material.

Miss Sumner. I wish you would comment on the difference in styling. I am not expert, but I can see it is there.

Mrs. Reed. Well, I cannot go into the styling. All I can say is I thought it was rather nice or I would not have put it in my line. In addition, I think there is a little more work on mine. I know the buttons are higher priced. But it is a fact.

Mr. Monroney. Who made the $29.50 dress?

Mrs. Reed. I do not think it has the name of the manufacturer, but the name of the retailer is on it. I do not like to mention the name publicly; you may see it if you examine it.

Mr. Monroney. The point I was making is that it might be someone who has a name for very high styled clothes, like maybe Hattie Carnegie.

Miss Sumner. That is an insult. Hattie Carnegie never turned out anything like that.

Mrs. Reed. Well, I will show you one for $49.50, bought in a good store.

Miss Sumner. Ye gods.

Mrs. Reed. It is a nice quality cotton, but it could not possibly go in my line for over $10.95.

Mr. Crawford. It should not be in any line.

Mr. Monroney. Well now, just a minute; a great many women pay a lot for clothes because they want individual styling, and even though, as far as the material value is concerned, they are being gypped to the tune of five or six hundred percent, even in peacetime, they still want to buy that type of clothing.

Mrs. Reed. Mr. Monroney, I would not say a word about that. I understand. I pay a lot for clothes, sometimes, just because I want a specific thing. I understand all about that. But when Mr. Bowles goes on the radio at night and ruins my evening by telling the women of America how he is increasing the number of low-priced garments, and increasing the quality of these garments, then I say, when this is made, under the Office of Price Administration regulations, that they are using materials at $49.95 that not only my own manufacturing company but other companies could make just as well at a lower price.

It was just the idea that Mr. Bowles is filling the country and the
women with the thought that he is down here getting larger quantities of low-priced and medium-priced merchandise, and then he limits the number that can be turned out at really low price and medium price.

Mr. Monroney. I understand your problem completely with respect to the MAP.

Mrs. Reed. That is true, because I have, out in my place, a situation where I am going to have to stop shipping these $7.95 to $10.95 cotton dresses right now when women want them, because I have this MAP.

Why, a couple of weeks ago, we laid a shipment down to St. Louis, of those dresses, and they called me up at 1 o'clock, saying they had nine dresses left, and they had a very large shipment. Women want them badly but Mr. Bowles does not tell those women that he is limiting the quantity they can ship.

Mr. Monroney. I understand the way the lack of availability of low-priced materials is cutting out good quality merchandise out of your higher priced lines, but the point I was trying to make was that these examples which you are showing, particularly that $49 dress, would not be mass-production dresses.

Mrs. Reed. I do not know how they would produce it, Mr. Monroney.

Mr. Monroney. Ordinarily $49 dresses are not.

Mrs. Reed. Well, a great many $49.50 dresses are produced in pretty good sized quantities. They had quite a number of them where this one was bought.

Mr. Monroney. Well, you would cut probably hundreds of dozens, on those grades, would you not?

Mrs. Reed. I cut thousands of dozens, but why would Mr. Bowles make me stop cutting those? He is limiting the amount that I can cut when he is not limiting the amount if you are just starting up in business, or if you have some other reason for cutting the $49.50 dresses. There are people who are not limited on high-priced goods, and by this MAP, all over the country, he is limiting a lot of good medium-priced merchandise.

Mr. Monroney. But if somebody starts out with a very small shop in an exclusive ready-to-wear, they ought to be entitled to some yardage for their $49 and $29 units. If people are crazy enough to buy them, that is.

Mrs. Reed. It would be all right if he did not limit me, if I were making—and others in my position—were making as those medium- and low-priced dresses as we could buy the material to make, and as we could sell, as we could manufacture; then I would not have a complaint like that. I say that they have a right to. I am not trying to limit them; I am not trying to do anything to them; all I am saying is Mr. Bowles is not telling the American women the whole truth when he tells her he is trying to get her more medium-priced dresses.

I consider these dresses of mine at $8.95 and $10.95 low-priced dresses. When a woman buys a dress that she can wear anywhere for $8.95 or $10.95, no matter what situation she is in, that is a low-priced dress.

Mr. Monroney. But how many clothing manufacturers have a name to protect, such as you have, a trade distribution to protect, such as you have, who would not without some kind of mechanism to help get the low-end goods, not all go to this $29 and $49 item if they could get away with it?
Mrs. Reed. I do not like to put myself in the position of being just a paragon of virtue in my business, because I do not think I am the only one who is trying to run a reasonably good business.

Mr. Monroney. No; but you have a name to protect. No amount of money you are going to make in the next 6 months by driving your famous brand away up into the price stratosphere with high-priced goods, is going to be worth what you have in the way of national recognition.

Mrs. Reed. But you cannot just put me in an absolute class by myself on that. I think there are others who think something of their name too.

Mr. Monroney. I do not know much about ready-to-wear, but I know your product name rings the bell all over the country, and I do not know of any other popular priced dress manufacturers. However, there are not very many of these famous trade names.

Mrs. Reed. But the Office of Price Administration has other regulations. I could not possibly move up to $29.50 for my merchandise. I am tied to the top price of the garments I made.

Mr. Monroney. You are still held to your highest price line?

Mrs. Reed. Yes; I am held to my highest priced line. But I say that there are an awful lot of women in America who would like to have these $8.95 and $10.95 seersuckers, and fine cottons, which will not be in the stores under the present regulations.

There is the $25 dress that I say is on the order of mine.

Miss Sumner. Furthermore, the only excuse for the Office of Price Administration being in existence was in order to get that low-priced garment before the people. That is the only excuse or pretext under which anybody ever voted for the Office of Price Administration.

Mrs. Reed. There is another $25 dress.

Now I come to what I think is really important to the cotton people. I bought some of these really cheap garments. They are just $3.99, $2.99; I say that whatever mill is making this cotton, if they have any inspiration or any ambition to improve that quality, I do not think the Government of the United States should discourage them from doing it.

I do not know about the mill business. The only thing I know about it is the merchandise I buy from them. I think we have too much ordinary shoddy stuff coming out of the mills, at this time; I am not speaking particularly of the cotton mills, but all of them; unless some of these millmen—perhaps they have a son coming home from the Army, who has gotten out, perhaps has reached the point of being a sergeant or a lieutenant, like some of my cutters, some of the boys who have come home as aviators—and perhaps the boy wants his father to make a better quality cotton. Right now is the time, if they are ever going to have a time to improve in the South, that is to improve their position in cotton; now is the time, because there is a fashion for cotton at this time.

Women have forgotten how nice cottons are; they have been using so many synthetic materials; the manufacturers have done a wonderful job on synthetic materials, and they have done a wonderful job of advertising, and they look like silk, but when the war came on and the quality was not so good and it was hard to get cleaning done, when women sent a synthetic material dress to the cleaners and it came home half the size, they turned to cotton.
We had a certain amount of nice cotton made, and women then began to turn to cotton, began to realize—what some of them had not realized before—how nice a good cotton dress can be; it can be washed and ironed, and every time you washed a cotton dress you had a brand-new dress. So they like cottons, and they are wearing them.

Well, now is the time to improve that position. However, even the mills that made fine cottons are so encased in all these regulations and all this lower price and average price and highest line price, that they just have to keep on making the same thing over and over again.

I say that you are certainly not going to, in America, keep a woman wearing the same old thing year after year, or for any great length of time. It takes a long time, and it takes a little money, to develop any kind of new patterns and new ideas.

I know what happened after the last war in the matter of cotton. I went through it. The cotton people were making great quantities of staple cottons, and some of them were of rather nice quality. I think that cotton is about the nicest thing you could wear for a certain thing. Then these synthetics came in and they were not very good.

I went over to Paris year after year, and I bought fabric designs and I brought them back and had them put on nice cotton; I think that a great part of the growth of my business came along when I put these lovely designs on nice cottons.

Now the cotton industry, in the last few years, has been really working and trying to put style and good colors, and so forth, into their cottons, but if you come along and just tie their hands, what we will just have to do will be to go over to England—and I suppose it will be some time before France can turn out cotton—and Switzerland; Switzerland has a great deal of nice merchandise.

So I really do not think you ought to tell any man who has made this type of goods that he must keep on making it. Maybe he will, because he is not able to do anything else. I do not say that is not the fact. But it is the necessity, the pressure, to say that you must do it.

Mr. Buffett. Mrs. Reed, you are still fortunate, because I have two clothing manufacturers in my district who have been closed up by the MAP regulation. I want to read you a report on this subject and get your comment on it.

It says:

The number of low-priced articles while included in the indexes are often not available in the market; in order to increase their earnings without exceeding price maximum, producers tend to concentrate on higher-priced goods.

The Commissioner has endeavored to check these tendencies by establishing, for a number of industries, minimum percentages of less expensive goods that must be produced. This was done, for example, on production of liquor and clothing in the spring of 1941.

I am quoting from a book put out by the Brookings Institution on how Nazi Germany has controlled business. I wonder if you see much difference between that and the MAP regulation?

Mrs. Reed. I do not. Now when you get into that kind of thing, with my plant, in this last June I did not want to get into price raising since I saw what they did to Mr. Ford, and I do not know what they would say about me wanting to increase my prices. But in my particular business, I have shipped a good number of millions of dollars, and we have made no profit at all since last June. We have tried so
hard to get enough material to keep us shipping the kind of merchandise that we felt we wanted to ship. And so, since last June, I have made no profit. But of course, to me, in my business now, it is not a matter of profit; it is a matter of being able to stay in business, and I assure you that I would not come down here and ask you to hear me if I did not think it was a pretty desperate condition.

Mr. Buffett. Mrs. Reed, the Nazis had this excuse, at least, that they were at war when they had that MAP regulation. But we are not at war when this regimentation is going on in this country. I think you would find it interesting to look over this book, because all the theories of cost absorption, inventory control, profit control, and most of regulations that are shackling you, had their counterpart 4 or 5 years ago under the Nazis in Germany; whether ours was conceived out of theirs, I do not know; but at least according to the Brookings Institution we follow them in almost every detail.

The Chairman. Mrs. Reed, you did not come down here to discuss philosophy, did you? You came down here to speak your opinion, to which you are entitled under the democratic processes.

Mr. Buffett. She needs more than sympathy, Mr. Chairman.

The Chairman. I did not mention the word “sympathy.” That was not in my mind. She has a right to have the committee hear her problems, and it is our duty to consider them, not in sympathy, but as a matter of justice.

Mrs. Reed. Yes, but, Mr. Chairman, I hope you will seriously think over this maximum average price problem when you are considering your bill.

Mr. Monroney. The committee is actually very much interested in trying to find some way to relieve industry, I think, of the difficulties of operating under MAP, and I have talked to several members who would like to have some solution that would still give some impetus toward bringing low-priced goods to the market. Do you think a cooperative effort on the part of the clothing industry, even signing a declaration of intent or something to make all they possibly can under current trade conditions, of their low-end numbers, would bring about that? If we could put something else in the place of MAP, I mean, so as to get these low-priced goods, so that people who do not have necessarily a good market to protect in those price levels would not skyrocket prices.

Mrs. Reed. Mr. Monroney, I went through the NRA, and I have been on the advisory board of this Office of Price Administration, and also the War Production Board, and I have attended a good many meetings. I have come to the conclusion that the only thing that is going to bring out the right quality of low-priced goods, and plenty of low-priced goods, is to take off every kind of a regulation that interferes with production that it is possible to do. Because there is nothing holding back production. There is no reason why we should not have very great production in a short time in this business. We have the mills; none of them are broken or destroyed; we have the raw materials, and it would not be very long before these mills would take care of their own labor problems if they did not have so many regulations.

Nobody is going to let his mill be closed down because he will not pay the wages to get somebody to work.
In the garment industry, we have the machinery, we have everything; there is nothing keeping us back except these regulations, and I assure you that as soon as our hands are untied, and as soon as the hands of the millers are untied, it would take a very short time to go back into production. I think the only thing that is going to settle this thing is to get full production, when everybody is just going out and trying to sell their merchandise.

There is no business in America in which there is greater competition, and you know that, than in this business. If you get back to production, that is all there is to it. That is why I suggested that in 6 months' time surely they ought to be able to get sufficient production.

Thank you very much.

Miss Sumner. About price? We hear all the time that prices will shoot upward. Do you feel that your prices would, within that 6 months, be so high that it would seriously affect the working people, particularly in view of the amount of shopping they have been doing since the war ended?

Mrs. Reed. I know they would not in my case, because if I wanted to I could not do it. I know it just would not be good business to do it.

Mr. Monroney. You are not arguing in favor of taking out price control altogether; you are arguing for removal of the MAP, are you not?

Mrs. Reed. I am not arguing about that at all. I am speaking about MAP.

Miss Sumner. Do you see any reason why we should not take price control off your industry entirely?

Mrs. Reed. Of course, there is so much black market, so much getting around all these regulations, and there is so much high priced and so much poor merchandise on the market, as it is, with the regulations, that I do not think there would be any more without them.

Miss Sumner. Let me ask you this: You said you were running in the red at present.

Mrs. Reed. Yes; I am.

Miss Sumner. What causes that? Is that due to the regulation which does not permit you to have increased costs?

Mrs. Reed. With all the regulations we have, Miss Sumner, honestly I could not go over all of them, there are so many; you just cannot get any production, and there are so many reasons; the main reason is the maximum average price.

They started out last June, and we saved all our low-priced goods until after the 1st of June; we made all we could, so we would have a little start, and then I found, in the fall, that we were ready to close down because we did not have merchandise; that my New York man was just buying the proper amount of higher-priced goods to balance the lower-priced goods, and so we were just getting too little merchandise. It is a matter of production in my particular instance.

Mr. Monroney. To sum up your testimony, you could operate and get by fairly decently if MAP were taken off; is that right?

Mrs. Reed. Oh, yes; I think I could.

Mr. Monroney. It would not be too much of a hold-back on production?

Mrs. Reed. I wish you would get Mr. Bowles to let us make the skirts a little longer. These women are complaining about it. As you know,
we have regulations as to the length of the sleeve we put in, as to the length of the skirt, and that all has to be checked. They do not even allow us judgment as to how long we make a waistline. Some of their regulations are not up to my standards. I would like to make my dresses an inch or two longer.

Mr. Monroney. Is that not the Civilian Production Administration?

Mrs. Reed. Yes; but Mr. Bowles has that now, and I have not heard him say a word about removing the regulation.

Mr. Monroney. That is Mr. Small. He was the successor to the War Production Board.

Mrs. Reed. Oh, is that right?

Mr. Monroney. Yes; that is one thing you cannot blame on Mr. Bowles, the matter of short dresses.

Mrs. Reed. Well, I do not know. Some of them get together on it.

The Chairman. Are there any further questions?

Mr. Talle. Mr. Chairman?

The Chairman. Mr. Talle.

Mr. Talle. I was interested, Mrs. Reed, in your statement that it would not take long to get more goods on the market. Could you tell me approximately how long it would take to move raw materials into finished products?

Mrs. Reed. Do you mean, when they get into my plant?

Mr. Talle. No; I had in mind making the fabrics.

Mrs. Reed. That is a mill man's question, but there are certain clothes that take less time. Woven gingham, and any kind of woven cloth, where they finish the yarn before they put it in to weave it, takes a longer time, but there are a lot of print cloths which they can get through very quickly. I could not answer that question properly, but it does not take too long a time for certain classes of goods.

Mr. Talle. At least you are of the opinion that it does not take long to bring goods to the market?

Mrs. Reed. No, I think, if the mills did not have any kind of regulations, they would really get into turning out a great deal of merchandise, and pretty soon I could be picking out what I want instead of taking what they give me.

Mr. Talle. How long after you get the material do you get your goods out?

Mrs. Reed. I get them out in a surprisingly short time.

Miss Sumner. Such as what?

Mrs. Reed. A week. I can start shipping a week after I have merchandise in.

Mr. Talle. Mrs. Reed, I have so many complaints from people in my district, and we have some pretty large shops in cities like Cedar Rapids, Iowa; Clinton, Iowa; Dubuque, Iowa.

Mrs. Reed. I know all of them.

Mr. Talle. And I know those people personally, and they have respect for the people from whom they buy their merchandise. That is why I was rather horrified yesterday morning when I read in the Washington Post, a letter, over the signature of Mr. Bowles, saying that the National Dry Goods people were the most irresponsible
people with whom they dealt. Even if he thought so, I think it is very unfortunate for anyone at the head of so powerful an agency as the Office of Price Administration to say that publicly.

Mrs. Reed. Well, I have many accounts. Some of them I started selling 25 or 30 years ago, and some of them have been buying from me for 20 years. I would say that the great majority of my accounts are the ones with which I started, and I have not found them that way in my experience.

Mr. Talle. In the light of your experience, would it be possible for anyone to stay in the dry goods field a long period of years if he were irresponsible?

Mrs. Reed. Well, I would say no, because, of course, the retailers are in probably closer contact with their trade than I am with mine, and I would not think that a man could stay in a community a number of years and keep his business running, if he was not a reliable person. That, generally, has been my experience.

Mr. Talle. Last fall, the charge was made that the reason goods were not coming onto the market was that Congress passed the wrong kind of tax bill, and that the merchants were withholding their products until the first of the year, when they could operate under more favorable tax conditions.

Mrs. Reed. I know they did not do that as far as my products are concerned. They might have, but I have heard of none who did.

Mr. Talle. Mr. Bowles said: "Wait until January, and you will see a flood of goods." January came and went, and I have not witnessed the flow as yet.

Mrs. Reed. I heard that about the mills, too, and I had a little vacation around Christmas time, excepting that right after the first of the year all my troubles would be over and I would get all the material I wanted. But I did not find any more. I think it was tighter, if anything.

Mr. Talle. We have passed the ides of March now, and the goods are still as short and of as poor quality as ever.

Mrs. Reed. As far as I am concerned, they are still very, very scarce, and it seems to me they are getting scarcer. At least that is my experience, and of course that is all I can speak about.

Mr. Monroney. How do you account, then, for figures I saw published yesterday or the day before, to the effect that in practically every Federal Reserve district department store sales were 50 percent above a year ago. They are selling something.

Mrs. Reed. Well, Mr. Monroney, they are; there are a lot of new things that have come into the picture. I wanted a certain kind of rug for one of my rooms, and of course they did not have the kind of a rug I wanted, but they did have some very pretty rugs; you know the kind of little scrambled rugs, nice colors and so on; I needed a rug, so I bought it, and paid almost as much as I would have paid for a nice rug.

Well, there are a lot of novelties in the retail end that make up the volume.

Mr. Monroney. In my own business, for example, I do not have a living room suite on my floor today. And I have only one dining room suite. Whereas ordinarily we will carry from 100 to 150 living suites and perhaps 50 dining room suites. But when I go back
Mr. Seidel of the Grant Co. gave this committee his inventory figures without putting in any volume figures, which I do not think was an effort to give a clear-cut picture of what the situation is. I think those are the things that Mr. Bowles were shooting at the National Retail Dry Goods Association for doing.

Mrs. Reed. Mr. Monroney, I think most retailers feel that when they have no stock, that they are not serving their trade.

In the case of my merchandise, when a store like Bixby & Fuller in St. Louis, have 12 Nelly Don garments, when they ordinarily carry $10,000 worth in stock, naturally they feel that a great many women are not going to be served. I can well see where the retailer would feel that that was a very bad situation. And I have discussed that situation with the retailers. They call me up at home.

Mr. Monroney. I know that the retailers are very much worried about the lack of available stock and selections, but if over the year they have sold that much in a certain department, then there is no sign that the supply has dried up; it is a sign that the demand has outrun the available supply, and perhaps the supply is even above normal in some cases.

Mrs. Reed. Well, maybe there are a lot of people who want living-room sets who did not have the money to buy them before. I do not think that you have any quarrel with the people who went out and worked in defense plants wanting merchandise.

We have farms, and we have these farm laborers, who work on the farms. Some of those poor women had never in their lives had a dress that cost more than $2. Well, they run a bus past their door, and they go out and work in a defense plant, and they helped to pile up that large amount of goods which we got during the war; those women go off and get their own mother to live with them and take care of the children, and they go out into defense plants and work all day. Do you not think those women ought to be able to buy a bedroom suite, or a nice $10 dress, if they want to, even if they only had a $2 dress before?

Mr. Monroney. But what I am trying to say is that the country is producing above normal production today, in the reconversion period, and we are gaining; simply because we are in short supply temporarily does not mean that everything has gone wrong with government and that we are killing industry. I think we are doing pretty well, under the circumstances.

Mrs. Reed. But, Mr. Monroney, if we did not have all this terrible number of regulations which keep down production, and we could give this woman who had only a $2 dress in her life a $10 dress, and let her buy a new living-room suite, would that not be all right?

Mr. Monroney. That is all right, but we cannot expect a 200-percent increase overnight out of our machinery.

Mrs. Reed. You can expect a 200-percent increase overnight if you take off some of these regulations.

Mr. Monroney. I talked to a great many businessmen about that; were you in business during the last war?

Mrs. Reed. I went into business in 1916; yes, sir.
Mr. Monroney. And you operated through 1919 to 1921?

Mrs. Reed. I did.

Mr. Monroney. Well, did you find everything easy and rosy and just without any troubles at all?

Mr. Reed. No, but I did not have my hands tied behind my back.

Mr. Monroney. I have talked to many people who were in business, and they tell me that their problems at that time, with withholding of merchandise, speculative warehousing, inability to get patterns, inferior goods, were pretty serious. Some of the furniture that was shipped in that period had to be unloaded with a shovel, it was so bad.

Mrs. Reed. Well, I started to build up my business during that period. I went out and sold goods in New York and Chicago and the biggest markets of America. I do not know, but my business grew. I even found the mills were not so wicked. I was a little person, a little bit of a factory, a woman who ordinarily was not in the mill business, and my credit was good, but it was small; I went down to them and they gave me a few cases of goods, and then Renfro gave me a few cases of goods; they all treated me very well. They did not give all their merchandise to big rich customers.

Mr. Riley. Can you give us any information as to the demand for your low-priced line and your medium-priced line? For instance, of your $2.95 dress and $6.95 dress, which one would sell first?

Mrs. Reed. The $6.95 dress would, and the $8.95 dress would. And let me tell you why; in that price range, I make a type of dress that you can wear anywhere you go. The $2.95 dress is strictly a house dress. A great many women would rather wear their last year's dress, or that of the year before, in the kitchen or in the house in the morning, and then buy a new dress to wear out. So we have a much greater demand for our medium-priced dress, our $6.95 to our $10.95 dress than we have for the lower-priced dress.

Mr. Riley. Is it not possible that the increased income of a great many women has brought about a situation where they want a dress of a little better material and a little better quality?

Mrs. Reed. Well, I think, if they have worked during the war and made a little money, why should we not let them have it?

Mr. Riley. So there is not the demand for the low-priced line, then, that there has been up until 4 or 5 years ago.

Mrs. Reed. I do not think there is. Another thing, the $2.95 dress in my line or the $3.95 dress in my line or generally in anyone's line, is strictly a house dress. So many more women went out into the world this time than they had ever before; a great many housewives; well, they are still going out, and some of them working, and if they are not working they belong to clubs; at any rate, they put on one of these little higher-priced dresses, $6 or $8, and they can drive their husband to work or they can take the children to school, or they can run over into the neighborhood, where they would not do that in a strictly $3.95 dress.

At the same time, it washes just as well, and is just as appropriate and just as good in the kitchen as the $2.95 dress, so if she just pays a little more for it, she not only gets something she can wear anywhere, but she looks at it. So I think there is a bigger demand for it.

Mr. Brown. May I ask a question?
The Chairman. Mr. Brown.

Mr. Brown. I just wanted to state, Mrs. Reed, that I remember very pleasantly meeting you at the Chicago convention, and I wish to say that had the women known you were going to appear before this committee this morning, this room would have been filled with housewives; you have a great many admirers among the housewives, and a great many women feel you have rendered a very great service to them and they appreciate it.

Mrs. Reed. Thank you, that is very kind, Mr. Brown. I am sorry to have taken up so much time.

The Chairman. We are very glad to have had your views. I am certain that you expressed them very well and I am sure the committee will consider them.

The next witness is a representative from the fur industry. The witness will identify himself.

STATEMENT OF J. D. SILBERMAN, AMERICAN FUR MANUFACTURERS' ASSOCIATION

Mr. Silberman. Mr. Chairman and members of the House Banking and Currency Committee, by way of introduction and in order to qualify myself as an authority on the matter under discussion, I am J. D. Silberman, vice president of the Silberman Fur Corp., Chicago, Ill., maintaining branches to contact the farmers in the six major fur districts of the United States proper, namely, Seattle, Wash.; Dallas, Tex.; Kansas City, Mo.; Memphis, Tenn.; Philadelphia, Pa.; and Des Moines, Iowa.

We also operate selling branches both in New York City and Chicago. This firm handles a great volume of furs voluntarily sent to us for marketing purposes by over 300,000 individual farmers.

I was chairman of the Fur Industry Advisory Committee both at the Office of Price Administration and at the War Production Board, as well as the former president of the American Fur Merchants' Association, and at present I am chairman of the Office of Price Administration committee of this association for whom I now address you.

Having had personal experience in the fur industry from the producers, who are mostly farmers, and their sons, up through the various stages of marketing, to the manufacturers, for the past 30 years, I feel particularly qualified to present the position of this trade and to answer any questions that you may wish to ask.

At this time, however, I wish to go on record as stating that if it were not for the qualifications stated above, I would hesitate to appear before this committee, for the simple reason that officials of the Office of Price Administration have requested an injunction against my firm based on alleged overpayments to the farmers.

No complaints or violations have been received against my firm from either shipper, competitor, or customer, and the action now being entered into by the Office of Price Administration against my firm was instigated from within the Office of Price Administration on the basis of a questionable interpretation of a minor section of the regulations.

I have no intention of pleading my own case here, but I thought you were entitled to know this, as it may be brought up in the rebuttal by members of the Office of Price Administration.
Now, gentlemen, our association has prepared a rather complete brief, which we wish to present to you for your consideration. However, you have many other briefs to listen to, and this is Saturday, so I am sure you will approve if I quote just a few facts from the brief instead of reading the entire contents.

I had prepared these lists from the brief in what I thought was a proper rotation, but the testimony you heard from Congressman Vinson earlier makes me believe that it is advisable to bring forth my last facts first, as your questions to him and his answers make this information timely.

Congressman Vinson stated that he thought the Office of Price Administration should restrict their regulations to articles that were strictly a cost-of-living commodity. In our brief we can show many reasons why fur coats are not a cost-of-living commodity, and I doubt whether any member of this committee would argue that point.

But to prove why the Office of Price Administration should themselves want to take fur coats out, I will read the following:

To emphasize the fact that fur coats should not be under the regulation of the Office of Price Administration, and could very easily be withdrawn, we quote the general maximum price regulation itself, as issued April 28, 1942, by the Office of Price Administration, particularly section 13, which designated the commodities that were, in the opinion of the Administrator, a cost-of-living commodity, and this is what Congressman Vinson said they should do now. They already have done it.

A list of these commodities appeared in appendix B of the regulations, and it is significant that under the detailed category of "Women's and girls' clothing," fur coats were not included.

We know that the Office of Price Administration did not thereafter include fur coats without reason, and that reason is explained by a letter written April 2, 1944, signed by James F. Brownlee, then Deputy Administrator of Price Control, and addressed to the editor of the New York Times, wherein Brownlee stated as follows:

You are correct in your statement that our major reason for undertaking the price fixing on luxuries is that in the absence of such control, materials for manpower would be devoted to nonessential purposes.

We respectfully point out that conditions which existed then, as a wartime measure, do not apply today; and since furs have been legally characterized by Congress itself as a luxury, indicated by the imposed tax of 20 percent under a wartime emergency retail excise tax, and since these war conditions no longer exist, the reason given by Mr. Brownlee for controlling fur coats no longer holds true.

Our association wishes to submit, along with our brief, an amendment to the Emergency Price Control Act of 1942, that covers all the corrections asked for herein, and which is in line with this statement of Mr. Brownlee, and the list as published by the Office of Price Administration in General Maximum Price Regulation as originally issued.

Now gentlemen, much as we would have desired it, price control in our industry has never worked. Articles in demand of higher prices just disappeared from the normal trade channels, and thus looked scarce, and came forth in various other routes outside of those established firms, but at higher prices at that time.
In other words, no regulation has been written as yet that is enforceable in the fur trade.

In a report to Congress in June 1945, this very Committee on Banking and Currency, in considering the extension of the act, stated as follows in their report to Congress:

Controls should cease for particular commodities just as soon as the supply of that commodity comes within reasonable balance with demand.

Knowing that such a recommendation was made in sincere good faith, we have brought to you in our brief a complete picture of the situation as far as supply and demand goes in our industry. For the purpose of consolidating this report, and just for your information at present, we wish to bring out that the United States Department of Commerce shows that retail fur sales annually, for 1944 and 1945, are approximated at $430,000,000 each. Converted into raw furs, this represents an annual consumption of about $143,000,000 of raw furs, and of these, 60 percent are imported and only 40 percent are domestic furs.

Using our figures, which I assure you are correct, we entered into this year with a hold-over surplus, unsold and ready for fur coats, of $162,000,000 worth of raw American furs.

The fur industry entered into its 1946-47 season facing a catch for the 1946 season, which, combined with the imports, will exceed $250,000,000 of raw furs, and this, added to the carry-over of $162,000,000, is a sufficient supply for three more years.

That does not sound as though we have a lack of supply of raw furs.

This does not even take into consideration the furs which are daily arriving from the Asiatic markets, which were not available during the war years but which are now arriving by the shipload almost weekly.

Taking the made-up furs, to show that the raw furs have not been held back in raw state, there are unusually large inventories of ready-made fur garments at present available; and as late as February 1946, the Wednesday and Sunday newspapers in the leading cities, such as New York, Boston, Washington, Baltimore, Chicago, Cleveland, Denver, Los Angeles, carried extensive advertising of raw fur garments; and not only advertised raw fur garments, but were starting to advertise them at a third off—up to 50 percent off. I have copies of all these ads, which will be given to your committee for your perusal.

I think these figures given to you by me, and contained in fuller detail in the brief, should convince you that the demand has been caught up with by supply; and according to your own recommendation to Congress, it is time that the Office of Price Administration control be removed.

If those figures alone are not enough to convince this committee that such an amendment should be made to the Emergency Price Control Act, we give you this:

The current regulation by the Office of Price Administration over the fur industry is of detriment to the American trade, from the farmers up through the manufacturers and exporters. Every branch of the fur industry has repeatedly stated and proven that the price control on furs and fur garments has disrupted historical trade practices, dislocated normal channels of distribution, and has had a detrimental effect upon the fur industry of the United States.
During the war, and under war conditions, this was conceded as being necessary to promote the war effort. To continue such conditions now is useless. Fur prices have always been controlled by style, and the supply of these particular furs, which are in demand because of that style.

Foreign markets today are not subjected to or governed by our price regulations, and the price levels set by the Office of Price Administration on various furs are entirely out of pace with the world parity prices. I am sorry Mr. Crawford is not here, because I would like to show him where the Office of Price Administration states that the skunks which come from Michigan are not worth as much as those from other places.

Mr. Brown. I will guarantee you that Mr. Crawford will read all of your testimony.

Mr. Silberman. Actually, Michigan skunk are demanding the highest price in a free market today, but the Office of Price Administration says they are no good.

The price levels set by the Office of Price Administration on various furs are entirely out of place with the world parity prices. Some of the limits set by the Office of Price Administration are above the prices obtainable here or elsewhere, but the majority of prices placed on the American furs are below the world parity level.

It is strange that when partial decontrol was effected last year, that 70 percent of all foreign furs, Russian and otherwise, were exempted. But no American furs produced in any quantity were included in the exemption. In fact, under the present Office of Price Administration regulations, what is known in the trade as the cheapest cost-of-living item—if there is one in a fur coat—is one made out of pieces cut off from the skins that were used in making the Russian Persian coat.

Actually today the Office of Price Administration has no control over this coat, made out of pieces, and does not want control over that; but they do want control of a coat made out of our American muskrats, whether it comes from Louisiana or Michigan.

This has resulted in an injustice to our American farmers—who, after all, you must know, are the producers of our furs—by not allowing them to receive the true worth of their products.

I want to give you one example:

Opossum, the price of which is limited by the Office of Price Administration to 85 cents for the finest grade, as they describe it, cannot be sold in this country for above 85 cents; it is now being sold to buyers who are shipping them abroad, where, upon landing in London, they demand a price of $1.50 over and above all shipping costs. That is very nearly 100 percent profit.

Now this item is not even wanted for use in the United States, and never has been used for a cost-of-living garment or cheap garment in any quantities at all. Therefore, the enforcement of the Office of Price Administration law on this item is not bringing into our way of living a low-cost garment, but it is simply resulting in foreigners making an excessive profit at the expense of the American farmer, who should have been paid a price on a parity with the world market.

Another example on an article that it wanted in this country, namely, muskrat. Granting that the ceiling limit of $2.30 could be enforced effectively here, it would mean that the Europeans would buy the best
qualities up at this price, export them to London or other world markets, where a price of $4 can easily be obtained, and thus there will be less rats in the domestic market to produce coats for the American consumers. That is just what is happening today.

Europe used to use the poorer grades of all our furs. Today, under price control, they use the better grades, and the poorer grades are being used for our American public.

Gentlemen, if there are any questions which you would like answered, if I have not made myself clear, I will be very happy to oblige you.

Mr. Monroney. I have just one question. In this ad in which you show the Zlotnick January 1 sale, there is the byline "up to one-third off." That does not mean that every fur in the house was reduced one-third, does it?

Mr. Silberman. From the English of it, I would say that that was the top reduction in that ad.

Mr. Monroney. It might represent 5 percent, 2 percent, or 10 percent. It does not say that every coat is reduced one-third; is that right?

Mr. Silberman. That is correct.

Mr. Monroney. Frequently the practice, around January and February, is for merchants to clear out the odds and ends of their fur stocks, getting ready for the new year, is it not?

Mr. Silberman. Well, that depends on the season, Mr. Monroney.

Mr. Monroney. That is what I said; around January or February.

Mr. Silberman. That depends on what January or February. I heard you mention before that you had only one dining-room set left on your floor. You do not cut the price on that, do you, sir?

Mr. Monroney. Not on one; no.

Mr. Silberman. Well, these people would not cut the prices either if the articles were scarce. They did not do it in previous years if they were scarce.

Mr. Monroney. Though normally January is a clearance time for furs, is it not?

Mr. Silberman. Well, it is the first January in many years that they have had it.

Mr. Monroney. That would indicate not only the supply but also return to normal selling practices.

Mr. Silberman. It is normal in that it indicates the supply is normal. There is no scarcity. If there were scarcity they would not use normal practices.

Mr. Brown. Mr. Talle.

Mr. Talle. I would like to ask you about the supply of furs. Is it extensive? Is it above the normal supply carried by the industry?

Mr. Silberman. I definitely know it is, and we are scared to death, because we know there is a terrific amount of furs now en route and available to the American public coming from China—goods that have not found a market for 5 or 6 years, and which have been stored in China, and which are arriving daily.

Mr. Talle. You probably get quite a lot of furs from Russia, too, do you not?

Mr. Silberman. It has been the history of the last 4 years; we have had the largest supply of Russian furs right straight through the war.
that this country has ever known. All of it was dumped here, where the majority of it used to be sold in London and in Europe generally. But almost 100 percent has been dumped here, and it is noticeably apparent that the Russians themselves do not care to use their own furs. They would rather sell them to you.

Mr. TALLE. That bears out the testimony that was given last May and June, when we were considering the extension of the Price Control Act. And the principal representative of the industry said that all the warehouses were filled to the rafters with furs, but because of restrictions they could not reduce the supply. I remember he said something about the inability to promote furs, because of certain regulations. In what does the promotion of furs consist?

Mrs. SILBERMAN. Well, there are very many things that I could give you as an answer to that. I had better limit myself to one or two.

Mr. TALLE. Very well.

Mr. SILBERMAN. For instance, furs are a style. Because a piece of fur is warmer than another piece does not mean that a woman wants something made of that fur. Quite to the contrary. If you can make a fur that has no warmth stylish, it will sell in the garment 200 percent or 300 percent more than the warm fur will sell which has not got what that woman thinks is style today.

We have warehouses full of American furs today. My firm has the largest inventory it has ever carried in its history.

For instance, let us take raccoons. Raccoons, as raccoons go, are through as a style for the present. Raccoons can be dyed. We have spent many thousands of dollars, although that is not our business, to dye or to make garments ourselves, nevertheless we have tried to help the manufacturers out by experimental dying, experimental handling; we have been able to dye a raccoon into a silver-blue shade that is very attractive and might become a style item.

However, under the Office of Price Administration regulations, that raccoon coat, no matter how it was dyed or how it was styled, is restricted to the price that an ordinary raccoon coat, which was not stylish, was restricted to in 1941, namely $198, approximately.

Now, you cannot buy that fur or sheer it, as we have done, and let it out, as they like to do, and produce that coat under Office of Price Administration regulations. If they could do so, and make it a style item, it would take the pressure off the other furs which are hitting the ceiling and get rid of a great deal of American fur.

I think that is one answer to your question.

Mr. TALLE. That bears out the testimony that was given last year, also.

Mr. SILBERMAN. Yes.

Mr. TALLE. I think you stated at the outset that no control or regulation written by the Office of Price Administration was suitable or is suitable to the fur industry.

Mr. SILBERMAN. None, so far given us by the Office of Price Administration.

Mr. TALLE. What is the principal reason for that fact?

Mr. SILBERMAN. Well, I will give you one example: In order to make a regulation, you have to have a standard and to set a certain price for that standard. Am I correct?

Mr. TALLE. Yes.
Mr. Silberman. Without trying to obtain self advertising, I will say that in the trade and in the world, our firm is known to have the nearest to standard goods. That is we could deliver packages, and repeat packages, and get about the same standard. Yet our standard of grade, what we call an X grade, was nowhere like what a competitor would call an X grade. There was no standard.

Now, to illustrate how that affected the original Office of Price Administration laws and going back to the subject I thought might interest Mr. Crawford, they selected a time of the year for their basic price list when we had no foreign trade. They did not go back to a normal year. They went back to when we had no foreign trade. They said: “What skunk is bringing the most at this time?” It developed that what we in the trade call a northwestern type or a Dakota type, or a Minnesota type, depending on what firm you are with—it is all one type—by the records was supposed to have brought the highest price during that time. They therefore established that the northwestern long-stripe skunk—do you know what that is?

Mr. Tallie. I do. I have trapped them.

Mr. Silberman. Good. So have I. They determined that that was the top grade. Any other section, any other grade, must be weighted downwards or it would be illegal to sell them. Now, anybody who has been in the fur business knows that Europe would not give you $1.50 for that skunk if they could get a Michigan or a New York black and short striped skunk for $4 or $5. Therefore European trade believes that the Michigan short stripe is the top grade on which you should base your price.

Mr. OPA says it is the northwestern skunk on which you should base your price because the American manufacturer, when he used it, manufactured that one.

I am not prepared to get up and say: “This is the top quality and that is the third quality,” because I know that to many I may be a liar. Because the way style changes, I have been in this fur business since—well, I had just started when I left for the First World War—and I have been in it ever since. I can remember my first experience in buying a silver fox, which a trapper brought in.

A trapper brought in two silver-fox furs that stood that high from the ground [indicating]. They were coarse, they were black three-quarters of the way and silver just one-quarter of the way. We paid $1,100 apiece for those foxes. And they found their way to the King of Norway.

At the same time, a full silver fox, about that high [indicating], which came in in the same way, was called a freak, and sold for $15. Today, a woman would not pay you $15 for that fox for which we paid $1,100, but she will pay you $100 for that freak fox.

Now how, in a trade like that, can you put up a table of values and say: “You stick to this.” I am married, and I know that when my wife wants this, she does not want that. And the Office of Price Administration cannot teach her differently.

Mr. Tallie. What effect have the regulations had on the farmers who make it their business to raise domestic furs?

Mr. Silberman. Well, you are talking about the ranchers, as we call them, or breeders.

Mr. Tallie. Yes.
Mr. Silberman. I think there are others who are better qualified to give you that answer, but I would like to give you the answer as to how it has affected the average farmer.

I was, as I said, an original member of the Office of Price Administration Industry Advisory Committee. At that time, Mr. Connally, was trying to get a regulation out, and he finally got, under Mr. Brownlee, 541, which I helped write, and it had a paragraph in there to protect the farm boy. In other words, we knew that the Office of Price Administration did not have enough men, if they used the Army, to go out and enforce every sale, and into that was written—and it was taken from the original general maximum price regulation—that any sale made by a farmer or producer or a hunter or a trapper, amounting to $75 or under, during any one calendar month, was free of any regulations, as contained in 541.

It went on further and stated, in a separate paragraph, that any dealer, under the exemption—this was section 14, subdivision (d)—

Any dealer purchasing such furs from a hunter, trader or farmer at prices higher than the maximum price established by this regulation was exempted unless they know or have reason to believe that such purchases are subject to the regulation.

In other words, the way that business is done, is this: A farmer brings his furs in or ships them in by United States mail or express. He may ship me $25 worth of furs. That is all he will ship me all season. Maybe he would ship me $25, or some other one will ship me $25 each month. There is no way for me to know whether he is shipping $50 worth to some other firm. Therefore unless I knew this man produced more than $75 worth, I was held blameless if I paid him more than the individual price for a piece of fur, if his shipment was less than $75 per month to me.

I only quote that to show you that when that regulation was written, it was intended that the farm boy was not only able to sell his furs legally, but that he would have someone to sell them to who could buy them legally.

The Chairman. Is that all, Mr. Talle?

Mr. Talle. Just a word about foreign markets.

Mr. Silberman. May I finish this one fact for you?

The Chairman. All right.

Mr. Silberman. Today, someone in the Office of Price Administration has not written it, but he points out the fact that they left out that second paragraph, about the dealer buying the furs, while in the wording of this thing, so as to beguile the farmer, he can sell his goods without regulation, they claim that nobody can buy it, therefore who is the farmer going to sell it to, if it is illegal for them to buy it? Why do they not take the whole thing out? Are they more afraid of Mr. Farmer than they are of the rest of us?

Mr. Talle. I had one more question. I wanted to ask you, in the event that no change is made in the price-control regulation as affecting the fur industry, what would be the effect upon the American fur industry in the international market?

Mr. Silberman. We will definitely lose out. London is making every effort today to regain the position she had prior to the war, that is of a fur center, which position London assumed when Leipzig, Germany, closed down as an international market because of conditions that we all know.
New York inherited this position during the war, and we did a very good job of it, resulting in the Russians selling their furs here for auction as well as for private sale, the Hudson's Bay Co. of Canada and England selling their furs here, and our auctions have gained prominence throughout the entire world.

But today the Hudson's Bay Co. has restricted any sale of their furs in America and is taking them to Europe because of the Office of Price Administration regulations, and they have so announced. The Russians are continuing to merely sell above the limits in Russia to Americans, letting them import as they will, and I assure you they are not selling them to China, and the Americans are the only ones under this regulation where they can reach it.

Now, Mr. Bowles has often said it, and I heard him state it to another trade not so long ago, to this effect:

This man came to me and he said: "You are strangling me and if you do not give me relief I will be out of business." And yet 8 months later, Mr. Bowles said, "this man showed the best statement he ever had in years."

I agree with him that he probably did have. But it was because this man was smart enough to find a way around Mr. Bowles' regulations, and not because of Mr. Bowles' regulations. I assure you that if I did not have very good legal talent, and if the Office of Price Administration people responsible for writing up the Office of Price Administration regulations were not a little bit clumsier than a man could be if he wanted to succeed in business life, that our business would be extinct today.

But we have done very nicely, because the regulations have been very clumsily written, in part.

Mr. Talle. Thank you for your testimony.

The CHAIRMAN. Mr. Riley.

Mr. Riley. I have no questions.

Mr. Silberman. Mr. Wechsler would like to make a statement.

The CHAIRMAN. Mr. Wechsler.

STATEMENT OF LEO WECHSLER, ATTORNEY FOR THE AMERICAN FUR MERCHANTS ASSOCIATION

Mr. Wechsler. I wish to submit our brief for the record, and also our proposed memorandum of the proposed amendment to the act.

The CHAIRMAN. They may be inserted in the record.

THE AMERICAN RAW FUR INDUSTRY AND PRICE CONTROL

Memorandum submitted by the American Fur Merchants' Association, Inc., New York, N. Y.

To: Committee on Banking and Currency, House of Representatives, Washington, D. C.

From: The American Fur Merchants' Association, Inc.

Subject: The American fur industry and price control.

INTRODUCTION

The American Fur Merchants' Association, Inc. is a voluntary nonprofit organization, whose membership includes the leading dealers and handlers of raw, dressed, and dressed and dyed furs. Among its members are exporters, importers, fur auction houses, and others who deal in and treat with domestic and foreign furs.
Furs have been subject to price control since May 11, 1942, at which time the fur industry, like numerous others, was placed under general maximum price regulation. Subsequently, on July 9, 1942, the manufacturing, wholesaling, and retailing branches of the fur industry were removed from general maximum price regulation and placed under Maximum Price Regulation 178. Fur skins, however, remained under general maximum price regulation for about 2 years. After several abortive attempts to write a regulation for the raw-fur industry, Maximum Price Regulation 541 was finally issued and became effective on June 19, 1944—more than 2 years after the promulgation of the general maximum price regulation. With the issuance of MPR 541, all domestic and foreign furs, with a few exceptions such as mink, ranch silver fox, and United States Government-owned Alaska sealskin, became subject to price control. Since its effective date (June 13, 1944), six amendments were issued to MPR 541.

On August 17, 1945, price control of furs was suspended on all but 18 kinds of furs and garments made from furs which were formerly subject to MPR 541. The suspension order of August 17, 1945, did not assign any reasons why the Administrator retained price control on these 18 kinds of furs. It is presumed that in the opinion of the Administrator these 18 kinds of furs represented a class of furs used to manufacture fur garments which retailed at a low price level.

We respectfully submit that if this committee recommends an extension of the Emergency Price Control Act of 1942 as amended, that such act be amended by eliminating from all price control such commodities which are generally classified as "luxuries" and further amended by limiting the jurisdiction of the Price Administrator to regulate, in the category of wearing apparel, only such commodities which are deemed to be "essential cost-of-living apparel." So that there may be no misunderstanding as to the scope of the Administrator's jurisdiction, the amendment should define the terms "luxuries" and "essential cost-of-living apparel."

It is suggested that the term "luxury commodity" should be defined to mean such commodities upon which the Congress has imposed the war emergency retail excise tax of 20 percent (see sec. 2400 Internal Revenue Code), and the term "essential cost-of-living apparel" should be defined to mean and include women's and girls' clothing, as defined and set forth in appendix B of the general maximum price regulation issued April 28, 1942.

Furs and fur garments were specifically included in the category of luxury items as indicated by the 20-percent excise tax imposed by the Congress. The excise tax of 20 percent is imposed on all fur garments sold at retail regardless of price range, the tax being paid by the consumer at the time of purchase. Generally speaking, women's fur garments are not cost-of-living commodities. They cannot be included in the category of those essential commodities where spiraling prices due to wartime shortages or under-production can result in hardship to the consumer. The price of women's fur garments is peculiarly and exclusively sensitive to and dependent upon the whims of style and fashion, irrespective of supply or price.

On May 18, 1945, the fur-skin industry advisory committee submitted a resolution to the Price Executive of the Leather, Fur and Fiber branch of the Office of Price Administration, unanimously recommending that all fur skins be exempt from price control. Accompanying the aforesaid resolution was a statement of facts and conclusions upon which the fur-skin industry advisory committee based its recommendations.

We respectfully submit (1) that furs and fur garments are luxuries and not essential cost-of-living apparel and should not be price controlled; (2) that the available supply of furs is adequate to meet all demands; and (3) that a continuation of such controls will act as a detriment to the best interests of the American farmers, trappers and merchants.

It is our contention, and we respectfully submit, that furs and fur garments under prevailing market conditions need not be price controlled, and that the suspension of such controls will not affect the Government's national reconversion effort, nor would such suspension contribute to an inflationary spiral or economic instability.
POINT I. FURS AND FUR GARMENTS ARE LUXURIES AND NOT ESSENTIAL COST-OF-LIVING APPAREL AND SHOULD NOT BE PRICE CONTROLLED

Fur skins are not, and never were a war-essential commodity. As raw material it had no strategic value and was of no importance in aiding the war effort. Inventories and production were never under control of the War Production Board, nor were there restrictions of any kind by any Government agency, except that of the Office of Price Administration.

Furs do not today play any part in our reconversion effort and by no stretch of the imagination can furs affect adversely such effort.

On April 28, 1942, the Office of Price Administration issued the general maximum price regulation. Section 13 thereof designated the commodities which, in the opinion of the Administrator were cost-of-living commodities, and a list of the commodities so designated appeared in appendix B of the regulation. Appendix B is headed "Commodities designated by the Price Administrator as cost-of-living commodities." It is significant that under the category of women's and girls' clothing, fur coats were not included.

The main reason for undertaking the price fixing of luxuries was the conservation of manpower for the war effort. On April 22, 1944, James F. Brownlee, then Deputy Administrator of Price Control, wrote a letter to the editor of the New York Times because that newspaper had, on several occasions through its editorial columns attacked price control of luxuries even as a wartime measure. Mr. Brownlee replying to New York Times, stated in his letter:

"You are correct in your statement that our major reason for undertaking the price fixing on 'luxuries' is that in the absence of such control materials or manpower would be devoted to nonessential purposes."

We respectfully submit that the conditions which existed then as a wartime measure, do not apply today. As stated above, furs have been characterized as a luxury by Congress, as indicated by imposing a tax of 20 percent under the war emergency retail excise tax (sec. 2400, Internal Revenue Code). From comments in the public press by Members of Congress, indications are that such taxes will continue. Furthermore, such excise tax has acted, and will continue to act as a deterrent against any unreasonable advances of prices.

POINT II

THE AVAILABLE SUPPLY OF AMERICAN AND FOREIGN FURS IS ADEQUATE TO MEET ALL DEMANDS

Due primarily to the fur retail excise tax and the loss of foreign markets during the period of the war, there was an underconsumption of the available supplies of fur skins in the United States. Also due to fashion trends, substantial stocks of "long-haired" fur skins are presently carried in cold-storage warehouses representing the unconsumed crops of 2 or 3 years. Of the "wanted" furs, large supplies are available in neighboring and foreign countries, but are partially withheld from use in domestic price-controlled markets. Due to the limitation of imports owing to war conditions, large quantities of furs have accumulated in European and Asiatic countries, awaiting adjustments of financial and shipping conditions. Already large quantities of foreign furs are reaching the United States. With the improvement of shipping facilities, large accumulated stocks of European, Russian, and Asiatic fur skins are becoming available. The large quantities of fur skins presently available from domestic sources and foreign sources are estimated to meet all demand.

In its report to Congress in June 1945, this committee, in considering the extension of the act, stated:

"Control should cease for particular commodities * * * just as soon as * * * the supply of the commodity * * * comes into reasonable balance with demands. * * *"

Statistics of the United States Department of Commerce show that retail sales annually for 1944-45 approximated $430,000,000. Converted into raw furs, this represents an annual consumption of about $148,000,000 of fur skins. Of the furs consumed in this country, 60 percent of the volume are imported furs and 40 percent of the volume are domestic furs.
To support the contention that available supplies of furs are equal to and exceed the demand, the following is submitted:

<table>
<thead>
<tr>
<th></th>
<th>1944</th>
<th>1945</th>
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<tbody>
<tr>
<td>Raw fur imports</td>
<td>$125,994,200</td>
<td>$142,203,560</td>
</tr>
<tr>
<td>American raw fur catch</td>
<td>100,000,000</td>
<td>100,000,000</td>
</tr>
<tr>
<td>Total furs available</td>
<td>225,994,200</td>
<td>242,203,560</td>
</tr>
<tr>
<td>Consumed in fur coats</td>
<td>143,000,000</td>
<td>143,000,000</td>
</tr>
<tr>
<td>Hold-over surplus</td>
<td>82,994,200</td>
<td>80,200,213</td>
</tr>
<tr>
<td>Less export, American raw furs</td>
<td>19,003,347</td>
<td></td>
</tr>
<tr>
<td>Total available furs</td>
<td>223,200,213</td>
<td></td>
</tr>
<tr>
<td>Consumed in fur coats, etc.</td>
<td>143,000,000</td>
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</tbody>
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The total hold-over surplus for 1944 and 1945 (approximately) is 162,000,000.

The fur industry therefore enters into its 1946-47 season with more raw furs held over from previous years than can possibly be consumed in a full year's operations. From present indications the American raw catch for 1946 plus the imported furs will exceed $250,000,000, which in itself is a sufficient supply for the 1946 demand. This does not take into consideration that furs from the Asiatic markets (China, Japan, etc.) are now available for American consumption.

There are unusually large inventories of ready-made fur garments presently available. As late as February 28, 1946, the Wednesday and Sunday newspapers in such leading industrial and populous areas as New York, Boston, Baltimore, Chicago, Cleveland, Denver, and Los Angeles carried extensive advertisements of sales of fur garments. At least 200 advertisements appeared in these publications offering unlimited quantities of fur coats for sale in all price ranges. Most of these advertisements offered drastic reductions of 20 to 50 percent on former retail prices. Bearing in mind that March 1 is the end of the fur season, the fact that such large quantities of fur garments are available is conclusive proof that the supply of fur garments is in balance with demand. Were the converse true, the retailers' stocks would be depleted and they would not be offering the coats to the public at drastically reduced prices.

POINT III. THE CONTINUATION OF PRICE CONTROL IN THE FUR INDUSTRY IS DETRIMENTAL TO THE INTERESTS OF THE AMERICAN FARMERS, TRAPPERS, AND MERCHANTS

It has been, and still is, the contention of the industry advisory committees of the fur industry that price control on furs and fur garments has disrupted historic trade practices, dislocated normal channels of distributions, and has had a detrimental effect upon the fur industry and disorganized all branches of the fur trade.

Price specifications and limitations contained in the present regulations have discouraged the creation of new shades and colors, the promotion of which would make some of the staple furs now neglected more marketable. Furthermore, numerous ineffectual attempts by various amendments, and the lack of effective enforcement of the regulations, have interfered with and dislocated the customary channels of distribution. Without price control and in a free and unrestricted market, all available quantities and kinds of furs would be offered through established channels of distribution and would find their price levels in accordance with the law of supply and demand.

Foreign markets are not subject to or governed by our price regulations. Inability to enforce price control on foreign sources of supply and foreign sellers has placed the American merchant at a decided disadvantage and has created a condition of disharmony between domestic and foreign fur trading and has
disrupted established trade practices and dislocated all normal channels of distribution.

Following the First World War, the United States fur centers located in Seattle, St. Louis, and New York became recognized as the fur centers of the world. Today that leadership is threatened, and London and Montreal stand ready to challenge New York's title as the fur market of the world. Already the Russian Government has discontinued forwarding most of its furs to New York to be sold in that city, and instead sales are now made for delivery from stock piles in Russia through agents of American importers. Likewise, the Hudson Bay Co., at its last public auction sale held in New York City in 1945, withdrew and omitted from such sale certain furs which were subject to domestic price control. The London companies are soliciting and have received large consignments of American furs to be sold in London and other foreign markets free of any price restrictions. By reason of the lifting of wartime restrictions, the owners of foreign furs are no longer compelled to sell them to their representatives in the United States for resale, and these furs likewise are finding their way to other fur centers outside of the United States.

On March 12, 1946, the Women's Wear Daily, the recognized American trade journal for all women's apparel, carried the following news item, from which we quote in part:

"London, March 12.—Cheerful comment on the first postwar auctions of general furs in London is made by Anning, Chadwick & Kiver, Ltd., auction brokers in their report on their own auctions. Not only do these sales mark a definite step toward the revival of London as the world's fur center, the firm declares, but also they have been the means of establishing a market basis for future trading. * * * Mention is made of the welcome return to London of fur buyers from the Continent and America, and the fact that their support, plus orders sent to London by other overseas buyers unable to make the journey, resulted in substantial clearances being effected."

It is respectfully submitted that the effect of the suspension order of August 15, 1945, was to lift all price controls from 70 percent of all imported furs but retained under rigid control most of the furs caught by the American farmers and trappers such as muskrat, opossum, skunk, raccoon, gray fox, and wolf. The greater part of the dollar volume of imported furs originate from Soviet Russia. As a result, the Russian Government is the beneficiary of an ever increasing percentage of American fur buying dollars, whereas the American farmer-trapper is receiving an ever decreasing percentage.

CONCLUSION

This committee, in its report to Congress on June 19, 1945 (Rept. No. 764), wisely and properly admonished the Price Administrator that controls of commodities should be released as soon as supply comes into reasonable balance with demand. (See p. 5 of said report.) Although it was demonstrated conclusively to the Office of Price Administration that available supplies of furs are adequate and have come into reasonable balance with demand, the Administrator has arbitrarily refused to accept and follow the recommendations of the industry advisory committees to decontrol furs, thereby flaunting the admonitions and recommendations of this committee.

The Office of Price Administration by indirection, has attempted to set itself up as arbiters of style and fashion rather than as an agency to carry out the aims and purposes of the Emergency Price Control Act.

We repeat that the price of women's fur garments is peculiarly and exclusively sensitive to, and wholly dependent upon the whims of style and fashion, irrespective of supply or price.

On September 25, 1945, the Fur Skin Industry Advisory Committee, made up of outstanding and leading merchants from all sections of the country and all branches and segments of the industry, by unanimous resolution petitioned the Office of Price Administration to release all fur skins from price control. Factual data were submitted to the Office of Price Administration, upon which the Industry Advisory Committee based its recommendations. In its recommendations, the Fur Skin Industry Advisory Committee advanced the following cogent reasons for immediate release of furs from price control:

(1) The price of furs does not substantially affect the cost of living and that all furs have been characterized as a luxury by Congress, and as such was subject to an excise tax of 20 percent.
(2) That continuation of price control of furs involved difficulties of administration far out of all proportion to the possible effectiveness of such price control.

(3) That unrestricted trading conditions will tend to (a) yield additional income and profit to American farmers, trappers, and merchants; (b) afford employment and earnings to discharged war veterans.

(4) That the available supply of fur skins was not only adequate for existing demands, but in the majority of cases even exceeded such demands.

Greater availability from foreign sources of supply, reestablishment of trade with Europe and Asia, and other sources heretofore under enemy control, and better shipping facilities have increased the supplies from foreign sources, so that a condition of adequacy exists and will continue to exist in relation to demand and consumption.

Free competitive enterprise always has been, and still is, the foundation of our American economic system. In the interests of national defense and security American industry joined ranks with the armed forces of the Government in the successful prosecution of the war. That emergency has been lifted. Retention of price control of luxuries and nonessential commodities will not serve the aims and purposes of the Emergency Price Control Act.

We submit that the supply of fur is particularly sensitive to the unrestricted operation of a free enterprise and, conversely, restrictions resulting in confusion and fears definitely tend to limit such supplies. Prevention of inflation can be achieved by providing free and unrestricted conditions to the vast sources of supply that exist now in all parts of the world where fur-bearing animals are raised, trapped, bought, and sold.

Respectfully submitted.

AMERICAN FUR MERCHANTS' ASSOCIATION, INC.,
By ALEXANDER MACLEOD, Executive Director.


MEMORANDUM

To: Committee on Banking and Currency, House of Representatives, Washington, D. C.
From: American Fur Merchants Association, Inc.
Subject: Proposed amendment to Emergency Price Control Act of 1942.

It is recommended that the Emergency Price Control Act of 1942 be amended as follows:

By adding a new subdivision to section 2, to read as follows:

“No maximum price shall be established or maintained for any commodity which is not a cost-of-living commodity as defined in section 13 and appendix B of the General Maximum Price Regulation (Bull. No. 1) issued April 28, 1942, nor shall any maximum price be established or maintained for any commodity upon which the Congress of the United States has imposed a War Emergency Retail Excise Tax of 20 percent or more, as provided in section 2400 of the Internal Revenue Code.”

Respectfully submitted.

AMERICAN FUR MERCHANTS' ASSOCIATION, INC.
By ALEXANDER T. MACLEOD, Executive Director.

The Chairman. The next witness will be Mr. Hochberg.

STATEMENT OF DAVID R. HOCHBERG ON BEHALF OF THE SOUTHERN FUR FARMERS AND COLLECTORS

Mr. HOCHBERG. My name is David Hochberg, and I am secretary of the American Association of Southern Fur Farmers and Collectors.

Members of this association comprise the major part of the fur farming, collecting, and dealer organizations which operate in Louisi-
ana and easternmost Texas. This area produces almost as many furs as all the other States in the Union combined.

The most prolific fur-bearing animal in the United States is the muskrat, of which approximately 15,000,000 are trapped annually. About one-half of this number are trapped in the areas referred to and are known distinctively as the southern muskrat.

In consequence, the Association of Southern Fur Farmers and Collectors speaks for one-half of the trappers and farmer-trappers, by production, in the United States.

In 1945, the Office of Price Administration decontrolled most imported furs and a few domestic furs. This left the Office of Price Administration with only a few furs, including southern muskrat, to keep its Fur Section operating. It refuses to release its control of them. It refuses to release control, although it is apprised of the fact that all reasons given for price control are absent in the case of southern muskrats.

Your committee has said in its report, considering extension of the Price Control Act in June 1945:

Control should cease for particular commodities just as soon as the supply of commodity comes into reasonable balance with demand.

It is here respectfully submitted that there is more than an adequate supply of southern muskrats to fill the needs of the American market. The Office of Price Administration has, nevertheless, refused to decontrol southern muskrats.

It is further respectfully submitted that by continuing its control of southern muskrats, the Office of Price Administration has created an artificial scarcity of the commodity, which has needlessly fostered a black market. The Office of Price Administration nevertheless refuses to decontrol southern muskrats.

It is further respectfully submitted that, contrary to the specific direction of your committee and Congress contained in the Price Control Act, the Office of Price Administration has continued to retain control, although such control has interfered with normal channels of distribution and established trade practices.

Congress, in the Emergency Price Control Act, has specifically provided that price control shall not be continued in any commodity if it interferes with the normal channels of distribution and trade practices. The Office of Price Administration has chosen to continue price control of muskrats though it violates this mandate, in several respects:

(a) The Office of Price Administration has set a ceiling price of $1.77 to the trapper of southern muskrats for top grade and size, and has set the same ceiling on sale to the manufacturer.

The muskrat pelt, by historic trade practice, passes through numbers of hands before it reaches the manufacturer. The usual hands through which such pelts pass are: the collecting buyer who visits the trapper and buys from him; the country dealer to whom the collecting buyer either sells, or turns over for a commission, the muskrat pelt; the city dealer in Louisiana to whom the country buyer, or collector, sells the skin; the city dealer in New York, the hub of the manufacturing trade, or a commission broker in New York, through whom the Louisiana city dealer makes his sale.
Since the trapper's price and the manufacturers' price are the same, no allowance for taxes, wages, rent, overhead, shipping, or profit is allowed for any of these intermediaries, all of whom perform a useful function in grading, selecting, and channeling the muskrat pelts to their ultimate goal. In no other trade, or industry, has the Office of Price Administration failed to allow a legitimate working margin, or profit, to middlemen, or business investors, handling or producing a commodity.

That the Office of Price Administration knows that such margins should be allowed is apparent from its handling of foreign-skin producers. For example, in the handling of Australian and New Zealand rabbit skins and hatters' furs, before they were decontrolled, primary and secondary dealers, alone, were allowed a margin of 35 percent, to cover the costs of their freight, insurance, cartage, and so forth.

(b) To go into the many injustices and disruption worked by the Administration in fur control would require the pages of a voluminous book. Time and time again, Office of Price Administration executives, including Mr. Brownlee, have admitted furs do not lend themselves to control, cannot be and have not been, successfully controlled. Universal standardization of grade is impossible. The color and quality of each and every pelt, like diamonds and oil paintings, are a matter entirely of individual taste and opinion—opinion on which even two experts in the trade seldom coincide.

Suffice it to say—and this, please remember, is said by people who have been in the trade for decades and decades, who do not wish unnecessarily to speak harshly of those who administer Government offices—that those who have been in charge of the administration of furs, and fur peltries, are novices in the industry and have been permitted to play with figures and graphs in the hope that their pencil-and-ruler game would, by chance, strike a lucky figure that would serve their purpose and make everybody happy. Everybody could not be made happy with price control; but business that involves hundreds of millions of dollars and the work, toil, and sweat of thousands and thousands of trappers and farmers should not be left in the hands of starry-eyed, good-intentioned schoolboys.

As a sample illustration attention is directed to the fixing of the ceiling on southern muskrats at $1.77 for top grade. The base price was originally about $2.10. One of the executives, in charge of the Fur Section, hit upon the thought that an average price should be given; and so, he took high prices and low prices of southern muskrat top grades, struck an average of $1.77, and said that all muskrats must be sold at that price. Result: A great bulk of the manufacturing trade that sells better quality merchandise and has spent years building up a reputation for it was compelled to shut up shop and discharge employees, or deal in the black market.

We speak with authority on the subject of southern muskrats since Government offices consult members of this association for their information on this subject.

The catch of southern muskrats for this year, the season of 1945-46 having closed a few weeks ago, was in excess of 6½ million. The annual consumption for the American market does not run, and has not run, beyond 4½ million southern muskrats.
About 2,000,000 have already been placed in the hands of manufacturers and New York dealers, who sell to manufacturers. The primary collectors in Louisiana still retain approximately 4½ million muskrats, which they are willing and able to sell if allowed by decontrol and half of which would be sufficient to complete this year's needs.

It is, therefore, apparent that no scarcity of this commodity exists. Any scarcity that may appear to exist is an artificial scarcity, created by the maladministration of the Office of Price Administration.

(a) Well in advance of the trapping season, which runs from December through February, members of this association discussed enforcement of ceilings with Office of Price Administration representatives. They were promised that ceilings would be enforced and they entered the trapping season with this expectation. They were given to understand that no violations would be allowed and that there would be more than sufficient opportunity to buy well enough below ceilings to allow a margin of profit to themselves so that they might resell at ceiling. Rellying upon this understanding, members of this association accepted orders to resell at ceiling running into the hundreds of thousands of pelts.

This association is compelled to report that, from the very beginning of the season to its very end, Office of Price Administration ceilings were at no time observed or enforced. From the very beginning of the season the State of Louisiana was invaded by New York dealers who daily negotiated and completed, openly and publicly, overceiling purchases of muskrats. Office of Price Administration investigators were at all times aware of and apprized of the general situation as well as specific daily violations. They did absolutely nothing about it and, by so refusing to act, permitted and encouraged an overceiling market.

(b) During the trapping season about 100,000 skins, trapped on United States Government-owned land, were sold at public auction at an average price of $2.06 to $2.10 a skin. The ceiling price for an average lot of skins is said to be about $1.23. Consequently, such sales were approximately 70 percent above ceiling. These sales were made openly and publicly with knowledge and consent by Mr. Childs, an agent of the United States Government. In other words, the United States Government sold over the ceiling by 70 percent and the Office of Price Administration did nothing about it.

(c) Another example: The State of Louisiana owns trapping lands operated by its conservation department. At intervals during the trapping season, the agent of the State of Louisiana, one Mr. Armand Daspit, sold about 200,000 muskrat skins at an average ceiling price of $1.23.

All licensed collectors and dealers were told that they could buy only at ceiling price. This large number of skins was broken up into lots, and Mr. Daspit, the agent, drew names out of a hat for fractional parcels thereof. Then and there, at these public sales, openly and notoriously, these lottery slips were turned over by the lucky drawers to New York dealers at 50 to 75 cents a skin above the ceiling price without the lot drawers having to pay for, take delivery of, or handle a single skin.
Mr. BROWN. Did that hurt you in your line?
Mr. HOCHBERG. It certainly did.
Mr. BROWN. Did you report it to the Office of Price Administration?
Mr. HOCHBERG. Yes, sir. They knew about it in advance. They were present at the time.

Of course, the poor trapper, who had an interest in the skins, was thereby bilked of hard-earned and well-deserved profits.

Specifically, on January 15, 1946, one of these sales was conducted in Cameron Parish in the presence of Office of Price Administration investigators, who witnessed this trading. They made no attempt to stop such a sale. No action was taken either against these violators who purchased the skins over ceiling, nor against those who sold them over ceiling, nor against the United States Government, nor Mr. Childs, its agent.

In consequence, it can be seen that the United States Government, and the representatives of the Office of Price Administration both conducted and fostered a market—a black market—25 to 50 percent, or higher, over ceiling.

The great majority of skins are sold every year by trappers to collectors and dealers through whom the trapper has done business for many years. It is the practice of the trade and the contract of the collector to pay the farmer-trapper market value for his pelts; and it is considered the honor and obligation of the dealer-collector to pay him full market value. Successful operation of dealer organizations depends entirely on the good will of the trapper. This good will and confidence continues only so long as the trapper and farmer is confident that the dealer firm continues to pay him full market value. Failure to do so can immediately cause the collapse of this good will and the organization which it required years of labor and straight dealing to construct.

Members of this association are concerns of long standing and are highly regarded in the trade. They try to abide by the law and wish to abide by the law. As has been said, all of them, prior to the opening of the trapping season, rightfully expecting that the Office of Price Administration would enforce the law, accepted large orders from their regular customers to sell muskrats at ceiling. To fill these orders and maintain their long standing reputations for honest dealings with trappers and fur producers, they were compelled to purchase the year’s trappings at market. This market, by the maladministration of the Office of Price Administration and by the acts of the United States Government, itself, was pegged at prices which leave no room for profit on resale at Office of Price Administration ceilings. Nevertheless, as reputable businessmen, members of this association delivered at ceiling, pursuant to the contracts they had undertaken, and their losses already run into the hundreds of thousands of dollars.

The situation of this association’s members now is that they have more than a year’s supply of muskrats on hand, but the Office of Price Administration refuses to allow them to put these skins on the market at a normal profit or any profit at all.

The result is obvious. An unprecedented shortage of southern muskrat skins has been created and the 2,000,000 skins already placed in the New York market will be sold, and are being sold, at terrifically
inflated prices in the black market. It is just as obvious that, if a whole year's supply were thrown into the market, as this association's members can do if the ceiling were removed, the 2,000,000 skins referred to could not possibly be sold at overinflated prices, and the black market would be eliminated.

In conclusion, your committee in its report to Congress on June 19, 1945, promised:

Should conditions change or serious shortcomings appear which are not promptly corrected by administrative action, the committee can and will re-appraise the law before the time for renewal comes, and propose such legislative corrections as may be needed.

It is, therefore, respectfully submitted that southern muskrats be decontrolled because the mandate of Congress imposes a condition that a commodity be decontrolled immediately that it appears that price control has seriously interfered with the regular channels of distribution and trade practices of the commodity; that in the case of southern muskrats, the Office of Price Administration has displayed a complete lack of knowledge or consideration for the needs of each and every handler of the skin involved, whether he be trapper, farmer, buyer, collector, dealer, or broker.

And it is further respectfully submitted that southern muskrats be decontrolled because the condition precedent to control demanded by your committee and acknowledged by the Office of Price Administration as such is not present, to wit, a scarcity of supply; or that, at the very least, the Office of Price Administration be compelled to effectuate decontrol of a commodity upon receipt of certification by an industry advisory committee that its commodity either equals the demand in supply or equals the average supply of some base period.

And it is further respectfully submitted that southern muskrats be decontrolled in any extension of the Emergency Price Control Act because furs, by their very nature cannot be controlled and because the Office of Price Administration, by its maladministration and its inability to enforce price ceilings on southern muskrats, has created an artificial scarcity and an inflationary black market to the detriment of both the public and legitimate business interests.

Mr. Brown. Thank you very much, Mr. Hochberg, for your statement.

If you have anything else to present, you may incorporate it in the record.

Mr. Hochberg. Thank you, sir.

Mr. Brown. There are no further witnesses to be heard at this time, so the committee will adjourn to meet again at 10:30 Monday morning.

(Thereupon, the committee adjourned to reconvene on Monday, March 25, 1946, at 10:30 a.m.)
1946 EXTENSION OF THE EMERGENCY PRICE CONTROL AND STABILIZATION ACTS OF 1942, AS AMENDED

MONDAY, MARCH 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.

We are honored today by having Mr. Baruch as our witness. I know he has come here at considerable inconvenience to himself.

Although Mr. Baruch has never held public office, he has been an adviser on important public questions for more than a generation. He has always shown an unselfish spirit of patriotism and has always been willing to give the result of his wide experience and his ability for his country's good.

I know we will all be very much interested in what he has to say today.

Mr. Baruch.

STATEMENT OF HON. BERNARD M. BARUCH

Mr. Baruch. Mr. Chairman and gentlemen, may I ask your indulgence while I read my statement, a copy of which has been placed before each member of the committee, and, where you desire to ask questions, may I ask you to mark your copy and when I finish I shall be glad to answer any questions propounded me, to the best of my ability.

The CHAIRMAN. You desire to conclude your statement without interruption?

Mr. Baruch. Yes, sir.

The CHAIRMAN. I am sure the committee will agree to that.

Mr. Baruch. I feel honored at being requested to appear before you on the important subject of price control.

In these days of speed and emergency, it is good practice to put suggestions in a form so that "he who runs may read," and to aid the digestion of his reading, I am submitting, at the outset, certain of my ideas in capsule form. Here they are:

Increase production. This is the law and the prophets—without it, the rest of my suggestions are meaningless. So I say again: "Increase production."

Stop increasing money supply.

Stop decreasing taxes until the Budget is balanced.
Stop bunking the public by saying wage increases can be granted without increase in price levels.

Do not fear to increase prices or wages where necessary to get and stimulate production.

Continue price controls, subject to indicated modifications for a year. Allow profit but no profiteering.

Avoid favoritism to any particular group.

Take care of those between the millstones—clerks, Government employees, pensioners, and others.

Make surpluses of goods in military hands available to compensate for shortages.

Stimulate founding and financing small business.

Take stock before blindly lending—make inventories of our goods, our cash, our credit before we increase the pressure on these.

Cut Government costs, including Federal, State, country, and city. In time of deflation we should spend; in time of inflation we should save.

Eliminate all strikes or lock-outs for a year but arrange that hardships are guarded against.

Set up a high court of commerce—a sort of supreme economic council—which can decide questions involved in the above points and related subjects.

Remember that a soft or rotten spot anywhere in our system spreads and cause illness everywhere.

Avoid an economic dictatorship. We are still a free society based on the enterprise system. Let us abolish neither without the consent of the people.

And, above all, we should keep in mind that the humanities come before the dollars. It may be trite to say it, but it should be said again and again—that our first duty runs to man before business, but we must not forget that sometimes the two are interchangeable.

Having finished with an index, I proceed to my content.

There is nothing much I can add to the statement I made before this honorable committee on September 19, 1941. What was applicable then is applicable now—with this difference. Then we were about to fight the bloodiest and most devastating war in all history. There was unanimity of purpose in the country which grew with the war's approach. Now there is a new feeling that comes because the war is over. The race of selfishness is on—each segment of society and each individual seeking an advantage over others. The shooting war may be over, but its aftermath—military, economic, and spiritual—is still here. Before the peace terms are set, we are adopting a scuttle-and-run policy on all fronts, eager to get home and back to normal. Pressure groups are on the march.

On September 19, 1941, I said:

Except for human slaughter and maiming and all that goes with them, inflation is the most destructive of the consequences of war. It might double or more the cost of the war, it imposes the severest hardships on our people, and, through inevitable deflation that follows, burdens the future with a constantly increasing debt and a long period of painful and bitter readjustment destroying the confidence of people in themselves and their Government, leaving them open to all the old and new isms. * * * With pay rolls soaring and shortages developing, more money bidding for less goods, the danger of an inflationary price rise is imminent. If it is not taken firmly in hand in time, it may get beyond the possibility of control.
That can be said again today. Let us stop trying to do a thing and not do it both at the same time. We either must suffer what inflation brings or prevent it.

I have advocated for wartime an over-all price control, including wages, adjusting injustices or hardships where they exist. Price control by itself will not be effective. It must go hand in hand with a sharply defined tax program; the siphoning off of excess savings and earnings by selling Government bonds to individuals instead of banks; by controlling all loans; by not favoring any one segment of society over another; by priority, licensing, and allocation to the greatest needs, and, above all, by increasing production.

I quote again:

Piece meal price fixing will not halt inflation. It allows the general price level to run wild, while dealing with a few individual prices. * * *

As inflation occurs, the prices that are fixed soon become out of date and must be adjusted upward. Irregular rises in prices destroy the relationships between various costs, requiring even greater adjustments.

So much for the past. I do not wish to appear as a prophet saying, “I told you so,” but rather as friend and citizen examining with you our past in order to guide our future.

The price structure is one that has grown through the years by trial and error, with the law of supply and demand, increasing transportation, finding better methods of manufacture and distribution, with each Government, community, and individual fitting itself into that structure. You cannot suddenly lay violent hands on it and expect it to function in the way that will give everything that is needed, nor cure all hardships and injustices. One apparently insignificant act, here or there, may change the life of a whole community and upset the lives of many far distant, just as the strike of a few will cripple a city or nation overnight by closing some function that may be as necessary as one of the vital organs of the body.

We cannot be complacent as we are being beguiled with more money, with less purchasing power. The gold dust thrown in all our eyes, by political abracadabra, only confuses, with gain to no one except temporary power to the economic magicians. We must mix brains with our brawn if we would keep our world leadership. We must steady ourselves in these emotional sweeps and keep our heads or the ship of democracy will wallow in this sea of confusion, spring a leak and disintegrate.

Whole segments of society have lost their perspective as to the rights of others. Many have lost their capacity for indignation over their own wrongs and the wrongs inflicted upon others. Many could not make up their minds whether we were going to have inflation or deflation. The wonder to me is that things are not even worse than they are.

Before the report on war and postwar adjustment policies was made in February of 1944, practically everyone predicted between 9,000,000 and 15,000,000 unemployed. That prophecy proved unfounded. This kind of thinking shows how momentary emotion can affect a whole people.

This report recommended certain things of which but one was adopted—contract termination.
Another plan had to do with disposal of surplus property. If this had been worked intelligently and courageously, many of the things the public wants and which are available would have been distributed and become useful. Some of the factories which we built could have been put in operation long ago. The surplus problem has been so tied up that it is not yet functioning properly.

Congress has just passed a law which will enable us to sell our ships. This was delayed too long. They should be turned loose on the best terms possible to all nations that can use them for commerce or fishing. They, in turn, will seek out in every port of the world, even small cargoes of materials that can be used, thereby affecting the national and international outlook.

A high light recommended in the report was to put one man in charge of human demobilization for workers and returning veterans. If it had been promptly done, we would have escaped many of our present difficulties among veterans, workers, and civilians.

There was advanced a plea for opening up credits for small business through the Federal Reserve, but nothing definite has been done about that.

The whole world is watching us, amazed at the exhibition of a giant who cannot pull himself together even to take care of his own needs.

We reduced taxation nearly $6,000,000,000 for the purpose, it was said, of stimulating business which already had orders that it will take years to fill. At the same time that we lessened our income by $6,000,000,000, we asked for new loans. This bond issue was oversubscribed, most of it creating credits that can be turned by the Federal Reserve Bank into printed money. There lies a grave menace—money increase.

We make promises to other nations of loans for purchases generally to be made here. And if not here, then, in other places in the world where we compete.

On every side the Federal, State, city, and county governments have rebuilding programs which will increase the demands upon an already limited supply. They can be easily postponed to a later date when they will be needed.

Then, while endeavoring to hold prices, we remove the indirect control over wages by getting rid of the Little Steel formula (which was but a weak substitute for wage control) and grant the 18½ cent increase for steel. This will be followed by increases all along the line, no matter what anybody thinks to the contrary. Call it a bulge, but it is really a break—and a grave one. This was inflationary.

I do not blame labor for wanting to retain their standard of living. For the decrease of $6,000,000,000 in taxes and the throwing over of the Little Steel formula naturally made them feel they should take care of themselves. I would want my take-home pay to remain the same. The corporations and smaller income groups benefited mostly from the $6,000,000,000 tax reduction. Private owners of businesses, large and small, were seriously disadvantaged. And so it is with every group. And all of this must be followed by increases in pay or pension to the white-collar brigade, Government workers, firemen, policemen, teachers, professional people, veterans, the the Army and Navy.
And what becomes of all of the people when we expect Government to pay out more if taxable profits are squeezed? Who gets any advantage if goods are not produced faster than wages are advanced and money printed? We cannot call this holding the line or just a bulge. To make the take-home worth while, more things at lower prices must be produced. That is up to labor more than management. Unless each man produces more than he receives—increases his output—there will be less for him and all the others. Each one will receive more money, but have fewer things.

We might as well admit that we have made tragic mistakes. The race between prices and the cost of living is going on here and all over the world. Ask the housewife. She knows better than the economists and statisticians.

Let us now face facts. We must have full production. Without it, we cannot keep any semblance of modern, civilized economy or even Government. We risk inflation. We mute the voice with which we speak for peace in the world. With full production, we can escape inflation and have our people resume their leadership.

In my appeal for legislation, in my appearance before this committee in 1941, I said:

The control of prices is essential for the successful conduct of our national defense, for avoiding social and economic aftermaths of war, for taking the profits out of war, for the maintenance of morale, the stoppage of inflation, and the placing of America in the dominating place at the peace table. As I said before, with such great stakes, we cannot afford an ineffectual program of price control. Some persons, while admitting that everything I have said is true, have argued that the public is not ready for such drastic measures; that various interests have to be pacified at the expense of others; that the best law that can be had is a stopgap measure with compromises, one which, while unable to prevent inflation, will keep prices down somewhat. To them, I recommend the words of George Washington to the members of the Constitutional Convention. As you know, the delegates to that Convention originally were supposed merely to patch up the Articles of Confederation. They could have done just that and told themselves, “We will do more patching later on, and on, and on.” Happily, the delegates chose to be guided by Washington’s advice: “It is too probable,” he told them, “that no plan we propose will be adopted. Perhaps another dreadful conflict is to be sustained. If, to please the people, we offer what we ourselves disapprove, how can we afterward defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hands of God.”

And so here we are today.

The price structure is out of gear. I never favored subsidies, but they have become a part of this tottering price edifice. I would continue those now in effect. I would give no more.

For 1 year I would extend the present war powers, price fixing, and include wages, with the provision that no raise in prices be made without the approval of OPA, and no increase in wage scales be granted without approval of the Office of Economic Stabilization. Because of the wage increase, we will be forced to raise prices, but we must use a firm and wise hand, so as to get the necessary production. Remember, we have not the stimulus and unity that war creates. We will have to depend upon the personal initiative and profit incentive, but that does not mean profiteering. If wages are advanced, the farmers will surely come along because their costs are increased and they have a law which gives them parity, and, therefore, higher prices.
as the average price levels go up. And then the wages of all civil servants, the white-collar brigade—the recipients of fixed incomes—have to be increased. And, as I say, you will have to increase pensions.

There may be wisdom in reinstating the $6,000,000,000 tax reduction. Certainly I would continue renegotiations on war contracts. These steps might take care of excess profits.

Government expenditures should be cut to the bone.

The strictest allocation should be made of all money so that no loans will be granted, or undertaken here by private concerns or by the Federal Government, States, cities, and counties, unless approved by the Treasury which must seek the approval of the Office of War Mobilization and Reconversion which is in charge of production.

I am not opposed to helping foreign nations. But until production warrants it, I am opposed to lending them money or assisting them except for direst needs to make purchases when we know they cannot be made here or elsewhere. At this time that would be to increase demand. It would be cruel to hold out hopes that will not be realized. I would keep the goods necessary to prevent inflation and then allocate the balance, as it comes to hand, where it would help the most.

We must stop treading this economic primrose path. There is only one way to stop inflation and that is to get production. Whatever is necessary to do now to get that production, I would do.

As everyone knows, I have advocated a stricter price control and higher taxes than anyone else. We have made too many makeshifts. We will either have to go back and do it right, or, having accepted the mistakes of the past, increase prices to put everyone on a higher plateau. The only hope we now have is that production will then be so large, inflation will be stopped.

Rising prices have been due to two things:

1. Currency inflation.
2. Great demand being made upon a limited supply. The law of supply and demand will take time to work and it is during this period that we must have controls.

As I predicted 2 years ago, I see at least 5 or 7 years of unending demand. How long that will last will depend upon the wisdom we show.

I approve of the set-up whereby Mr. Secretary Anderson has charge of production of agricultural products, with the provision that prices fixed by the OPA should be subject to his approval.

As all other production is in charge of the Civilian Production Administration under Commodore Small, all prices for that production should meet with his approval.

There should not be any strikes or lock-outs for a period of at least 1 year by agreement preferably—otherwise by law. Mr. Bowles' new office can carry this out, taking care that no hardships are involved to the workers—or the employers. But they can shut down and live while the workers would starve.

Any dispute between the agencies involved, must be solved without delay by the Office of War Mobilization and Reconversion (Mr. Snyder) to which Congress has given the power to do just that. Of course, all can appeal to the President.
To those who paid little attention to the OPA and used the black markets during the war, there are now being added many good citizens who are just beginning that practice. If a wise course is not pursued, that practice will be extended. Prices and disrespect for law will mount, and quality of goods and respect for law will decrease.

It cannot be said too often. We must have production to save ourselves and the world. But, if a close-fisted policy squeezes every bit of profit out of industry in order that some segment of society apparently many be advantaged—the Government being the sole judge of this, we will arrive at an economy with our industries nearly all nationalized without a vote of the people—an economic and social revolution of greater proportions than we now realize—one that American labor will rue as much as others.

Any type of control should be directed first toward food, clothing, civilian services, housing, and transportation for everyone. If you will give the American people an opportunity to function, not by fear nor yet by favor, and let every segment of society feel that it is not disfavored to the advantage of another, in a few months you will see an amazing change.

I heard much during the war of an endeavor to protect the little businessman. How can he live under the present schedules? Prices must be set up not for each particular one in the business, but for a whole industry. People will not work without profits.

To the prophets of evil, I would like to say that I have faith in American institutions and the common sense of the American people. We must close our ears to those who try to turn us to stateism by indirection. We are good-natured people who can be pushed around, but only so much.

A final word:
Do we know what our resources are?
Do we know what our debts are?
Do we know how we stand and what we have with which to help others as well as ourselves?

Do we know how much the others really need?

Many of our difficulties will be solved when we get going. We cannot get going by adopting political instead of economic and human methods. The human equation is the greatest of all—the desire to function—the desire to profit. But those desires must not run wild—they must be limited to fairness. Let us be realistic and recognize that, at the same time getting away from any unjust opposition to any of the factors composing our economic body.

All parts of society, because of modern communications, have become so entwined that they can function well only as a whole. Sometimes just one, sometimes two or more missing parts will cause a slowdown or even a break-down of the whole machine. Society cannot permit a few men—labor, or management, or farmers, or professionals, or politicians or members of any group—to stop what must be done because of their differences in ideas or practices. While we are engaged in setting up machinery to stop wars between nations, we have not solved the problem within our own gates.

I give you this thought:
There should be a high court of commerce set up to which these disputes can be taken for adjudication in order that we may work out a
extend price control and stabilization acts of 1942

program on the basis of the principles which made this country great. If this is not done, we shall soon find ourselves in the morass of confusion that will bring us either to fascism or communism, and that Ark of the Covenant of human liberties and dignities, our form of Government, will have been lost.

The advance in wages can make true a wish that we all have fathered—that is—if labor and management so will it more and more wealth can be produced—more things made—so that each can share in more and better things at lower prices. Down that path we can safely go to the benefit of all and the disadvantage of none.

This would result in an economy of abundance, which should guarantee a return to free enterprise in a year.

The Chairman. Mr. Baruch, I want to thank you for your able statement.

I know I speak the wishes of the committee when I say I thank you for your very able statement. I remember that you very ably endorsed the enactment of the original law, and now you have asked that it be continued.

I wonder if you could envision what might have happened if we had not had price control during the time that it has been in force.

Mr. Baruch. I think it would be impossible to describe it, Mr. Chairman. In my discussions and testimony about the bill originally, I stated that while it would not stop inflation, it would help lessen the degree of inflation. Even though I felt that way, I did everything in my power to try to make the law work.

If you will remember, they left rents and wages out of the first bill, and in the second one they did put in rents. Later on, they had a semicontrol of wages through the Little Steel formula.

The Chairman. Even though we may concede that we have made mistakes, do you think it did effectuate in a general way the purposes for which it was enacted?

Mr. Baruch. It helped, but it did not do the trick. I would be less frank if I said that it did. But it certainly helped. Otherwise, we would have had, especially in the things which go into the lower income group purchases, a position where the longest purses or those with the biggest pull would have gotten it. Undoubtedly, it did help and that is the reason I am saying: Let us go along with it now and do the best with what we’ve got, even though it is not all I would like to see it.

The Chairman. The economic pressures which produce inflation are as strong now and as active as they have ever been at any time; do you not think so?

Mr. Baruch. The economic pressures?

The Chairman. Yes.

Mr. Baruch. Well, if you mean by that the demand—the demand for everything is greater than it was even during the war, although for military purposes, it has been cut considerably. I believe the condition of this country is that its potentialities are so huge that if we could get producing in a few months, you would see a change that would astonish everybody. We did so much in the war, we can do at least that—and much more—in peace. That is the reason I say I am willing to increase prices somewhat—and I am swallowing every thing in cluding my Adam’s apple, when I advocate the increase in prices now—but I want it done with a firm and wise hand. I want profits,
but not profiteering. I think that the men who are presently in charge of this are capable and can be trusted to do it. They have had long experience in it.

The Chairman. This committee has been much interested in the housing problem. There seems to be a bottleneck in housing materials. Where are the worst choke points in that construction problem?

Mr. Baruch. I think that the gentleman who has had charge of housing, or the Civilian Production Chief, can tell you those things better than I can. As a matter of fact, I am not familiar with the particulars. I have heard some of the discussions, and I think they centered around whether they ought to give them subsidies or price advances. But there is one thing certain—you ought to decide what you are going to do and do it right away. The worst thing is this unfortunate delay. Let us make up our minds which way we are going to do it, and do it right away.

The Chairman. They have advocated premium payments to the building material producers. Have you any opinion whether or not that would be advisable?

Mr. Baruch. Well, premium payments are another form of subsidies. Let us make up our minds. Although, there is one thing that lies on the border line, and that is this: For instance at Geneva and Daingerfield, Tex., I believe there are possibilities of getting large pig-iron production, which is the basis of a lot of things that go into the housing program. I think we ought to give consideration to the question of the freight rates for bringing those things in.

But I am not familiar enough with the details, Mr. Chairman, to go into a discussion of all of the things involved.

The Chairman. As I understand it, you feel that the subsidies that exist should be continued?

Mr. Baruch. Yes, sir.

The Chairman. Existing subsidies should be continued?

Mr. Baruch. Yes, sir.

The Chairman. How long do you think they should be continued?

Mr. Baruch. Well, I do not know anybody who can be a better judge of it than the man who is running it, and that is Mr. Anderson. I think we have got to trust somebody, and Mr. Anderson can be the best judge of when to discontinue subsidies. Then, if anybody objects to the discontinuance of the subsidy, they can take an appeal on up to the President.

Mind you, I was opposed to subsidies in the beginning, but I am accepting them now, because I do not see any other way out of it. It is the quickest way. We have to go on with this business. I hope you gentlemen will proceed quickly—and I know you will—to put this law on lower income group.

The Chairman. You do not think there ought to be any reduction in the subsidies at this time, as I understand it, Mr. Baruch?

Mr. Baruch. I do not know enough about the various subsidies, but I would not do it. We have a tottering structure. Let us not do anything to break it down. Most of the subsidies, as I understand, go to aid the so-called lower income groups.
The Chairman. Well, it has been testified that if a definite date is set for the discontinuance of price control, that 3 or 4 months before that date there will be a period of disintegration and weakening, generally, of the agency by reason of the loss of personnel, the tension of inventories, and for other causes. What is your opinion about that?

Mr. Baruch. Undoubtedly, that would occur. If you are going to discontinue price control, do it right away. Otherwise disintegration will set in. They will lose many of the men who understand the job, and everybody will be waiting for the end of price control. If you end price control, you are going to see advances in prices.

The Chairman. And you think this legislation should be enacted as soon as possible?

Mr. Baruch. Yes, sir. I hope I made that plain in my statement.

The Chairman. You did, but I thought I would reemphasize it.

Mr. Brown. Mr. Baruch, I want to congratulate you on this fine statement you have made.

Mr. Baruch. Thank you.

Mr. Brown. I agree with you fully. You have covered the causes of inflation and deflation. You take the position that I do: that we should postpone deflation as long as possible, and let it come gradually. You take the position that full production is the best weapon against inflation.

Mr. Baruch. Unquestionably.

Mr. Brown. I am glad you take the position that we should not have subsidies on anything else but get rid of them as soon as possible in the interest of the public. I am glad you take the position that we must act and act quickly to get production, either by subsidies or by increase in price; especially for building materials, we must do something at once, because those articles are more scarce than any others, and the only way to help the soldiers and the other people of this country, is to get materials manufactured. You have made a fine statement, and so plain that I do not care to ask you a single question.

Mr. Baruch. Thank you very much, sir.

The Chairman. Mr. Wolcott.

Mr. Wolcott. Mr. Baruch, I think this committee owes you a debt of gratitude for coming up here and giving us this very worthwhile statement of your approach to our problems.

Do you think it would be wise, when we remove these controls, to remove them gradually?

Mr. Baruch. Yes; they will have to be removed as it becomes evident. Now, the man in charge of civilian production will naturally remove the price controls, because if you get enough goods, they will sink below the price-control level, and the price control is self-limiting. They may decide to discontinue control just before that. They may see it coming. That is a question of judgment.

Mr. Wolcott. The principal thing is to let industry and agriculture and labor know just what the Government policy is or is not going to be?

Mr. Baruch. Yes, sir.

Mr. Wolcott. There is one sentence in your statement that is not clear to me, and I wish you would amplify it. On page 9 of the copy which I have you say:
I am not opposed to helping foreign nations. But until production warrants, I am opposed to lending them money or assisting them except for direst needs to make purchases when we know they cannot be made here or elsewhere.

Do you want to look at that?

Mr. Baruch. I do not need to look at it.

Mr. Wolcott. The thing that bothers me is the ending of that sentence where you say: "I am opposed to lending them money or assisting them except for direst needs—" That is clear. But the last part of it "to make purchases when we know they cannot be made here or elsewhere." In other words, you do not think that we should lend them money to compete for goods which are nonexistent?

Mr. Baruch. Yes, sir.

Mr. Wolcott. That will add to our inflation.

Mr. Baruch. If you lend them the money. You can lend them the money if you want, but it has to be done under the direction of the Treasury and the Civilian Production Administration of the Office of War Mobilization and Reconstruction. They ought to be told in advance whether they can have it or not. We know we cannot let them have certain things now.

Mr. Wolcott. Mr. Baruch, have you any opinion as to the advisability of taking price controls off capital goods, heavy producer goods?

Mr. Baruch. If you take price controls off capital goods, everybody will go into capital goods. From the experience that I have had, in two terrible wars, two disastrous events, I think the expression of judgment must come from the man in charge as to when you take off or put on priority or price controls, and whether the efforts are going to be used to produce the things which you really need more than anything else. It is a question of judgment of the guiding hands, Mr. Wolcott.

Mr. Wolcott. If controls could be lifted sufficiently so as to prevent run-away prices on capital goods and still assure full production, you would be in favor of that?

Mr. Baruch. Yes.

Mr. Wolcott. You are in favor of that?

Mr. Baruch. I am in favor of the man in charge using an intelligent and wise hand in the handling of this proposition. I think it is a good deal like golf. I am a terrible dud at golf, and when I get in the rough I have to say to the caddy, "What club do I need?" But a good golfer just says, "Caddy, bring me the bag," and that is the position of the man in charge of price control. He is an expert. He has had more experience in the matter than anybody else. I do not think you can lay down anything more than general principles, Mr. Wolcott.

Mr. Wolcott. I think that is all. I do not think that there is anything else I have, that you have not covered very splendidly in your statement, Mr. Baruch, and I thank you for it.

The Chairman. Mr. Patman.

Mr. Patman. Mr. Baruch, I too believe you made a very fine statement, and I appreciate it very much. I well remember your testimony before this committee on September 19, 1941. At that time we were considering the selective method of price control, which we finally agreed upon, and we should not have. We should have had over-all control. We recognize that now. However, that was two and a half months before the war, and we were not as conscious of
the situation then as we were after December 7, and we made a mistake. I think we all admit that now. But we were trying to place just as few rules and regulations and as little regimentation on the people as possible, knowing that they would resist it. That was the reason, of course, why you recognize that we did that.

Now we are faced with a similar situation. People are contending that we should go back to the selective control method, that we should take prices off luxuries, all nonessential goods, and just select those like food, clothing, and shelter, to have price controls on. We have the same situation facing us now. What do you think about that? Do you think we should cover everything?

Mr. Baruch. Well, Mr. Wolcott, covered the question, and I thought I answered it in this respect—it is the wisdom of that guiding hand. Now, if you take controls off luxuries, people will pay higher prices for luxuries, everybody will go into luxury production. What we want to do is to keep a kind of steady hand on the whole operation so as to produce the things that we call "leaders" which, I think, are boots, shoes, clothing, food, provisions, housing, transportation, and civilian services. I would leave the over-all price controls on.

Mr. Patman. But the argument is made that during the war this same steel that made a slot machine was used to make a machine gun, and the same mechanic who made a slot machine could make a machine gun. Then we had to have over-all control so as to induce that mechanic to make a machine gun instead of a slot machine, and to use the steel in the machine gun instead of the slot machine. But they claim we do not now have that situation.

Mr. Baruch. We do. We have just as great a demand for steel as we ever had.

Mr. Patman. And you think we should have over-all controls now?

Mr. Baruch. Yes; I thought I made that plain.

Mr. Patman. Yes, sir.

Mr. Baruch. And I repeat it.

Mr. Patman. We should have over-all controls over everything?

Mr. Baruch. Yes, sir.

Mr. Patman. We have had a problem here, Mr. Baruch, on which you might help us, dealing with the resale prices of homes. Of course, that question contributed to inflation more after the other war, I believe, than almost any other. You will remember how the prices of homes skyrocketed after the last war. We finally agreed upon a plan which none of us believe is absolutely equitable and right in every sense of the word, but we could not find any other solution to the problem that was as good. We agreed to try to get a law through that would permit the first sale of an existing home to be a ceiling during the emergency, and not permit it to go up, except, of course, for added improvements.

Mr. Baruch. Completed homes?

Mr. Patman. Yes; existing homes. Do you know of any better way to stop the inflation in existing homes than that, Mr. Baruch? Do you know of any other plan?

Mr. Baruch. I think that is part of the over-all control.

Mr. Patman. That is contemplated, but we failed to get it through the House. I think the Senate will take it up tomorrow in committee.

Mr. Baruch. I do not want to pass judgment upon this housing
problem. You have had a lot of experts and others giving months of study to it. I would not object to expressing an opinion if I thought I had one that was worth while.

Mr. Patman. Well, I thought that maybe, since you were here right after the last war, and since you know what happened then, that possibly you might have a better solution than the one that we offered to fixing prices on existing homes.

Mr. Baruch. Well, of course, Mr. Patman, I think the trouble, again, is due to the fact that we waited too long getting this thing started. I speak of that because I had this in mind long ago, the very thought you are expressing. There is nothing to be gained by looking back except to draw a lesson for the future, because, as they say, "the mills never grind with the waters that are past." I prefer to see today what we can do for tomorrow, than what should have been done yesterday. I have not read carefully the studies of Mr. Wyatt and you gentlemen, and do not know what the recommendations were. I have some thoughts on it, but I would not want to criticize or make suggestions unless I made a more thorough study of it. However, the over-all price control, you must continue.

Mr. Patman. I just wanted to ask you one specific thing, Mr. Baruch, not on the over-all picture that Mr. Wyatt has to deal with, but this: Do you know of any plan to fix prices on existing homes, in this emergency other than that that has been proposed to let the first sale be the maximum price?

Mr. Baruch. I do not know of any way to fix prices except to fix them.

Mr. Patman. And the charge was made that if we attempted to do it through a more equitable method, that is, having appraisers go out, that it would be so uncertain and so different in different communities by different people that that would still be unfair.

Mr. Baruch. As long as you brought that up, I have a definite idea on that, and which I recommended to General Bradley in August of 1945. I think that appraising ought to be done by the Federal Housing rather than to have particular appraisers all over the country, who might know a fellow who wants to build a house, or who might think differently about it. The Federal Housing Administration is a long-time organization, with a great deal of experience in the business, and they know more about the business than anybody else.

Mr. Patman. Very satisfactory. They have been very satisfactory.

Mr. Baruch. That is the only opinion I can give you.

Mr. Patman. One other question, Mr. Baruch. About the controls during the last war. Every day witnesses come before us and they say: "We did not have many controls during the last war and we got along all right, and we took off all controls immediately after the guns ceased firing, and we got along all right."

Mr. Baruch. Well, that is not quite true. In World War I, we had to do it by indirection. The Congress never gave us but one control, and that was over food.

Mr. Patman. That is, during World War I?

Mr. Baruch. Yes, sir. My first experience. We did control by indirection, through priority, which is as great a price-control formula as anything there is. We did it by indirection, and we got agreement between the people involved. We did not continue price controls after
the war because we had no power. It was like a great spineless mon-
ster, the Government was. We had no power. The demand of the
Army and Navy, the Shipping Board and the Allies had ceased.
There was no competition, and, having no law, we argued, "The best
thing to do is to get out of the way, otherwise we will make Govern-
ment look silly trying to tell the people to do something when they
have no power." That is why I want the present controls continued.
Because the war is not over—at least, its aftermath is not yet over. And
until it is, and until we do get back to more normal conditions econom-
ically—and, let us say spiritually—we have to keep a steady hand on it.

I am no Government-control man. I am a free-enterprise man. But
you are going to ruin free enterprise and you are going to ruin Gov-
ernment, unless you keep a steady hand on this thing. I am thoroughly
convinced of that. I do not agree that it was a one hundred percent
good law, and I think I could have changed it in many respects, but now
I would keep it as it is and go steady.

Mr. Patman. Were you operating under Executive order during
the First World War? Did they have a War Powers Act then?
Mr. Baruch. They had the Overman Act which allowed you to
transfer power, but nobody knew exactly what it was, nobody said
just what it was, and nobody asked.

Mr. Patman. But you did the best you could under the circum-
stances?
Mr. Baruch. Yes, sir.

Mr. Patman. You had to give it up immediately when the war was
over?
Mr. Baruch. Yes. We had no power.

Mr. Patman. What happened then, after that war, of course, was
inflation. Do you not think the pressures today are much greater
than they were then?

Mr. Baruch. Infinitely greater, because this is the only place in
the world where large-scale production can take place, and the demand
is all coming here, some say that you can let them buy some other
place—we want to buy in other places, too. But we have to content
ourselves with having not as much as we would like to have, but only
as much as we need. It is going to require a great deal of self-control.
But I think if the American people are told what you are going to do
and why you do it, they will agree to do it. But they do not like it
when you play footy-footy under the table; they do not like all this
confusion. They want to know what you are going to do. If you tell
them, I think you will get it done. I have that confidence after two
experiences.

Mr. Patman. Thank you very much, Mr. Baruch.
The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Baruch, I thought I understood you thoroughly,
but on cross-examination, I am about to get confused with respect
to your statement.

In a reply to Mr. Patman, you dropped the remark "continue it
as it is."

Mr. Baruch. You mean the law.

Mr. Crawford. Yes. Continue the law as it is. On the first page
of your statement, you say, "Continue price controls, subject to in-
dicated modifications, for a year; increase production; stop increas-
ing money supply; stop decreasing taxes until budget is balanced;
stop bunking the public by saying wage increases can be granted without increase in price levels; do not fear to increase prices or wages where necessary to get and stimulate production."

Do you advocate for us that we continue the present price law as it is without any material amendments?

Mr. Baruch. Yes, sir. Except, I suggested material amendments. I suggested the control of all loans. You will find that in there.

Mr. Crawford. That is exactly the way I read it.

Mr. Baruch. I had that in 1941. I am going back to where I appeared before you then, Mr. Crawford.

Mr. Crawford. Yes, sir. That is the reason I am referring back to this prepared statement, because on the first page, I think, you have clearly told us what you would have us do with respect to amending this law. Now, by reason of what followed from other members of the committee, I wanted to come back and make sure in my own mind that you do recommend amendments to the act, insofar as the Price Control Act is concerned, which bring into operation these fundamental things.

Mr. Baruch. Yes, sir; I want it continued the way it is. But I would like to go further. I do not know how much further you would want to go.

Mr. Crawford. Yes.

Mr. Baruch. I think we ought to get back the $6,000,000,000 in taxes, but I do not see us getting that.

Mr. Crawford. I am afraid we will not go back, and I would go along with you as far as that is concerned, and that is political suicide to say such a thing.

Now, let us see if we can pin this down. Your home is in the cotton-mill area, is it not?

Mr. Baruch. My home?

Mr. Crawford. Yes.

Mr. Baruch. Well, one of them is in the city of New York, where I vote and pay taxes, but I live down in South Carolina in the winter.

Mr. Crawford. Yes. Now, is that in the general area of the cotton mills?

Mr. Baruch. We have a lumber mill there. We have no cotton mills around where I live.

Mr. Crawford. I am not so familiar with the country, so I did not know.

Mr. Baruch. I live in what they call the low country. The high country is where the cotton mills are.

Mr. Crawford. In your statement: "Do not fear to increase prices or wages where necessary to get and stimulate production," I know our friend Mr. Brown will be interested in this point, and I want to get your judgment; we have this enormous shortage of textile goods. The mills claim they are tremendously interfered with in their production by reason of Office of Price Administration policies. We have the cotton, some high quality, and a lot of low-quality cotton. We saw the price of cotton move from about 12 cents a pound up to about 22 cents a pound. We saw a mill margin of around 16 cents per pound on 12-cent cotton, which is, roughly, about 133½ percent margin. Today we have raw cotton at about 22 cents a pound, gray goods at about 44 cents a pound, a mill margin of 100 as against 133. Now, we
can determine what the mill margin is. We do not have to worry about that. That is factual. Now, when the mill comes here and says, "I cannot produce textiles for the people because the Office of Price Administration keeps me in a squeeze," I look at his mill margin. If mill margins have been reduced 33\% percent, wherein cotton has moved from 12 cents to 22 cents, does that not have a direct bearing on your statement "Increase prices to get and stimulate production"?

Mr. BARUCH. Well, Mr. Crawford——

Mr. BARUCH. I see what you mean. There is a point beyond which prices will not get increased production—and that is inflation. No matter how high you put it, it will bring any greater production.

Mr. CRAWFORD. I agree with you on that.

Mr. BARUCH. Now, I understood that these cotton-mill fellows had been satisfied. They went up and presented their case to the OPA, and to Mr. Bowles, and the OPA made some regulations that I understood, satisfied them. You see, there is an unlimited demand. There are a lot of expenses that aren't taken into consideration, and everybody can't have the same profits that they did before, until we get out of this mess. Nobody's life is the same, and it won't be the same until we get out of this mess.

Mr. CRAWFORD. I understand.

Mr. BARUCH. I have not gone into this cotton thing, but each one of these industries has to be taken by itself. The great problem now, as I recall, in cotton manufacturing, is to get the goods that went into mass consumption produced, and the only way to do that is to advance certain prices. I understood they had done that and had done it satisfactorily. As I said, later on each one of these industries has to be taken by itself.

Mr. CRAWFORD. If necessary to get that thing done, you would be in favor of us amending the law to see that it is done?

Mr. BARUCH. Well, you give this fellow in charge the law. He can do it himself.

Mr. CRAWFORD. That is what I mean. Put it in the law.

Mr. BARUCH. The OPA can do that now within the law.

Mr. CRAWFORD. But they are not doing it. What would you do about that?

Mr. BARUCH. I think they have gotten religion lately.

Mr. CRAWFORD. Maybe these hearings had something to do with it.

Mr. BARUCH. I heard you the first time.

I do not mean to be jocular about it, because this is a serious matter.

Mr. CRAWFORD. I understand. I am serious, too.

Mr. BARUCH. But I think that after a study of this thing, that they have come to the conclusion—and I have seen the statements of everybody in authority—that they are going to give a proper profit margin. I am for that, but I am not for a profiteering margin. I have sat in on these things so long I can put them on a phonograph. You know, when each fellow comes along, his business is different from any other business, and there are different mistakes involved. But, generally, the human equation is the same. If you talk to these men and tell them what you want to do and why—they will do it. I have never found industry, labor, or the public will not come along, but they must know what you are going to do and why.
Mr. Crawford. Now, let me go back to a question which was partly cleared up by Mr. Wolcott. I want to make sure that I understand it. It has to do with premium payments to those who produce material for building of houses.

If I understood you correctly, you took the position that, with respect to premium payments on building materials, you would limit that—

Mr. Baruch. Subsidies, I said, as they are, and no more.

Mr. Crawford. You would limit that to a freight differential?

Mr. Baruch. Well, I would take each case by itself. I am opposed to subsidies as a rule. I am told, for instance, that they advanced prices of soil pipe some time ago. But they will not increase their business. They will not put capital into it. Well, I would try to find some way of working that out.

Mr. Crawford. Yes.

Mr. Baruch. I understand that they have great productive capacities at Geneva and Daingerfield, I think, in Texas.

Mr. Crawford. That is what I wanted to bring out.

Mr. Baruch. They produce pig iron there. But there is a freight-rate differential and they cannot take it up to your country on account of the freight rate.

Mr. Crawford. That is right.

Mr. Baruch. I think that I would work out something whereby it would remain in effect, for only a time—not continually. I do not think you can pass a law on that. I think the head of the Civilian Production Administration has to do that, but the pressure is going to be on him for every single item. You will have it said on every side, “Now, we have got to have a premium payment,” or “We have got to have an increased price.” The unfortunate man in charge of the OPA and the other unfortunate man in charge of the Civilian Production Administration, will have to see that things are done and speed it up. Let us make up our minds what we are going to do and get started. If you get started—in 4 or 5 months you will really see production, and some of these price controls will not be needed because the people will produce so much at lower prices.

Mr. Crawford. Then, so far as you have gone into it—I am seeking your view now, because I voted against the subsidies and premiums on the House floor—but, so far as you have gone into it, at the moment, in your own mind, you would limit those premiums or subsidy payments on housing to that adjustment in the freight differential, on the moving of pig iron across the country?

Mr. Baruch. Other things may be involved. I do not know enough about it. They tell me that the price of soil pipe has to be raised. I would not want to particularize. When I speak, I like to be able to defend my position.

Mr. Crawford. Let me ask you this, then, because you have made such a positively constructive statement here with respect to inflation financing. If I understand your statement, it is to the effect, for instance, that if we go out here and make a loan of $4,400,000,000 or $3,000,000,000, or $1,000,000,000, to a foreign country, with the idea that they are now coming to this country to spend those dollars to buy the goods, that we are misleading them into that move, because the goods are not here.
Mr. Baruch. Yes; because the goods are not here. If you lend them the money, it ought to be with the understanding that they can get the stuff. I would do the same thing for every State and every city. My own State of South Carolina and my other State of New York, they want to spend hundreds of millions of their dollars there. I think I would postpone those until we can meet present pressing demands. I do not know how long we will have to postpone, because I think the clamoring demand for necessities is going to be with us for 5 or 7 years, and will be something terrific. If we can get production going, I think we can do the trick.

Mr. Crawford. I follow you on that.

Mr. Baruch. That is the reason I swallowed my Adam's apple and apparently go back on the things I contended for. If we can put up prices sufficiently to get the thing going—if we can get it going—what we did in the war in production will look like nothing, because we now have all of the energies used in the war to use for peace production. There will be an enormous mass-production of the better and lower-priced things.

Mr. Crawford. On page 3 of your statement you say this:

Price control by itself will not be effective. It must go hand in hand with a sharply defined tax program, the siphoning off of excess savings and earnings by selling Government bonds to individuals instead of banks.

Now, we face this refunding problem, and if, in refunding the bonds, we permit the new issue to be purchased by the banks, that is very inflationary, is it not? It widens the base?

Mr. Baruch. Yes, sir.

Mr. Crawford. Now, can you say anything to this committee as to what we should do, as the House Banking and Currency Committee, toward making the necessary provisions whereby those refunding issues will go to individuals instead of to banks?

Mr. Baruch. When I brought up that case, when I appeared before you before, Mr. Crawford, revenues came before another committee, and the revenues are entirely in the hands of another committee of the House.

Mr. Crawford. I am not talking about taxes now.

Mr. Baruch. Yes; but this involved the whole thing, because, if I am correct in my—I will not say hopes—beliefs, we are going to have so much business, the volume is going to be so great, that I expect to see an excess of taxes that will permit us to retire a good many bonds. I do not know what the first bonds we are going to retire will be, because the corporations and insurance companies and the banks are not going to give up these bonds unless they are made to give them up. It is too good a thing at 2½ percent. But the individuals may want to sell them in order to put some money into some enterprise that will pay them more. I do not think there is anything this committee can do, except recommend a priority of loans, that should be visaged by the Treasury and approved from the production standpoint by the Civilian Production Administration.

Mr. Crawford. Well, if this committee amended the National Banking Act providing that banks could not hold beyond a certain point—

Mr. Baruch. I would not do that.

Mr. Crawford. I am not recommending that, I am showing you what this committee can do, if we decide we have to do it.
Mr. Baruch. I did not realize that. But we have a pretty delicate situation here.

Mr. Crawford. That is right.

Mr. Baruch. And that is the reason I am willing to go along with the situation as I find it, and buttress it, shore it up, instead of pulling any pegs out of it. One of the ways we can shore this thing up is to stop the issuing of securities on which they are going to get the money that is going to be expended when we have not got it.

Mr. Crawford. But your language here reads:

The siphoning off of excess savings and earnings by selling Government bonds to individuals instead of banks.

Mr. Baruch. Yes, sir.

Mr. Crawford. If we are going to have a balanced budget, there certainly should be no new issues put out for the banks to buy.

Mr. Baruch. I do not know.

Mr. Crawford. When I say "new issues," I mean original issues. If your budget is balanced, why do you issue original issues? But you will have refunding issues?

Mr. Baruch. That is right, sir, refunding.

Mr. Crawford. Your tax income will not be sufficient to meet your maturity, so you have to have some refunding issues?

Mr. Baruch. I am not so sure that is right.

Mr. Crawford. So the thing we will have to face in connection with this price control proposition, and in the way of preventing inflation, is to do something about the disposition of the refunding issues, and this committee will have something to say about that when the question arises.

Mr. Baruch. I will tell you a problem you will have to face before you get to that one: I do not know what our debt is, I do not think anybody knows. About two hundred and seventy-odd-billion dollars, I think.

Mr. Crawford. Well, it is $279,000,000,000 stated in the Treasury report on the 1st of this month.

Mr. Baruch. Yes. If we get so we can retire "X" billions of that a year, that will help the refunding.

Mr. Crawford. It certainly will.

Mr. Baruch. Very much, indeed.

Mr. Crawford. Yes, sir; it certainly will. I have just one or two other questions, Mr. Baruch.

You expressed a very constructive thought awhile ago about getting materials so that homes could be built, in which to house veterans and to hospitalize veterans. Have you heard anything about the contractors refusing to take contracts for the building of veterans' hospitals because of the black market prices, and what they have to pay, as contractors, for materials to use in building?

Mr. Baruch. And for labor.

Mr. Crawford. And for labor.

Mr. Baruch. Yes, sir.

Mr. Crawford. You know that exists?

Mr. Baruch. Yes, sir.

Mr. Crawford. I think this recommendation of yours, with respect to increasing prices so as to get the necessary production would take care of that situation.

Mr. Baruch. Yes, sir.
Mr. Crawford. And in the absence of it, I do not think—

Mr. Baruch. And if we extend this law for a year, then, they will know there is not going to be any further jockeying. It will help once you get the thing on the statute books so there is no doubt about whether you are going to do it or not do it. And whatever you do, permit me to say this: I would speed the action in getting it done, because then they will know they cannot fool around for a year. People are not going to sit idly by. Their desire to function will get them going.

Mr. Crawford. I intended, before you submitted your statement, to ask you some questions about the fiscal policies of Government, but I think you have covered that quite clearly in your statement here. I have one other thought that I would like to develop for a moment. On page 7 you referred to this, you said:

Let us face facts. We must have full production. Without it, we cannot keep any semblance of modern, civilized economy or even government. We risk inflation. We mute the voice with which we speak for peace in the world.

Do I understand from that statement that you mean to say to us that unless we can keep our economic house in order here in the United States, that our voice around the table of the family of nations will be rather ineffective?

Mr. Baruch. You have stated it better than I could. Yes, sir.

Mr. Crawford. On page 8 of your statement, you say:

For 1 year I would extend the present war powers, price fixing, and include wages—

You certainly would not object to us putting in this new bill an amendment to include wages, would you?

Mr. Baruch. I want to go back to where I started.

Mr. Crawford. All right.

Mr. Baruch. I keep going back to the original starting point.

Mr. Crawford. All right.

Mr. Baruch. I think that labor was disadvantaged in having to fight each time for a wage increase to make up the loss due to the rise in the cost of living. I think they have lost in the fight, as I said before—not because I said so, but because the facts are so.

Mr. Crawford. From page 11 of your statement, I would assume that you recognize that more and more of our citizens each day are being crowded into participation in the black market; is that right?

Mr. Baruch. Yes.

Mr. Crawford. I say I would assume by your statement—

Mr. Baruch. Yes, sir; that is what I meant to say.

Mr. Crawford. That more and more of our citizens are being crowded each day into the field of black market?

Mr. Baruch. That is right.

Mr. Crawford. And that is disastrous.

Mr. Baruch. Yes.

Mr. Crawford. Thank you very much.

Mr. Monroney. Mr. Baruch, I want to join the other members of the committee in expressing deep appreciation for your fine statement.

Mr. Baruch. Thank you.

Mr. Monroney. We have a brief here which has been filed with a group purporting to represent the industrial thinking of America,
the National Association of Manufacturers, in which they ask for abolition of price control. I think your statement pretty well expresses your disagreement with that, although you have probably had as much or more experience with our industrial system than some of the men claiming to represent the National Association of Manufacturers, and I wondered if we could have a little more comment.

Mr. Baruch. I think they do not know what they are asking for, and I also think they do not know what they are going to face. If you take off those controls, I know what I would do as a labor leader. I know what would happen. I know what would happen to the housewife. I know what would happen to every man, woman, and child in this country. You see there is a difference between the things as they are now and what we hope to have, and we have got to have these controls. I do not think they really appreciate what they are asking for. I say that with great deference to those distinguished gentlemen, who are great industrialists and know a good deal about these things, but I know that they do not realize the economic, much less the social reflexes and injustices of it, in its broadest terms. Government, in its highest form, it seems to me, consists of endeavoring to get the various elements in society so adjusted that we can move about in peace and happiness, for the great majority. I think what they are asking would bring about a situation which I do not think they quite realize.

Mr. Monroney. It would be chaotic for business itself?

Mr. Baruch. I think it would be a great mistake. I, as a businessman, would dislike to see it.

Mr. Monroney. In other words, the hardships that they claim and the stifling of production which they attribute to the Office of Price Administration would be accentuated and would be 10 times worse under the immediate rush to grab everything that was in the market, and to try and inventory accordingly?

Mr. Baruch. Yes. I tried to meet that situation by suggesting that we have some price advances but do it with a firm and wise hand. If we can get this thing done, and quickly—I keep asking for speed all the time—that would be behind us, and we will know then a year from now what we can do then.

Mr. Monroney. Yes. There price adjustments which you say need to be made, should be in the interest of increased production rather than necessarily to increase profits or a profit formula for the industry?

Mr. Baruch. If you get full production, you will get the profits. They know that.

Mr. Monroney. There has been one suggestion made. It comes up every time the Price Control Act is up for renactment. That is that Congress, by law and formula, should strait-jacket the Office of Price Administration to force a satisfactory profit on each item manufactured by the manufacturer, regardless of what his over-all profit position might be.

Mr. Baruch. Well, that is a good deal like the difference between the dud golfer, like myself, and Mr. Hagen, the famous golfer. I never know what stick I am going to use, and when I get in the rough, I say, "Caddy, what club shall I use?" And the other fellows says,
"Give me my niblick," and he is on the green. I pick mine up and put it in the pocket. That is the way with this economic problem. I do not think you can make anything more than a general rule, such as I have outlined.

Mr. Monroney. We would get in more serious trouble, and we would do business a greater disservice by strait-jacketing the Office of Price Administration with a new bunch of formulas that late in the game to cause a change in all regulations, which would try and yield a profit on every item that a man might make?

Mr. Baruch. I have discussed this thing with those gentlemen. I was dissatisfied in the beginning, but I became satisfied, because I believed they saw the viewpoint that they could not get production without making some man a profit. Sometimes they want to get the profit too low and, of course, the other fellow wants it too high. But they can work their differences out. The OPA knows, as well as I do, that nobody is going to work without a profit and they know they have got to make the profit sufficient in lines that the masses use. We must get that mass production at as low prices as possible.

Mr. Monroney. And perhaps on the individual items in the man's line that are needed in greater abundance: should not that be given special attention?

Mr. Baruch. The fellow in charge of production is going to know what to do. When you take the materials away from here and put them over there, you do not know what is going to happen as a result of that, but that fellow knows. So you have go to leave it to him. It is like the Commander in Chief. This man might be a good one or a bad one. I happen to know this one and I think he is a good one. He seems to be pretty steady on his feet. I have great confidence in him.

Have I made myself clear?

Mr. Monroney. Yes. I have one other question. Do you think that we should force a strait-jacket formula for decontrol of items, or should we write that as a general policy in the act, so that the men in charge of production in the Office of Price Administration and the Civilian Production Administration, and agriculture, would be the judges of when decontrol was possible without inflationary danger?

Mr. Baruch. Decontrol will take place by itself. Because if we get full production, Prices will fall below the price ceiling, and they will be seeking markets then. Instead of being a seller's market, it will be a buyer's market. If they will make the price right—and do it quickly—so that within "X" months they can get production, it will be a wise move and will decontrol itself.

Mr. Monroney. And you would not be in favor of writing into the law and of these strait-jackets?

Mr. Baruch. No, sir.

Mr. Monroney. That is all.

The Chairman. Mr. Wolcott.

Mr. Wolcott. I have a question.

In answer to Mr. Monroney, you said you had discussed this with them. As I understood you to say, they know that they are not going to get production without profits. Do you mean by "them," Office of Price Administration officials?

Mr. Baruch. Yes.

Mr. Wolcott. Thank you.
The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. Mr. Baruch, it is very refreshing to have you back again.

Mr. BARUCH. I am glad to see you again.

Mr. GAMBLE. I agreed with you in 1941 on this over-all price control, including wages. Unfortunately, we only had 5 votes out of 25, or we would have had it. It has been shown right straight along that you were right then, and, having been one of the five, we were right then, too. You say that price-control people have gotten religion. I do not know whether you have noticed it, but they kind of get religion once a year; every time the act comes up for extension. But it does not stick.

Mr. BARUCH. Like everybody else, when death approaches, we get religion. I think that Mr. Porter is a good man. I think he understands the situation. I think that it is an opinion with him—not religion. That is only an opinion.

Mr. GAMBLE. Well, it is a serious subject.

Mr. BARUCH. Serious, indeed, sir.

Mr. GAMBLE. On this decontrol, the answer to that, Mr. Baruch, as Mr. Monroney has brought out, is production and greater production, is it not?

Mr. BARUCH. Yes, sir.

Mr. GAMBLE. When we get production, the law of supply and demand goes into operation, and the law of supply and demand will automatically decontrol these things.

Mr. BARUCH. That is right.

Mr. GAMBLE. It will pass out of the picture. I mean price control will go out, but the law of supply and demand will regulate and take over.

Mr. BARUCH. That is right.

Mr. GAMBLE. Mr. Crawford spoke of you recommending the continuation of price control. You include wages. You would have the Office of Price Administration and the Office of Economic Stabilization take over and do the regulating for that period of time?

Mr. BARUCH. The OPA fixes the prices with the approval of the two men in charge of production and economic stabilization. It destroys the stabilization of the price formula, that is where Mr. Bowles comes in. If they have any dispute, they can take it to the man that you put in office; that is, Mr. Snyder. He is Congress' representative. You told him exactly what he is to do. Then, if they do not like it, they can appeal to the President.

Mr. GAMBLE. Yes. I was glad to see on page 12 of your statement, Mr. Baruch, that you have again recommended a national inventory of resources and liabilities. That is the recommendation you made 3 or 4 months ago. I thought it was a very wise one then, and I think it is a wise one now. I am just sorry—I think the President missed the boat when he did not pick it up and go on with it at that time. We would know better what we can do in the future if we knew what we had to do it with. I do not know any other way in which we are going to do it without a national inventory, that we will know what our position is.

Mr. BARUCH. I do not know of any other way. We do not know, for instance, how much our soil is depleted. It may be a serious thing.
I am not erudite or scholarly; I am not a historian. But if you look at civilizations that have come and gone, you will find they have gone when their agriculture was gone. Look at the East and Far East. Where the soil was gone, civilization was gone. People have to eat. They say that man cannot live by bread alone, but I always believed that he has to have bread. We know nothing about our physical resources. When we get beyond that, of course, I get on ground where I do not belong.

Mr. Gamble. Well, it is all a part of the fiscal picture.

Mr. Baruch. That is right.

Mr. Gamble. I think too many look at it from the financial angle of what our debt is, and how much we can loan. But you cannot do either one of those things, you cannot reduce your debt, or you cannot—

Mr. Baruch. I am sure you know that what the veteran—about 12,000,000 of them—is entitled to under the law, is a governmental guarantee of $4,000. And there will be at least another $4,000 that he will be able to borrow. That would be about a hundred billion dollars. And that was all to be in 2 years. The bill was later changed to 10 years, otherwise we would have had a 2 years‘ demand for 100 to 120 billion dollars.

Mr. Gamble. That is from the financial angle.

Mr. Baruch. Yes. But it would have added to the demand. In 2 years you would have had an addition of $50,000,000,000 a year for just homes.

Mr. Gamble. But you would not have many of these things unless we had natural resources. If we did not have natural resources, we could not carry on.

Mr. Baruch. Yes, sir.

Mr. Gamble. Thank you very much.

The Chairman. Mr. Folger.

Mr. Folger. Mr. Baruch, I am from North Carolina.

Mr. Baruch. We are neighbors.

Mr. Folger. I heard you say something about a home in North Carolina.

Mr. Baruch. I live right across the line. I was born in Camden, S. C.

Mr. Folger. Senator Claghorn said there was no North Carolina, but there was an upper South Carolina. So we might be in the same State, after all.

Mr. Baruch. Yes, sir.

Mr. Folger. I hope you come to North Carolina, too.

Mr. Baruch. I do very frequently. I was there the other day in Charlotte when they gave a medal to Josephus Daniels.

Mr. Folger. Mr. Baruch, what you have to say in the early part of your remarks seems to be the crux of anybody’s statement about our situation, namely, that “Increase production. That is the law of the prophets—without it the rest of my suggestions are meaningless. So I say again: ‘Increase production.’ ” That is the foundation of the adjustment or cure of our problems.

Mr. Baruch. Unquestionably.

Mr. Folger. Yes. In reading after you, as you were talking, I put a pencil notation here “Continue price controls comma subject to indi-
cated modifications" I put a comma there "for a year." Would I do
great violence to your thought by putting a comma there?

Mr. Baruch. I do not object to a little thing like a comma, but does
that change the meaning in any way? What I want to say is: "Sub-
ject to indicated modifications," the indicated modifications would be
during that year.

Mr. Folger. And your recommendation is just what it says?

Mr. Baruch. Yes, sir; I hope so.

Mr. Folger. In some of your observations, it struck me as rather
problematical as to whether you were addressing these thoughts to our
action here, or expressing somewhat of a content to leave the matter
entirely to the price-fixing authorities. That is not quite true, is it?

Mr. Baruch. I thought I made it plain that I think you ought to
take action and do it speedily.

Mr. Folger. Yes.

Mr. Baruch. The only people who can do it are yourselves. No-
body else can do it. And if they do not get that law from you pretty
quick, we will all fall down on our faces. You are the only people
who can give it to them.

Mr. Folger. That is all. Thank you.

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Baruch, I would like to ask you a couple of ques-
tions about your proposal back in 1941, in view of Mr. Gamble's state-
ment. I read your book very carefully and enjoyed it. I thought it
very sound. But you advocated in that book that there be a general
over-all freeze of all prices at such time as those prices had been de-
termined by actual price and demand; is that not correct?

Mr. Baruch. Yes.

Mr. Kunkel. And at that time, as I see it, and as Mr. Henderson
saw it, as the people before our committee at the time saw it, it had
vanished by the late fall of 1941 and certainly by 1942, when the selec-
tive-price-control law was enacted; is that not correct?

Mr. Baruch. Yes, sir. They had to take what they found.

Mr. Kunkel. And Mr. Henderson's description was that he was
standing on top of a cauldron, and something was popping here and
something was popping there, and the best that could be expected at
that time was for him to jump around to try to plug up those holes as
fast as he could. And that was about the situation, was it not?

Mr. Baruch. Well, I do not want to go back over the past. I would
like to talk about tomorrow. I do not want to be critical.

Mr. Kunkel. I thought the price-control law was the only one that
we could have passed at that time. If we could have passed your law
in 1939 and 1940, it would have been splendid.

Mr. Baruch. You did not have rents under control.

Mr. Kunkel. We did not have rents nor wages; I know that.

Mr. Baruch. Those are the two things that put the holes through
the ceilings. They are two important things in the cost of living. I
do not know what the percentage is, but rent is a very important item.

Mr. Kunkel. Back in the last war, we operated on the so-called
bulk-line system, in order to get production of certain needed metals.
In order to avoid that in the Price Control Act as originally passed,
there was a provision entitling them to pay subsidies instead of in-
creased prices in order to secure the needed production of those articles. And that law is still in effect and will be undoubtedly when this is continued. So if the builders or if Mr. Wyatt wants to get production, all he needs to do is to go over and have the Federal Loan Administrator name any article which is critical and strategic and from that point on he can get it, and if there is any slow-up or lack of policy, my point is, it is due to the President and executive departments and not the Congress, because that has been in effect for many years. You remember that that was in the—

Mr. Baruch. No, I did not. That is another thing I do not remember.

Mr. Kunkel. Well, it is in section 2 (e) of the Stabilization Act.

Mr. Baruch. I know we gave it in certain low-cost production.

Mr. Kunkel. Anything except agricultural commodities. There is an exception with regard to agricultural commodities. So I feel that the subsidy argument is more or less to cover up for defaults in past policy.

Mr. Baruch. I did not know that.

Mr. Kunkel. Mr. Wolcott probably has the act in his file.

Mr. Wolcott. It is section 2 (e) of the Price Control Act.

Mr. Baruch. According to him, you do not need to talk about subsidies, because you can get them under the law.

Mr. Wolcott. The only restriction is that the authority is there to pay the subsidies. It becomes a Budget transaction. The Budget could at any time——

Mr. Baruch. In other words, they had the right to do that and did not exercise it?

Mr. Wolcott. Yes, sir.

Mr. Baruch. I did not know that.

Mr. Kunkel. There are two things in your statement that I think are so particularly important that before I close I want to mention them. I think you have done a great service in emphasizing the importance of demand. There has been so much attention focused on supply and demand that by a little educational program, in getting people to spread out demand over a period of time, we can accomplish a great deal, as well as by increasing the supply factor, and the other point is the interrelationship between allocations and priorities of price control, because they are all rooted in the same economic conditions, and you cannot have one without the other. I think that it is particularly fine to have a disinterested person with the right perspective to come in here instead of somebody who is fighting on this side or that side of the question we are trying to decide.

Mr. Baruch. Thank you.

The Chairman. Mr. Hays.

Mr. Hays. Mr. Baruch, I like your suggestion about a High Court of Commerce. I believe you termed it.

Mr. Baruch. Yes, sir.

Mr. Hays. I wondered if you had worked any on the specifications.

Mr. Baruch. I worked it out after the last war, but they did not pay any attention to it.

Mr. Hays. It seems to me that that would be applicable, for example, to this problem of determining when supply is equal to demand. We are all ready, I think, to say categorically that when supply equals
demand, then controls should be lifted. The difficulty comes in determining when that situation exists.

Mr. Baruch. The buyers and sellers themselves will determine that automatically.

Mr. Hays. But if they should fall out, for example, with the Office of Price Administration’s decision that supply is not yet equal to demand, and that question has to be determined by someone, would it not be a good idea to have an independent tribunal?

Mr. Baruch. It would, but I do not think it will be necessary. I think that it will work like these gadgets, the steam things that turn the heat on and off automatically. I think decontrol will work itself.

Mr. Hays. Well, then, what would the functions be of the High Court of Commerce that you have mentioned?

Mr. Baruch. The functions of that court should be to decide all the economic and human problems involved. No person appointed by the President could continue in any business. This would be a lifetime job. It might be Mr. Lewis, or Mr. Green, or Mr. Reuther, or anybody else from the labor end, or it might be anybody in this room. But after he was appointed he would have no further connection with his business or his union, or any other business, but this would be his life’s work. He would be just like our Federal or other judges. And these problems would come before such a court. We now have a great many different bodies to adjudicate. Before these judges would appear labor leaders, agriculture leaders, and business leaders, and all kinds of people, and they would present their case just as they do by collective bargaining. Facts would be brought. Examination and cross-examination would take place publicly.

Mr. Hays. And it would be an appellate court from all of these regulations, is that your thought?

Mr. Baruch. Yes, sir; and it would be subject, of course, to the decision of the Supreme Court as to whether it were acting within constitutional rights. But there are enough lawyers in the Congress to work out a thing of that kind. I only put it in because something like that has to be worked out.

Mr. Hays. It seems to me a very timely suggestion. You would not necessarily imply, though, that it be put in as an amendment to the Price Control Act?

Mr. Baruch. Oh, no; we would be too long doing it.

Mr. Hays. Thank you.

The Chairman. Mr. Talle.

Mr. Talle. I want to thank you for your statement. I will not keep you long. I have held similar views for quite a long time, so it is very easy for me to approve of what you have said.

Mr. Baruch. Thank you.

Mr. Talle. I wanted to ask you if you choose to expand on the fact that the whole world is watching us. My reference is to page 6 of your statement, and I quote the following:

The whole world is watching us, amazed at the exhibition of a giant who cannot pull himself together even to take care of his own needs.

I think that is very important, Mr. Baruch.

Mr. Baruch. Well, what do you suppose any power thinks about us or any voice that we may raise when we cannot even function here?
Our people are crying for the things we can produce and which we are not producing. The whole world admired and respected us, not alone because of our great soldiers and sailors—the fighting men and women we sent around the world, on land, on the sea, and in the air—but because we produced the tools and arms with which we could do the job and without which they could not do the job. And wherever you go in the world, you will find American armaments—the Sherman tanks, and airplanes, guns, ammunition, food, and clothing. That is what I mean.

Mr. Talle. Other nations must be very puzzled when they look at what they see here now.

Mr. Baruch. Undoubtedly.

Mr. Talle. That is all, Mr. Baruch.

The Chairman. Mr. Riley.

Mr. Riley. I am very proud to be from the same State you are from, sir. I want to thank you for the very sound and fearless statement that you have made.

I also appreciate your opinion in regard to the limits on the price of houses. Since last October I have advocated the use of trained appraisers in the housing situation to establish the sales prices of houses, and that those appraisals be cleared through a local qualified advisory committee. I think that one reason that the American people were willing to go along with the Office of Price Administration restrictions was the fact that they had confidence in the high type of local advisory committees. So I think the same thing would apply to this housing crisis.

I want to thank you, Mr. Baruch, while you are here, for the very great and unselfish service that you have rendered your country. We, in South Carolina, are very proud of the honor that you brought to our State, sir.

Mr. Baruch. Thank you very much.

The Chairman. Mr. Kilburn.

Mr. Kilburn. Mr. Baruch, I was especially interested in your theory as to how we can ever end price control. As I understand it, you say that it will automatically end when the law of supply and demand becomes operative. Now, we have had a great deal of testimony before our committee from different industries, that because of the prices set by price control, they have closed down mills, and their production decreased. So that, under that theory, you are never going to end price control.

Mr. Baruch. Well, I think that you, perhaps, misunderstood or did not grasp what I was getting at, probably due to my own poor way of expressing it. I asked that we should increase prices where necessary to bring about that production, but that does not mean that I would leave it to them to take off all price controls. I thought the mills had been satisfied.

Mr. Kilburn. Well, it is not just the mills but other industries.

Mr. Baruch. I know there are a great many difficulties, and whereas I want to advance prices, I want to do it with a very wise and firm hand. I want them to have profits, as I am sure you do, but we must not permit profiteering. If you do, we are going to have another upsurge in wages, and you are going to leave the white-collar workers and other workers out on a limb. And I know how I would feel about it if
I were a labor leader. I think we have got to go at it in a way that shows wisdom and firmness.

Mr. Kilburn. But you see what I am getting at——

Mr. Baruch. Yes, sir.

Mr. Kilburn. If the Office of Price Administration continues their present policy, according to the witnesses, we will be in just the same boat a year from now.

Mr. Baruch. You see, I said that we should use a wise but firm hand. We should see that they get profits in order to get production, but I do not want profiteering. Somebody has to be the judge in the matter. I believe that if these men in charge do not do it, you will have to get rid of them and get somebody who will. But I think that these men now feel or see that they have got to give price increases or they will not get production. Nobody is going to produce without profit, and people will not go into capital expenditures to get soil pipe or drain pipe, or whatever it is, unless they can make a profit. There is no doubt about that. And the same thing is true on every other item, whether it be cotton goods or anything else.

Mr. Kilburn. Right along that line, would you advocate an amendment to this bill that when supply is equal to demand, price controls be taken off?

Mr. Baruch. I have no objection to it, because it does not mean anything. Because it will come off by itself.

Mr. Kilburn. No, it does not. Because we have had industries testify here—for instance, the oil industry. I know nothing about the oil industry. But the oil people testified they had a bigger supply on hand than ever in the history of the country, but the Office of Price Administration will not take controls off.

Mr. Baruch. Well, the prices must fall below the ceiling then.

Mr. Kilburn. No, because the price the Office of Price Administration sets is below the natural price of the law of supply and demand.

Mr. Baruch. Oh, well——

Mr. Kilburn. According to their testimony.

Mr. Baruch. Well, I would want to take each case by itself. I have seen a lot of that myself in two wars. This is my second round trip. Naturally, industry will present its case, and I am quite sympathetic to it when it is right. I think, by and large, they want to do the right thing. But you have to have some control here, and when it gets balanced, and if they do not allow them to establish monopolies, you will find that the law of supply and demand will work itself out and decontrol itself. That is my opinion. Maybe the other fellow is right. I think I am right.

Mr. Kilburn. I agree with you. But what I am trying to seek is advice on how to vote on this bill.

Mr. Baruch. What is your point?

Mr. Kilburn. My point is this: I do not see under the present Office of Price Administration policy how you are ever going to get rid of the Office of Price Administration, because we have had testimony here that they have plenty of supply in different industries, but they will not take the controls off.

Mr. Baruch. I would like to know what they are.

Mr. Kilburn. One is oil.
Mr. Baruch. Well, I see them fighting all over the world for it now. I do not know whether the supply is equal to the demand. I would not want to pass judgment on it.

Mr. Kilburn. We had the lumber industry. One man testified that he had 75 mills. He has closed down all but 66 of them, because he could not make money. And he is going to close some of those.

Mr. Baruch. That is another problem, if he could not make a profit. It was not because of the supply of lumber. That was not like the oil.

That is a different case.

Mr. Kilburn. Yes.

Mr. Baruch. I would have to be a lumber producer myself to say. It was not because of the supply of lumber. That is not like the oil. I just sell my timber, and I give the entire proceeds to charities. I do not produce it myself. I know there is a great demand for timber.

Now, many of these things are psychological as well as real. We are in a period of great scarcity that is going to continue, and we are going to also have a psychological scarcity until we get this production. They ought to raise the price of lumber until they can get production. But it is not only the price of timber or lumber, there are the difficulties of transportation, difficulties of getting workers and laborers.

Mr. Kilburn. You see what I am fearful of?

Mr. Baruch. Yes, I know.

Mr. Kilburn. That the Office of Price Administration will set prices in such a manner that there will always be shortages and the Office of Price Administration will always continue, and we have got a managed economy. We want to take the controls off—

Mr. Baruch. I spoke of that.

Mr. Kilburn. As soon as we can.

Mr. Baruch. I am just as fearful as you are. I owe so much to this country. I do not want to see it changed by indirection to statism or bureaucracy. But we are not over with the war yet or the aftermath. We are only half way over with it—maybe only a quarter of the way—and I would not want to see this thing get out of hand. You are faced with two things. If you get rid of it, I would not want to see what will happen. If you do not get rid of it, I think you are better off, because otherwise the great social reflexes would cause upheavals here and in other countries of which we could not foresee the ending.

Mr. Kilburn. Suppose we extend this Price Control Act for 1 year. Whenever we end it, there is going to be dislocation, is there not?

Mr. Baruch. Yes, sir.

Mr. Kilburn. Well, would you be in favor of extending it for a year with notice to the country that we are going to end it then?

Mr. Baruch. No. I would like to end it before, but we do not know what the future is going to bring forth. Even if you said you were not going to extend it, if the problem came up, you would have to extend it, anyhow. I would not put myself in that position if I were voting on it. I would extend it for a year. Period. If you said you were not going to extend it after a year, and you found you had to, you would only have to swallow your Adam’s apple, like I am doing.

Mr. Kilburn. Well, I am afraid it is a vicious circle. As long as we extend it, there will always be the question of when we end it having dislocation.
Mr. Baruch. I would be less than frank with you if I did not tell you that I see a terrific demand that is going to go on for 5 or 7 years. I would not be surprised—if we use but half the sense that God gave us and get production now—to see this demand continue. There is going to be such an enormous demand not alone in this country but from all over the world, and America is the heart and center of great-scale production of the world. We would have to determine some time or other, even with this greater demand, that we would say, “All right. We will let it go, anyhow.” I do not know when that time will come.

Mr. Kilburn. Well, if price control does stifle production, and production is the only thing that will cure this, the longer we have price control, the longer we will have short production.

Mr. Baruch. Well, now, you know, there is a point beyond which prices will not increase production and that is inflation. That is what I believe. I have been through two inflationary experiences. I think when we have price control you have to use wisdom and tolerance—mind you, I do not like this law any more than you do, because you know how I fought against it, but I am accepting something, because I do not like what the opposite might bring. What you take off here might affect something over here. For instance, they talk about giving, as I understand it—I may be wrong—a special priority to housing. Well, if they have a special priority, it might take it off of something else, and when they go to build a house, they might find they have no soil pipe, or doorknobs, or the locks or something else. There is only one man who can do that and that is the man in the center.

Mr. Kilburn. When he sets the price of this article, it stafles production in this one over here, because it is related to it.

Mr. Baruch. Well, you see, I say that the price control must have the approval of the Civilian Production man. Commodore Small cannot get production unless he has something to say about the pricing, and neither can Mr. Anderson.

Mr. Kilburn. Thank you very much, Mr. Baruch.

The Chairman. Mr. Buffett.

Mr. Buffett. Mr. Baruch, I listened to this statement with a great deal of interest and approval. But, like Mr. Crawford, when we come to this point, I am sort of confused, because in this statement you say we are in a God-awful mess. That is the sum and substance of the statement.

Mr. Baruch. There is no doubt about that. I do not think anybody would differ with that.

Mr. Buffett. You next say the law is approximately satisfactory.

Mr. Baruch. No, I do not say that. I say it is but it is the best course open to us. I do not think anybody could have criticized them for what has taken place any more than I have. I have done it as politely as I could, and I am sure there will be some objections to my statement. But I brought forward those things to show our mistakes in the past, and hoping we will make as few as we can in the future. I do not think we can do better than to take this thing as it is. The war powers and priorities are more important even than price control. Take subsidies, for example, I fought them—I did not like them. But there is no use discussing that, because here we are. I would dislike very much to give any more subsidies. A great deal of pressure
was put upon me to talk more favorably on subsidies. But I can only say what I think.

Mr. Buffett. That is right. If we take the present law, and you say the administration of it is reasonably effective, instead of satisfactory, and the law is the best we have, if we take the law as it is and the administration as it is, and simply continue it, why is not this mess going to get worse and worse?

Mr. Baruch. I think it will get "worser and worser" if you do take it off—if I may use those adjectives. We say that down in South Carolina. It will get "worser and worser" if you do take it off, and do what the manufacturers want, because then the largest purses or the biggest pull was going to get the stuff. You are going to have great social reflexes, and men like myself will have to side with the men who raise the issue. This is a bad law. I say it there in plain language. But if you want to go back and make it right, I have told you how to do it. Bring back the $6,000,000,000 in taxes. I know very well you are not going to do that. Then it does not make any difference what prices you take. You can go back and do that, and stop issuing bonds—when we took $6,000,000,000 in taxes off, we issued just twice as much in bonds. Perhaps I have different ideas from those, and I do not want to criticize them, but those are the things. Government, States, cities, counties, and foreign countries are all borrowing money for the purpose of buying something. We are in a position where more will be demanded of us than we can supply. You have got to cut off demand and increase supply. In that way you may get them closer together. But I think it is going to take a long time to fill all the orders, because all over the world they will want our stuff, especially if we see fit to give it to them.

Mr. Buffett. Yes; but if we do not save our economy from State control, we cannot help anybody else, can we?

Mr. Baruch. We cannot help anybody unless we function ourselves. This is something that I do not like. I did not like the law that you gentlemen passed before. I made that perfectly clear. I do not like the present one. But I think this is the best thing that can be done in the circumstances. I do not like it any more than you do.

Mr. Buffett. Well, it is an economic narcotic, is it not?

Mr. Baruch. Yes, sir.

Mr. Buffett. And, ordinarily, a narcotic used for an operation like the war should be tapered off pretty rapidly before it becomes a habit?

Mr. Baruch. But the war is not over.

Mr. Buffett. Well, all these productive facilities that were used for war can now be used for peace.

Mr. Baruch. That is exactly my point. That is what I said. If this surplus property will be handled right, we will not have a lot of these problems. If we can get this thing going by giving these people a little more profit, inside of 4 or 5 months this productive capacity, which was so great in war, will be turned into peace production, and that is the only chance we have got. We are taking a chance. We have to make up our mind what chance we are going to take.

Mr. Buffett. Well, all the men who have been making these mistakes, at the Office of Price Administration and at Surplus Property, are still at the controls, are they not?

Mr. Baruch. They are still where?

Mr. Buffett. They are still controlling the machinery.
Mr. Baruch. Yes, they are still controlling the machinery. But I think we have got pretty well into their thinking the fact that they have to raise prices to get production.

Mr. Buffett. I would like to think that. Last week, according to Wall Street Journal, Johns-Manville Corp. stopped making certain building materials because they cannot get a price to break even.

Mr. Baruch. On examination, it should not be difficult to find that out, and they ought to be able to rectify it. They must find a way of speeding up their decisions. It is too slow, within the OPA. But do not forget, this is a more difficult job now, because of this wage increase and all the strikes and everything else, and it is going to put a burden upon the OPA that is going to be really terrific, so they will have to make rule-of-thumb decisions now. They cannot look into things too much. They will have to make quick decisions, and some people are going to complain.

Mr. Buffett. Just this one further question. The more we try to do for foreign nations at this immediate moment, the more impossible the solution of this problem becomes; is that right?

Mr. Baruch. Yes. But we can do something for them, when we get going. I would be less than frank if I did not say that. The living standard all over the world—and here—must be lifted.

Mr. Buffett. But the great danger here, the thing that destroyed those other countries was the absolute control of the economic processes of the Nation; is that not correct?

Mr. Baruch. That is correct. There is no doubt about that.

Mr. Buffett. And the longer we continue, the more danger there is that we will become fixed in that pattern; is that not right?

Mr. Baruch. When I think it ought to be over, I will be the first one to holler.

Mr. Buffett. Do you not think one of the things that will get it over is to say, “At the end of such and such a period, control ends”?

Mr. Baruch. Well, perhaps, that is all right. But I do not think that it would do any good.

Mr. Buffett. Does it not do this good: If that time is fixed far enough away, a year away, and you put profitable prices on products in the meantime, a lot of people will say, “I will supply the demand in the meantime and make the profit”?

Mr. Baruch. If they will give them sufficient profit, I do not think you will have much need of price controls later on, if they use reason in keeping our demands and demands all over the world down.

Mr. Buffett. Yes, if we try to supply all those demands at the same time we would be forced to continue price control indefinitely, would we not?

Mr. Baruch. That is right.

Mr. Kunkel. We may all be out of Congress by the time that decision on extension comes up.

Mr. Baruch. I know what you mean.

The Chairman. Mr. Baruch, I do not believe you ever held public office, did you?

Mr. Baruch. No, sir.

The Chairman. For 40 years they have been consulting you about problems of importance to the Government, and you have always patriotically responded and rendered a fine service, and I want to
thank you on behalf of the committee for appearing here and giving us your view on this important question, and I think before long we are going to call you back and ask you for some more information on another subject.

Mr. Baruch. I hope not, but I will be glad to respond.

Mr. Patman. Mr. Chairman.

Mr. Chairman. Mr. Patman.

Mr. Patman. Mr. Ernest Thompson is here from Texas, and I would like the committee to hear him briefly, if you will.

The Chairman. I will ask Mr. Patman to preside.

Mr. Patman. Col. Ernest O. Thompson, a member of the railroad commission for many, many years, is considered one of the best petroleum experts in the entire world. He was selected by the President of the United States last year to make a trip to Arabia, Iran, and all those oil-producing countries. He is a man who is trusted by the oil fraternity and by Government officials and the people generally.

He happened to be in Washington today, and I found out he was here, so I asked him to appear before this committee, even though he was not scheduled as a witness, to give us his views concerning the oil industry.

Colonel Thompson.

STATEMENT OF ERNEST O. THOMPSON, COMMISSIONER, RAILROAD COMMISSION OF TEXAS

Mr. Thompson. Mr. Patman and gentlemen of the committee, I would like to have it made clear that the office I hold as a member of the Railroad Commission of Texas, which is a three-member body, is an elective body, elected for 6-year terms, one member each for 2 years, and among our duties is the regulation of production of oil. We have railroads and trucks and busses and utilities, but among the others is the regulation of 103,000 producing oil wells, and each month we fix the allowable for the next month. Under our law we must try to fix the allowable at the market demand.

Our law says, "Production in excess of transportation facilities," or "in excess of market demand," is waste, and we are charged with the prevention of physical waste in the production of oil.

The other day I notice in the paper, when Office of Price Administration controls on oil were discussed before this committee, some fear was expressed that the regulatory bodies of the States that regulated production of oil might, if controls were removed on oil, be tempted to make oil scarce in order to make it high.

The point I wish to make is that we are elected by the people of the State, and even in the great oil-producing State of Texas, there are vastly more consumers of gasoline than there are producers of oil, and any time any regulatory official sought to make oil scarce, even in Texas, those people who consume would vote him out of office at the next election.

In the first place, it would be contrary to his duty. So that fear need not be expressed.

And further than that, when the entire State oil compact was approved by this Congress, a treaty between the oil States permitting them to get together and exchange the latest ideas on production of
oil, techniques, and experiences it put into that law, that very question was brought up, and the Congress, in its wisdom, provided against that contingency by putting in the law that the President could open the floodgates for imported oil, take off the tariff, and flood those States that sought to do that, in the whole United States, with foreign oil. So I think the Congress has long since provided against that contingency.

Now, the point I wish to make is that when the war ended, when VJ-day came in August, we were producing in Texas in excess of 2,000,000 barrels a day. The Nation was producing in excess of 5,000,000 barrels a day. We saw that when the war ended, that there would be a great decline in demand, so we cut 600,000 barrels a day. But in spite of our cut, this red land is the demand line, and stocks reflect demand. If in 1 month you have an increase in stocks, that is an indication to the regulatory authorities that the demand was not as great as production; if you have a decrease in stocks, that indicates your demand exceeded production, so then you raise the allowable so as to keep a balanced demand.

At the present time we have 105,000,000 barrels of gasoline on hand, when normal stocks in peacetime are from 75 to 90 million barrels, prior to the war. And there are 4,000,000 fewer automobiles in use than there were prior to the war.

So, with 75 to 90 million barrels being normal gasoline stocks in normal times, and now we have 105,000,000, almost, we have a super-abundance of gasoline in the Nation, and gasoline is nothing but converted crude, and if you wish to arrive at the true picture of stocks, you must consider gasoline as finished crude and see whether it is on hand in sufficient quantities. It is running out of their ears. The refiners' tanks are running over with gasoline, and it has already shown effectiveness, as Mr. Baruch said, anything would which was in excess of supply, gasoline is breaking in prices all over the country. When gasoline goes down a half cent, that shows that certainly there is plenty of it. I think that is what Mr. Baruch meant when he said any time production was in excess of demand, you would have the thing work itself out by prices dropping down.

Well, gasoline is in a buyer's market, and my only interest was—I have no interest in oil of any kind, production, refining, transportation, or marketing, or no oil wells or lands—but for 13 years I have been studying these figures and even when we cut production 600,000 barrels a day, stocks increased in the next 3 months, which showed we cut it about right. We did not cut it quite enough, but even then stocks increased to 221 million barrels from 215 in the next three succeeding months. So we were estimating the war demand. What we simply did was to cut off the peak war load and figured the Government had 7 to 10 million barrels of aviation gasoline on hand, and with the war's end, surely you would have less consumption, and I had a quartermaster regiment during the war, and we calculated the needs per soldier per day in fighting time at 2 gallons per soldier, in active combat, where you are moving fast, moving troops 50 miles an hour, in convoys of 1,200 trucks.

Well, in normal training periods, where you are not in maneuver, the average consumption is half a gallon per soldier per day. I have been returned to my duty from the Army, when this VJ-day came,
having just come back from Europe when VE-day came, and I knew they were not going to have any more active combat because VJ-day had come, so we cut down the military requirements from the production and in spite of that, stocks increased.

So we stand today, gentlemen, with adequate stocks of crude, 226,-000,000 barrels on hand, when, at the peak of the wartime demand, 211,-000,000 barrels proved adequate to serve the civilian restricted use and the full military use. 211,000,000 was the figure we arrived at. They found out they could get along with less stocks than they used to think they had to have, so I assure you that gasoline, and crude, at the moment, are in adequate storage. As a matter of fact, they are surplus. They are having a hard time finding where to put that gasoline. I notice one company wants the Government to pump the water out of the Big Little Inch and pump gasoline back into it down toward Texas because they want the Government gasoline to get out of their tanks so they can fill theirs up with gasoline. We had a strange demand at the last hearing, for 2,000,000 barrels a day production in Texas. We refused that demand because storage improved and was adequate as shown here, and the Office of Price Administration had promised a 10-cent-a-barrel increase. Naturally, the people who were buying the crude wanted to keep it at the价钱 before it went up. But we did not let that bother us at all. We reduced it to just what the normal demand seemed to be.

There is only one item that my studies have shown that is in adequate supply, and that is fuel oil. The reason for that is that the Office of Price Administration prices have been based on a gasoline economy. They looked at gasoline and used that as the index. If you make much gasoline, they said, the incidentals in the way of fuel oil will be adequate to take care of the needs. That used to be, but the advance in technology and refining have gone so far now that they take 46 percent of gasoline out of a barrel of crude, and this bunker oil, fuel oil, is really a manufactured product, and the Office of Price Administration has recently acknowledged that and taken notice of it and has take action by adding 21 cents a barrel. That is half a cent a gallon, and brings fuel oil at the moment to $1.19 a barrel.

Well, now, the crude that that is made from, sales, sour crude, certain type of crude that makes it, you use an inferior crude to make fuel oil, sour crude from west Texas, that crude sells around 90 cents in the field—93 to 98 cents—and it costs 40 cents to get it to tidewater, 40 to 45 cents by pipe line. When you add the crude, plus transportation to tidewater, it is still more than $1.19, and you cannot expect a man to be enthusiastic about selling his product, which is no longer a byproduct, as they used to consider it, but it is a finished product. Fuel oil is a finished product, because it has to have the gasoline taken out of it, so it will burn and that will be cared for, I am sure, by further studies. But I do wish to assure you, and I speak for my colleagues, because we are all of the same opinion, all three commissioners, that there are adequate stocks of gasoline and crude oil.

That is the whole thing. When you have adequate supply to meet the demand, I think that is what our duty is, and these charts show that we have done that. The cuts have never been so low to make oil scarce at all. The only trouble was fuel oil, and the Office of Price Administration has met that with a 21-cent-a-barrel increase, and has
indicated if that is not enough, more can be done. We can allow additional crudes to produce fuel oil to be produced in sufficient quantities, and we stand ready and willing to do it and have asked the Navy to indicate how much they need.

Does that cover the situation?

Mr. Patman. I think it does.

Are there any questions?

Mr. Wolcott. I understand that you favor taking off the controls, price controls?

Mr. Thompson. Well, certainly I will say that when you have adequate supply to meet the demand, and more than meet it, taxing the storage facilities to the limit and running over, that surely that is the answer to the test. And we have produced more than enough oil at all times to more than meet the demand. During the war the only criticism we had from the Petroleum Administration for War was that the Texas Railroad Commission consistently produced much more oil than they wanted us to produce. For we felt that you ought to have too much and too early rather than too little and too late. We always did that. And besides, as I said before, there are more consumers of gasoline than there are producers of oil, and they vote, and that means direct controls, and I think it is wholesome that you have your control officials elected rather than appointed, and Congress, I am sure, is keenly aware of the responsiveness of the people to things that meet their demands and their needs, in a way that is right and just and proper.

Here is an example of an industry that is in balance. It is more than in balance. It has also shown the effects of it by the price of gasoline having broken all over the country.

Mr. Wolcott. What would happen if you took the controls off petroleum? What would happen to the price of fuel oil?

Mr. Thompson. I predict nothing would happen, at the moment. Then, when some particular type of crude was in demand, the refiner who wanted that type of crude would do as he used to do in the old days, namely, he would offer a little premium to get crude, and if he got his crude in response to that premium, others would follow it up, and then more fields would be sought for and drilled for, to produce that type of crude, and then you would bring in so much oil and the price would drop again. I have seen it go from $3.50 a barrel in Texas to 10 cents a barrel. And I have seen it go from $10 a barrel down to the present $1.25. Whenever you have a high price, and the price gets to where it is attractive, the rigs begin drilling, and the oil is found. We have always found it in the past. We closed the other war with 5,000,000,000 barrels of stocks, oil in the ground, called oil reserves; 5,000,000,000 barrels. That is all we had. Since that time, the prophets of despair have been saying, "We are going to run out of oil in 14 years." That was in 1919. That 5,000,000,000 barrels—out of that we have consumed 25,000,000,000 barrels and find ourselves with 21,000,000,000 barrels.

So the answer was that whenever oil got scarce the price went up, and the drillers got busy, found more oil, to bring in another field like East Texas, or out in West Texas, or in Oklahoma—they find new fields, then that big supply comes in and the price drops. It is the old law of supply and demand.
It used to be when oil went up a quarter, that gasoline would go up a cent. If gasoline went up a cent, oil would go up a quarter. Then somebody began managing it more efficiently, and they would drop it. That is one product. I think, everybody can take pride in in America, gasoline. We are getting a far superior product for a lesser and lesser price. At the close of the other war it was 25 cents a gallon, and there was no tax on gasoline. Now, what it costs you today—and there is 5 or 6 cents of tax in every gallon—is about 21 cents, with a 5-cent tax, which leaves about 16 cents against 25 cents. And it is a far superior product.

Mr. Wolcott. What about these stocks of aviation gas, compared to military needs?

Mr. Thompson. They are more than adequate. The Government has a superior abundance of it stored all around the country.

Mr. Wolcott. I understand that there was some action taken by some gasoline retailers out in the West somewhere for selling aviation gas for what they considered was a fair price for it, that the Office of Price Administration came along and told them they had to sell this aviation gas at the same price at which they sold regular gas. Do you know anything about that?

Mr. Thompson. I do not see how anyone could use hundred octane in an ordinary car. It just would not work. About 80-octane is all you need for the ordinary motorcar.

Mr. Wolcott. That is not the problem. It was not the Office of Price Administration's province to say whether you could use it or not. But it was being sold, as I understand it, and they came in and said, "You cannot sell this any more."

Mr. Thompson. I do not know about that. Our problem is control of production, and what interested me is someone from somewhere before your committee said they were fearful for these controls coming off, being afraid that the regulatory bodies from the States would immediately cut production in order to make it high.

Mr. Wolcott. How do you reduce the octane quality of gas?

Mr. Thompson. How do you lower the octane quality?

Mr. Wolcott. Yes.

Mr. Thompson. Rather, I should say that the effort is to raise it. They generally raise it by adding tetraethyl lead.

Mr. Wolcott. Say that you cannot use aviation gas in automobiles, for instance. You have these excess stores of aviation gas. How could you make that marketable for automobile use?

Mr. Thompson. Those are excess stocks of aviation gas which are in the hands of the Government. They are not on the market. They belong to the Government.

Mr. Wolcott. Then, there is that much less demand by the Government—

Mr. Thompson. The Government demand can be filled from its current supply, sir. That is not on the market at all, because it is not for sale, as I understand it, by the Government.

Mr. Monroney. It will keep indefinitely, will it?

Mr. Thompson. It will deteriorate, Mr. Monroney, because it is the lightest of all of the gasolines, and the lighter end evaporates, but in tankage as tight as you can, you will have some evaporation, but certainly the market does not need it, the civilians are not crying for
it. They could not use it if they had it. It would have to be broken
down to lower octane, Congressman Wolcott, to answer your question.
But that is not a problem, because it is not before the consuming public,
and the consuming public has a superabundance of gasoline. The
country is full of it. And the only clamor for more crude was from
those people who wanted to stock up against the increases.

Mr. Patman. Mr. Talle.

Mr. Talle. Do you foresee what might happen if controls were
taken off and a large supply of new cars should come into use, and
2,700,000 houses are available, assuming that a fair number of them
might use oil for heating?

Mr. Thompson. Well, sir, I would not find that there would be any
reaction whatever, because we had 27,000,000 automobiles in normal
times, before Pearl Harbor, and that was adequately cared for by
stocks from 75,000,000 to 90,000,000, 75,000,000 barrels being the min-
umum at the end of the consumer season, and 90,000,000 barrels being
the desired stock at the beginning of the consuming season.

Now, if 90,000,000 barrels were adequate prior to Pearl Harbor, with
27,000,000 cars in use, certainly 105,000,000 above ground should be
adequate when there are 4,000,000 fewer cars in use than there were then.

Mr. Talle. What is the export situation with reference to petro-
leum?

Mr. Thompson. Petroleum exports and imports, sir, are in balance,
within a few thousands of barrels, and there is a duty on it, too, to
prevent it from coming in.

Mr. Talle. And what you just said about automobiles, you think
is also true of the heating of houses?

Mr. Thompson. Oh, yes. Oil is coming in very fast, because once
it is used, they seldom go back to carrying out ashes and carrying
in coal.

Mr. Talle. That is all.

Mr. Patman. Thank you very much, Colonel.

STATEMENT OF CONGRESSMAN JOE HENDRICKS, FIFTH DISTRICT,
FLORIDA

Mr. Hendricks. Mr. Chairman and members of the committee, you
are considering now the bill for the extension of price controls. I
think that it is necessary to extend price controls, but I also think that
certain limitations and safeguards should be put in the bill.

There are many injustices done, particularly to landlords, in that
some are given a rent too low and some perhaps a little too high. Pro-
vision should be made for adjustment in this. There are many other
matters that I could call to your attention, but I am sure they have
already been discussed with you by the many citizens appearing before
this committee and by officials. It will be difficult enough to pass a
bill extending price controls if proper safeguards and limitations are
put in. If they are not, I do not believe it will pass.

I have one case I would like to call to the attention of the committee
and I think that the committee should put a provision in the bill so
that such cases cannot occur again. I want to bring to your attention
the case of the Palm Beach Coca-Cola Bottling Works, Palm Beach,
Fla.
In 1941 the owner of that company made improvements to the plant. Under the hardship provisions the OPA granted to the owner an additional allotment of 200,000 pounds of sugar because of capital investment. Later Mrs. Thaddeus G. Buckner purchased the plant, naturally assuming that she was purchasing the increased allotment of sugar but found that she was not.

This committee knows as well as I do that goodwill is a part of any business even though it is intangible. In a case of this kind the allotment of sugar was a part of the business purchased by Mrs. Buckner. However, the OPA says in effect that had you purchased this property the following day you would have received the sugar, but since you did it later you cannot. Now they frankly admit that had the original owner still owned the business she would have gotten the sugar. Therefore under no circumstances can anyone assume that this was a question of conserving sugar. Then I would like to ask what purpose it does serve.

The Coca-Cola Bottling Works of Palm Beach is the same Coca-Cola bottling works as purchased by Mrs. Buckner and improved by the original owner in 1941. The same investment is still there, serving the same people in the same territory that it served in 1941. If the territory that it served in 1941 had the right to the sugar then because of prerationing investment, then why should not Mrs. Buckner have the right to the sugar to serve the same territory?

I sincerely recommend that this committee consider provisions which would guarantee to anyone that they would have that which originally goes with a business which they purchase. Otherwise the right of free trade is abridged.

**STATEMENT OF CONGRESSMAN CLEVELAND M. BAILEY, OF WEST VIRGINIA**

Mr. Bailey. Mr. Chairman, gentlemen of the committee, for the purpose of the record I am Congressman Cleveland M. Bailey, of West Virginia.

I appear as a friend of OPA. I voted for its continuance in the first session of the Seventy-ninth Congress. I was not, at that time, or am I now, in favor of all of OPA's policies and most of its personnel. I shall again vote for an extension if proper controls are provided.

Basically there are no reasons why production quotas or price ceilings should be imposed on any commodity unless that commodity is scarce and where the unusual demand, due to enlarged purchasing power, would force prices upward and lead to inflation.

There are, at present, many commodities under price and production regulation by the Office of Price Administration where the domestic production far exceeds domestic consumption. A good case in question is the crude oil and gasoline industry. It is my contention that legislation, now being considered by your committee, should contain safeguards that will insure the gradual elimination of both the OPA, and the CPA.

It would be a tragic mistake to suddenly end price and production controls. You gentlemen well remember what happened last year when the Congress revised the Revenue Act of 1942 by repealing all excess-profits taxes. You will recall that commodities and materials
extend price control and stabilization acts of 1942

were held up until after January 1 to escape the payment of excess taxes. The same thing would happen if it were known now that OPA was to end on June 30 of this year.

I would like for your committee to give consideration to including in this legislation the following suggested sections:

Sec. — Existing production quotas and price ceilings of any nature whatsoever shall be automatically suspended on any commodity under control by the Office of Price Administration, and under the terms of this Act, when it is determined that domestic production is equal to or exceeds domestic consumption.

Subsec. (a). For the purpose of this Act, the Economic Council as is provided for in Public Law No. 408, approved by the Seventy-ninth Congress, shall on and after July 1, 1946, have available data on the production and consumption of all commodities and shall on the first of each calendar month beginning July 1, 1946, and ending June 30, 1947, certify such information to the Director of the Office of Price Administration and to the Civilian Production Administration.

Subsec. (b). On the receipt of such certification by the Office of Price Administration and the Civilian Production Administration, all price controls on any commodity where it is clearly shown that domestic production equals or exceeds domestic consumption, shall stand suspended.

It is not necessary that I enumerate all the commodities that would be presently affected by this proposal. I do want to direct your attention briefly to the crude-oil and gasoline industry. This is one of the leading industries of my State.

Words do not permit me to describe the tremendous part played by petroleum products in winning the great war from which our Nation has just emerged. During this war emergency crude oil, fuel oil, and gasoline were indeed scarce articles. The normal supply for civilian use had to be diverted to war use. Gasoline and fuel oils were rationed to both industry and individuals. It was also necessary to impose price ceilings on both the crude and manufactured products to avoid inflation. Here is where the much "cussed" and discussed Office of Price Administration comes into the petroleum industry which is presently suffering from a "hang-over" with all the symptoms of a real headache.

All fair-minded individuals, whether they be producer or consumer, realized that certain controls were necessary in the emergency. Whether such controls are to be continued is a debatable question. The Congress is now trying to determine if all controls shall be dropped or whether they must still be imposed on certain commodities. There never was and is not now any excuse for the imposition of production and price controls except in the case of scarce articles where consumption exceeds production.

During the war all petroleum products were at a premium. Stock piles were running dangerously low. That is not true in the case of crude oil and gasoline today. We have unused reserves of crude oil in excess of 14,000,000 barrels and the reserve of gasoline is nearly 20,000,000 barrels over the reserves for the period 1936-40 and more than 10,000,000 barrels over the period 1941 to 1945. Since the end of the war the supply of domestic crude oil has been more than enough for domestic needs. Here are some startling figures for January and February 1946:

Barrels daily

| Domestic production | 4,625,000 |
| Domestic demand     | 4,485,000 |

Excess of supply over demand | 140,000 |

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Federal Reserve Bank of St. Louis
The figures I have just quoted prove conclusively that there is now no need for further production and price controls in this industry, yet we still have price ceilings and production quotas and gasoline is selling in mid-continent areas and in certain seaboard cities for less than the OPA ceiling.

The OPA has a practice of setting up advisory councils within the several industries to study the trends and recommend changes in existing regulations. Just such a procedure was followed in the crude-oil industry. On February 1, 1946, this council recommended a flat 35 cents per barrel increase in both eastern and mid-continent grades. On March 1, 1946, just 3 weeks ago, OPA granted a flat 10 cents per barrel increase and ignored their own committee findings.

The OPA’s failure to act promptly and fully on this matter is further complicated by the fact that the Government is still paying subsidies to encourage production and to maintain price levels. The subsidy is a direct cash payment of 75 cents per barrel on high grade Pennsylvania crude and scales down to a payment of from 20 to 35 cents per barrel on the cheaper midcontinent and Texas grades. These subsidy payments for the last year from August 1944 to August 1945 exceeded $60,000,000 and for the first postwar year from August 1945 to August 1946 will exceed $53,000,000. All of which brings us to the question, Are these subsidies needed?

The stark truth is that the over-all cost of finding, developing, and producing crude oil today is in excess of gross income on a replacement basis. From 1939 to 1942 alone, the cost of finding oil increased from 10.3 cents per barrel to 60 cents per barrel, according to the Petroleum Administration for War. This rate of increase has been continued since 1942 with the result that it is the experience of many producers at the present time that discovery costs are in excess of $1 per barrel.

The result of these rising costs and increasing hazards throughout a period when the price structure was, and is, inflexible has been a rapid trend toward monopoly in the production of crude oil. The independent producer, who is the “one-gallus” fellow of the oil industry, is rapidly being driven out of business as the integrated major companies increase their ownership of the Nation’s oil-productive facilities. Before the imposition of the unrealistic oil-price ceilings, the independent producer accounted for well over 50 percent of the Nation’s production, while today he represents less than 40 percent of the country’s oil output.

The disappearance of this “one-gallus” fellow from the scene in the oil industry is a matter of grave national concern, not alone because of the monopolistic implications but because it is the history of the oil business that it has been the small independent producer upon whom the country has always depended for the discovery of new sources of oil. It has been these small individual operators who have always carried on well over half of the wildcatting and they have accounted for perhaps three-fourths of the new oil fields discovered since the Drake well was drilled in 1859.

The record in the matter of maintenance of the depressed price structure for oil throughout a period when drilling costs doubled and discovery costs increased anywhere from 500 to 1,000 percent reveals that the OPA has stood alone in its position of stubborn resistance to
price relief. Many public agencies have given the question exhaustive study and all have recommended that the price be substantially increased, not alone as a matter of justice and equity but in the national interest. Here are some of the agencies of Government which have urged price relief for the producers:

The Petroleum Administration for War;
The Petroleum Industry War Council;
The Select Committee on Small Business of the House of Representatives, headed by Representative Patman of Texas.
The subcommittee of the House Naval Affairs Committee, headed by Representative Rivers of South Carolina.
The special committee of the Senate, headed by Senator Clarke of Missouri.
The Petroleum Subcommittee of the House Committee on Interstate and Foreign Commerce.
The House of Representatives itself through passage of the Disney bill, which provided for an increase in oil prices.
Governors and other public officials and agencies of practically every oil-producing State in the Union.

In ignoring all of these recommendations, the OPA has stood upon the ground that profits of the oil industry have been what it termed "satisfactory" and from time to time it has cited specific earnings statements of petroleum companies to justify its position. Almost without exception, these statements were those of major integrated units of the industry and had no bearing whatsoever on the plight of the independent producer. The independent operator is merely a producer of crude oil, while the major integrated units have transportation, refining, and marketing facilities and some of them also have the benefit of substantial revenues from low-cost production in South and Central America.

Despite these incontrovertible facts and despite the professed desire and intention of OPA to relinquish control of any commodity where supply approaches or equals demand, the OPA demonstrates an unwillingness to remove price ceilings on petroleum and petroleum products. The attitude of the organization would seem to justify the supposition that in its desire to hold its power over every branch and segment of American industry.

I believe the suggestion for using the Economic Council set-up as a part of the machinery to administer the Full Employment Act is a sound one. Here is a facility in which the people will have full confidence. It should be well prepared to give unbiased and dependable information. If it can be trusted to advise the Congress on matters affecting our economic welfare, surely it can be trusted to release facts on production and consumption that will take from the OPA and the CPA the authority to act arbitrarily in defiance to and with no regard to the recommendations of the present advisory groups set up for each separate industry now under control.

The proposal submitted is a tentative one and comes merely as a suggestion as to form. I would like for the committee to work this over and submit, as part of the legislation to be reported to the Congress, provisions that will remove all useless and arbitrary authority now being exercised by these agencies and bring about an orderly liquidation of a decidedly unpopular but necessary facility.
The committee will stand adjourned until 2 o’clock, at which time Governor Kerr, of Oklahoma, will be the witness.

(Whereupon, at 1 p. m., the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

The Chairman. The committee will be in order. The first witness this afternoon is Governor Kerr, of Oklahoma, and I am going to call Mr. Monroney, the able and conscientious and industrious representative from his State, to preside.

Mr. Monroney. Governor Kerr, we of the Banking and Currency Committee are very glad to have you here to testify in connection with the extension of the Price Control Act. The members of the committee have heard you many, many times on the radio, and in your various addresses on nation-wide problems, and we would like to have the advantage of your testimony. You may proceed in your own way.

STATEMENT OF HON. ROBERT S. KERR, GOVERNOR OF THE STATE OF OKLAHOMA

Mr. Kerr. Thank you Mr. Chairman and gentlemen of the committee.

Oklahoma, on the basis of average daily production of crude oil, is third among the oil-producing States, being exceeded only by Texas and California. On the basis of area, it has produced more oil than either of these States.

Due to discriminatory freight rates on refined products, Oklahoma refines a considerably less amount of oil than she produces. Aside, however, from agriculture and livestock, the production and processing of crude oil and natural gas is the State’s greatest industry.

The oil industry in Oklahoma produces more tax income for State and local governments than any other and has done so for the nearly 40 years of the State’s history. Taxes from this source have played a major role in providing funds for education, both operation costs and building funds, for building and maintaining roads and general cost of government.

Every citizen, therefore, has a deep and abiding interest, financial and general, in the continuing prosperity of the oil industry. It is woven into the economic structure of the people and the State. If it is vigorous and strong it shares that vigor and strength and the people and their Government benefit. If it is weakened, the people and their Government suffer.

When oil must be produced and sold at a price below its intrinsic value, the action is adverse to the interest of the State. For this to be caused by artificial control is just as damaging as by economic conditions beyond control and without any of the justification that might be offered for the latter.

This condition is especially dramatized by the fact that State and local government and our public schools receive a percentage of the price of every barrel that is produced and sold and are full fee owners of millions of barrels for which they receive the full purchase price.

In 1941 oil in Oklahoma was selling for less than new reserves were costing to find and produce. Although the cost of finding and pro-
Producing new reserves has steadily increased since 1941, the price of crude oil has been and now is, by artificial control, at the same low level as in 1941.

The independent producer, who owns neither gathering lines, pipe lines nor refinery, nor market outlet for refined products, drills more than half the wildcat wells, finds a large percent of the new reserves and produces much of the daily production of the Nation.

He was caught in a bear trap of selling his product below cost of replacement for the duration of the war. He realized the necessity for price control of essential consumer goods for the duration, especially where the demand to any degree exceeded the supply.

Every citizen realizes that except for actual combat, the war and the related reconversion are not over. A sound national economy is as vital today as it was during the war. The Office of Price Administration got in everybody's hair some and in some a lot, but it served one of the most necessary purposes of any governmental agency or service.

It must be adequately maintained so long as inflation from excessive demands for limited supplies of consumer goods continue. The rehabilitation of the veteran and the processes of Government and society involved in his and the farmer's and the war worker's readjustment into a stable economy are a deep concern of Government. Until adequate and worthy housing is in good supply and until the supply and current production and distribution of food and clothing and individual transportation is on a par with normal demand, the functions of the Office of Price Administration are vital and necessary and must be effectively continued.

With actual combat ended, however, artificial control cannot be justified with respect to any commodity where the supply exceeds the demand.

During February 1946, 160,000 barrels of oil per day went to storage. Since VJ-day storage stocks have increased approximately 17,000,000 barrels. Gasoline stocks are at an all time high as of March 2. American Petroleum Institute figures indicated 104,000,000 barrels of finished and unfinished gasoline in storage, 250,000,000 barrels of distillate fuel oil and 38,000,000 barrels of residual fuel oil in storage.

State regulatory commissions have directed reduced production in most of the States. Refineries are operating at less than capacity on account of excessive stocks of refined products.

Increased cost of production and operation must be met by justified and equitable adjustment upward of prices for crude and refined products but ample stocks, ample available production and refining capacity, together with intense competition, will prevent excessive or runaway prices.

Our experience in two world wars has proven conclusively that oil is an indispensable munition of war. The United Nations won the war because of better fighting men, better equipment, greater food production, and also because of ample supplies and better quality of refined products of crude oil, not only for our own armed forces but also for our Allies.

Much of our known oil reserves are in marginal or stripper wells. The people generally have a vital interest in seeing that these reserves are protected and not lost. In order to insure this, authority
and funds for subsidy payments on an equitable basis for production from these stripper wells should be continued as a fixed policy of national security.

Funds for this purpose could well and justifiably be obtained from the excise tax on imported oil. If importation of foreign oil in competition with domestic production is to be continued, and it should be permitted to an extent that will not damage domestic markets for domestic products, it should be subject to a compensating importation tax and the proceeds therefrom could serve no more vital or valued purpose than to insure the greatest possible recovery and utilization of production from stripper or marginal wells.

Mr. Chairman, that completes my statement. If any of the gentlemen care to, I would be glad to try to answer any questions with reference to it or the related subject.

Mr. MONRONEY. Thank you very much for your statement, Governor. I am particularly interested in your idea of using the excise tax on imported oil to make possible the ultimate recovery of oil that now is left in the ground through the inability of market prices or even a fixed ceiling price by the Office of Price Administration to get that oil recovery.

Ordinarily, a great deal of oil is left in the ground which is lost forever, in this country, is it not?

Mr. KERR. That is very true, Mr. Chairman, and Oklahoma has a vital interest in that fact for this reason:

We have a vast percentage of our known reserves in the so-called stripper marginal well areas. We also have great reserves of flush products, and then, undeveloped reserves.

We are vitally interested in the question of importation. We are vitally interested in the preservation and ultimate utilization of the oil in our stripper well areas.

The history of the stripper wells conclusively shows that without added incentive over the average normal price for crude oil, vast quantities of those reserves will be abandoned, and when abandoned, are practically impossible of recapture.

Much progress has been made in so-called secondary recovery which is the use of the processes of products aside from those used in primary methods.

They are, however, expensive beyond the cost of recovery of so-called primary oil.

If a policy could be fixed that would provide an incentive for the recovery of that otherwise unrecovered reserve, it would be a great contribution to the national economy, and the national security, and I know of no more appropriate way in which to secure the funds to make that possible than from the excise tax on imported crude oil.

Mr. MONRONEY. About half of the oil is left in the ground and lost forever, is it not under an ordinary rule of thumb?

Mr. KERR. Over the long period of time that oil has been produced, more than half of it has been left in the ground, on the average.

I believe that at this time primary production methods have been improved to where half or possibly a little more is recovered by primary methods.

Mr. MONRONEY. For example, if the price of oil were, say, $1.35 a barrel, costs $1.35 or $1.37 to lift that oil up to the top of the ground, for the want of 2 to 5 cents, we would lose $1.35 of natural resources
by leaving it in the ground where it could never be recovered, is that true?

Mr. Kerr. That is apparent. Very apparent.

Mr. Monroney. And the older the State's oil wells are, the greater the abandonment of the wells?

Mr. Kerr. And probably the greater amount of their known reserves that are to be found in the stripper or marginal well areas.

Mr. Monroney. And the history of new reserves has proven that the reservoirs we are finding become smaller and smaller and more expensive not only to discover but to drill and produce?

Mr. Kerr. Not so much smaller and smaller, Mr. Chairman, as deeper and more expensive in production.

Of course, aside from the greatest Texas field, vast reserves have been found, but in the main, those of recent years have been at greater depth and therefore of more expensive operation, both with reference to exploration and development, than the recovery of the secondary oil.

Mr. Monroney. Historically, even under a free market of oil, without any control, the flush production, easily obtainable production, generally sets the price and the abandonment of stripper wells would probably continue even after oil were decontrolled would it not?

Mr. Kerr. The tendency has been too much in that direction.

Mr. Monroney. So you cannot just say that if you leave oil to a free market, the problem of getting this ultimate recovery would adjust itself?

Mr. Kerr. Well, it is apparent on the face of it that the operator of a well cannot continue that operation beyond the point of profitable operation, and it is also apparent that somewhere in the life of a well the operation becomes unprofitable.

If the product is one vital to the national defense and security, and history has clearly demonstrated that oil is, and if it is an irreplaceable and limited resource, as oil is, it becomes apparent that the public generally has that interest in it which not only justifies but seems to me to impel the providing of the incentive that will first prevent its abandonment and loss, and second, result in its production and utilization.

Mr. Monroney. Thank you very much, Governor. I do not have any further questions.

Mr. Brown. Governor, I know you are a very good oilman. I would like to ask you one question.

In the marginal wells, do you lose oil, unless you take it out all at once? Does the oil deteriorate in those wells?

Suppose you stop producing oil from those wells for a certain length of time. Would you lose that oil?

Mr. Kerr. It depends upon whether or not there is water in the formation with the oil, which frequently occurs. Often when such a well is shut down, the drive of the water is sufficient to either reduce the percentage of oil flow, or eliminate it, if shut down long enough. The principal cause of loss in connection with stripper wells is this:

When the operation becomes unprofitable, the urge on the part of the operator is to shut it down—naturally. He has in that well equipment which is in part salvageable, and it has a very definite value and a very ready market. If he responds to the need or the desire to secure cash for the salvage value of his equipment, he pulls the casing that
can be recovered, moves the pumping equipment, and other machinery away, and his oil well is destroyed for any useful purpose.

Now, if at some future date oil should become so valuable as to justify it, some future operator might drill another well, or might even use some method of production not now in common practice. But it is very apparent, first, that that would be an excessively expensive operation, and second; the public welfare can best be served by keeping that well in production, with the equipment that has been used during its primary production period, and with the producing horizon unimpaired or undamaged by a water intrusion or other means of natural damage.

Mr. Brown. When production equals demand I think price controls should be removed from all commodities. If I were called upon to testify I do not think my testimony would differ very much from yours.

Mr. Kerr. Thank you, sir.

Mr. Monroney. Mr. Crawford.

Mr. Crawford. Governor, you spoke about your concern about the imports of oil. What is the duty on imported oil at the present time in effect?

Mr. Kerr. I think the base excise tax is 21 cents a barrel. I think, through reciprocal trade agreements, that that has been cut in half at least once, and I hate to expose my ignorance here in the presence of so many fine people, but I am not sure whether it has been reduced further. I am told that it has been cut in half, and the authority has been given to cut it in half again.

Mr. Crawford. Our domestic industry, then, would prefer not to see that oil imported, is that right?

Mr. Kerr. Oh, no; I would not say that. What I said was this: "If importation of foreign oil in competition with domestic production is to be continued, and it should be permitted to an extent that will not damage domestic markets for domestic products."

Mr. Crawford. What you are concerned about, then, the application of the low rate of excise tax, is that it?

Mr. Kerr. Will you repeat your question?

Mr. Crawford. What you are concerned about is the low excise tax which is applied?

Mr. Kerr. Frankly, I am. However, that was not a matter which I intended to inject to this discussion. As an individual; yes.

Mr. Crawford. Well, my approach is along this line:

If you add 21 cents—I understood it has now been reduced 50 percent, that is 10½ cents—and the President has authority to reduce it another 50 percent, when that is effectuated, that takes you into a proposition of 25 percent on oil; is that right?

Mr. Kerr. That reduces the excise tax previously levied to 25 percent, if and when that takes place.

Mr. Crawford. Yes, sir.

Mr. Kerr. But as I said, my reference to the excise tax was this: I think that the income from that tax could be well used to provide the incentive for the preservation and ultimate production of irreplaceable, natural domestic resources which otherwise would be lost to the Nation.

Mr. Crawford. I follow you. Now if the excise tax is applied, in an effort to make a domestic producer of crude oil—put him in posi-
tion to meet competition on imported oil, that would be one thing you are concerned about, would it not?

Mr. Kerr. I would say that was a way to an end, rather than the end, sir, to which I was addressing myself.

Mr. Crawford. If that is one policy, that is one concern for the domestic industry. If the other policy is to use the excise tax to bring about this desired goal which you have just outlined so well, then you become concerned about the constant diminishing of that excise tax, which gives the total sum you can use for these purposes to which you referred. So you are concerned about it from both of those approaches, are you not, from the standpoint of your producing oil on a competitive basis with the imported oil—because if there is no production, how can you compete with it?

Mr. Kerr. As a producer I am; yes, sir.

Mr. Crawford. Yes, and now if you are concerned about using the excise tax to protect the industry's high cost operations, in order to get this oil out, you become concerned about the constant diminishing about the excise tax rate.

Mr. Kerr. I say as a producer, I am.

Mr. Crawford. I think I understand your position. I just wanted to develop it to bring out your exact meaning as to the import of oil into this country.

Mr. Monroney. Mr. Patman.

Mr. Patman. Governor, I think you have made a very fine statement in connection with the oil-conservation proposal that you have suggested. It is on all fours with the one we have now for soil conservation. Section 32, I do not recall the public law number, but it is always referred to as section 32—where one-third of the tariff duties that we collect is set aside and turned over to the Agriculture Department for the purpose of aiding in soil conservation for the farmers, that would be on all fours with your proposal, would it not?

Mr. Kerr. Yes, sir.

Mr. Patman. To take part or all of the tax on the import of oil, not for soil conservation but for oil conservation, which is a purpose just as necessary as soil conservation, in many ways.

Now, this subsidy proposal that you mentioned, our Committee on Small Business had something to do with having that allowed by Mr. Vinson when he was head of the Office of Economic Stabilization. So far, I think the Government has been out about $77,000,000 on it, and I really think, Governor, if you are going to act on that, you had better act quickly. I think serious consideration is being given to taking that subsidy off since the war is over.

You make a very impressive and convincing statement about it, and I just urge you to see the right people right away and see if you cannot get them to keep it on for the good and sufficient reasons which you have outlined.

Mr. Brown. Will the gentlemen yield?

Mr. Patman. Yes.

Mr. Brown. I do not think he wants subsidies paid out of the Treasury of the United States when we have sufficient quantity of oil.

Mr. Patman. This is for oil conservation. This oil would be gone for future generations if we did not preserve and private industry cannot afford to preserve it and will not until it is in the national
interest to the extent that public funds can be justified being spent for that purpose. Is that right, Governor?

**Mr. Kerr.** That is my view on the subject. Thank you.

**Mr. Brown.** Can you not suggest something else rather than subsidies?

**Mr. Patman.** You can use a different name than subsidy, but after all it is still a subsidy.

**Mr. Kerr.** It might be called investment in national security.

**Mr. Patman.** This is right, and in the national resources.

**Mr. Monroney.** We spend billions of dollars to build up our forest reserves, and at the same time if you allow abandonment of 50 percent of your petroleum reserves, you are depleting the national wealth and the national resources just as much. It is not to help the producers; the producers can move on to a new lease and probably make more money by abandoning a well, plugging it up, and going out and bringing in a new field. But 50 percent of that well production is forever gone as a national resource.

**Mr. Patman.** I agree with the gentleman. I also agree with you, Governor, that when supply catches up with demand, as has been stated by our good friend from Georgia, Mr. Brown, that there should be no further controls, but you believe generally, though, as indicated by your statement, that we still need the Office of Price Administration for a while yet, do you not, Governor Kerr?

**Mr. Kerr.** Therefore, I think it is just as vital to maintain control of prices of consumer goods, and housing, and other necessities of life, where the demand exceeds the supply, as it was during the combat period of the war.

**Mr. Patman.** Thank you very much. That is all.

**Mr. Monroney.** Mr. Gamble.

**Mr. Gamble.** No questions.

**Mr. Monroney.** Mr. Spence.

**Mr. Spence.** Where are the stripper wells located generally, Governor?

**Mr. Kerr.** In the Nation?

**The Chairman.** Yes.

**Mr. Kerr.** There are some 23 or 24 States which produce oil. There are stripper wells in every one of them. In the older-producing States, you will find the greater percentage of their known reserves in so-called stripper well or marginal well areas—practically all of the wells—for instance in Pennsylvania—are stripper wells. They have a high lubricating content and thereby a high value. There has been a considerable price differential in favor of the oil produced in the older States through the years by reason of proximity of greater markets and by reason of the high content of fine lubricating oil value.

Oklahoma is a State which has been producing oil for nearly 50 years.

**The Chairman.** Kentucky has some?
Mr. Kerr. Kentucky has many. Ohio, Indiana, West Virginia, New York State, Pennsylvania. There are over 50,000 stripper wells in Oklahoma.

The Chairman. What is the area of difference between the high-cost and low-cost producers, in general?

Mr. Kerr. I did not understand, Mr. Spence.

The Chairman. I say what is the area of difference between the high-cost producers, the cost of production of the high-cost producers, and that of low-cost producers?

Mr. Kerr. Of the oil wells?

The Chairman. Yes.

Mr. Kerr. Well, a stripper well gets down to where it is capable of producing, say, not to exceed half a barrel or a barrel, or a barrel and a half of oil per day. Well, it takes just as much to pay a laborer to attend to those wells as a well that might be producing a hundred barrels a day.

Of course, he can attend more of them, but the number that he can attend to is limited, understand.

The Chairman. And the high-cost producer cannot remain in competition with the low-cost producer without help?

Mr. Kerr. That is right. The law of supply and demand eliminates the stripper well before its ultimate recovery has been realized.

The Chairman. Do these wells ever replenish themselves, from natural causes?

Mr. Kerr. No, sir. That is a statement which I should probably qualify in this manner: Some fields have gas with the oil, and the power of the gas is bringing the oil into the opening that constitutes the oil well. Eventually that gas exhausts itself, it being much lighter than the oil, and if there is no water drive back of the oil, the reservoir pressure reduces itself to where only gravity, or a so-called mechanical vacuum is applied to the well, through the well, to the producing formation.

That means that the oil trickles out through that sand very slowly. It does not mean that the oil is exhausted. It is just as though you had this room filled with sand, clean sand. You could still get from 25 to 50 percent of the volume of this room in oil content into that sand.

As it came into the sand, in this room, there would come a time when the pressure would equalize itself. If there were great pressure behind it, then, it would naturally push the oil out of any openings that were available out of this room. But when that pressure had exhausted itself, then nothing but gravity would push it out, and therefore its movement would be very slow.

It would not mean that it was exhausted. It would simply mean that the power to produce it was gone and the process of extracting it would be delayed over a longer period of time.

The Chairman. But when you cease to operate these wells, does the oil remain in the ground where it can be recaptured at any time, or is it dissipated?

Mr. Kerr. The oil remains, unless it escapes up the formation. But what often happens is that there is water pressure behind it, and if there is, and no outlet for the oil, the water comes into where it eliminates the oil from the place where it is being produced, or so much
of it that then the production is of so much water and so little oil that that introduces another factor which depreciates its value.

The Chairman. Then to recapture this oil, means it ought to be taken immediately.

Mr. Kerr. It should be continued in the orderly process that has been established and which is being utilized.

Mr. Brown. Will the gentleman yield to me?

The Chairman. I yield.

Mr. Brown. Mr. Patman said a while ago that we have given money for soil conservation but that is not a matter of Office of Price Administration. To give incentive payments to produce oil out of these wells, that was a part of the Office of Price Administration as long as oil was scarce, as long as the war was on. The war is over. I am not talking against help to the stripper wells. That belongs to the Interior Department or some other department. It does not belong to the functions of the Office of Price Administration at this time.

I am not saying that you should not be encouraged in getting oil out of these stripper wells. But certainly that function does not belong to the Office of Price Administration at this time.

Mr. Patman. It is under the Office of Economic Stabilization, by reason of the law we passed. I was simply giving that as an illustration. That fortified his position. One-third of the tariff revenues, one-third is set aside to help the farmers conserve their soil.

Mr. Kerr. May I interrupt just a moment there——

Mr. Brown. But you will not want that for just 1 year, the life of price control.

Mr. Kerr. The purpose of the Government in there is not to subsidize the farmer. The purpose of the Government there is to maintain the productivity of a natural resource.

Mr. Patman. To increase the national resources?

Mr. Kerr. That is right.

Mr. Monroney. Mr. Kunkel.

Mr. Kunkel. No questions.

Mr. Monroney. Mr. Hays.

Mr. Hays. No questions.

Mr. Monroney. Mr. Talle.

Mr. Talle. I will pass for the moment, thank you.

Mr. Monroney. Mr. Hoch.

Mr. Hoch. No questions.

Mr. Monroney. Mr. Kilburn.

Mr. Kilburn. Governor, do you think that the oil industry should be out from under the Office of Price Administration now?

Mr. Kerr. I tried to make that position very clear, not from the standpoint of the oil industry but from the standpoint of this principle:

That when the reserves of any consumer goods are adequate, when the rate of the daily production exceeds the daily demand or consumption, then that item of consumer goods should be out from under artificial price control.

Mr. Kilburn. Regardless of the line?

Mr. Kerr. Well, that, of course, is a very broad statement. I believe that because I think that competition would prevent any excessive or
runaway prices. I know that the independent producer, through the
war, by reason of artificial control, has had to sell his product for
less than his replacement cost.

I feel that in justice, he is entitled, at this time, to the reward or
financial return that competitive situation will bring him. I would
be very quick to say that if the application of that principle resulted
in excessive or runaway prices, which would threaten the country with
inflation, that then there would be no alternative than to apply the
amount of control necessary to prevent that.

Mr. Kilburn. We have had some witnesses here whose testimony
would indicate that the prices set by the Office of Price Administration
have tended to lower production, so that the goal which we all want to
reach, that is removal of price controls when supplies equal demand,
will never be reached in those industries.

Have you any suggestions along that line?

Mr. Kerr. I can speak only for myself.

Mr. Kilburn. That is all.

Mr. Monroney. Mrs. Woodhouse.

Mrs. Woodhouse. I have no questions.

Mr. Monroney. Mr. Buffett.

Mr. Buffett. Governor, from 1927 to 1941 there was never a time
when a competitive price structure in the oil business was not on a
very acute basis, was there?

Mr. Kerr. I think I share your thought. I might express it dif-
ferently.

Mr. Buffett. What is the amount of gasoline in storage today,
roughly?

Mr. Kerr. As of March 2, it was in excess of 104,000,000 barrels.

Mr. Buffett. Do you recall any time in peacetime when the gaso-
line in storage approached that figure?

Mr. Kerr. Well, I would be speaking from memory. I think that
is an all-time high.

Mr. Buffett. If I recall rightly, in the period of the late thirties,
it used to be—

Mr. Kerr. I think it was around 80,000,000 barrels.

Mr. Buffett. It used to be around eighty or eighty-five million
barrels?

Mr. Kerr. Yes; and then we usually wound up with so much oil in
the summertime that price cutting was started in June and became
intensified as the summer progressed is that right? We lived from
one crisis of price cutting to another.

Mr. Buffett. Well, then the general forecast is not for oil con-
sumption this year on the basis of the ordinary prewar year, is it,
with the shortage of cars?

Mr. Kerr. Well, it might depend upon the authority that you ac-
cepted in that regard. Frankly, I think that the peacetime consump-
tion of 1946, together with the consumption of the military equipment
that will be considered so vital as to be kept and operated, will exceed
the consumption of our peacetime years prior to the war.

I think it will. Now, I am not an authority on that subject, but I
do have that opinion.

Mr. Buffett. Even with that optimism, do you think it will exceed
the potential supply?
Mr. Kerr. Very definitely no.
Mr. Buffett. That is all.
Mr. Monroney. Mr. Hull.
Mr. Hull. No questions.
Mr. Crawford. Mr. Chairman, may I ask the Governor another question?
Mr. Monroney. Mr. Crawford.
Mr. Crawford. Governor, did I understand you to say in substance that you were opposed to a policy which forces the producer or the citizen to sell a product at a price lower than its replacement value?
Mr. Kerr. Well, what I said amounts to this:
That I am opposed to an artificial restraint that brings that about after actual combat has ceased, with reference to a commodity of which there are greater stocks on hand in our history, and of which the daily production is in excess of the daily consumption.
Now, if the artificial restriction is removed and we still suffer that malady we at least are deprived of the privilege of laying it at your door.
Mr. Crawford. Would you go a step further with me and say that it would be just as unfair for Government itself to step in and force a widow and children to sell their home, if they sell it, at a price below cost of replacement, when the market offers them cost? Do you see what I mean?
Mr. Kerr. Would you repeat the question?
Mr. Crawford. Would you go along with me in claiming that it is just as unfair for the Government through artificial controls, to force a widow and her children to sell a home, if she sells it, at a price below cost of replacement, when the market offers her replacement cost?
Mr. Kerr. I think the Congress has a very difficult problem there. I take it that you are talking about a ceiling price on presently constructed housing?
Mr. Crawford. That is exactly what I am talking about.
Mr. Kerr. I am very happy that that is your problem instead of mine, but I am aware of this fact:
That the supply of those houses does not anywhere nearly meet the demand.
Mr. Crawford. I noticed your definition very closely. But it is just as unfair for a government to step in and say to one individual, "Thou shalt sell, if you sell, below replacement cost" as it is for another. And I draw no distinction between a man who gathers oil and a woman who has a home to sell. That is all.
Mr. Kerr. Well, if I had any benefit to bestow there, it would certainly be in favor of the widow and the orphan.
Mr. Crawford. Thank you, that is all.
Mr. Monroney. Governor, I gather from your remarks that you are not in favor of any amendment that would either kill or maim inflation control or the Office of Price Administration?
Mr. Kerr. I think this Government has no greater wartime or peacetime responsibility than to prevent inflation.
Mr. Monroney. And you do not agree, I believe, you stated, in your answer to Mr. Buffett, that you are asking special privilege for the oil industry, in that, if they are decontrolled, you do not ask that the Congress by law prevent decontrol if the situation gets out of hand.
Mr. Kerr. I certainly do not. I would not ask for justice at your
hands and then seek to tie your hands to where you could not main-
tain it.

Mr. Monroney. If there are no further questions, thank you very
much Governor, for a very informative statement. We appreciate
your courtesy in appearing before us.

Mr. Kerr. Thank you, sir.

The Chairman. The next witness is Mr. Paterson of the American
Veterans’ Committee.

The Office Furniture Institute are not able to be present. They
have asked that their statement be incorporated into the record.
Without objection, it will be incorporated at this point.

(The above referred to document is as follows:)

WOOD OFFICE FURNITURE INSTITUTE,

BANKING AND CURRENCY COMMITTEE,
House of Representatives, Washington 25, D. C.

GENTLEMEN: The wood office furniture industry, in a joint meeting with OPA
on December 12, 1945, presented a petition for the removal of price controls
from these products under the provisions of Directive No. 68 issued by the Office
of Economic Stabilization. This petition proved conclusively that the wood
office furniture industry qualified for decontrol, and OPA was not able to offer
any real objections. However, OPA waited until January 9, 1946 (4 weeks later)
to give the industry an answer to their petition, and their reply was based on
statements which had no foundation whatsoever. I am enclosing a copy of the
original petition, together with the reply of Chester Bowles and our counter
arguments. We have listed our response to these claims, but have made no
attempt to refute them in detail because of the elementary nature of the majority
of his statements.

We believe your committee will be interested in studying the details of our
case as an example of the arbitrary attitude which OPA has taken in the admin-
istration of Directive No. 68, and toward decontrol in general. We have been
in constant touch with OPA since this petition was presented, but have made no
apparent progress. We believe your committee should weigh these facts very
carefully and consider this as an example of OPA’s reluctance to relinquish any
controls, regardless of the circumstances. In other words, we have the perfect
case for decontrol, but OPA still continues to stall and avoid a definite answer.
It is for this reason that we have requested a formal hearing before your com-
mittee, for OPA cannot possibly deny our appeal when our case is presented before
an unprejudiced jury. Their unnecessary delay in issuing a decision on a
problem of such relative unimportance in our national economy not only gives us
cause for grave concern regarding the immediate future of our small industry,
but it indicates to us that OPA is anxious to continue controls long after they
are necessary.

We wish to thank you for your cooperative efforts in this matter and know that
you will give our case all the assistance possible.

Yours very truly,

JOHN J. REINECKE,
Secretary, Wood Office Furniture Institute.

To: Chester Bowles, Office of Price Administration

PETITION FOR SUSPENSION OF PRICE CONTROL OVER WOOD OFFICE FURNITURE

The undersigned wood office furniture manufacturers respectfully petition the
Office of Price Administration to remove from price control, wood office furniture
as described in the appendix attached.

This request for removal of wood office furniture from price control is based
upon the provisions of section 2 of the Office of Economic Stabilization Directive
No. 68, under which the Price Administrator is authorized to suspend price control
with respect to any commodity, or in his discretion to exempt the commodity from
price control, where the following conditions exist:

1. The commodity does not enter significantly into the cost of living.
2. Control of the commodity involves administrative difficulties which are disproportionate in relation to the effectiveness of the control or the contribution to stabilization.

3. 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 peacetime economy, and does not impair effective price control with respect to other commodities.

In support of this petition the following facts are submitted.

I
DESCRIPTION OF THE WOOD OFFICE FURNITURE INDUSTRY

The members of this industry are engaged in the manufacture of wood office furniture, as described in the attached appendix, which is sold to office supply and office furniture dealers for resale to business and professional offices, government offices, and to public and private institutions.

The industry is a small one both from the standpoint of total volume of output, and the product of the individual manufacturers who comprise the industry. There are fewer than 50 producers in this industry, each having an average annual volume of sales of only $400,000, and an average employment of only 60 workers.

Principal raw materials used are hardwood lumber and veneers of walnut, mahogany, pecan, oak, birch, beech, gum, and poplar.

II
WOOD OFFICE FURNITURE DOES NOT ENTER SIGNIFICANTLY INTO THE COST OF LIVING OR INTO BUSINESS COSTS, NOR WOULD REMOVAL OF PRICE CONTROL FROM THIS INDUSTRY IMPAIR EFFECTIVE PRICE CONTROL WITH RESPECT TO OTHER COMMODITIES

The products of this industry have neither a direct nor indirect effect on the cost of living. OPA has recognized that the products of this industry do not enter into the cost of living, since all of the increases which it has granted to individual manufacturers in the industry have been under order A-3 to MPR-188. This order says, in part:

"* * * in certain cases where the cost of living is not affected, this order provides for the adjustment of maximum prices. * * *"

The cost of the office furniture used by any business or profession is so small compared with the total investment that it has no direct effect on the prices of the products or services sold by the purchaser of the furniture.

Office furniture is capital equipment and its cost cannot be charged directly into material costs or overhead expenses. The maximum depreciation allowed by the Bureau of Internal Revenue is 10 percent annually. Thus the yearly depreciation on a $75 desk would be $7.50. Whether this figure is $7.50 or $8.50 is immaterial from the standpoint of price of the user's service or product, since the user's investment in office furniture is negligible compared with his total investments regardless of the type of business or profession in which he is engaged. Again referring to order A-3, under which OPA has granted price adjustments to 17 wood office furniture manufacturers, it will be noted that this order further states:

"* * * an adjustment will be allowed under this order only if it appears that the increase in price to the ultimate user resulting from the adjustment will be an inconsequential cost factor in the operation of his business."

Under supplementary order No. 126 of August 15, OPA exempted from price control, numerous products, many of which occupy the same relation to the national economy as the products of this industry.

Therefore, the removal of price control from the wood office furniture industry will not impair effective price control with respect to other commodities, nor would the cost of living or doing business be affected.

III
PRICE CONTROL OVER WOOD OFFICE FURNITURE INVOLVES ADMINISTRATIVE DIFFICULTIES WHICH ARE DISPROPORTIONATE IN RELATION TO THE EFFECTIVENESS OF THE CONTROL OR THE CONTRIBUTION TO STABILIZATION

Because of the small size of the wood office furniture industry, OPA did not set it up as a separate branch of the furniture industry with an industry advisory
committee but combined it with the store-fixture and public-seating industries, there being one advisory committee for the entire group. A request by the wood office furniture industry that OPA set up a subcommittee for it so that it would have some means of direct contact with OPA was denied.

As has been pointed out, under order A-3 of MPR-188, OPA has recognized the need for granting adjustments to 17 manufacturers in the wood office furniture industry to bring their operations up to a break-even basis. Thus individual price increases have been granted one-third of the industry. These price increases range up to 18 percent. Most, if not all, of the other members of the industry are in an equally bad operating position.

Many more requests for price relief will undoubtedly have to be filed under order A-3, unless suspension from price control is granted. Those producers who have not heretofore filed for price relief have generally hesitated to do so because of the burden of preparing the data required under the procedure set up under this order. The delays encountered in securing action on applications under this order are evidence of the administrative burden which is likewise imposed on OPA.

The administrative burden of pricing the products of this industry under existing controls will be tremendously increased shortly as its members change to postwar lines. Because of anticipated sharpening of competition with metal office furniture during the postwar period, and also because of the large volume of war surplus office furniture soon to be marketed, the industry finds it necessary to try to redesign and improve its products. It is estimated that 3,000 to 4,000 different new patterns will soon be ready for production, for each of which an individual price ceiling must be approved by OPA. In view of the relative unimportance of this industry and since the price of its products does not enter significantly into the cost of living or of doing business, this is a volume of administrative detail entirely disproportionate to the contribution to stabilization.

Normally the typical producer in the industry has about 300 catalogued patterns. Some have 500 or more. It is inevitable that the unbalanced price structure which price controls have already caused during the war period when the typical pattern range has been from 50 to 75, will present an increasingly serious obstacle to resumption of normal operations. Lack of flexibility in adjusting individual item prices to meet changing problems of cost and demand will be a disadvantage to buyers as well as producers.

IV

EXEMPTION FROM PRICE CONTROL WILL NOT PRESENT THREAT OF DIVERSION OF MATERIALS OR MANPOWER FROM PRODUCTION WHICH IS ESSENTIAL TO THE EFFECTIVE TRANSITION TO A PEACETIME ECONOMY

A. Materials

Hardwood lumber comprises the largest part of the raw materials used in the production of wood office furniture. Based on reports of the National Lumber Manufacturers Association, it is estimated that a total of approximately 29,676,000,000 board-feet of lumber will be produced in the United States during the next 12 months. If the wood office furniture industry continues its present rate of production it will consume only 77,000,000 board-feet of lumber during 1946, or one-fourth of 1 percent of the total produced.

Just how small the industry's lumber requirements are is demonstrated by the fact that both of these figures represent a volume of lumber consumption far under that of the match industry in 1941. The industry's requirements are also small in relation to the total needs of the combined furniture industry, which the War Production Board currently estimates to be more than 2,000,000,000 board-feet annually.

It should be noted that the industry is not affected by the present shortage of softwood lumber, since it uses hardwoods exclusively. Thus it does not compete with the construction industry, which requires softwoods. Increasing quantities of hardwood lumber are rapidly becoming available as the result of the end of the war, during which shortages of metals led to wide substitution of hardwoods in products for which metal is preferred and is now available.

The quantity of other raw materials and manufactured items used by the industry such as glue, nails, screws, hardware, fillers, stain, varnish and lacquers
is so small in relation to the totals of these materials produced that it cannot be stated in terms of percentages.

The total annual material requirements of this industry amount to less than $20,000,000. The War Production Board has estimated that the current annual production of wood household furniture is slightly in excess of $80,000,000. The wood office furniture volume of $30,000,000 represents only 3.8 percent of the household total. The combined production of the top five household furniture manufacturers is greater than the total production of the entire wood office furniture industry.

Therefore, this industry meets the requirements of Directive No. 68 that suspension of price control presents no substantial threat of diversion of materials and facilities.

B. Manpower

Reports of the Bureau of Labor Statistics for July 1945, show 37,299,000 persons employed in all nonagricultural, business, and manufacturing establishments, while the estimated total employment in the entire wood office furniture industry is less than 3,000 persons. The total employed in all furniture industries during that month was 143,000. Less than 3,000 of these were employed in the wood office furniture industry. This means 1 employee in this industry for every 12,000 employees in all other nonagricultural establishments. The industry employs fewer than one-fourth as many persons as are employed in the perfume and cosmetics industry.

The most recent Government study of wages paid by the furniture industries was made by the Wage and Hour Division of the United States Department of Labor, in February 1941. At that time it was found that the wood office furniture industry was paying an average wage of 47.9 cents per hour, whereas the wood household furniture industry was paying 48.7 cents per hour. This was much less than the national average of 68.5 cents for industry as a whole. While the general wage level has risen considerably since that time, the wood office furniture industry is in the same relative position today as it was then.

Few wood office furniture manufacturers are located in large furniture producing centers. There are only three in the High Point, N. C., area, two in Grand Rapids, Mich.; none in Jamestown, N. Y., or Rockford, Ill., areas. The majority are scattered through Indiana, Illinois, Ohio, Kentucky, New York, Iowa, Massachusetts, and California.

It is obvious, therefore, that the labor needs of the industry are so small that it does not compete with other employers of labor, and in any event, the prevailing wage is not at a level which would attract workers from competing industries. The industry thus offers no threat of diversion of manpower.

V

WOOD OFFICE FURNITURE INDUSTRY'S CONTRIBUTION TO THE WAR EFFORT

During the war the industry made every possible effort to maintain production of items needed by the armed services and other essential users, although faced by many adverse conditions. The industry is proud of its war record of production of more than 3,000,000 office desks and chairs for the armed service, essential Government agencies, and war production factories.

This record was accomplished by voluntary reduction in the number of patterns to an absolute minimum and concentration on the production of inexpensive, simple types of clerical office furniture so urgently needed by the armed services, the Government agencies, and the war plants for the successful prosecution of the war. The industry did their job without any plant ever having a priority for hiring of workers.

VI

COMPETITION OF SURPLUS WOOD OFFICE FURNITURE

The United States Government now owns huge quantities of wood office furniture which has been declared surplus and will soon be offered to the public at greatly reduced prices. This furniture is exactly the same type the industry has been manufacturing in the past and is now manufacturing. This will not only provide the public with a source of supply for its requirements in office furniture but it will greatly reduce the demand and price level of the type of wood office furniture now being produced by the industry.
Another serious situation confronting the wood office furniture industry now is the fact that a large number of war plants; such as Wright Aeronautical Corp., Western Electric Co., and Colt Firearms, and many others are now offering at public auction large quantities of the same type of wood office furniture that is now being produced by the industry. This is just the forerunner of many more plants which will be liquidated in the very near future, and is in addition to the Government-owned furniture.

Metal office furniture manufacturing has been prohibited by WPB since the beginning of 1942, but controls have now been removed and production has been resumed. The Census of Manufacturers shows that metal office furniture manufacturers produced 40 percent of the total of all office furniture produced in 1939. During this period of more than 3½ years when no metal office furniture was produced, a large pent-up demand has accumulated for this type of furniture. In view of these facts, it is obvious that within a very short time, they will gain more than their 41 percent share of the office furniture market.

Thus, the disposal of surplus wood office furniture, and the return of metal office furniture to the market, will offer extremely serious competition to the wood office furniture manufacturers and will prevent any undue increase in the sales price of wood office furniture.

The Reconstruction Finance Corporation has just announced that sales of all surpluses through September 30, averaged only 50 cents on the dollar. Surplus furniture is being offered at these rates or below. For example, in September the Office of Surplus Property of the Department of Commerce offered thousands of new wood utility stools to retailers at $0.75 cents each (circular OSP-24-11). This is less than half the manufacturers' present prices, and indicates that surplus office furniture is already a serious competitive problem.

**VII**

**CONCLUSION**

The facts brought out in this petition clearly show that under the terms of Office of Economic Stabilization Directive No. 68 this industry is entitled to suspension of OPA price control in respect to its products. Wood office furniture does not enter significantly into the cost of living or into business costs; price control over wood office furniture involved administrative difficulties which are disproportionate to the effectiveness of the control or the contribution to stabilization.

There is no concentration of the industry in any particular area, and its requirements both in terms of manpower and material are small. It would not compete with any important reconverting industries, nor even the general furniture industry for manpower and materials. Suspension of price control over this industry, therefore, presents no threat of diversion of materials, facilities or manpower from production which is essential to the effective transition to a peacetime economy nor would it impair effective price control with respect to other commodities. Insofar as this industry is concerned, the removal of price controls would mean the lifting of the last barrier to full resumption of normal peacetime operations.

**VIII**

In view of the reasons set forth in this petition, we, the undersigned manufacturers of wood office furniture respectfully request the immediate suspension of price control from the products of our industry.

**APPENDIX**

**DESCRIPTION OF WOOD OFFICE FURNITURE TO BE REMOVED FROM PRICE CONTROL**

**DESKS, TABLES, CABINETS AND ACCESSORIES**

**Desks:** Flat top, conference, consultation, roll top, typewriter, calculating and business machine.

**Tables and stands:** General office, director, typewriter, telephone.

**Cabinets:** Telephone, filing, storage.

**Bookcases.**

**Wardrobes.**

**Accessories:** Card trays and files, letter trays, stationary racks, wastebaskets, typewriter platforms, costumers, humidors.
CHAIRS, SOFAS, AND STOOLS (UPHOLSTERED AND NOT UPHOLSTERED)

Chairs: Swivel, with arms; swivel, without arms; executive posture; stenographic; side, with arms; side, with tablet arms; side, without arms; jury.
Stools: Swivel without swivel.
Settees.
Sofas.
Chair bases with swivel irons.

WOOD OFFICE FURNITURE MANUFACTURERS SIGNING PETITION

Allen Chair Corp., West Concord, Mass.
Alma Desk Co., High Point, N. C.
Anderson School Equipment Co., Los Angeles, Calif.
Angelus Furniture Manufacturing Co., Los Angeles, Calif.
Bright Chair Co., Inc., New York, N. Y.
Central Desk Manufacturing Co., Chicago 22, Ill.
Clemco Desk Manufacturing Co., Chicago 39, Ill.
Commercial Furniture Co., Chicago 22, Ill.
Eastern Cabinet & Furniture Co., Los Angeles, Calif.
Globe-Wernicke Co., Cincinnati, Ohio.
Grand Woodworking Co., Chicago, Ill.
W. H. Gunlocke Chair Co., Wayland, N. Y.
Gunn Furniture Co., Grand Rapids 2, Mich.
High Point Bending & Chair Co., Siler City, N. C.
Hoosier Desk Co., Jasper, Ind.
Imperial Desk Co., Evansville 7, Ind.
Indiana Desk Co., Jasper, Ind.

PROTEST TO OPA'S DENIAL OF APPEAL FOR REMOVAL OF PRICE CONTROLS FROM WOOD OFFICE FURNITURE

CHESTER BOWLES' LETTER OF JANUARY 9, 1946

The Office of Price Administration have carefully considered the various points raised in your petition for exemption from price control of wood office furniture. Based upon our analysis of these considerations we feel compelled to deny your request.

We quite agree that wood office furniture is not a cost-of-living product, as you contend in your reference to section 2 (a) (1) of directive No. 68 which states. "The commodity does not enter significantly into the cost of living or into business costs."

We also agree that, taken by itself, wood office furniture is not a major factor in the cost of doing business. But, in controlling business costs, it is

Mr. Bowles has completely evaded the issue by disregarding the wording of section 2 (a) (1) of directive No. 68 which states. "The commodity does not enter significantly into the cost of living or into business costs."

Nevertheless they do not prove, but only state, that wood office furniture
necessary that we take into account not only wood office furniture but numerous related lines which, taken by themselves also, in various instances are not of major importance but which, considered in the over-all, have a dominant influence on the cost of doing business.

According to the United States Department of Commerce 1940 Census of Manufactures, the total value of wood office furniture produced in 1939 approximated only $15,400,000. The current value would doubtless be around the level which you indicated in your petition, or $20,000,000 a year. This valuation considered against the product value of many major industries in our economy, could only be considered small.

However, the total value of all office furniture, wood and metal, in 1939, approximated only $48,000,000. The total value of furniture produced for all public buildings, schools, municipal, and Government buildings, and so forth, was but $28,600,000. The total value of furniture produced for all the hospitals and laboratories of the country was around $14,600,000. For an individual industry like the beauty- and barber-shop furniture, the total value of furniture produced was less than $3,000,000. Hence, $20,000,000 for wood-office furniture production is not too far from the valuation of other comparable product lines.

In the category of products essential to carrying on business, consideration must be given also to items other than furniture, such as filing and storage cabinets, typewriters, cash registers, adding machines, safes, scales, display fixtures, etc. Many of these products, taken by themselves, would not bulk large in dollar value but are essential, if not indispensable items in the cost of doing business and, as in wood office furniture, control of prices in each special field is necessary in order to maintain equitable and consistent control in the whole area of business costs.

and related items have a significant effect on the cost of doing business. Furthermore, few, if any, of these "related" items can qualify for decontrol under this directive.

OPA uses the figure of $20,000,000 as the industry's current volume. No actual production figures were cited in our petition but the present annual volume is approximately $30,000,000. They state that this volume is "small" when compared to that of major industries, but no reference is made to the smallness of our volume as related to the deciding factors in the case, i.e., cost of living and cost of doing business. The people of this country spent more than $100,000,000,000 on cost of living during 1943, but the wood-office furniture sales were only $20,000,000, or .003 of that amount. However, of this $30,000,000, the Department of Internal Revenue permits only 10 percent (or $3,000,000 in this case) to be charged into each year's expenses as depreciation on such capital equipment. Thus, OPA is not concerned with $30,000,000 but only $3,000,000 when considering its effect on the cost of living or on the cost of doing business. This $3,000,000 represents only .00003 of the total spent for the cost of living.

Mr. Bowles has taken great liberty in selecting "comparable product lines," for certainly there is absolutely no similarity in the actual products or their uses, and each of the products mentioned is manufactured by producers who specialize in those particular fields. It is impossible to see any relationship between a barber chair and an office chair, or between a hospital operating table and an office table or desk.

The letter implies that filing and storage cabinets, typewriters, cash registers, adding machines, safes, scales, and display fixtures must be considered when weighing the case of wood office furniture. However, the manufacture of every item mentioned, was discontinued during the War by WPB limitation orders. All of these products were off the open market for more than three years, and this fact alone would demand that they be considered separately from wood office furniture. Furthermore, since these products were not manufactured during the time specified, these manufacturers...
It is particularly necessary to maintain control of business costs at this time in the light of the indicated need for new equipment. The Secretary of Commerce is authority for a recent statement that 500,000 new firms are expected to be started over the coming year, many by returning war veterans. This takes no account of the needs likely to become felt on the part of existing business enterprises for reequipping or modernizing their set-ups. Viewed from this angle it becomes apparent that control over business costs is only slightly less vital to the stabilization program in the reconversion period than control over living costs.

As a matter of fact, failure to control business costs would make increasingly difficult effective control of living costs. A rising price level for office furniture, machines, and equipment would mean increased overhead for businesses required to make such purchases which could only be carried by effecting a higher level of prices for the goods produced or services rendered by such businesses. It occurs to us that even though not large on the dollar basis as you have shown, you have given evidence in your petition of the importance in our economy of wood office furniture in your reference to the outstanding job done by the industry in producing over 3,000,000 office desks and chairs for the war effort. We feel the industry has an important role to play in reconversion too.

You point out that the wood office furniture industry is not affected by the present shortage of softwood lumber since it uses hardwoods exclusively. Hence, the industry does not compete with the construction industry. It should not be overlooked, however, that considerable quantities of hardwoods are used for such purposes as flooring, trim, casements, cornices, joists, etc., are now operating under OPA's reconversion formulas SO-118 and SO-119, whereas wood office furniture has been manufactured throughout the War and is not subject to either of these orders.

On the basis of fourth quarter expenditures for new plants and equipment, it is estimated that a 12 months' total would be $7,100,000,000. Some authorities estimate considerably larger expenditures. Wood office furniture volume of $30,000,000 represents only $0.00004, or an amount that can only be considered infinitesimal alongside the total expenditures for these capital items.

In the case of the returning veteran who opens a one-man office as a lawyer, accountant, or as some other business or service, the annual depreciation expense on his furniture will be less than his light bill for the year and only a fraction of his telephone expense. Thus, whether the business is a one-man operation or one employing thousands of workers, the expense for office furniture is a negligible factor in the cost of doing business.

No one could contest Mr. Bowles' statement that "** * * failure to control business costs would make increasingly difficult effective control of living costs." However, we have shown in the petition which we presented to OPA, and have supported it by further evidence in this memorandum, that wood office furniture is an inconsequential factor in the cost of doing business. Mr. Bowles agreed with us in the third paragraph of his letter and he has failed completely to advance any arguments, which are based on fact, to prove that decontrol of wood office furniture would directly or indirectly affect either the cost of living or the cost of doing business. Even if the price of wood office furniture were increased 100 percent, the total cost to the purchasers would still represent an expense of only $0.00006 of the cost of living. It is impossible to agree with Mr. Bowles, or to understand on what basis he is justified in stating that an annual depreciation expense of only $3,000,000 on the wood office furniture to be purchased can have any possible effect on the reconversion period.

Mr. Bowles' statement that "** * * considerable quantities of hardwoods are used for such purposes as flooring, trim, casements, cornices, joists, etc." shows his complete ignorance of the situation, for any jerry carpenter knows that this statement is not true. Hardwood is only used for trim and millwork in expensive homes and fine commercial buildings and is
extend price control and stabilization acts of 1942

all important in building construction. Moreover, the shortage of hardwood lumber is substantially as acute as that of softwoods.

More important, under the present lumber shortage, exemption of price control for uses which, taken by themselves are minor rather than major, would give such users an undue advantage over others still under control and make the over-all control program, both on completed articles and raw materials, more difficult. Exemption of wood office furniture, for example, would be bound to find reflection in the household furniture situation where shortages are very great and pressures on prices very strong. Another important use of hardwoods where price control would be made more difficult through exemption of your product is in the manufacture of caskets.

outside the realm of the present emergency construction work.

Further evidence that Mr. Bowles’ statement is without any foundation can be found in Priorities Regulation 33 and Direction 1 of that Regulation issued by the Civilian Production Administration. PR-33 states, “It is designated to assist private builders, educational institutions, and others to build moderate-cost housing accommodations to which veterans of World War II will be given preference * * *.” In view of the urgency of this program and the shortage of lumber, it is obvious that CPA would provide adequate methods and materials to supply this need, yet Direction 1 of PR-33 issued January 15, 1946, requires that the only hardwoods which have to be reserved for this building program for hardwood flooring are “grades Nos. 2 and 3 of hard maple, oak, and pecan.” Anyone who is at all familiar with the lumber industry knows that these grades are little better than crating lumber and are not suitable for the manufacturing of furni-ture. In issuing this regulation and direction, an official Government agency, the Civilian Production Administration, has proven Mr. Bowles’ ignorance of even the basic ray material used by this industry.

Mr. Bowles states that, “exemption of price control for uses which, taken by themselves are minor rather than major, would give such users an undue advantage over others still under control,” but Mr. Bowles merely makes the statement and offers no evidence to support his claim. Apparently he was not able to prove this point, for it is impossible to even imagine how the removal of price control on wood office furniture would give this industry any undue advantage. How is it possible to believe that the removal of price controls will cause this or any other industry to use more materials or to employ more workers?

Mr. Bowles also states that exemption would cause wood office furniture to compete with household furniture. He seems to have overlooked the fact that on December 28, 1945, just 12 days previous to the writing of this letter that his office issued Order 4800 of MPR 183 which grants increases up to 25 percent to the manufacturers of household furniture. Thus, if there is any question of undue competition, it will be from the household furniture manufacturers.

Mr. Bowles also states that price control would be made more difficult in the manufacture of caskets if price controls
It is true that the Office of Price Administration has exempted a considerable number of articles from price control. With few exceptions, however, they fall into the category of specialized and relatively insignificant items, unimportant to our economy or involving greater administrative difficulties in maintaining effective control than could be compensated for by the results achieved. Wood office furniture must be classified as standard merchandise and not involving serious administrative problems in effectuating price stabilization. This statement is made with full weight given to the consideration you bring out regarding the anticipated increased number of price applications from the industry, covering new models and types expected to be produced. Our Office has been able to cope with similar situations in the development of new products in other industries and we think it will be possible to do so in wood office furniture.

are removed from our product. For a Government official to make such a statement is unbelievable! Common sense should indicate to him that the death rate is relatively stable, and there is no such thing as an inflated demand for caskets. According to figures published by the United States Forest Service, the casket industry used only 38,258,000 board-feet of hardwood lumber in 1940 and except for a serious epidemic, there is no reason to believe that their 1946 needs will exceed this amount. This industry's major requirement is softwood lumber and in 1940 they used three times more of this lumber (114,584,000) than hardwood.

Our petition and the fact presented herein prove that wood-office-furniture products are also "specialized and relatively insignificant items, unimportant to our economy" and as such, should be included in the items exempted under either SO-126 or SO-129.

Mr. Bowles sounds rather convincing in his statement that wood office furniture involves no serious administrative difficulties and that his office will be able to cope with the 3,000 to 4,000 anticipated applications for price approval on new products to be produced by the manufacturers of this industry. However, their past performance shows that they cannot give our industry even reasonably prompt service on routine applications for price adjustments which they have received from our manufacturers. The following is a recent example and is typical of OPA's delay, inefficiency, and broken promises in the administration of price controls on wood office furniture. A wood-office-furniture manufacturer filed an application on November 21, 1945, for an additional price adjustment under A-3 of MPR-188. OPA had granted them an adjustment several months previous so they had a complete file on this company and were familiar with the case. The information furnished in the company's application was adequate, but it took exactly 75 days for this company to have the additional increase approved. This manufacturer lost between $15,000 and $20,000 because of OPA's delay in granting this new adjustment. This amount is not a reduction of profits, but an actual loss, which such a small manufacturer cannot afford. It would be extremely difficult for Mr. Bowles to convince this manufacturer, and others, all of whom experience similar difficulty, that they are coping with the present situation which averages only three or four applications being processed, much less that they will be able to handle the tremendous case load of 3,000 to 4,000 applications.
We should emphasize that price relief does not in itself constitute a valid basis for exemption from price control. If your industry can present sufficient evidence of need for current price relief such as a failure to realize profits comparable to the 1926-29 average, we shall be very glad to consider the proposal of another survey such as was carried on during the war period.

In reference to anticipated increased supplies of steel office furniture, competitive with products made from wood, the most comprehensive information on conditions in that industry available to us indicates that demand is now running far ahead of supply, with no signs of a balance between these factors in the foreseeable future.

The significance for the market of anticipated offerings of wood office furniture as a result of disposal of Government surplus and of holdings of war plants cannot be accurately appraised at present. It is unknown, for example, what proportion of useable equipment, as compared with unmarketable products, will be forthcoming. It is only known at this time that all offerings of disposable merchandise have been quickly absorbed by Federal agencies now expanding—principally the Veterans' Administration—with the needs of States and municipalities next in priority remaining unsatisfied, not to mention demands from private industry including war veterans preparing to go into business.

Let us assure you that we are maintaining close surveillance over conditions in the field of surplus property disposal. Should there be evidence of sufficiently heavy offerings to satisfy existing heavy pent-up demand, we shall be prepared to reconsider the question of exemption from price control of the products of your industry, exactly as

We cannot agree with Mr. Bowles' statement that this industry involves no "serious administrative problems" and that they are able to cope with the situation. They promised to give us a reply to our petition in 2 weeks' time, which would have been on December 26, 1945, but his letter of denial was dated January 9, 1946—exactly double the time promised, or a total of 4 weeks.

We are not asking for, and do not want price relief. The removal of price controls is the only solution—the industry has qualified for such treatment, and we are entitled to exemption from price control.

Through price relief already granted in this industry, the price structure is completely unbalanced. Many of the lowest priced manufacturers in the field have received no price adjustments whereas some of the highest priced manufacturers of the same grade have received adjustments as high as 18 percent. Likewise, OPA has given new manufacturers approval of prices which in some cases are as much as 50 percent above the competitive prices.

Mr. Bowles states that in metal office furniture, "demand is running far ahead of supply, with no sign of balance between these factors in the foreseeable future." This is absolutely correct. Until recently, no metal office furniture has been produced for more than 3 years, and a demand has been built up which would correspond to the public's rush to buy nylon stockings which have also been off the market.

Mr. Bowles is correct in his statement that, "all offerings of disposable merchandise have been quickly absorbed by Federal agencies now expanding," and apparently he is willing to pass judgment on this serious situation without study or investigation. It is true that the Government claims to have no surplus office furniture, but it is a known fact that the Government employees and the military forces have been reduced considerably since VE-day and VJ-day. This office furniture could not possibly disappear into thin air, or be absorbed by the Veterans' Administration. The point is, Government agencies are reluctant to declare this surplus. However, it exists, and is gathering dust in offices and storage rooms in Washington and other places throughout the country.

Furthermore, the President's message to Congress the latter part of January called for an additional reduction of several hundred thousand Government employees. He also plans to relinquish more than 2,000,000 feet of leased office space in Washington, alone.
we have removed certain other price controls when the need therefor seemed no longer apparent. At this time, however, it is our opinion that the requirements set forth in the Office of Economic Stabilization Directive No. 68 for lifting price controls have not been satisfied in respect to wood office furniture, and the needs of the stabilization program require continuance for the present of such controls.

The Chairman. Mr. Paterson, of the American Veterans' Committee.

Mr. Paterson. Mr. Chairman, my name is Chat Paterson, I am national legislative representative of the American Veterans' Committee.

STATEMENT OF CHAT PATERSON, NATIONAL LEGISLATIVE REPRESENTATIVE OF THE AMERICAN VETERANS' COMMITTEE

Mr. Paterson. I would like to present testimony today in favor of H.R. 5270 which will extend the Office of Price Administration.

The American Veterans Committee is an organization of World War II veterans which is working to achieve a more democratic and prosperous America and a more stable world. One of the greatest dangers to a prosperous America and a stable world is that of a disastrous inflation. We are already experiencing a measure of inflation and thousands of veterans are having a hard time because of this limited inflation. It is not fair to the veteran during his difficult period of readjustment and initial insecurity for you gentlemen to permit an uncontrolled inflation to take hold of our Nation and shake the monetary foundation upon which so many hopes have been built.

If I were to ask any member of this committee whether he wanted to do all in his power to aid the veteran, I am sure there would be a resounding "Of course." Because of your membership on the Banking and Currency Committee, you are in the unique position of being instrumental in protecting the veteran from a worse inflation and in making sure that his dollars buy the goods and services which he and his family need. In most cases he must buy these goods and services on a very limited income.

There are four simple reasons why the veterans need price control if they are going to be given an even break in getting back to civilian life:

(1) Veterans just don't have much money now, and they probably won't have much money for a long while. They have been away from civilian work for several years. It's going to take time to get back into paying jobs. General Bradley has already stated that approximately 4,000,000 veterans still return with no civilian occupation or training. These veterans, during their period of training and job seeking, will not be able to pay the cost of a decent living if prices go up.

They didn't get much money for fighting the war, and in most cases have no savings upon which they can draw for any length of time. Their $300 mustering-out pay won't buy much food or clothing or pay rent very long. Even a slight increase in prices would mean that they would have poorer food and live in cheaper houses. I don't
think any of you want the "American way of life" to which they return to be one of poverty and increasing bitterness.

(2) Veterans want steady jobs. A run-away inflation, such as followed the last war, will create job insecurity and bring on unemployment. There are several members of this committee who served in the last war. After the 1918 armistice you saw prices shoot so high in less than 2 years that fewer and fewer people could pay them. What was called a buyers' strike developed. You must remember how stores cut down their orders. That meant factories slowing down and closing. That meant 5½ million jobs disappeared. Thousands of your buddies tramped the streets looking for jobs. Do you want the same to happen to the veteran of today? Inflation can do it. Price control can help prevent it.

(3) A lot of veterans want to go into business for themselves. With the GI loan and some help from their families and friends, they can start in a small way now. But you gentlemen all know what would happen to these small nest eggs if inflation started operating costs upward. We probably couldn't even start in business and if we did, most of us would soon lose out to bigger and better established firms when we went to bid for high-priced materials and labor.

(4) And finally, gentlemen, most veterans want families and homes. We gave a lot of thought to that aspect of American life while we were overseas. A lot of us already have wives and children, the rest of us are human and want them. But what are our chances if prices go up and put expenses beyond our reach?

I see a lot of stories in the papers that the Office of Price Administration is causing business to go broke. I remember hearing a lot of these stories when I was in Europe. One day in early 1944, while overseas, I picked up a copy of Business Week which contained a tabulation of profits—after taxes—of the major corporations for 1943. I was astounded at the millions of dollars of profit that these corporations were cleaning up. Upon returning in late 1945 I found the New York Times and the Journal of Commerce printing tabulations of even more immense profits. These things do not look to me as if the Office of Price Administration has bankrupt business. And I would be willing to bet that most of these same corporations expect record production, record sales, and big profits in 1946 even with price control.

We have heard a lot of stories about how price control, during the war, was interfering with production. Most veterans who saw the avalanche of provisions, munitions, and equipment that rolled to our fighting fronts would never believe that price control hurt production. We just don’t understand these tall tales being circulated to destroy the price-control program. We saw in Europe and China what inflation means and the misery it brings. Higher prices don’t necessarily mean greater production.

There is one point on which the record should be kept absolutely straight. No one wants to perpetuate the Office of Price Administration indefinitely. We do not want red tape or business restrictions continued a day longer than they are necessary, but we do want protection from inflation for our living standards and for our chances to work and maintain our families. The Office of Price Administration must be continued during the coming year, and, if necessary, for a longer period of time, in fields where production does not come up to
extend price control and stabilization acts of 1942.

Before closing this testimony, I would like to pay tribute to Chester Bowles. He is a successful businessman. He has proven in the practical business world that he understands the problems of business. Right now he could be out making a fortune for himself, but he isn’t doing that. He is practically donating his time and energy to do a tough job because he knows it means security for millions of American citizens and for hundreds of thousands of businesses. Veterans admire that kind of fight.

The American Veterans Committee look to the Members of Congress for help in holding down inflation. The veteran has not been able, during the years of war, to organize and operate lobbies to protect his interests. He has had to rely on you gentlemen. For several sessions of this committee, you have been hearing the pleas and complaints of the organized lobbies. I am sure you realize they cannot all have their own way. If they did, the result would be disastrous. I am sure you want to avoid the disillusionment and resentment which will follow inevitably if the veteran finds that, through no fault of his own, the Congressmen elected by himself and his fellow citizens chose to give way to inflationary pressures rather than stand up and fight for a price control act unencumbered by crippling amendments. Don’t worry about whether the veterans are behind you in keeping prices down. At present they are very busy finding a place to live and locating a job which will give them initial security in civilian life. You can expect them to react as the vast majority of citizens, overwhelmingly in favor of men who protected their interests and keenly aware who their friends were in protecting them from a disastrous inflation. Inflation is no friend of the veteran and the veteran is no friend of inflation. The veteran’s best weapon against inflation is a strong price-control program.

The Chairman. We are very glad to have had the opportunity to hear you. I do not think there is any segment of the American people more interested in the control of inflation than the veteran. He needs housing, he needs furnishings for his home, he needs civilian clothes, and his needs are acute. He needs them now. And it seems to me that as a class, the veteran will be probably more interested in the control of inflation than any other class of our people and I am glad to have you come here and express the views of your association.

Mr. Paterson. Thank you very much.

Mr. Patman. I want to congratulate you, Mr. Paterson, and your organization for appearing on behalf of this bill. I know the veterans of this war should be greatly interested, and that you are.

A number of veterans, of course, will receive compensation benefits by reason of their services and for wounds that they have received in battle. That money will only buy so much; if we do not have price controls, it will buy less and less. I see that you are protecting the rights of the veterans you represent in appearing here on behalf of this legislation.

I have a right to criticize the American Legion if I want to, because I helped organize the first post in my section of the country and was the first commander of that post. I think the American Legion is a very fine organization, composed of many fine people, as you know.
But I want to express myself as being greatly disappointed in the failure of the American Legion to take an active interest in this type of legislation.

That was especially noticeable in the fight for decent housing for veterans, at a reasonable price.

It happened that I worked with the chairman of the committee away back in September and October, when we could see this thing coming, and we got up a bill, which was introduced in November, trying to help the veterans of this country to get homes, instead of using available building materials to build race tracks and honky-tonks and things of that kind; and all during that fight, which lasted for weeks, and another on the floor of the House for 8 days—I have heard of no other legislative bill being on the floor of the house 8 days—I never heard of the American Legion taking any active interest in trying to get that bill passed, and I want to express by disappointment publicly and, further, express the hope that the American Legion will become more alert in obtaining housing for veterans, and for their protection in sponsoring legislation of that kind to keep down prices where their money will buy just as much as possible.

Mr. Paterson. Thank you.

Mr. Brown. May I say one word. I have lost all I had in this war. It is the first time I mentioned it. I think the leaders of the American Legion have done a wonderful service in this country, and I think I have supported every measure recommended by the American Legion.

Mr. Patman. I do not take issue with Mr. Brown at all.

Mr. Brown lost everything he had in this war; and, of course, we sympathize with him very much. I do not think he has missed a roll call since he has been a Member of Congress. He is always active and alert to help veterans, and the American Legion is a fine organization; they have done a splendid job. I have worked with them for 20 years, but I want to express my disappointment in their reaction to this type of legislation.

Mr. Paterson. I think all of us realize the splendid fight they are putting up for certain types of legislation, such as loans.

Mr. Patman. Certainly; they have made a wonderful fight for the GI bill of rights and lots of other things, but I am just expressing my disappointment on the failure of the American Legion to be more active and helpful on the fight for housing and price control.

Mr. Paterson. We are worried about whether the loans which we eventually get, which have come about through organizations such as the American Legion, will be worth very much if we cannot buy goods when we get the loans.

Mr. Patman. That is exactly what I cannot understand.

Mr. Brown. Let me say another thing: If this bill becomes a law, the veterans must get the material, and get it first. We put in this bill a billion dollars for Federal Housing Authority to let those boys borrow 90 percent, because 90 percent of the veterans in my area do not have the money to buy the material. We have fixed it up to where you get material. There was the question of subsidies.

We must have production. I think production is more necessary than anything else. We made it possible for these veterans to get the material, and if they have not the money they can get 90 percent of it from the Federal Housing Administration.
Mr. Paterson. I am not acquainted with the technical provisions but I think anything like that, which can help them is important. I am sure that the big three are really food, clothing, and housing at the present time. Something must be done to keep those prices down.

Mr. Patman. Do not overlook this fact, Mr. Paterson: Mr. Brown worked as hard on that bill as any man here and was as helpful as any man in the House in getting it through. He carried the burden sometimes when we could not carry it. That bill really means something.

Whenever you go to read that bill, and you see the tremendous powers given to Mr. Wyatt, the Expediter, and then you see the features dealing with allocations, and priorities for veterans and their immediate families, and the provisions for pricing of new homes, and the billion dollars under the title 6, and another billion dollars in reserve, it really amounts to something for the veterans of this war.

Of course, the Senate takes it up tomorrow in the committee, I understand, and will consider it.

Mr. Paterson. We do feel that—prices on existing homes is a subject which we feel quite strongly about, because some of us have attempted to buy homes which exist already and find them quite out of our reach.

Mr. Kunkel. Mr. Chairman.

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Paterson, how would the ceiling on existing homes help you at all?

Mr. Paterson. I do not say it would affect my income in terms of being able to buy it tomorrow.

Mr. Kunkel. No; no; I mean the first sale of that house is absolutely unrestricted. The veteran who buys a $5,000 house may have to pay a hundred thousand dollars for it, as far as the bill is concerned. Then he is frozen.

I cannot see how that method helps the veteran at all. In fact, I think there is a positive disadvantage to it.

Mr. Paterson. I think we all realize that there is a considerable amount of speculation going on in homes. I have attempted on several occasions to buy a home, not from an owner but through a dealer, because in many cases you have to buy through a dealer.

In most cases he said, "Well, I do not care whether we sell it to you or not, because next month we can get a thousand dollars more"; in other words, just by its sitting there. I think if we could stop it at some place, and then start the production of other homes going, and at least freeze existing homes at a certain level, at the level that appears one can sell it for, and then continue to find other methods of production, I think the situation eventually might equalize itself.

Mr. Kunkel. The only thing is, if he holds it for a month and gets a thousand dollars more at the end of that month, assuming that it remains in the same owner's hands, you are just as badly off.

What we would like in this committee—of course, the bill has gone over to the Senate now—but the one thing we are looking for is some kind of a practical suggestion on how you can do it. We suggested to Mr. Wyatt—I do not remember who it was that made the suggestion—the possibility of having administrators, or rather appraisers; and Mr. Riley made a very valuable suggestion, I thought, this morning.
along that line. What we are looking for is some practical method that will accomplish the result without disadvantage to the veteran, and I think the present proposal is distinctly disadvantageous to the veteran.

Mr. Paterson. Well, I do not think that putting a ceiling on a home is a disadvantage. I mean you do stop an additional rise temporarily during this period. Some of the fellows may be able to get together on a joint purchase, and they can at least count on a fairly certain market price once the house is sold. But I think there is undue speculation going on at the present time in terms of fellows who just sell houses, and they will assure you that they will get you both ways, in terms of selling and buying.

I think it is a very unhealthy speculative field. Prices are all out of proportion. I know this question of appraisal of homes is also very important, because when we apply for the GI loan, for example, and they appraise it, in many cases we cannot get the loans for the homes because the price is speculatively too high at the present time, and increasing it even more is not going to help it.

Somewhere there has got to be a ceiling on the existing homes. We cannot go on indefinitely letting these speculators reap the benefit. They should help build other types of homes, or new methods of production, instead of speculating on existing homes.

Mr. Paterson. The ceilings would help in that respect.

Mr. Monroney. Mr. Chairman.

The Chairman. Mr. Monroney.

Mr. Monroney. The excuse has often been given, in industry's request for a greatly advancing price, that the people of this country can well afford to pay a great deal more. We had one leading witness who quoted the industrial figures and overlooked the figures of the great mass of the population, who are white-collar workers, self-employed, school teachers, and people of that kind. The question I would like to ask you is: Do you know many veterans who are returning to these jobs with fabulously high income?

Mr. Paterson. I know very few that are. The indication I have had is that most of the men, particularly those, for example, who are going back to college, most of the veterans, are younger fellows, and I think they are having a very hard time right now, with prices as they are.

If they go any higher, I do not know what is going to happen, but I know they will have a very hard time paying in terms of the three basics, which are, simply, food, clothing, and housing.

Mr. Monroney. As far as you are concerned, then, the industrial earnings showing double and triple the normal income do not adequately reflect position, at least as far as the veteran is concerned?

Mr. Paterson. No; I imagine there are many people who during the war in the United States have made better salaries than usual and have saved a lot of money and are very anxious to buy goods at any cost, but I do not think it is quite fair for the fellows who returned, because you did not get much money in the Army, for example.

Mr. Monroney. The argument, in order to get rid of all kinds of clothing controls, was that the veterans and the boys returning did not want cheap clothing, did not want low-cost suits, or low-cost shirts; they wanted to pay $3.75 and $5 for shirts and were not interested in $25 and $30 suits.
Mr. Paterson. I imagine the $20 and $30 suits would be better than a dyed service uniform.

Mr. Buffett. Who said that?

Mr. Monroney. That was given in the testimony by the gentleman who presented a great deal of this material.

Mr. Crawford. Mr. Chairman, may I ask a question?

Mr. Monroney. I want to compliment Mr. Paterson on his interest in this, because I do think the veteran of all classes of people has more to lose right now by coming home to an inflated economy than almost any other group in the United States.

Mr. Paterson. I would like to emphasize again that they just have not had a chance to get organized yet. They have not had a chance to express themselves too well on things like the Office of Price Administration. There has been a lot of complicated legislation which is going to affect our lives for the next few years, which has been passed. It does not mean they have not any interest, but there are too many problems in the question of getting housing, getting reunited with their families, and things like that, and I think that they ought to have a break by being assured that the cost of living will be held where it is. It is hard enough as it is. It is no break right now.

Mr. Monroney. The veteran, though, will be able to tell the folks of the man who will want to either kill or maim the Office of Price Administration will be not?

Mr. Paterson. I hope they will never reach that point of having to take action in their own community and denounce certain people because they have not had any interest in holding down prices. I hope it does not reach that point. I hope they can do it in an orderly fashion.

The Congressmen are elected for them, to represent them, in this sort of thing, because the veterans have no lobbies here, really.

Mr. Brown. May I say you are a fine type to represent your organization.

Mr. Paterson. Thank you.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Paterson, on page 2 of your testimony, under item 3, you refer to the opening of business. Do you know of any of the boys who have come back who are refusing to go into business by reason of black markets and high costs of inventories and labor disturbances at the present time?

Mr. Paterson. I do not have exact figures. We have some clippings. If it is necessary, I will find them and bring them out and read them, but they did indicate that the swing in terms of veterans going into small business still is on the upswing.

In other words, I do not know the percentage which are stopping because of black market or increased labor costs. But there seems to be——

Mr. Crawford. I did not ask you the percentage now. I asked you if you knew of any veterans who were refusing to go into business—who are able to go into business but who are refusing to go into business—by reason of black-market conditions, high cost of inventories, possibility of lower prices later, when production really picks up, and of labor disturbances at the present time.

Mr. Paterson. Of my own acquaintance, I do not.
Mr. Crawford. I do not mean your own acquaintance, now. As head of your organization.

You do not know of any?

Mr. Paterson. No; I do not at the present time.

Mr. Crawford. You come down to my office and let me show you some letters, will you?

Mr. Paterson. I think I will.

Mr. Crawford. I am very strong for the veterans.

Mr. Paterson. I do not doubt it. I do not doubt there is a certain degree of black marketing existing.

Mr. Crawford. If that situation does govern across the country, without being critical, I think you as head of your organization ought to know it and I think Congress ought to know it.

Mr. Paterson. I would be very glad to know those facts, wherever possible.

Mr. Crawford. On page 3 you say:

There is one point on which the record should be kept absolutely straight. No one wants to perpetuate the Office of Price Administration indefinitely. We do not want red tape or business restrictions to continue a day longer than they are necessary.

What, in your opinion, is the prime reason for the Office of Price Administration?

Mr. Paterson. At the present moment?

Mr. Crawford. Yes, sir.

Mr. Paterson. To keep prices down.

Mr. Crawford. All right.

Mr. Paterson. So that the American people will not, perhaps, experience a similar situation as that which existed after the last war.

Mr. Crawford. Now, going to page 4, you referred to protecting the veterans and you say:

They are keenly aware who their friends were in protecting them from a disastrous inflation.

Mr. Paterson. Yes; you can expect them, when they wake up, in other words.

Mr. Crawford. What inflationary steps would you say the Government has been taking, and is taking at the present time?

Mr. Paterson. You mean in what way is the Government attempting to make prices higher than they are at the present time?

Mr. Crawford. Well, that might not be in answer to my question.

Do you know what the primary inflationary forces are which are created by Government?

Mr. Paterson. No; what are some of them?

Mr. Crawford. Well, deficit financing is one. Selling bonds to commercial banks is another. Permitting banks to go into the market and bid up prices on old Government issues because of the rate of interest on those issues being much higher than the rate a new issue being put out by the Government carries.

Those are some of the principal ones. Are you aware of any of those?

Mr. Paterson. Yes, sir; I am aware of them, in terms of reading of them; yes, sir.

Mr. Crawford. And do you understand those to be promoters of inflation?
Mr. Paterson. Yes. On the other hand, I think you are putting me in the position of saying that the Government is intentionally promoting inflation, because it is the nature of government to promote inflation.

Mr. Crawford. I am not trying to trap you at all. I am going directly to your testimony, where you speak of them being, "keenly aware of those who do things against their (the veterans') economic interests." You point out that you want to keep the record straight.

We can all say that we are friends of the veterans. But it is utterly impossible for one man to prove that he has the veterans' interests at heart any more than any other man has. So I am not going to sit here and brag about what a friend I am of anybody. I do not do that to stay in public office, because I do not have to stay in public office.

Now, I am asking you, what in your opinion, as head of your organization, are some of the inflationary steps which Congress has been taking and is taking at the present time?

Mr. Paterson. Well, you have enumerated some of the steps.

Mr. Crawford. Do you agree with me that they are inflationary steps?

Mr. Paterson. I do not think I am well versed in the particular technicalities of it sufficiently to know. To me an inflationary step is something which does tend to increase prices for everybody as a whole. I think on the other hand that the Government has taken very definite steps in terms of subsidies, for agriculture, for example; as a method to hold agriculture prices down.

Mr. Crawford. I am not talking about that. I am talking about these inflationary steps which, insofar as I know, every recognized economist in the country designates as inflationary steps?

Mr. Paterson. Yes.

Mr. Crawford. Now, I am trying to find out from you if you have sufficiently considered the economics involved in the Office of Price Administration controls, in substituting Government controls for the laws of supply and demand, to answer me as to whether or not in your opinion these steps which have been taken by Congress and are being taken by Congress, through deficit financing, and these other things I have mentioned, are inflationary or not in your judgment?

Mr. Paterson. No; in terms of the law of supply and demand at the present time, I do not think we have a normal situation in which the law of supply and demand, as I understand it, exists.

Mr. Crawford. That is not my question. I am not going to force you to answer it, and you do not have to answer it. But as head of your organization, I think we are entitled to an answer from you on it.

Mr. Paterson. Well—

Mr. Crawford. I am simply asking you this plain question: In your opinion, is deficit financing, and these other two or three steps which I have designated, creating inflationary forces?

Mr. Paterson. I would say there are inflationary forces in the United States at the present time.

Mr. Crawford. You have not answered my question. That is all.

Now, going over to page 2 of your testimony, you say, "Price control can help prevent it." Now what is the other help to which you might refer?

You do not claim that price control can do it alone, do you?

Mr. Paterson. No, I do not think so.
Mr. Crawford. What are some of the other things that help?

Mr. Paterson. I think adequate production.

Mr. Crawford. What are some of the steps Congress can take to aid the Office of Price Administration in preventing inflation?

Mr. Paterson. I think that one of the big steps they can take is continuing to keep prices at a level which the American people can pay.

Mr. Crawford. Well, what can Congress do to assist the Office of Price Administration, because you admit here that the Office of Price Administration can help.

Mr. Paterson. The reason I say price control can help prevent it is because I am not sure in my own mind whether the inflationary spiral which does exist to a certain extent today, can be controlled indefinitely.

Now, I am saying that if you had a complete lifting of all price ceilings, then undoubtedly you would have a terrific inflationary spiral.

With price controls, you can at least hold them down somewhat. That is what I mean by helping prevent it.

Mr. Crawford. If Congress increased the tax burden, would that help hold prices down and prevent inflation? And thereby assist the Office of Price Administration?

Mr. Paterson. I am not too sure. I have not had sufficient time to catch up with some of the tax laws, but I imagine that during the war we had heavy taxes, so that we could prevent——

Mr. Crawford. If Congress decreased the tax burden, would that tend to stymie or dampen the efforts of the Office of Price Administration in preventing inflation?

Mr. Paterson. No; I think that during a time you have a considerable amount of money with not enough goods to buy that it is a good idea to have heavy taxation.

Mr. Crawford. If Congress balanced the budget would that assist the Office of Price Administration in preventing inflation?

Mr. Paterson. Well, I do not, I cannot see, in this particular case—regardless of whether you have a balanced budget or not you have somehow got to keep prices down at the present time and one way of doing it is the Office of Price Administration.

Mr. Crawford. If Congress started paying off the debt, and thereby discontinued deficit financing would that assist the Office of Price Administration?

Mr. Paterson. It would not if you took the money which you need for subsidies and price control to keep prices down. If you took that money to pay off a debt you would have a much greater debt in the end because you have to pay for people if they cannot pay the prices.

Mr. Crawford. But you could balance the budget and use maybe $5,000,000,000 to subsidize food baskets, if you wanted to, and still be on the balanced-Budget basis.

Mr. Paterson. If we still need to do that I have sufficient confidence in the Government that they are only going to do it to the extent to which they need in order to help the American people. After all, they represent the American people and not a small group which has really no interest in whether we have a balanced budget or not.

Mr. Crawford. Have you noticed anything at all in connection with the testimony of Chairman Eccles, of the Board of Governors?
of the Federal Reserve Bank, and Mr. Baruch, who testified this
morning, both of whom advocated that we take some of these steps
to which I am referring in order to assist the Office of Price Ad-
ministration——
Mr. Paterson. Unfortunately, I was not here this morning.
Mr. Crawford. And you have not read any of the testimony that
Mr. Eccles put in?
Mr. Paterson. No; I only read the one in the paper in which he
did mention that we already had inflation and that we were expect-
ing, I believe, a 10-percent rise more inflation.
Mr. Crawford. I suggest you get the testimony of both those gentle-
men and read it.
Mr. Paterson. I will.
Mr. Kunkel. Mr. Chairman, may I ask a question?
The Chairman. Mr. Kunkel.
Mr. Kunkel. I think this underlies Mr. Crawford’s thought to
Mr. Paterson. You have a short supply and you have a big demand,
and you have to put in controls to try to make them balance. If you
can hold off the demand and decrease the demand, you will reach
your adjustment just the same as if you increased the supply.
It always seemed to me that young men who are at the head of
organizations such as yours could do a great service if they called
that fact to the attention of their membership. Because I do not be-
lieve that the demand side of the picture has been given to the public
sufficiently.
If people will wait as much as they can, it evens it out and makes
conditions better over a period of years, and it just seemed to me all
through these hearings that that has not been the proper presentation
of the public and that it is just as important as other elements.
Mr. Paterson. You mean that people should wait?
Mr. Kunkel. If they can, they should wait before they buy, and
to the extent they decrease the demand, they will be performing just
as important a service as if they increased the supply.
Mr. Paterson. I understand that that is the purpose of a war bond
campaign.
Mr. Kunkel. That is exactly it, and I think the Treasury should
have emphasized that point much more strongly in their sale of bonds,
not in order to promote the sale but in order to acquaint the public
with the importance of that element.
They did it somewhat but not nearly enough, and I believe as the
head of your organization, that you can do great service to your
country by emphasizing that point.
Mr. Paterson. I think that is particularly true with people who
have spare money to spend but for most veterans, there is very little
money left over for buying war bonds——
Mr. Kunkel. I do not mean war bonds. I mean if they think,
“Can I get this now, or can I hold off and buy it next year?”
Sometimes you might find you can not and sometimes you find
you could. For instance if you could get a house to rent these days,
with ceilings on rents you would be in a more favorable position than
if you built or bought.
Then perhaps in 2 or 3 years you can buy a much better house
for much less money. That is the particular approach, I believe,
which should be emphasized more strongly. I am just making that suggestion to you.

Mr. Paterson. Thank you; a very excellent suggestion. Thank you.

Mr. Folger. Mr. Chairman.

The Chairman. Mr. Folger.

Mr. Folger. In relation to the ceilings, prices on existing homes, Mr. Paterson, some of the members of the House thought that that would probably not be a wise thing to do.

Mr. Monroney on my left, offered an amendment which provided that while there would not be a ceiling on the first sale of the existing home, that the second sale should be the ceiling, or the price of the existing home on the first sale should be the ceiling on the second sale, so that speculation would be discouraged.

If a man could not sell the second time for more than he brought the first time, he would not be inclined to run the price up in the first instance, because he could not get more than it brought from the first sale, which seemed to me to be logical.

Then, in order to protect the veteran, or any other citizen of the country who desired a home, or maybe had to move from one place to another, that this second sale provision should not apply if he had occupied that house for 6 months as a bona fide resident.

Then he might sell the house for what it would bring. But that was done to protect the man against the speculator, and nobody could resell that except the man who had lived in the house for 6 months, and occupied it actually as a bona fide owner.

Do you not think that was a helpful provision?

Mr. Paterson. Yes; what happened to the provision?

Mr. Folger. It was not accepted, but the bill is still in the Senate. I was just hoping that maybe they might give consideration to that.

I was asking if you think we should have such a provision?

Mr. Paterson. Yes; I think any provision which would hold down speculation certainly should be undertaken at the present time.

Mr. Folger. And would that not have a great tendency to prevent speculation on these homes?

If a man could not sell it at a greater price than he paid for it, he certainly would not speculate on it.

Mr. Paterson. Yes, sir.

Mr. Folger. But if a man who bought it for a bona fide home, and that was evidenced by occupancy for 6 months, found that he had to move somewhere, that man, either you or I or some veteran, would be that bona fide home owner and could sell the house again at the market price.

Mr. Paterson. I have great respect for Mr. Monroney's judgment and I think this amendment is a very good one.

Mr. Folger. You think well of that amendment?

Mr. Paterson. Yes, sir.

Mr. Folger. That is all.

The Chairman. Are there any further questions?

Mrs. Woodhouse. Mr. Chairman.

The Chairman. Mrs. Woodhouse.

Mrs. Woodhouse. Mr. Paterson, I have been very interested in the veterans who have returned to the universities and colleges.
I wonder if you have been checking at all on the different situations in college towns, under rent control. I have been making a study and find that the men have been asked for very high rents.

In a lot of university towns under rent control, they are still getting moderate rents. I wonder if you had any information on that?

Mr. Paterson. We have very active chapters in university towns and I think they all agree that if they did not have rent control it would be pretty hard for some of them to get by at the present time, especially those who have families and children and are going to universities.

Mrs. Woodhouse. Yes; I know one university town is not under rent control and I have been interested in the rents charged, anywhere from $35 to $45 for one room.

When you have a wife and a child to pay $45 for a room is pretty high.

Mr. Paterson. I think Time magazine had a feature article on that which showed what happened in college towns where there was no price control.

Mrs. Woodhouse. That is all.

Mr. Riley. Mr. Paterson, is the interest of the returning veteran in getting a home? As a general rule he is the first purchaser is he not?

Mr. Paterson. He buys it for his own use and not for resale.

Mr. Riley. That is right, and as a rule he is the first purchaser, because the number of houses is limited, because for the past 4 years there has been a freeze on building except in defense areas, and military areas.

So that the returning veteran has to pay for a home, if he gets one, above the market, as a rule or probably more than the house is worth. I think we will all admit that. But he is the first purchaser, and he is paying that to get somebody to get out of a house so that he can get it, as a rule.

Now, some months ago, some of us thought that the most feasible way of protecting the veteran—and I think the vast majority of the people are interested in protecting the veteran—was to get appraisers, trained appraisers, to appraise the houses that were offered for sale and declare them through a local advisory committee, a qualified local advisory committee. In small communities especially, the home folks are tremendously interested in the returning veteran, and they are not going to see him cheated if they can help it. That would protect the returning veteran, to my way of thinking, far more than letting the sky be the limit on the first sale, because the veteran is paying the freight.

Mr. Paterson. I think that the whole program really depends on effective local action. I do not think any bureau in Washington, for example, can dictate what is going to happen in every community of the United States. It pretty much depends on how much interest the people of the communities have in the boys that are returning, and I think to that extent any local committee which has for its purpose to appraise houses accurately would be very helpful.

Mr. Riley. I think that is a very fine statement. When the Government wanted to sell bonds, they got local communities to sell them. When they wanted to collect community war funds, they got local communities to do it. When they wanted to help the Red Cross, they
had the Red Cross go out in the communities and it was put over because the local people had an interest in it.

This housing situation is going to be handled in the same way if it is handled successfully. We can pass laws here until we are blue in the face and it is not going to help you fellows unless something practical is done.

Mr. Paterson. Mr. Wyatt I think, feels the same way, that the ultimate success of this program depends upon local action and the interest which local communities take.

Mr. Riley. I am quite sure of it. And I for one am in favor of doing something practical and not just creating a lot of ballyhoo about it.

The Chairman. We are very glad to have had you express the views of your organization, Mr. Paterson.

Mr. Paterson. Thank you very much, sir.

The Chairman. We next have Mrs. Caroline F. Ware, representative of the American Association of University Women.

Mrs. Ware. Mr. Chairman, I have been asked to make this statement on behalf of 20 national organizations whose total membership runs up into the many millions.

I will not attempt to add it all up for you because, of course, there is some overlapping, but certainly it runs over 10,000,000 when you get them all added together.

STATEMENT OF CAROLINE F. WARE ON BEHALF OF AMERICAN ASSOCIATION OF UNIVERSITY WOMEN, AMERICAN HOME ECONOMICS ASSOCIATION, COUNCIL FOR SOCIAL ACTION OF THE CONGREGATIONAL CHRISTIAN CHURCHES, CONSUMERS UNION OF THE UNITED STATES, INC., DEPARTMENT OF CHRISTIAN SOCIAL RELATIONS OF WOMEN'S DIVISION OF THE METHODIST CHURCH, GENERAL FEDERATION OF WOMEN'S CLUBS, LEAGUE OF WOMEN SHOPPERS, INC., NATIONAL BOARD OF YOUNG WOMEN'S CHRISTIAN ASSOCIATION, NATIONAL CONGRESS OF PARENTS AND TEACHERS, NATIONAL CONGRESS OF COLORED PARENTS AND TEACHERS, NATIONAL COUNCIL OF JEWISH WOMEN, NATIONAL COUNCIL OF NEGRO WOMEN, NATIONAL CONSUMERS LEAGUE, NATIONAL EDUCATION ASSOCIATION, NATIONAL FEDERATION OF SETTLEMENTS, NATIONAL LEAGUE OF WOMEN VOTERS, NATIONAL WOMEN'S TRADE UNION LEAGUE, NONPARTISAN COUNCIL ON PUBLIC AFFAIRS OF ALPHA KAPPA SORORITY, NATIONAL URBAN LEAGUE, AND NATIONAL COUNCIL OF CATHOLIC WOMEN

Mrs. Ware. The organizations which join in this statement urging the immediate extension of the Price Control Act represent the great mass of the American people—millions of parents and teachers, urban families from settlement house neighborhoods, farm-home economic leaders, housewives, and working women from all economic levels, from every type of community, and from every racial and religious group, veterans’ wives, community leaders organized for social action in the interest of all the people.
These are responsible organizations, whose representatives speak for their members only when duly authorized on the basis of the democratic expression of the membership's voice. All of these organizations are acting on the mandate of their members in presenting their overwhelming conviction of the need for continued price control.

I wish that I had the power to convey to you the sense of urgency felt by the people for whom we speak when it comes to the question of price control. Danger that the weekly food money won't buy enough food for the family lurks in the headlines of their daily press. They are acutely conscious of the danger that rent control may break down and landlords may be able to take a much bigger slice of the family budget, and of the danger that the refrigerator or car or furniture for which they waited and saved will be priced out of reach, or that those savings will have to go for daily needs.

The present fear of inflation is immediate and unsettling to every home. Insecure as to what lies ahead, some consumers are trying to hold on to every penny, while others spend recklessly the money they fear may be worth less and less in the months ahead.

That last point bears on the point which was asked the last witness, as to restraint on the part of consumers. Many consumers who were not exercising restraint feel that unless they are assured that price control will be extended and inflation will be checked, they dare not wait for the high prices in the future.

Mr. Brown. Mrs. Ware, some of our members have to be on the floor at 4 o'clock. I think there is a caucus of Democrats. I did not set the time and I want to hear you but I will have to go. I promise you I will read everything you say here.

Mrs. Ware. Thank you, Mr. Chairman.

The decision to allow the price line to be broken by the increase in the price of steel and the accompanying new wage-price policy have turned the vague fear of inflation into the very positive recognition that substantial increases in living costs are inevitable and that unless efforts to hold prices in check are redoubled, these current increases will set off the fatal spiral of costs and prices, and bring on the even more fatal collapse. These decisions have made it imperative that Congress act promptly and decisively to demonstrate its determination to protect the people from economic disaster and to set in motion forces which will prevent this decision from turning into the beginning of the end of economic stability.

There is every indication that the need for price control will be greater for the next year than it has been at any time in the past. The pressure of accumulated savings and money to spend continues to mount, while shortages in virtually all lines remain acute.

We all know that the ultimate answer to inflation is enough supply to meet demand. But supply must meet both the demand that comes from day to day and that which has accumulated over the past years and will hang over the market as an inflationary force until the bulk of these pent-up wants have been satisfied. And we know that supplies will not catch up with this accumulated demand anywhere in the immediate future. For many months more we consumers will have to take a chance on finding a quarter pound of butter, and join the scramble for a pair of nylons. For the next year and a half or 2 years, we cannot expect to walk into a store and find a refrigerator, a sewing machine, a vacuum cleaner, or an auto.
There is no need to remind this committee of the inflationary experience after World War I. That was child’s play compared with the prospects of galloping inflation today. We have only to look at what is happening around us now—at the jump in living costs in the recent months when they were expected to decline, at the booming stock market, at soaring real-estate values, at such simple items as clothes pins taken out from under price control after VJ-day and now selling at over twice their prewar level. The situation is clearly ominous.

But what leads us to urge Congress to act immediately is the danger that this bad situation will be made worse. If manufacturers, distributors, and landlords can look forward to price freedom after June 30, or if they can even take a good gamble that price control will not be extended, they will be under a very strong temptation to hold back production, fill up warehouses, and sit out the next few months waiting for a chance to make a killing when the lid comes off and prices jump.

Delay in making clear that price control will go on will also invite a black-market boom based on the likelihood that enforcement will not catch up until it is too late. While we do not mean to suggest a general sellers' strike, for many producers are wise enough to try to get into the market as soon as possible, we know that withholding goods from the market is no idle threat. We have seen this happen in the period before the excess-profits tax went off. While we have been able to secure no estimates of just how much withholding took place in the months prior to January 1, there appears to be no doubt that in clothing especially it was very considerable.

We therefore urge that you regard the extension of price control as emergency legislation which cannot safely be further delayed. We urge that you report the measure promptly; and vote extension immediately. Only thus can you check the inflationary spiral which the steel price breakthrough has started, and prevent the inflationary gamble of a sellers’ strike.

It is essential that price control be extended for at least a full year. I am sure we all hope that, except for rent, housing and building materials, a year more will be all that is necessary. But anything less than a full year will be too short to allow for the inevitable tapering off of price control during the last months. Extension for a year means extension of effective control for only about 9 months. Whatever the date at which price control ends, the last 2 or 3 months are bound to be a period during which fewer and fewer items will be controlled and enforcement will become more and more difficult as the end draws near.

It would be tragic to repeat the mistake of recent months by again lifting controls too soon. In the 7 months since VJ-day, expected declines in prices did not materialize, rapid reconversion and mounting production left supplies still far behind demand, and it has been necessary to retrace our steps and tighten our policies all along the line. The policy to drop food subsidies has had to be reversed; controls over building materials, discarded in October, have been restored and strengthened; the program for channeling materials into essential clothing (whose continuance for even the first quarter of this year was in doubt last fall) has had to be not only continued but strengthened for the second quarter of this year. The past 7 months should warn us of the danger in relaxing controls too soon. It would be
better to err by retaining price control for 6 months too long than to open the door to inflation by stopping it 6 months too soon.

We cannot predict exactly when supplies will have caught up with demand sufficiently to bring a reasonable balance in the market, for many factors enter in. But under the most favorable conditions this will not happen soon.

Even if we meet our expanded food production goals, and European harvests are good, the world food crisis will continue to be acute. According to Theodore Schultz, foremost agriculture economist, there is no prospect that famine and food shortage conditions will come to an end in less than 18 months. Clothing supplies, especially shirts, shorts and other cotton clothing, as well as household textiles will continue seriously below demand for the coming year. Cotton textile production has been below the 1939 level.

We cannot expect the pent-up demand for durable goods to be met in a year even if production reaches unprecedented heights. When it comes to housing, the prodigious program called for by Housing Expediter Wilson Wyatt, exceeding by 50 percent the peak production of the biggest housing boom in the past would still only prevent the situation from being worse than in October 1945 without making a dent on the acute shortage at that time. Delays in launching this program and failure to provide the Housing Expediter with necessary authority to carry it through means that the housing shortage will continue to increase.

In the face of the most optimistic possible estimates as to when supply may begin to balance demand, it is abundantly clear that the dangerous pressures on prices will not be relieved by production before June 1947. It is equally clear that rent control and the control over building materials will have to be retained for a minimum of 2 years, either by extension for 2 years at this time or by reenactment of rent control again next year.

We therefore urge that price control be extended to June 30, 1947, and rent control be extended to June 30, 1948. We hope that price control over new housing and over building materials will be provided at least for the period requested by Wilson Wyatt, to December 30, 1947, preferably to June 30, 1948, and that existing houses and building lots will be brought under price control.

Furthermore, it is essential that the act be extended without any weakening amendments. Violent attacks are being directed at the principle of cost absorption which has been the heart of the Office of Price Administration’s pricing policy from the start. If Congress should modify the act so as to limit the authority to apply this principle equitably throughout the economy, the result would be price control in name only. Without cost absorption, every increase would be pyramided and cause additional increases before it reached the consumer. To legislate a cost-plus formula, as a substitute for cost absorption, would simply be to legislate inflation instead of price control. The steel price increase and the wage-price policy make it doubly important that the principle of cost absorption be retained and firmly applied. Unless the resulting increases are absorbed up to the limit, they will wreck the price structure and set off wild and uncontrolled inflation.

We believe that no important commodity can be exempted from price control if it threatens to set in motion an inflationary rise. The
announcement by the Office of Price Administration that it would have to impose ceilings on cotton if the price continued to rise above parity was met with protests and threats. Yet, quite apart from the obvious inequity of applying one set of principles to one main crop and a different set to other crops, a further cotton price increase would shove even higher clothing prices that are already the part of the cost of living which has risen most in recent months.

We believe, too, that no attempt should be made to define legislatively the circumstances in which the Office of Price Administration must remove items from price control. Needless to say, we are eager for the day when price control will no longer be necessary. But we believe that the determination of whether to take any commodity out from under price control must be made administratively in the light of the total price situation. Since before VJ-day, the Office of Price Administration has been operating according to a decontrol formula which permits suspension or exemption of an item from price control when supply and demand are in balance or the item is insignificant in the cost of living. We have examined the application of this policy for the past 7 months and find evidence that a number of items have been removed too soon. Release of too many minor items, each of which is unimportant in itself, can combine to make a real dent in the cost of living. In addition, items decontrolled because supply and demand appeared to be approaching balance have shot up in price, presumably because the pressure of general demand was so great that it distorted the normal supply and demand relationship for the particular article. Citrus fruit was, as you know, the most notorious instance.

An interesting example came to my attention this morning. In a little town out in North Dakota, the town of New Rockford, where the First Lutheran Church ordered a Hammond organ on January 26. The control over musical instruments was taken off on March 6. In January in response to its order in January 1946, the organization quoted the organ at $1,719.23. On March 28, two days after the announcement that musical instruments were out from under price control, the church received a letter saying that the price of the organ was now $2,235.34, an increase of $516.11 or 30 percent. That is just a sample of the kind of thing that we are afraid of in decontrol.

We, therefore, urge that no amendments be made in the Price Control Act which would limit the authority of the Office of Price Administration to require cost absorption, to apply controls equitable wherever needed, to use administrative discretion in releasing items from control, or otherwise to hamper the administration of price control in this difficult period.

The present act contains provisions which several of our organizations have strongly opposed in previous years, most especially, we have pointed out that the limitations which Congress has placed on the use of quality standards in price regulations have undermined price control. This weakness in the act has been vividly brought to the attention of Congress in the exhibits presented by the National Retail Dry Goods Association showing price inequities resulting from the failure to tie prices closely to quality. Although these exhibits were presented as an attack on the Office of Price Administration, they actually revealed the error of Congress which not only failed to require that prices be defined in terms of quality, but actually forbade such
definition. We need to know that goods are worth the ceiling prices marked on them and are not low-grade substitutes. Under the present law, the Office of Price Administration cannot require that we be given this assurance.

In the difficult year which lies ahead, the whole burden of stabilization cannot be placed on the price-control mechanism alone. Congress must supply also the other two supports for stabilization, subsidies and allocations. The need to continue present food subsidies was recognized in January when the plan to drop present food subsidies this spring was abandoned and the President called for continuance of subsidies for another year. When the steel-price increase and wage-price formula have been reflected in higher levels for parity and consequently higher price ceilings on agricultural products, larger subsidies than at present would be required to hold meat, dairy products, and bread prices at present levels. In addition, the use of subsidies to break bottlenecks and get production of needed building materials, without thereby pushing up housing prices beyond the reach of veterans and other lower-income families is an essential part of the Housing Expediter's emergency program.

Money spent for subsidies which make it possible to hold prices in line is an investment which yields high returns in saving the public the terrible cost of inflation.

We urge that Congress provide the authority and funds for the payment of such subsidies as are necessary to prevent increases in price for the foods now subsidized, and to hold down the prices of needed building materials. We hope that premium payments on building materials may be restored to the Patman housing bill by the Senate and accepted when the bill comes for final approval to the House.

Since authority to allocate scarce materials and to use priorities is an essential supplement to price control, we are very glad that the Second War Powers Act has been extended and that allocation authority over building materials is being provided through housing legislation. We believe, however, that the terminal dates of March 1947 and June 1947 for the Second War Powers Act and the housing bill respectively, are too early in view of the almost certain need of such authority to allocate food supplies for relief abroad and to allocate building materials beyond those dates, with the possibility that production control may still be needed for some textiles. Although we know that this is not the committee responsible for recommending extension of the Second War Powers Act allocation authority is so integral a part of the stabilization machinery that it cannot be ignored in discussion of extension of price control.

We cannot close this statement without pointing to the need for adequate appropriations if price control is to be a reality in the coming year. Although this is not the committee which determines appropriations, it is in a position to influence the decision by indicating in your report on this bill, your recognition of the need for sufficient funds. At no time has the task of administering and enforcing price control been more difficult and demanding that it is now and will be in the months ahead. For this task, the Office of Price Administration will need to be kept at its present strength, especially since the field organization of the War Production Board which formerly enforced the regulations on civilian production has
been disbanded, leaving the Office of Price Administration to carry the whole load alone.

Furthermore, the Office of Price Administration staff should not be required, by a policy of retrenchment, to spend time in administrative reorganization which absorbs energies and undermines morale. There should be no repetition of the months after VJ-day when, because of consolidation of local boards and district offices, much of the energies of the Office of Price Administration staff went into disposing of desks, dismissing or reassigning personnel, and arranging records rather than into administration of price control.

We urge that your report on this bill make clear the need for sufficient appropriations to maintain a price control administration which can carry out and finish the difficult task assigned to it.

In conclusion, may we again remind this committee that the many millions of plain citizens who make up the organizations presenting this statement, look to the Congress to pass legislation which will meet the needs and reflect the desires of themselves, their families, and their neighbors. They desperately need price control for another year. They desire it earnestly. On their behalf, we urge that you act now.

Mr. Monroney. Thank you very much for your most excellent statement, Mrs. Ware. I regret that more Members could not be here to hear the rest of the statement because of the caucus. However, it will be printed in full in the record and I am sure the Members will read it there.

Mr. Hays. I would like to add my appreciation for your fine statement, Mrs. Ware.

Mr. Monroney. Mr. Wolcott.

Mr. Wolcott. Did you give any thought to our not getting butter?

Mrs. Ware. Yes, we are not getting butter for one reason, because there is no ceiling on the price of cream, so the cream that would otherwise be going into butter, is going into cream, and the limitation order on the sale of heavy cream was removed in that originally after VJ-day when many of the controls were being removed, so there is no limitation on the amount of cream that can go into heavy cream and so we are getting heavy cream instead of butter.

That is one of the reasons.

Mr. Wolcott. Do you think Congress should take cognizance of that fact?

Mrs. Ware. If it takes cognizance of that fact, I think it should indicate its desire that administratively that the limitation controls, which were existent, should be restored. It was by administrative decision that they were removed and they can be restored by administrative order.

Mr. Wolcott. How would you do that?

How could we do that, by legislation?

Mrs. Ware. It is primarily, I think, a matter of legislative intent. I think that if the administrative agencies understood that Congress wanted those limitations to continue, that they would be more than willing to act administratively. The authority is there. Authority is contained in the Second War Powers Act.

Mr. Wolcott. That is why I am asking that question; “What legislation do you think we should enact to correct that?”
Mrs. Ware. No legislation is needed. But, of course, administrative agencies are interested in knowing what Congress would like them to do administratively.

Mr. Wolcott. They know do they not?

Mrs. Ware. Do they know that you want the limitation order on cream restored, I should say.

Mr. Wolcott. I would think that they would know that the Congress is very anxious that we have enough butter and enough cream, and that their policy would be such as to put butterfat to cream instead of butter that they would make administrative adjustments to get it.

I do not think we need to spell out the fact that we want to stimulate our economy to do that. The thing that is bothering this committee now is what legislation is or might be necessary to compel the Office of Price Administration and other agencies to adjust their controls so as to benefit our economy.

Do you have any suggestions along that line?

Mrs. Ware. Well as I said, I would simply repeat it, urging that you reenact the Price Control Act without spelling out further directives.

Mr. Wolcott. How would that get butter?

Mrs. Ware. It would not get butter.

Mr. Wolcott. We want butter. I do not buy a lot of butter but other people do.

Mrs. Ware. In the first place, maybe butter is not as important as all that. That is maybe whole milk is a better use of milk. In the second place, maybe what we actually need is a stimulus to the production of oleomargarine to supplement the available butter.

Mr. Wolcott. We have none outstanding.

Mrs. Ware. And actually what we need, of course, at the present time, is a restoration of rationing on butter.

Mr. Wolcott. What can the Congress do legislatively to assure enough women’s hose, whether nylon, silk, rayon, what can we do? I ask that question seriously.

Mrs. Ware. Yes.

Mr. Wolcott. Stores back in Port Huron carried full half-page ads advising their customers that if they want nylon or rayon to write their Congressman. They put out postcards on their counters, and all the customer has to do is to sign them and send them in.

In the last 10 days, I received over 2,000 of those from my own county, demanding that the Congressman give them nylon. What are we going to do?

Mrs. Ware. I think they are putting you on the spot quite unjustifiably because I do not think you can go out and get nylon off trees.

The production of nylon is increasing and presumably, eventually it will catch up with demand when we have decent distribution of what we have.

Mr. Wolcott. The same thing is true of rayon hosiery, is that right? Why is there a shortage there?

Mrs. Ware. Again because the limitation order was taken off too soon.

Mr. Wolcott. Why do they not put it back on?

Mrs. Ware. You will have to ask the Civilian Production Administration.
Mr. Wolcott. If we were to extend the Office of Price Administration Act, the Stabilization Act, as of today, would that have any effect upon the supply of butter, and rayon hosiery?

Mrs. Ware. It would have only the effect that stable prices, or that the expectation of stable prices, for the coming year is the best stimulus which can be given to production at the present time. It would not break specific bottlenecks.

Mr. Wolcott. I think you and I agree that the reason women are not getting rayon hose today is because they rescinded the order which was channeling rayon yarn into the manufacture of hosiery.

Mrs. Ware. That is right.

Mr. Wolcott. You would not want us, of course, to administer the law; even lay down general rules.

Mrs. Ware. That is right.

Mr. Wolcott. I just used butter and nylons as two examples. Do you not think that that prevails to a point where, because they have or have not continued controls, that it is interfering with our economy, and that the Congress has an obligation to take cognizance of that by providing some new rules?

Mrs. Ware. For butter and nylons, no.

Mr. Wolcott. I say I am just using those as an example.

Mrs. Ware. Well, it seems to me, as I have said—

Mr. Wolcott. Because, of course, we have our files full of instances of that nature. The same thing applies to work gloves. We are told here that there is a terrible shortage of work gloves. And we are told also that that is an administrative deficiency and not a legislative deficiency.

Mrs. Ware. That is right.

Mr. Wolcott. How can we correct those things legislatively?

Mrs. Ware. The only thing that you can do is to see to it that in the face of these continuing shortages, there is continued price control, and that, in the face of the need for expanded production, there is the assurance of stable prices, which means stable costs, for the coming year, in order to stimulate production. And insofar as you communicate with the administrative agencies, which have made, in your opinion, errors in judgment in removing restrictions too soon, you can indicate your opinion that these administrative agencies should restore those restrictions. In the case of butter, in view of the world shortage and the famine conditions, there are many of the organizations for which I have presented this statement who are now urging a return to rationing.

Mr. Wolcott. On page 3 of your statement appears what is to me a paradox. In the third paragraph, last sentence, you say, "Whatever the date at which price control ends, the last 2 or 3 months are bound to be a period during which fewer and fewer items will be controlled, and enforcement would become more and more difficult as the end approaches."

Mrs. Ware. I do not see your question. Enforcement of remaining controls, I should perhaps have said.

Mr. Wolcott. Then, what would you do about that? Would you take them off gradually?

Mrs. Ware. They are being taken off gradually. There is every prospect of their being taken off gradually, and my only reason for
making that statement was to indicate that at least a year's extension is necessary in order to allow for the inevitable tapering-off period. If the extension is for less than a year, then effective control is for even less.

Mr. Wolcott. Then you say that whatever the date at which price control ends, the last 2 or 3 months are bound to be a period in which fewer and fewer items will be controlled and enforcement will become more and more difficult as the end draws near. Do you mean enforcement on those articles on which there is control?

Mrs. Ware. That is right.

Mr. Wolcott. Then, why do they take control off the others? Are they competitive goods?

Mrs. Ware. The formula under which the Office of Price Administration has been taking off controls is twofold when it appears that supply looks as if it is catching up with demand, or if the item is relatively unimportant in the cost of living.

Now, as supply catches up with demand, during the coming year, presumably more and more items will be taken off from price control. And the items which are relatively insignificant will be presumably dropped. In other words, present administrative policy envisions a tapering process rather than the process of holding everything up to the last moment, and then, at that moment, dropping everything. I merely have reference to what is now administrative policy.

Mr. Wolcott. At the bottom of that same page you say, “Cotton textile production has been below the 1939 level.” Do you know why that is?

Mrs. Ware. Primarily because there has been no labor in the cotton mills; primarily because of the low wages.

Mr. Wolcott. Do you know why there was a sudden rise of citrus fruits when they took controls off?

Mrs. Ware. It was partly a matter of a transportation bottleneck, I understand, which had not been calculated. I do not know what the whole story was.

Mr. Wolcott. Seasonal declines, too?

Mrs. Ware. In any case, there appeared to be sufficient, but when the controls came off, the result was a jump in price, which consumers found in the stores when we went to buy.

Mr. Wolcott. Do you think that any manufacturer will manufacture any commodity at a loss?

Mrs. Ware. I am sorry, I did not hear you.

Mr. Wolcott. Do you think that manufacturers will continue to manufacture any article at a loss?

Mrs. Ware. I do not think manufacturers will run their total business at a loss. But each businessman makes his own calculations as to how he is going to make his general profit.

Mr. Wolcott. Well, we will take a manufacturer of cement blocks, who also makes bricks. Do you think he is going to manufacture bricks at a loss even though he makes a small profit on cement blocks?

Mrs. Ware. That is his business decision. I do not know.

Mr. Wolcott. If he decides that he is going to go out of business and no longer make bricks, then we would still continue to have the
shortages in the brick industry, which necessitates the continuance of price control on bricks, would we not?

Mrs. Ware. That is right.

Mr. Wolcott. You and I are in accord, I see. The answer to all of our economic dilemma is production?

Mrs. Ware. Certainly.

Mr. Wolcott. You think the Congress should do everything it possibly can to encourage full production so that these controls can safely be taken off when supply reaches demand?

Mrs. Ware. Certainly. And that is why we were so very sorry to see the premium payments on building materials not included in the Patman housing bill when it was passed, because it was a way of stimulating production of needed building materials.

Mr. Wolcott. Do you know, Mrs. Ware, that they had the authority to pay premium payments on all of those materials since 1942?

Mrs. Ware. They need some money to pay it.

Mr. Wolcott. Do you know they have had that authority?

Mrs. Ware. What did you say?

Mr. Wolcott. Do you know that they have had the authority to pay premium payments or subsidies, whatever you might call them, since 1942, on building materials?

Mrs. Ware. They have used the subsidy authority for some materials, of course, like copper.

Mr. Wolcott. Copper, lead, and zinc.

Mrs. Ware. Yes.

Mr. Wolcott. Then, why have they not asked for the same authority to use it on soil pipe, cast iron soil pipe, which was needed, or lumber? They know that the authority is there because, as you say, they have been using it on copper, lead, and zinc. Why did they not use it on these other building materials?

Mrs. Ware. I do not know the answer to that one.

Mr. Wolcott. Do you know what Mr. Wyatt's program is on premium payments?

Mrs. Ware. Yes. It is for the use of premium payments for the extra production beyond what would be produced, if the premium payments were not paid.

Mr. Wolcott. In what field?

Mrs. Ware. That, I do not know, beyond the general field of building materials.

Mr. Wolcott. Well, the general field covers so—I do not know how many hundreds of items. Do you know that at the present time Mr. Wyatt has not submitted any program to this Congress as to how any part of the premium money which he asked for is going to be spent? That he asked for a blanket $600,000,000 to be spent as he determines it should be spent?

Mrs. Ware. I am sure he would be glad to submit such.

Mr. Wolcott. He has not been able to submit it and we have asked him for it. So he would not be glad to submit it if he does not know it himself. Do you think the Congress would be justified in giving Mr. Wyatt or any other individual $600,000,000 of good, hard, cold American cash to spend as he saw fit without any standards or guides in spending that money?
Mrs. Ware. If the Congress was convinced, as we are, that it was necessary in order to get homes for veterans immediately. At prices which they pay.

Mr. Wolcott. Well, the reason why we are not convinced is because he has not laid down the program as to how he is going to spend it. If you had the responsibility of saving the taxpayers' money as we have, and an administration official said, "I want $600,000,000, and do not ask any questions as to how I am going to spend it," what would you do? It is self-evident, is it not?

Mrs. Ware. I think it is self-evident that unless something is done very fast to keep the housing situation from getting worse, that we are going to be not only in the crisis we are now in but in an even worse crisis, and that certainly is worth some of the kinds of risks which the Congress and all the rest of us took during the war with things a lot more valuable than money.

Mr. Wolcott. Do you believe in applying that same philosophy to all commodities?

Mrs. Ware. I certainly do not think that—

Mr. Wolcott. Think before you answer that one. How about the dress that you are wearing? Would you want the Government, if you were not getting textiles sufficient to assure you a dress occasionally, would you want the Government to pay the textile industry a subsidy in lieu of a very small well-controlled increase in price which might assure production?

Mrs. Ware. If there were no clothes for veterans to get into—

Mr. Wolcott. Leave the veterans out of this now.

Mrs. Ware. Well, I am not. Why should I leave the veterans out when we are talking about veterans' houses?

Mr. Wolcott. We are talking about the general economy. And we have had so much superficiality and demagoging in this housing field with respect to veterans that I am at last going to insist that we give thought right across the line to our economy. The veterans are a very important part of it and no one has the veterans' interests in mind any more than I have. I came back here after the last World War and paid $100 for the first suit that I bought. I am conscious of what is happening to the veterans at the present time. But we can help the veterans by stabilizing our entire economy, and that is our obligation. Now, I am asking you this: Of course, the veterans and the veteran's wife would, according to your standards, benefit indirectly from the subsidy paid on the dress that you are wearing.

Mrs. Ware. That I am wearing?

Mr. Wolcott. Well, I am not personal about it.

Mrs. Ware. Certainly, the principle which applies to the production of housing needed for veterans' families—

Mr. Wolcott. They need clothing, too.

Mrs. Ware. Applies also to basic clothing.

Mr. Wolcott. They need shoes.

Mrs. Ware. It applies also to basic foods. Now, we are advocating the continued use of subsidies in order to keep basic foods down. We are continuing, and we are advocating, the continuation of controls, allocation controls, in order to route scarce cotton into essential clothing. And by the same token we are asking for the necessary measures to get essential housing at a reasonable price.
Mr. Wolcott. You understand, of course, that in all other instances, the program has been laid down, we are given estimates as to how much it is going to cost, and where the money is going to be spent, excepting in the housing field, where it does not seem to be any of Congress' business as to how this $600,000,000 is going to be spent. Getting back to our obligation—which is public and not private—do you not think that we have a responsibility to determine that the taxpayers' money is spent judiciously and equitably?

Mrs. Ware. You have responsibility to act in everything in the public interest, of course.

Mr. Monroney. Will you yield?

Mr. Wolcott. Yes.

Mr. Monroney. Is it not a fact that for about 2½ years the administration had carte blanche subsidy use without any restriction imposed upon it whatsoever by Congress? They decided whether they would subsidize dry beans or milk, and how much, and it is pretty late to draw a line against the use of building subsidies—

Mr. Wolcott. You are absolutely wrong, and you know you are. When we appropriated $258,000,000 for the crop program, we knew what that program was. When we legislated subsidies for butter, we knew that 5 cents was going to be paid on each pound of butter.

Mr. Monroney. How, other than the general one phrase in the bill? That was the only restriction you had. And you went along 2 years with it.

Mr. Wolcott. We would like to know what subsidies Mr. Wyatt is going to pay for brick, sewer pipe, lathes, or anything else, lumber, and so on. All we have asked—and it is a very reasonable request—is that he tell us, just as the War Foods Administration told us, just as the Reconstruction Finance Corporation told us, just what they were going to use these subsidies for. We do not want any more information than that. We want just as much as we got from the other agencies, in order to decide whether it was advisable to appropriate money for the subsidies or not. It was very well known, and the record is full of testimony as to how much of a subsidy was going to be paid on copper. It was the difference between the high-price producers of copper and the low-price producers of copper, which was about 4 cents, to begin with, and then it was increased to about 5 cents. We have always had, generally, at least, what the subsidy was to be paid for, and to whom it was to be paid. Do you not think we have a right to know from somebody where this $600,000,000 is going to be spent?

Mr. Brown. Will the gentleman yield to me there? I think, in fairness to Mr. Wyatt, he knew that in the Patman bill subsidies were to be paid to the builder. After we reported the bill to the floor of the House, he came out for subsidies to be used in producing these materials.

Mr. Wolcott. We are all somewhat amazed at the fact that he came out for them after weeks of hearings we had here, after the coolness which he and the rest of the administration witnesses showed for subsidies, and all of a sudden subsidies became the heart of the program. Then we tried to find out if it was the heart of the program, what this heart looked like, and we were not able to get the information as to the shape of the heart. It might have been in the form
of a skull and crossbones, as far as Congress was concerned. We were not supposed to know that. We must, of course, have some general program as to how the money is going to be spent, and all we have asked is that he gave us that, and we have not been able to get it yet.

Mrs. Ware. In a situation where it will take 50 percent more building than in the peak of any building year in the past to keep from getting worse than on October of 1945, anybody charged with the job of Housing Expediter has got to be very exploratory, and very resourceful.

Mr. Wolcott. Well, I think we have an obligation to see that these people are not too resourceful with other people's money, because on $600,000,000, it costs us——

Mrs. Ware. If the alternative is being negligent with other people's lives, I think that has to be weighed.

Mr. Wolcott. It costs us 4 percent to carry that debt. It is not just a question of giving somebody $600,000,000. It is a question of raising the money with which to finance it, and in raising it, we have to pay interest. And the people have to pay it. I am just bringing this out to show that you cannot approach this superficially and say that any one particular matter or suggestion is the panacea of our economic ills, and it is our job here to see this whole picture. I think we have known pretty well for some time, through our correspondence, that all of these organizations which you have mentioned, or many of them, are in favor of continuance of price control without any crippling amendments. And we are very glad to have this very splendid statement of your position on the matter. I think we have known pretty well for some time, through our correspondence, that all of these organizations which you have mentioned, or many of them, are in favor of continuance of price control without any crippling amendments. And we are very glad to have this very splendid statement of your position on the matter. I hope that you appreciate also that we have the public interest at heart and that we are obligated to know and consider these things. We would not be doing our job under our Constitution if we did not consider all these points. I wish you would read our mail. I wish you might go through our files, and see the complaints which are made by women, from your own organizations, to the effect that we are not getting production. Then, they expect us to find the answer to why we are not getting production and legislate accordingly.

Mrs. Ware. That is just what we are asking you to do in maintaining price stability as the best way to stimulate production.

Mr. Wolcott. Would you differentiate between price stability and price controls?

Mrs. Ware. Price control is a means of price stability, supplemented by subsidies and the authority to allocate materials.

Mr. Monroney. In the whole tone of this statement, there is the fact that in our enthusiasm after VJ-day, we did decontrol too quickly on too many things, and, as a result, butter is short because cream went into ice cream and heavy cream, and we wind up without sufficient butter.

We decontrolled on fabric limitations and, as a result, it has gone into other things than hose. The very thought of your whole statement is, "Look out, here is the big one. This is the $64 question, and if you cut loose on this one, grab your hat, because the hurricane will really blow."

Mrs. Ware. That is right.
Mr. Wolcott. I presume you mean by the $64 question doing away with it altogether.

Mr. Monroney. Or cripple it. I think Mr. Bowles said that rather than operate the Office of Price Administration without arms or legs, we better follow the National Association of Manufacturers and get rid of it. But I think we can avoid these things which from the past cast their shadows ahead as to what we will be running into.

Mrs. Ware. That is right.

Mr. Monroney. I do not wish to belabor the subsidy issue much longer, but I do know from my own intimate knowledge that, unless you had special information, Mr. Wolcott, that this committee did not authorize specific subsidies, and had no outlined program for them until after the first year of operation, and subsidy operation must be highly selective. To be economical it should be given a great administrative leeway so that you will not force, through tariff-writing tactics, the extra money which is not actually needed to do the job.

Mr. Wolcott. When it became apparent that they were abusing the authority, the broad authority, which we had given them to pay subsidies, I remember very clearly that, in taking cognizance of that situation, we had to write very specific rules into the act to restrict their operations in that field. We have had that experience. We do not need to make the same mistake all over again.

Mr. Monroney. It was one of my amendments to finally put a limitation as to dollars on the subsidy. I offered an amendment to try to limit them to $900,000,000 a year, the first limitation that had ever been put on even as to the number of dollars and cents. The sky was the limit.

Mr. Wolcott. A very intelligent thing to do, because if we did not put some restriction on the amount, they would abuse the power which they had.

Mr. Monroney. They had to do it. You did a public service in presenting the amendment.

Mr. Brown. I heartily agree with you, Mrs. Ware, and the women you represent, that we must continue price control.

Mrs. Ware. Thank you.

Mr. Brown. Now, I fought all amendments a year ago. I am convinced that if we get price control extended, you have got to have some amendments this time. I do not mean crippling amendments. And we may differ about some of them. I want to ask you about this particular one. Do you not think that when production equals demand, price control ought to be taken off the commodity?

Mrs. Ware. That is the administrative policy under which the Office of Price Administration has been operating since before VJ-day.

Mr. Brown. All right. Now, why do you object to placing that authority, we will say, as to agricultural products, in the Department of Agriculture to certify to the Price Administrator, and in the Civilian Production Administration to certify to the Price Administrator as to everything else? You are not going to get this bill through with the idea of leaving it up to the administrative procedure, and I do not see how an amendment like that would hurt. I want to help you people, but at the same time I want to get something reasonable that we can get through the House.
Mrs. Ware. We feel at a given moment supply and demand appeared to be in balance, you could be sure that they would stay in balance—

Mr. Brown. All right.

Mrs. Ware. And you could be sure that there was no speculative factor, as in the case of cotton, for example, at the present time, as in the case of real-estate values, as in the case of stock, that there was no pressure of money seeking an outlet which would not normally go there, but which will go there and shoot prices up, if there were not those factors to be taken into consideration.

Mr. Brown. I am going to write an amendment to take care of everything you say, that when acute demand is satisfied by production, and that is certified as far as agricultural products are concerned by the Department of Agriculture, and as far as other things are concerned by the Civilian Production Administration, price control shall be lifted. I do not see how anybody on earth can object to that kind of an amendment in this bill. And I am satisfied we have to have something like that. We have inflation when production and demand are out of balance.

Mrs. Ware. That is right.

Mr. Brown. Why in the world anybody can object to such an amendment, I do not know. Members of Congress want it written in the bill, and I think it will relieve the Administrator of a great burden. He has more than he can do now. Let the other people look up the figures. Let the Department of Agriculture decide on agriculture. Let the Civilian Production Administrator, who has facts on production, work up and certify to the Administrator when production equals demand, and then let the Administrator take off controls. I do not see how anyone can object to that. It is plausible and reasonable.

Mrs. Ware. It is plausible, and it is what is being done administratively, but there are these factors of speculation and of money looking for a place to go, which make the calculations as to what normal demand is, not turn out to be the actual demand when the price lid comes off. So it seems as if it would be wiser—and it is a matter of wisdom rather than principle—

Mr. Brown. Well, suppose we had a sufficient supply of everything, every commodity, every article to meet demand, would you want any kind of control?

Mrs. Ware. There certainly would not be that situation before June 1947.

Mr. Brown. If we have sufficient supply of every commodity to meet demand, would you need price control?

Mrs. Ware. So that there was no inflationary pressure; no.

Mr. Brown. All right. Then when some commodities reach that stage, there is no reason in the world why you cannot decontrol those commodities.

Mrs. Ware. If the other factors were not present; that is, if one part of the economy—if, in one part of the economy, there is still a great excess of demand, that is, this hot money looking around for a place to go, and there is an area where it can go, without restraint, then, there is a natural tendency for it to rush in there, and what looks like a normal balance of supply and demand may turn out to be just a hope of speculation.
Mr. Brown. Under your theory, I do not see when we are ever going to get rid of price control. I would like to get rid of it. I want to extend it now, and I am for extending it, but I think if we are going to do it we want careful amendments, and I cannot see that this kind of amendment would be crippling in the least.

Mrs. Ware. Under your hypothesis, when all supply is equal to all demand, or an overwhelming majority, then, your inflationary pressures are gone, and there is not this money looking around for some place to go, which goes into speculation, in commodities which are otherwise in reasonable supply.

Mr. Brown. Suppose we have a certain commodity in which production is equal to demand. You do not have pressure there. People do not go out to buy and bid against each other.

Mrs. Ware. Why the speculative increases in cotton prices which have occurred lately?

Mr. Brown. I did not know there had been any speculative increases. As a matter of fact, it has been held down by the mills because they have ceilings on the items. There are ceilings on the textile items. Those are controlled. Controls are on the textile items. There is nothing inflationary about cotton. Cotton would be bringing twice as much today if it had the same treatment which industrial labor has. That is something a lot of people do not understand. Cotton is not bringing nearly what it ought to if the people producing cotton got equal pay with those working in industry. Cotton has not reached anything like what it ought to reach to pay labor producing cotton the same amount as you pay labor in industry. I am not objecting to what industry labor gets. I think these men work hard and deserve good pay.

Mrs. Ware. My reference to cotton had relation to the supply and demand situation, rather than to the cost of production.

Mr. Brown. That is all.

Mr. Monroney. Mr. Talle.

Mr. Talle. Mrs. Ware, will you turn to page 2 of your statement? The second paragraph. I read there:

The decision to allow the price line to be broken by the increase in the price of steel and the accompanying new wage-price policy have turned the vague fear of inflation into the very positive recognition that substantial increases in living costs are inevitable—

and so forth. I assume that you consider that quite important, because you have mentioned it in two other places in your statement. You do consider that very important?

Mrs. Ware. It is important in making all the more necessary the maintenance of existing controls and the maintenance of the cost-absorption policy to absorb all that can be absorbed of the increases arising from this source; yes.

Mr. Talle. Well, I want to say for myself that the fear of inflation was not vague in my mind before this occurred.

Mrs. Ware. Perhaps that was an unfortunate choice of words.

Mr. Talle. No; no. I do not object to it at all. That is quite all right. But I wanted to make sure that you considered that extremely important, as I assumed that you did.

Mrs. Ware. And, leading to the conclusion that we need to do everything that we can to keep what Mr. Bowles calls a bulge a bulge, and not a break-through.
Mr. TALLE. I think you were more realistic. You call it a broken line. Now, you represent 19 national organizations, do you not?

Mrs. Ware. Twenty, I think.

Mr. TALLE. And how many million people?

Mrs. Ware. I do not know exactly, because I do not know how many of the members of the Parent-Teachers Association happen also to be members of the General Federation of Women's Clubs. But I do not think that 10,000,000 is too far off.

Mr. TALLE. Am I right in assuming that at the time when this issue was being discussed, your organizations were aware that the issue was not a matter for Congress to deal with. It was the business of the Executive Department of our Government.

Mrs. Ware. This steel wage-price issue?

Mr. TALLE. Yes.

Mrs. Ware. Yes.

Mr. TALLE. It was the business of the Executive Department, and certain agencies carried on the discussions and negotiations?

Mrs. Ware. Yes.

Mr. TALLE. And those negotiations, by the way, continued for some time, did they not?

Mrs. Ware. Yes.

Mr. TALLE. Now, I assume that at that time you no doubt filed a letter of protest, or appeared to tell the people who would make the decision that you were against that sort of thing?

Mrs. Ware. Yes.

Mr. TALLE. You did do that?

Mrs. Ware. Yes. At least, what I should say is that several of the organizations who are listed here—not all of them, but several of them—communicated with the President and communicated with the other responsible administrative agencies on the subject during the time when the question of the steel price was under discussion, and urged that whatever decision was made with respect to the price of steel and the wage-price policy, that every effort be made to hold the existing price line.

Mr. TALLE. I think it would be a useful thing for our record—the record of our hearings here—to have copies of those protests. Will you be willing to supply copies of those protests for our record?

Mrs. Ware. I will collect as many of them as I can; yes. They are in the nature of urging action to hold the line, rather than protests on what happened. I wanted to make clear what their nature was.

Mr. TALLE. Mr. Chairman, I ask unanimous consent that those statements be inserted in the record.

Mr. Monroney. Without objection, they may be inserted in the record.

Mr. TALLE. That is, the formal protests that Mrs. Ware, representing these 20 national organizations, filed with the proper executive department officials in objection to the wage-price policy which was being considered.

Mrs. Ware. Mr. Talle, may I make myself clear? I did not file, myself, any protest.

Mr. TALLE. You did not?

Mrs. Ware. No; not myself. But several of the organizations on whose behalf I was asked to make this statement, to my knowledge, did communicate with the President, prior to the decision, urging
that the existing price line be held. Now, I can secure several of those for you, if you think that it is of any value.

Mr. Talle. In other words, you did not undertake to represent these 20 national organizations in formal protest against what was being proposed?

Mrs. Ware. No; I had not been asked to do so.

Mr. Talle. Well, that was what I wanted to know.

Mrs. Ware. I was afraid there was a misunderstanding, Mr. Talle.

Mr. Talle. That is all, thank you.

Mr. Monroney. Mr. Folger.

Mr. Folger. No questions.

Mr. Monroney. Mr. Kilburn.

Mr. Kilburn. I was wondering, Mrs. Ware, if you believe that production is the best guard against inflation.

Mrs. Ware. Of course.

Mr. Kilburn. We have had quite a few witnesses whom I presume to be sincere, honest, able people, who have been fearful that price control, as it is now administered, is hurting production, and some of them even went further and said that the Office of Price Administration, as it is presently administered, is tending to increase inflation due to that fact.

Mrs. Ware. Well, it is pretty hard to see how the Office of Price Administration or anything else can be stifling production at the present time.

Mr. Kilburn. Why?

Mrs. Ware. When production is at an all-time peak, when there are not half the persons unemployed that were expected by all the forecasts before VJ-day. In other words, we have people working, producing something. Now, there may, of course, be individual places where production is not taking place, because of a price inequity, and one cannot pretend that everything is perfect. But people are working, producing something. And that, in itself, is evidence that at the present time there cannot be a general damper on production. Now, when it is a matter of looking ahead, it seems to me, as I have repeated before, that the one thing needed in order to stimulate further production, and continually expanding production, is assurance of price stability, so that there will not be this terrific uncertainty, when nobody knows what is going to happen.

I was here the day that Mr. Kaiser testified, and I was tremendously impressed by his saying that he would do what any other good businessman would do if he did not know what was going to happen to his costs; jacking up his prices and get all he could and then get out.

Mr. Kilburn. Were you here the day that man testified who had 75 lumber mills—who owned 75 lumber mills?

Mrs. Ware. No; I was not here that day. Of course, price increases have been given and given and given on lumber, and the production, I understand, has still not responded. So it is hard again to see how prices can be keeping down lumber production.

Mr. Kilburn. I was just going to say that he testified that he had 75 mills, and he had closed down all but 26 of them. Another man testified he had 7, and he closed down all but 2 and was going to close those 2, due to Office of Price Administration regulations or price controls.
Mrs. Ware. Considering the fact that the Office of Price Administration has given one increase after another to the lumber industry—I do not know what segment of the lumber industry this was, and I am not an expert in lumber, and I do not know, but they have given increase after increase to the lumber industry.

Mr. Kilburn. In other words, I do not think this—I do not think price control is the only thing we have got to shoot for. I do not think we have to keep price control on the rest of our lives to have a normal American way of life. I think what we need to do is to get production.

Mrs. Ware. That is right.

Mr. Kilburn. Now, the problem of this committee, in my view, is to pass such legislation that will get us production, and I do not think it is the answer to just come in and say, "You control everybody, and you will get production." I do not know that that is the answer. I am seeking light.

Mrs. Ware. But you have surely got to control prices during this catching-up period; that is, it is not forever. Of course, it is not forever. But we do have a problem of catching up. And we have got to give ourselves time to catch up.

Mr. Kilburn. Of course, if the Office of Price Administration sets a price on any commodity that is so low that the man who makes it is not going to make money, you are not going to get production, as apparently, according to the testimony, that has been happening in different industries and different cases.

Mrs. Ware. But by the standards which the Office of Price Administration applies, it grants a price increase under its regular pricing standards at any point where profits are falling below their pre-war level, and in most cases the prices are away above that. So that does not seem realistic.

Mr. Kilburn. One other question, and then I will be through. When, in your opinion, should the Office of Price Administration be done away with?

Mrs. Ware. We are asking for extension for a year. We do not believe that controls over rents and probably over building materials can be terminated at the end of a year. We certainly hope that production in the coming year will make it possible to terminate other controls by the end of this year. That is a hope.

Mr. Kilburn. Of course, if it is true that the Office of Price Administration now has the tendency, in some minds at least, to reduce production, you will never reach that point.

Mrs. Ware. But we certainly do not think that it makes sense to say that the Office of Price Administration is holding down production, except where there may be imperfections, and no administrative agency, no Congress, no family is perfect all down the line. I am sure you can pick out imperfections. But I do not think that we can accept the idea that the Office of Price Administration is, in general, holding down production, and it would certainly seem very unwise to discard these necessary controls because of a few imperfections. We will not get anything perfect in place of it.

Mr. Kilburn. I do not think that if we pass this price-control law, and just say to Mr. Bowles, or whoever is running it, "You go ahead and run it the way you want to"—I do not think that is going to be the answer in getting production according to past experience. There
are dairies down South where they put on a price of 11 cents until they went out of business, and now they are shipping in milk from Wisconsin selling from 21 cents.

Mrs. Ware. But the over-all production picture is more than 50 percent above any peacetime peak in the past. Unemployment is way, way below what anybody ever expected; and, in the face of that over-all picture, I do not see how we can say that the Office of Price Administration is, in general, holding down production, even though you can find imperfections. I just do not see how they can say it.

Mr. Monroney. The department-store sales showing a 15-percent increase over a year ago, indicates that some merchandise must be coming through, and this “chamber of horrors” that we saw over here in the House Office Building might not quite represent the true picture.

Mrs. Ware. That is right.

Mr. Talle. The trouble is, Mr. Chairman, that the people are not getting the things they want.

Mrs. Ware. They are getting a lot of things they want. I do not know what particular thing you have in mind, unless it is nylons again.

Mr. Talle. They want houses, automobiles, refrigerators, radios, and nylons. They cannot get the things they want.

Mr. Monroney. But you always show up in a reconversion period short of some things and long on others, and it is going to take quite a while before you fill the civilian pipe line with everything that the country can produce. I think you will have more under proper pricing and cost control than if you take those controls away and let everybody stampede in for the supplies that are there.

Mrs. Ware. It is horrible to think of. After all, it did take us some time to get converted from peace production to wartime production. And we have done a very wonderful job, for all the things we have criticized since VJ-day.

Mr. Monroney. Do you have any questions, Mr. Riley?

Mr. Riley. No.

Mr. Monroney. Mrs. Woodhouse?

Mrs. Woodhouse. I notice we had a good deal of discussion here this afternoon about business feeling that production had fallen off because of the Office of Price Administration. It might be a minor matter, but of these 10,000,000 women whom these organizations represent, am I correct in thinking that a fairly good proportion of them are married to businessmen, and many of the manufacturers?

Mrs. Ware. Yes.

Mrs. Woodhouse. And it takes a considerable period of time for a program like this to be completed, does it not, and to go through? I mean a number of months? So it would not be unreasonable to suppose that these women might have discussed these things with their husbands and might not be reflecting their ideas?

Mrs. Ware. I do not know how independent they are in their own views, Mrs. Woodhouse. I would hesitate to say that they are speaking for their husbands, but I should not be surprised if there are not a lot of family discussions on the subject.

Mrs. Woodhouse. If they had been told that production was falling off and that the consumer was going to be much less well off than she is
at the present time, would you not at least have an inkling of it in your discussions?

Mrs. Ware. I think so.

Mrs. Woodhouse. The point I have had in mind is: I have been wondering how much these discussions of production falling off do not represent just very highly organized interests and not especially the businessman in general over the country, whom these women represent. The other question I had in mind was this: Have you noticed any change in the low-priced clothing since the Office of Price Administration program has definitely lifted? Some of my mail would seem to indicate that women's inexpensive dresses, particularly, are coming onto the market in much better volume.

Mrs. Ware. Yes.

Mrs. Woodhouse. Does your organization reflect that?

Mrs. Ware. Yes, and I would like to defer that question, if I may, to Mrs. Lowe of the Parent-Teachers Association, who has a brief supplementary statement to make specifically on clothing. Yes, low-cost clothing, at reasonable prices, is beginning to come onto the market, and we welcome it.

Mr. Monroney. Thank you very much for a very informative statement.

Mr. Talle. You mentioned something about poor quality merchandise. I want to thank you for that, because that represents probably as serious a bulge in holding the line as anything could. In fact, I think a good part of our inflation is exactly in low quality, poor quality, shoddy merchandise.

Mrs. Ware. At a high price.

Mr. Talle. That is right.

Mrs. Ware. And our complaint has been continuously that in order to have effective price control, we need to have the price regulations tie the price to the quality.

Mr. Monroney. And the Congress prevented any grades standards from being applied.

Mrs. Ware. That is right.

Mr. Chairman, a number of the organizations for whom I have made this general statement request the privilege of filing very brief supplementary statements.

Mr. Monroney. That may be done.

Mrs. Ware. Four of them request the privilege of making brief supplementary statements on food, clothing, housing—rents, that is—and durable goods, respectively.

Mr. Monroney. Thank you. We will hear them.

I believe Mrs. Harold Stone, National League of Women Voters, is next.

Mrs. Ware. Would you like to have the statements filed first, before Mrs. Stone appears?

Mr. Monroney. Either way.

Mrs. Ware. I think the Home Economics Association has a statement to file.

I think the General Federation of Women’s Clubs has a statement to file.

The League of Women Shoppers has a statement to file.
The National Council of Jewish Women, I think, has a statement to file.  
The National Education Association has a statement.  
The National Federation of Settlements has a statement.  
The National Women's Trade Union League has a statement.  
The National Catholic Women has a statement.  
I think that is all.  
Mr. Monroney. They may be filed. 

(The statements above referred to are as follows:)

**NATIONAL COUNCIL OF CATHOLIC WOMEN,**  
Washington 5, D. C., March 25, 1946.  

**THE HONORABLE BRENT SPENCE,**  
Chairman, House Banking and Currency Committee,  
House Office Building, Washington, D. C.  

**DEAR CONGRESSMAN SPENCE:** The National Council of Catholic Women, a federation of Catholic women's organizations consisting of 74 diocesan councils, 2 State councils, 10 national organizations, 6 State organizations, and 4,500 local societies, submit for your attention, in considering the continuance of price control, the following resolution passed at its 1944 convention:  

**CONSUMER'S PROBLEMS**  

"Unless prices are kept under control, they will soar beyond all reason after the war, thus imperilling the value of wartime and other savings. Hence, cooperation of individuals and of organizations, including those of business, labor, farmers and consumers, with the Office of Price Administration is imperative. "We commend consumers cooperatives, which are nonprofit organizations and exist solely for the benefit of the consumer; and we condemn trafficking in the black market."

The board of directors of the National Council of Catholic Women, at their meeting November 1945, adopted the following statement:  

**INFLATION**  

"A serious inflationary spiral is now under way. Because inflation affects family welfare and stability, we urge the continuance of such price and rent controls as are necessary to prevent inflation. "We also urge the continuance of the rationing system for items in short supply so that our people at home may be equitably fed and so that we may assist in the feeding of the starving peoples of war-torn countries. "We support legislation to extend powers of allocating scarce materials in order to insure orderly reconversion."

With appreciation of your courteous consideration of these statements relating to the problems of price control, I am  
Respectfully yours,  

RUTH CRAVEN, Executive Secretary.  

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**NATIONAL WOMEN'S TRADE UNION LEAGUE OF AMERICA,**  
Washington 1, D. C., March 25, 1946.  

**HON. BRENT SPENCE,**  
Chairman, House Banking and Currency Committee,  
United States House of Representatives, Washington 25, D. C.  

**DEAR CONGRESSMAN SPENCE:** The National Women's Trade Union League is a federation of trade-unions with women members, with an individual membership of nearly 1,000 persons, and affiliated membership numbers over a million persons.  

The league seeks to serve the interests of wage-earning women through various means, one of them being the support of legislation for the workers' economic and social good. The extension of the Stabilization Act is basic to the economic welfare of workers—especially women workers, who constantly have to fight a double standard of wages. For this reason the league feels that it is of the
extend price control and stabilization acts of 1942.

utmost importance to join with other consumer groups in support of price control, and we urge your committee to report favorably an extension of the act without any crippling amendments.

Yours sincerely,

ELISABETH CHRISTMAN, Secretary-Treasurer.
MARGARET F. STONE, Legislative Chairman.

STATEMENT ON OPA EXTENSION, NATIONAL FEDERATION OF SETTLEMENTS

The National Federation of Settlements wishes to record its vigorous support of the legislation extending price-control legislation for the next full fiscal period at least.

There are no community agencies which have a closer kinship to the housewife in the neighborhoods all over the country than have the settlement houses which constitute the membership of the federation. We speak, therefore, with the authority which comes from sharing with our neighbors the anxieties in stretching the shrinking value of the wage earners' dollars in the face of a threatened inflation.

The failure of this Congress to extend OPA controls will have a demoralizing influence. Every time a housewife will shop for her family she will be forcefully reminded that her Government was the most important factor in causing her to pay more for the necessities of life and forcing her family to go without many necessities because inflationary prices reduced the value of her dollar in the market place.

It should go almost without saying that those citizens least able to shoulder the burden of rising prices caused by the failure to renew price controls will be those who will be most injured. Food, clothing, and shelter will be hit the hardest, and these items make up the largest proportion of expenditures of those people who have little money left for anything else.

The shortage of goods which make price control necessary is an inevitable consequence of war, and the failure of the Government to deal with price control in a courageous manner will mean that it has also failed to discharge a vital responsibility of the war.

The issues are posed sharply and clearly. Which path will Congress choose: The path of price control or the path of uncontrolled inflation? Whose welfare will be protected: The large mass of people who will be irreparably hurt by inflation or the exclusive few who stand to make enormous profits?

STATEMENT SUBMITTED BY J. L. MCCASKILL, ASSISTANT DIRECTOR, LEGISLATIVE-FEDERAL RELATIONS DIVISION, NATIONAL EDUCATION ASSOCIATION, MARCH 25, 1946

My name is J. L. McCaskill. I am assistant director of the legislative-Federal relations division of the National Education Association which includes in its membership approximately 350,000 teachers. Through its affiliated State education associations, the National Education Association speaks for approximately 730,000 members of the teaching profession.

The National Education Association supports extension of price controls.

Uncontrolled prices in a market where supplies are not adequate to meet demands would certainly result in further wholesale withdrawal of teachers from our classrooms. Teacher income has seriously lagged since the days of Pearl Harbor. Cost of living has gone up. The gap between income and cost of living has steadily widened to the point where today the teachers of our children as a group are perhaps the most underpaid of all American citizens. Any further increase in cost of living without compensatory income will force additional thousands of teachers to abdicate unwillingly a profession, essential to the general welfare, to which they earlier dedicated their services and their lives.

This development, which would be further stimulated by increased cost of living, has already created a crisis in the education of American youth. We have today in the teaching profession a ration of 1 teacher in 10 who is teaching on a "special" or "substandard" certificate as contrasted with 1 in 200 in pre-Pearl Harbor days. Our entire educational structure is facing a serious break-down, particularly with reference to our elementary and secondary schools.
For Government to do anything which leads to further cost-of-living increase, without at the same time providing commensurate increase in teacher income, is one way to lead the schools of the Nation to an inevitable disaster.

The fact is that in respect to educational opportunity a large proportion of American youth is today handicapped more severely, in relation to their multiplied and increasingly complicated duties as citizens, than at any time in the history of our country.

Extension of price controls has an important and direct bearing on this whole matter. Because this is true, the National Education Association urges that price controls be continued until such time as the market is prepared to meet demand.

TESTIMONY IN SUPPORT OF RENEWAL OF PRICE CONTROL ACT BY THE NATIONAL COUNCIL OF JEWISH WOMEN, NEW YORK 23, N. Y.

(By Mrs. Harold E. Beckman, 2d vice chairman)

My experience has been twofold—as a consumer interested in getting value for money spent, and as a member of the price panel of my local war price and ration board, obligated to keep prices under controls established by the OPA.

For over 2 years I was in charge of price panel assistants, whose efforts I directed, not merely in making surveys, but as interpreters for the work they did. In accordance with the instructions from the OPA, our work was at first educational. Regulations therefore were carefully explained, and every effort was made to induce voluntary compliance by retailers. It was my experience that most storekeepers tried to evade the law and to make marketing difficult for the conscientious, price-minded consumer. This may be attributed to the fact that the storekeepers were forced to pay more than wholesale ceiling prices and so, were themselves under pressure. This is an indication that enforcement at the wholesale level was ineffectual. Furthermore, this necessary for selling over the ceiling prices forced storekeepers to refuse to sell merchandise to conscientious price-minded consumers who, in small communities, found themselves unable to purchase foodstuffs. In some instances they were even blacklisted.

It is only through strict enforcement and prompt imposition of increasingly severe penalties on all levels that this control on the retail level can be effected for the protection of both retailer and consumer.

Why should it be supposed that OPA does not need the same authority to enforce its regulations that is needed to keep law and order in general? It is my experience that niggardliness in appropriations to OPA made enforcement an extremely difficult problem. Multiplicity even of small violations has cost the public hundreds of millions of dollars. The only way to hold the line at the retail level is to strengthen the OPA enforcement division.

As a consumer it is my firm belief that the only reason my dollar is not worthless is because of the work of the OPA. While it has not, for these reasons mentioned above, been as effective as I should have liked, I consider that it has been my safeguard these past years. It alone has prevented economic chaos. Only its continuance without crippling amendments and with ample funds will make it possible for the United States to continue strong economically.

STATEMENT OF MRS. LAPELL DICKINSON, PRESIDENT, GENERAL FEDERATION OF WOMEN'S CLUBS, RECORD OF HEARINGS ON PRICE CONTROL, HOUSE BANKING AND CURRENCY COMMITTEE

Mr. Chairman and Members of the Banking and Currency Committee:

During the war period the General Federation of Women's Clubs, composed of two and a half million members, consistently supported the anti-inflation program of the Federal Government. On December 1, 1943, the board of directors of the General Federation passed the following resolution endorsing the continuation of such a program during the reconversion period:

"Whereas in no war in the history of the United States has the general public been protected so successfully from runaway prices and general and serious inflation as has been the case during the war just ended; and"
"Whereas the United States now faces graver dangers of uncontrolled inflation than during the war or at any time in its history; be it

Resolved, That the board of directors of the General Federation of Women's Clubs supports continued Federal legislation for equitable wage ceilings and price control on basic commodities such as food, shelter, and clothing as being essential to the common good and to sustain prosperity during the period of adjustment."

The members of the General Federation of Women's Clubs are largely homemakers and as such represent a cross section of the consuming public. They know that abandonment of wage and price controls at this critical period will lead to economic disaster. They remember what happened after the last war, and are convinced that history will repeat itself unless controls on both wages and basic commodities are continued during the period of transition to a normal economy. We therefore urge continuance of OPA price control legislation.

Respectfully submitted,

MRS. LAFELL DICKINSON,
President, General Federation of Women's Clubs.

SUPPLEMENTAL STATEMENT OF LEAGUE OF WOMEN SHOPPERS, INC.

The League of Women Shoppers, Inc., is a national organization devoted to the protection and improvement of living standards for all Americans.

Since the inception of price control, our organization has appeared in support of that program before numerous congressional committees, including the House Banking and Currency Committee. Our membership, we believe, is particularly well qualified to evaluate the effectiveness of the price control program because it has had a rare opportunity to observe its workings from many angles:

(1) As consumers: Most of our members are housewives—shoppers—who have watched closely the effects of controls on retail prices and rents.

(2) As business people: Many of our members, particularly outside of Washington, are married to businessmen—manufacturers, retail merchants, etc.

(3) As voluntary OPA workers: Wherever our organization has branches, league members have served as OPA price-panel members and as price-panel assistants.

(4) As consumer advisors: Miss Katherine Armatage, chairman of our board of directors, has served as a member of the Consumer Advisory Committee to the National OPA since that committee was first created. Also, in some cities, league representatives serve as members of consumer advisory boards to the local OPA offices.


Presented by Mrs. Margaret D. Thompson, editor of Consumer Education Service of the American Home Economics Association, March 25, 1946

The American Home Economics Association urges that price control be extended to June 30, 1947, by the passage of H. R. 5270 without crippling amendment.

The American Home Economics Association has members in every State, in every city, in every college home-economics department, and in many business concerns. Its members are home-economics teachers in colleges and secondary schools, homemakers, home economists in food administration, home demonstration workers in extension service, social welfare and public health workers, writers of women's pages in the Nation's magazines and newspapers, and other leaders in consumer education.

The purpose of the American Home Economics Association is to further the best interests of the home and family. The association therefore strongly favors stability of living costs, so that families can plan their expenditures ahead. Moreover, it would wish to prevent excessive consumer cost of housing, house furnishings and equipment, because this makes it more difficult for homes to be established or maintained.
Price-control extension should not be for less than a year, because the near end of price control tends to encourage withholding by producers or dealers and overbuying by consumers.

The American Home Economics Association urges that living costs be kept from disastrous inflation; it therefore favors price control for as long as the threat of inflation continues, and at least until June 30, 1947.

For these reasons the American Home Economics Association urges passage of H. R. 5270 without crippling amendment.

Mrs. Ware. Mr. Chairman, I understand that Mrs. Lowe, of the Parent-Teachers Association, has to leave.

Mr. Monroney. She may be heard first, then. If it is agreeable with the committee, we will also defer questioning until all statements have been presented.

Mrs. Ware. I am told that Mrs. Stone has to leave, too.

Mr. Monroney. Will you give your name?

Mrs. Stone. I am Mrs. Harold Stone. I am a director of the National League of Women Voters.

STATEMENT OF MRS. HAROLD A. STONE, DIRECTOR, NATIONAL LEAGUE OF WOMEN VOTERS

Mrs. Stone. Fighting inflation has been a part of the war-service program of the National League of Women Voters since 1942. As a nonpartisan citizen organization acting in the public interest in almost 500 cities and towns, we have worked to keep our communities aware of factors which threaten economic stability. In our daily contact with many thousands of citizens besides our own members, we have found overwhelming support for measures which keep inflation in check. We have supported and continue to support such controls as the emergency demands.

Today we come before your committee again to support the renewal of price control for another year, until June 30, 1947. We do this, not because we like regulation, but I reiterate because the war emergency still demands it. We believe that we are at this moment in the very midst of the most dangerous period of economic dislocation due to the war.

In adding to the testimony of the other groups with which we are appearing this morning, the League of Women Voters would like to stress the significance to our Nation and to the world of holding the price of food in line.

Because food represents 40 percent of the cost of living, according to the Bureau of Labor Statistics, it is a major factor in the budgets of most of our citizens. A sharp rise in the cost of food could quickly set off the inflationary spiral, because it would inevitably bring stronger demands for wage raises and higher costs. It would work special hardship upon lower income groups and those with fixed incomes. If food takes a larger and larger proportion of the family income there will be less to spend on other necessary things, which are the products of our factories. An uncontrolled inflation would dry up the demand for the products of our industrial plant, the boom would burst and unemployment and depression would surely result.

We believe that controlling inflation is important to those who produce the food—the farmers. What they need is a steady market, year after year. Exorbitant prices for their products would inevitably be
accompanied by exorbitant prices for the new machinery they need so much and the labor-saving devices and freezing lockers their wives have been waiting for. We must not forget that the collapse of 1920-21 left in its wake a trail of farm-mortgage foreclosures—that from 1921-26 over 4½ million farmers lost their farms through foreclosure.

This brings me to the question of food subsidies. They have been necessary during the war years in order that the farmer could increase production profitably while food prices were kept from rising too steeply. While production in agriculture has reached new heights, the wartime and present food consumption rates have been and are very high. The end of the war has brought still greater demands for food, and food has become an essential and potent instrument in the building of the peace.

The emergency in food, indeed, is so great that we cannot foresee that it will be solved by the next crop year, however good it may be. It therefore remains necessary to continue the use of food subsidies. This is unfortunate. Nobody likes subsidies, especially the farmer.

It must be pointed out, however, how much the farmer has benefited under the subsidy program. At the height of the inflationary period of 1920 the farmer's production record had doubled, but so had food prices, double the 1913-15 average. Today the farmer has doubled the amount he receives, but food costs are only 1½ times the 1935-39 average. At the same time the things the farmer buys have been kept from rising as his income has risen. Moreover, unless we now do away with controls before the emergency period is past, the farmer does not have to fear a future depression such as that which followed the 1920 boom.

Hoarding and speculation, so disastrous in the postwar years after the last war, are again occurring. At this moment large quantities of grain are being kept from the market. In the Congressional Record of February 8 appears a letter from the president of the National Federation of Grain Cooperatives. He says:

Farmers know that Congress is in doubt about the extending of the Office of Price Administration price control law. That makes farmers doubt that it is wise to sell wheat under present ceilings * * *. The farmer feels that all he has to do is wait.

In this period of peak shortages, made more critical by the recent droughts and crop failures in many parts of the world, the only hope for stable food prices is the immediate renewal and firm execution of the Price Control Act for another year.

It seems almost too obvious, too often said, to mention again the effects which inflated food prices would have on our national welfare, but we must not at this time, having so far done better than the last time, let food prices get out of hand. The suffering which would come to the lower-income groups, to those living on small fixed incomes, to those living on pensions must constantly be kept in mind. We are today, as a Nation, better nourished than ever before. Milk consumption per capita, for example, has climbed steadily throughout the war years. Let the price of milk soar and consumption rates would tumble. Do we want that to happen?

I should like now to turn to the world food picture. It is true that we could probably take care of ourselves quite nicely, with the exception of a few food items, had we no obligation and no conscience toward the rest of a hungry world.
Long before the end of hostilities the League of Women Voters realized that food would be one of the most important factors in the reconstruction of the nations which had suffered most from the war. We realized that stable governments would not be built on empty stomachs and that our Nation, the United States, could by the wise use of its vast food supply make an epochal contribution to world order. The League of Women Voters developed a policy, overwhelmingly supported by our members and the citizens of their communities, of pointing out that there are no longer any purely domestic or purely international problems, that our handling of our food supply was of critical importance to the world. The league has consistently encouraged our Government to act upon such a policy.

Throughout 1945 the league laid the facts before the citizens: That the people of the United States would eat more food in 1945 than in the prewar years, that our own self-interest demanded that we fulfill our commitments to the United Nations Relief and Rehabilitation Administration, and allocate food for sale to the countries most in need of it with wisdom. We pointed out that to do this fairly, price control and rationing must be continued. We foresaw that these winter months would be the critical time for many millions of human beings, and urged the President, Secretary Anderson, and stabilization officials to act with courage and foresight. Unfortunately, that has not consistently been done. Rationing was abolished. Allocations have not been adequate to the needs of either the United Nations Relief and Rehabilitation Administration or the paying nations. We find Americans today eating 60 percent more food than the average for 125,000,000 Europeans. Drought added to the war-caused shortages and acute need, the greatest in modern history, encircles the globe. Now can America be loved by or even respected by the people of this earth if we eat more than we need while fellow human beings starve? One million tons of wheat is the bread supply for 10,000,000 people for 1 year.

You may be thinking, “What has this to do with the renewal of the Office of Price Administration?” A great deal, we believe. Every cent of inflation in food means that much less for the starving people of the world. United Nations Relief and Rehabilitation Administration’s funds are limited, fixed. If food prices are inflated there will not be enough even to fulfill the minimum requirements, and as you know we are already far behind in providing our share of food which the United Nations Relief and Rehabilitation Administration is ready and eager to purchase.

France, Belgium, the Netherlands, Norway—they are “paying countries” and they want desperately to buy food in the United States. They have borrowed money from the Export-Import Bank. These loans also represent fixed amounts. To the extent that our food prices are inflated they will get less food to fill their needs.

The League of Women Voters believes that in considering the renewal of the Price Control Act another year, your committee is facing a decision of the gravest consequence to humanity, to the place of our Nation in history. We could, through inflated food prices, let slip, through our refusal to discipline ourselves a little longer, much of the good will, much of the confidence with which other nations are looking to us for world leadership at this time. We need broad, hu-
man, and long-term judgment to face up to this problem. We must look to England, where rationing is now more severe than during the years of hostilities in order that she may fulfill her commitments to the United Nations Relief and Rehabilitation Administration.

Members of the committee, the League of Women Voters, urges the immediate renewal of the Price Control Act until June 30, 1947, not because we like price control, not because we believe the Office of Price Administration is perfect, but because we believe that we are in the midst of grave economic dislocations which are a part of the war. This still is the war emergency. Holding the line on food prices in the wake of hostilities is not only essential to the stability of our own Nation, but also to the reconstruction and stability of the world.

Mr. Monroney. I thank you very much, Mrs. Stone. We appreciate you representing the League of Women Voters, and appreciate all the help and study that the League of Women Voters have constantly given to this inflation-control program.

I believe we will waive any questions unless any members of the committee have anything urgent. I believe you have to leave, do you not?

Mrs. Stone. I should like to as soon as possible.

Mr. Talle. Since the witness is leaving, may I express my appreciation to her for her statement? That is all.

Mr. Monroney. Thank you very much. You may be excused, Mrs. Stone.

Mrs. Vivian Mason is our next witness.

STATEMENT OF MRS. VIVIAN MASON, NATIONAL COUNCIL OF NEGRO WOMEN

Mrs. Mason. My name is Mrs. Vivian Mason, I represent the National Council of Negro Women.

The National Council of Negro Women speaking for thousands of Negro families is most concerned with the retention of price controls in rents, food, clothing, and other necessities beyond June 1946.

The Negro group as a whole is on a poor economic level because of their exclusion from better paying jobs and lack of resources and, therefore, the impact of rising living costs affects them most seriously. In studies made in New York City, for instance, by the major's committee on unity it was found that Negroes living in Harlem pay more for food of inferior quality than citizens living in upper Washington Heights section. In the matter of housing the Negro is for the most part greatly limited in choice, and generally the cost is far above the actual values for such dwellings. The Office of Price Administration ceiling price on rents has been a veritable blessing for the people of this country and especially the Negro wage earner in controlling the amount of money he is forced to pay for shelter. Difficult as problems of housing are for Negroes in this general shortage throughout the country, the situation of the Negro tenant will become extremely vulnerable in the event that ceiling prices and rents are not retained. With the shortage of housing as a whole and with the discrimination that is prevalent which affects his ability to secure a home, it will become infinitely worse if ceiling rent control prices are removed for then he will be faced with the situation of competing for shelter with
people who are considered more desirable as tenants and have more money to pay than he has.

We would like to cite a few cases of housing conditions here in the District of Columbia, for instance, which will indicate to you the hopeless situation which will face many families in the event that ceiling prices are not retained. As it is these families are facing a situation which they cannot resolve and which needs the assistance of our Government to help them in their extremity.

1. Mrs. J. and her 10 children, ranging in ages from 3 months to 16 years, share a one room and kitchen apartment. The father of the six children, oldest, live away from the home, but the father of the four younger children spends a great deal of his time in the home.

Both the real estate agent and the Health Department have requested Mrs. J. to move to larger quarters which she has been unable to find. She has applied for housing to National Capital Housing Authority.

2. This family, consisting of parents and seven children, ranging in age from 15 years to 7 weeks, are being forced to move from the home in which they have been living since May 1, 1944. The house has been condemned. The parents were notified on February 6 that they should vacate the property by February 21 or they would be evicted. The father and the 15-year old boy have gone to numbers of real-estate offices and have walked the streets looking for a place to move, but have found nothing. Public Assistance and Children’s Services worker, in an effort to avoid the eviction, personally has visited 20 real-estate offices and telephoned to 27 others. They all give the same answer—“No vacancies and no prospects of any.”

The National Capital Housing Authority has no unit large enough to provide for this size family. There are no relatives who can help. Delay in issuing the eviction notice is due to pressures of work in the inspector’s office.

3. Mrs. T. and her 13-year-old boy are bunking in a friend’s living room. The boy and the mother sleep together on a folding bed. The boy is ill most of the time with asthma and is greatly in need of a room of his own.

4. Mrs. A. and her two children occupy one tiny hall room. The children are virtually penned in all day and night.

5. Mr. and Mrs. C. and three children occupy one large room with a partition dividing it into supposedly two rooms. The tubercular father is in the home.

6. Mrs. D. and her three children occupy a half room which is dark as night during the day. The baby crib rests on the bed where others sleep because there is no room for it on the floor. The room space is so small the worker from the Public Assistance and Children’s Services could not get in.

The grandmother occupies the other half, and there are no windows on Mrs. D.’s side of the partition.

In Washington, for instance, as poor as their dwellings are, with the great need for housing, there is evidence that some of them might be repaired and put into more livable condition, and, therefore, the people who live there would either be forced to pay a higher rent or to move out.
In addition to these examples I have cited, I thought you might possibly like to hear from the wife of one of our veterans, whose husband is a student at Howard University. He was formerly a pilot in the Forty-seventh, and I think perhaps you might like to hear her story in regard to housing here in the Capital.

The National Council of Negro Women, therefore, recommends that in the national emergency in the necessary commodities that price control be extended beyond June 1946 without amendments or exceptions.

Mr. Monroney. We will be glad to hear her.

Please state your name.

STATEMENT OF MRS. DORIS MURPHY, NATIONAL COUNCIL OF NEGRO WOMEN

Mrs. Murphy. My name is Mrs. Murphy, Mrs. Doris Murphy. I am representing the National Council of Negro Women.

Since my husband is a veteran and in school, I wanted to state my position.

Mr. Monroney. You may be seated and give your statement.

Mrs. Murphy. I am staying in one room. I pay $42 a month for this room. I cannot do my laundry. I do not have any room for my baby's bed, and we can hardly buy food. We cannot cook except at certain times. We can only get in the kitchen at about 11 o'clock for breakfast, and about 10 or 11 o'clock at night for supper. I cannot do my baby's laundry. I cannot do his laundry except twice a week. We do not have any hot water to use, except when I go and turn it on. It is cut off. My room is cold and my baby has been sick all winter. I do not have enough to pay his doctor bill, most of the time, and I have not been able to live off of the allowance we have been getting. I have not been able to buy anything for myself. Neither one of us have.

Often we cannot burn the light, and he has to go to school to study. He does not have any room to study in the house. And I think that it is just too much to pay, $42 a month. At least, we are paying for a week and it is extended for a week. I think it is too much to pay for the privileges and the small room we have.

The room is very cold and has no heat.

Mr. Monroney. You do not have any heat; you do not have any hot water; you do not have any bath facilities?

Mrs. Murphy. Yes, we have bath facilities, but the landlady cuts off the heat under the water before there is enough in there to really allow us all to use it. And I cannot do my own laundry. I have to furnish my own linens on my bed. I do not have any place to store my food. The refrigerator is being taken up by the landlady, and I do not have any place at all to store my food, and I have to buy my food in just a small quantity to last a day, and go back the next day to buy more. And that all adds up. I just cannot live off the allowance.

Mr. Monroney. You get about $85, I believe, for the three of you?

Mrs. Murphy. Well, $90 is what we get.

Mr. Monroney. I wish you would give the committee your address, where this one room is.
Mrs. Murphy. The name is Mrs. Page, and I called down the Office of Price Administration and asked them if that was the price, and they said that they would have to come out and investigate.

Mr. Monroney. They said what?

Mrs. Murphy. That they would have to come out and investigate the room and see if the room was really of the price she has us paying. We had an application for an apartment since October, and they called up this morning, and the man, I understand the people are paying bonuses for apartments, and we are not able to pay the bonus, so, therefore, we are out, there. We have not been able to find a room. The people around here do not want people with children in their rooms, and she knows that we cannot find a room. That is why she charges that much. That is why we are being overcharged.

Mr. Monroney. Did you give the address? I do not believe we got the address.

Mrs. Murphy. No. 547 Kenyon Street NW.

Mr. Monroney. I think the Office of Price Administration man should take that down, and I think it should be investigated and a report made to this committee.

Mr. Van Veen. Rent control in the District of Columbia is not under our jurisdiction.

Mr. Monroney. If it is necessary, it can be put under it. If this thing is going on all over Washington, I think you ought to do something about it.

Mrs. Murphy. The reason I have not reported this is: I was afraid I would be put out.

Mr. Monroney. They cannot put you out, without going through the courts. I think $42.50 for one room without kitchen privileges, or hot water, or heat, is an outrage.

Mrs. Mason. That is very common, Mr. Monroney, among the Negro people who have to find places to live, and there are thousands of them housed in one room. That is not exceptional. And many times this is what happens. The Office of Price Administration ceiling price is $30 a month on your record, but you want some place to live, so you pay the landlady $40 a month, and the record is on with the Office of Price Administration as $30, but the people do not want to be driven from pillar to post and here is the place to live, so they just do it. It is just a question of this frightful shortage in regard to housing, especially as it relates to Negro people. It is bad enough for everyone, of course, but when it comes to the Negro group, it becomes absolutely almost unthinkable, when you really see and know what conditions are. And you can find hundreds of cases here in Washington, let alone going to places like New York, Chicago, and other major cities. And I am sorry Mrs. Murphy did not also tell you that they have been forced to drop his insurance because they simply could not afford to pay the $7 a month.

They cannot buy food, and buy milk for the baby, and buy everything else, out of $90 a month, and he does work 2 or 3 hours a day, but he cannot study evenings and work a long time. And they have had to lose that splendid insurance policy.

Thank you very much.

Mr. Monroney. Thank you for your testimony.

The next witness is Mrs. C. D. Lowe, National Congress of Parents and Teachers.
STATEMENT OF MRS. C. D. LOWE, NATIONAL CONGRESS OF PARENTS AND TEACHERS

MRS. LOWE. My name is Mrs. C. D. Lowe, Washington, D. C., representing the National Congress of Parents and Teachers.

The National Congress of Parents and Teachers is an organization of three and a half million members, a very representative group, made up of members of all of the income levels, but a large part of our membership is the so-called white-collar group, moderate salaries, who must dress well at all times, make presentable appearances, especially teachers, and the parents of school children, these school children must be clothed adequately to attend school, and it has been quite a problem to find clothing for this group of people—especially growing children.

I would like to make a short statement on the clothing situation if I may.

Mr. MONRONEY. Go right ahead.

Mrs. LOWE. The most telling evidence of the need for continued price controls is the rise in clothing prices. It has already been pointed out that the average family budgets have been strained by the increases which have taken place even under price control.

Moderate income families are now paying, according to the Bureau of Labor Statistics Index, nearly 50-percent more for clothing than they did in 1939.

I should like to recall, however, what happened during the inflationary period after the last war. Clothing prices rose 200 percent and stood at a fantastic high in the spring of 1920. With the present forces at work, it seems likely that essential items of clothing would either not be produced at all or would be priced so high as to be prohibitive to the people who really need the clothing.

Since the Office of Price Administration-Civilian Production Administration programs have been in effect, there has been less increase in clothing prices than before, and some of the garments which were so hard to get 2 years ago, even a year ago, are now available in many stores. These garments are still not plentiful enough, according to reports from various parts of the country; but they have helped immeasurably to clothe our school children.

The Survey of Current Business for February 1946, a Department of Commerce publication, has noted that—

although the upward movement in clothing is characteristic of the year as a whole, there was some slowing down of the rise in the last 5 months. The latter is probably attributable to the inception of controls to direct the larger part of civilian fabrics to low-priced lines.

It is obvious to me after studying the clothing problem even very briefly, that we should have more, not less, control during this shortage period. The principal reasons why price controls have been less effective for clothing items than for other things are that the controls were not established soon enough by the War Production Board and did not cover enough material when they were introduced.

The other reason is that the War Production Board and the Office of Price Administration have not controlled the quality of the garments which have been made. And too many items have been produced uneconomically; they wear out quickly, and they look so sleazy.
The effect of the controls which have recently been introduced, however, is to give better value for the money. Garments—children's dresses and undergarments, and men's suits and women's house-dresses—have come to my attention, tagged with the retail ceiling price by the manufacturer, and all of them have compared favorably in quality with the low-priced garments which we could buy before the war.

One suit which I saw the other day was priced at $26, made under the new program; a similar suit which has not been made under the allocation program, would probably cost the consumer $45. This program is of enormous importance to the veterans.

We wish, therefore, to urge that Congress extend the Price Control Act for another year and strengthen it; that Congress require that more goods be included in the Civilian Production Administration-Office of Price Administration program for the essential garments; that better quality controls be required; and that some prohibition be placed on the manufacture of the high-priced luxury garments which take materials for clothing which can be bought only by the people who already have enough clothing to last during the shortage period.

Mr. Monroney. I thank you very much for your statement. We appreciate your interest in this legislation.

The last witness is Miss Elizabeth Rohr of the Consumers Union.

Miss Rohr. Mr. Chairman and members of the committee, I am Elizabeth Rohr, Washington representative of the Consumers Union of the United States.

STATEMENT OF ELIZABETH G. ROHR, WASHINGTON REPRESENTATIVE, CONSUMERS UNION OF UNITED STATES

Miss Rohr. I represent Consumers Union of United States, a non-profit, technical organization with over 100,000 members throughout the United States. We urge your committee to report out H. R. 5270 as quickly as possible and without amendments.

The inflationary pressures on prices and rents have reached the explosion point. Unless price and rent controls are extended for at least 1 year beyond June 30 and unless the food-subsidy program is continued until supply is in approximate balance with demand, the country faces a ruinous run-away inflation.

Representatives of other consumer groups have presented general statements which point to the urgent necessity for extending price and rent controls and the food-subsidy program. We are in full support of this general program. But we should like now to concentrate on the need for maintaining price ceilings on consumer durable goods until June 30, 1947. The inflationary threat is felt in the field of consumer durables more acutely than in any other field except building materials. An unprecedented pent-up demand, accumulated during the war years when these goods were not produced, has created enormous pressures for ever higher prices. Unless the line is held by Congress through renewal of the price-control legislation, prices will skyrocket in the sellers' market which will prevail for the next couple of years.

Government statistics indicate that the present demand for refrigerators is at least five times greater than in 1939; the demand for auto-
mobiles at least six times greater; the demand for washing machines at least seven times greater; and the demand for electrical appliances such as toasters and irons at least 6 times greater. Up till now the production of consumer durables has been disappointingly small. The major reason for this, in our opinion, has been the sit-down strike staged last fall by some manufacturers who held up production until they could benefit from the abolition of the excess-profits tax this year, and until they could get higher prices. But there is grave danger of another sellers' strike as manufacturers gamble that price control will be ended in a few months. Congress can accelerate the flow of consumer durables to the market by acting now to renew price control for another year beyond June 30.

The National Association of Manufacturers has told your committee that it wants "price control by the American housewife." Now the American housewife would like to control prices if she could do so. But she knows that it is sheer nonsense to believe that she can keep prices down in a sellers' market where demand for consumer durables is six and seven times what it was before the war and where demand will far outstrip supply for some time to come. Without price control, the American housewife will face a spiral of ever-increasing prices, with the sky the only limit for inflationary price advances.

The National Association of Manufacturers told your committee that it wanted "economic freedom" for consumers. With this concept we fully agree. The only argument is the means by which it can be achieved. It is because consumers want some degree of economic freedom that they are overwhelmingly for price control, until the supply of extremely scarce consumer durables has caught up with demand. There is no freedom for consumers when the only privilege they have is paying astronomical prices—or else. Without price control, consumers would have only the specious freedom of paying ever-higher prices to buy the cars and the refrigerators they need for their families. Consumers will have a degree of economic freedom only if price control is continued until a buyers' market rather than a sellers' market predominates in the economy.

We are convinced that it is not price control but the drive of the National Association of Manufacturers and others for the abolition of price control that is keeping consumer durable goods off the market. Manufacturers, who are members of the National Association of Manufacturers, are holding up production—gambling on the end of price control and subsequent inflationary profits. They demand unlimited price increases—while pretending they are against inflation—before they will produce. But unlimited price increases will bring a spiraling inflation. The economy can't have inflationary price increases without inflation, no matter how many advertisements the National Association of Manufacturers prints.

The National Association of Manufacturers claims that "Prices will adjust themselves naturally" within a reasonable period of time after price increases take place. After the last war when prices were permitted to "adjust themselves naturally," we had a brief speculative boom followed by a major crash. That would happen again if price controls were removed prematurely and prices went into an inflationary spiral.

Obviously, we must have all-out production before we can defeat the inflation threat. But inflation is not the way to get all-out pro-
duction. Inflation breeds speculation and hoarding because it always holds the promise of greater profits further along the inflationary spiral. The end result is always disaster for the economy and even for most of the businessmen who gamble on inflation.

Manufacturers of consumer durables do not need inflationary price increases. Under price control most of them will almost certainly make the greatest profits in their history, since there is a guaranteed demand for everything that can be produced in the next couple of years. Manufacturers of many consumer durables already have been granted reconversion prices that are higher than prewar prices. For example, the prices of automobiles at the manufacturing level were increased 10 to 19 percent just before the entrance of the United States into the war. Reconversion price increases ranging up to 15 percent have been granted manufacturers for so-called changes in engineering specifications. And they will benefit tremendously from increased postwar labor productivity and from the economies inherent in the prospective unprecedented volume of peacetime production.

We should like to point out that material and labor costs under the Government’s new wage-price policy will not rise as much as might be supposed from isolated figures. The average increase of $5 a ton, or one-fourth of a cent a pound, in the price of steel means an increase of only $7.50 for a 3,000-pound auto or 0 cents for a 200-pound refrigerator. Moreover, according to Government statistics, labor costs in the automobile industry amounted to 20 percent of the value of the product before the war. The general 15 percent increase in wage rates therefore represents an increase of only 3 percent in total costs. In electrical appliances where labor costs were 17 percent of the value of products before the war, an increase of 15 percent in wage rates represents an increase in costs of 2.55 percent. Even if we assume that the ratio of labor costs has risen since the war, the increases in wage rates would still be small in terms of total costs.

The increase in labor and material costs according to our economic consultants can be more than absorbed at high levels of production when the full impact of higher productivity per man-hour, lower distribution expenses in a sellers’ market, etcetera, is reflected in lower unit costs. After World War I productivity per man-hour rose 10 percent a year for 3 years. There is every reason to believe that the increase in productivity this time will be as large if not larger.

The sellers’ market that will prevail in consumer durables also makes it possible for distributors to absorb increases granted at the manufacturing level. Distributors will have lower selling expenses, they will not have to take losses on trade-ins, they will not offer discounts as they did before the war. Consumers in prewar days were able to obtain as much as a 40-percent discount on radios. But discounts and high trade-in values were war casualties and their disappearance represents a hidden-price increase to consumers and larger profits for distributors.

It is essential that the Office of Price Administration be permitted to apply the principle of cost absorption in the field of consumer durable goods. Without absorption by distributors, prices will pyramid upward and according to the Office of Price Administration studies, consumers will have to pay $400,000,000 a year more for those consumer durables on which manufacturing price increases have been granted. The abolition of the principle of cost absorption and its
replacement by a cost-plus formula would mean legalizing inflationary price advances even if the price-control law remained on the statute books.

Just as important, no arbitrary standards should be set for decontrolling consumer durables. Supply will remain substantially below demand throughout the life of the price-control legislation even if it is extended for another year. The test should be the balance of demand and supply—not an arbitrary standard such as a given rate of production. Most consumer durable industries can reach capacity in a very short time. If controls were removed at this point, the way would be paved for sharp inflationary price increases since a few months output will not have made any appreciable dent in existing demand.

Without price control, the huge pent-up demand for consumer durables would set off a short speculative boom that would bring temporary windfall profits to manufacturers but would not provide our people with the goods they need so badly. For as prices were bid up, consumer durables would be put beyond the reach of the mass markets that are needed to sustain high-level production. The replacement demand of the upper income groups alone would not be sufficient to keep production going at capacity levels for more than a short time. The quick satiation of the needs of those who would be able to pay the excessively high prices would then bring the inevitable crash and the country would be thrown into an unnecessary but ruinous depression.

But with price control, industry can meet the unprecedented demand that now exists and can help lay the basis for a stable postwar period of high production, high employment, and high consumption. Without price control, most of the potential demand would never be converted into actual consumption because the bulk of our people would not be able to purchase durable goods at inflationary prices. Inflation would destroy the mass markets of those short-sighted manufacturers who are pressing for the immediate end of price control. And the whole country, including our veterans, would suffer from the ravages of an acute depression.

We cannot defeat inflation without all-out production of scarce goods. But inflation would not bring all-out production for stable mass markets. In behalf of the hundred thousand members of Consumers Union, and of the vast majority of all American consumers, we therefore urge your committee to report out H. R. 5270 as soon as possible without any amendments, so that the country can proceed without delay to move ahead rapidly to a stable postwar economy.

Mr. Monroney. Thank you very much for your statement, Mrs. Rohr.

Are there any questions?

(No response.)

Mr. Monroney. If not, did you have any further witnesses, Mrs. Ware?

Mrs. Ware. No, Mr. Chairman.

Mr. Monroney. Thank you very much.

The committee will stand adjourned until 10 o'clock in the morning.

(Whereupon, at 6 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, March 26, 1946.)
STATEMENT OF WILLIAM GREEN, PRESIDENT OF THE AMERICAN FEDERATION OF LABOR

Mr. Green. Mr. Chairman and members of the Committee, the membership of the American Federation of Labor comprises a major cross-section of American people. Through its affiliates, 25,000,000 American consumers have a democratic means for representation of their views on issues vital to them. It is on behalf of this large and representative group of wage-earners and members of wage-earners' families that I call upon Congress to extend price control for 1 year beyond June 30, 1946, to retain authorization or subsidies necessary to hold down food prices and to reject all amendments designed to weaken effective price-control administration and enforcement.

The American people are weary of controls. They are tired of far-reaching Government interference with their work, their business, and their private life. They have submitted to wartime regulations and have made an enormous voluntary contribution to their effectiveness. Price control and rationing would have never been effective in the crucial test of wartime stabilization if it had not been for the ready willingness of our workers, farmers, and businessmen to share fully in making the program work.

This was true of all forms of wartime regulation. Wartime manpower controls and wage controls could have never been administered without direct and active participation by representatives of labor and management. Many regulations imposed in wartime proved unfair and inequitable and brought real hardship to those governed by them. Yet the great mass of the people and the overwhelming majority of the wage-earners accepted as one of the inescapable burdens of
war the injustices and inequities to which they were subjected. In
the wartime workshops of the Nation, labor has given its full con-
tribution to the all-out effort toward the winning of the war.

It has now been 7 months since the war was won. Americans every-
where wish to regain their free way of life, to reinstitute their peacetime
freedom and to regain the liberties which they believe to be their in-
alienable right. They long for the freedom of pursuit of their work
and their business without governmental interference. And they look
forward to the termination of all forms of emergency regulation at
the earliest possible date.

The people are tired of emergency and they are tired of controls. But they are also frightened. They are frightened by the brazen
display of financial and political pressure exerted upon their Govern-
ment in a reckless and irresponsible drive to destroy price control and
profit from its destruction at the expense of the mass of the people.

The people are frightened at the prospect of the feverish runaway
price boom which is already close upon them. They are frightened
by the specter of the next depression which will follow swiftly and
inevitably if we do not prevent the runaway boom now and thus
invite the collapses it will precipitate. Their fear does not come from
the lack of courage or of confidence. They have limitless determina-
tion to make reconversion to full production and full employment a
success. But they know that while the war is won the grave postwar
emergency of economic readjustment is by no means past.

Every day the American consumer—the breadwinner, the house-
wife—hears the rising clamor for the immediate and complete aban-
donment of price controls. They watch the pressures exerted upon
their Congress from all sides—the pressures which are gaining the
momentum of a stampede to throw overboard the very steering gear
which alone can guide the Nation toward stability, prosperity, and
lasting freedom. And they say to the Congress, “That must not be
done.”

American labor insists that lasting prosperity for all be not traded
for the immediate temporary and speculative profit for the few. It
is the overwhelming demand of wage earners and of the vast ma-
jority of Americans that effective price control and rent control be
extended for 1 year as essential to the welfare of postwar America
and indispensable to the survival of American institutions in the
years ahead.

Americans have not forgotten the experience of a quick boom and
sudden collapse which followed the last war. At that time everyone’s
slogan, from the President down, was “take the harness off.” Large
profits were made in the boom, but they were paper profits. Wages
rose sharply but they, too, were paper gains—real wages actually de-
clined, offset by the more rapid rise in prices. And then came the
wave of wholesale bankruptcies and widespread unemployment. The
danger we are facing today is the danger of complete disruption of
our economic life which would cripple the system of enterprise itself.

This danger is many times greater than after the last war—greater
than it has ever been before. Labor is aware of this danger. It calls
upon Congress to discharge its clear and grave responsibility and
avert the certain chaos which the premature abandonment of price
control would inevitably bring.
The Office of Price Administration is being repeatedly charged with interposing price control as a barrier against rising production. The record of the last few months shows that the Office of Price Administration met the industries’ demand for higher prices more than half way.

Instead of being rigid and restrictive it has granted a large number of price increases far higher than the facts and the economic conditions warranted. Since the end of the war in Europe, the Office of Price Administration has issued more than 150 incentive price increases in response to the claim of the manufacturers that these increases were needed to aid production in the reconversion period. There have been a number of instances in which manufacturers combined in an industry-wide demand for a certain price under the threat that they would halt production unless their demand was met on their terms. There are glaring instances also showing that where the Office of Price Administration acted to meet such demands, instead of increasing production came renewed pressures for still higher prices under renewed threats of the seller’s strike.

Men’s clothing has been virtually unobtainable at any reasonable price. Returning veterans, in desperate need of civilian garments, could not obtain them. True, there were textile shortages and production was straining under abnormal conditions. But, as was revealed last month by the Baltimore Sun, some 700,000 men’s suits, already produced and ready to wear were held back from the market in order to force a higher price.

This was not a question of costs. These garments had already been produced. It was a bold squeeze for more profit at the expense of the consumer and mainly at the expense of the returning veteran. But the profiteers in the trade did not stop there. In their publicity they tried to hold the Office of Price Administration responsible for their own hoarding of the needed suits, already made, which they held back from the consumers of the Nation. And they eventually succeeded in exacting a price increase, recently granted, which will range up to 20 percent. That is a substantial retreat from the price line and a direct increase in the cost of living.

When shoe rationing was terminated, a rise in the price ceiling was sought by shoe manufacturers.

A 4½ percent price increase at the manufacturers’ level was granted by the Office of Price Administration at the end of the year. In the light of all available evidence and in the fact of an unlimited demand for footwear, even that increase provided more than a generous allowance. Yet renewed pressure is being brought to bear upon the Office of Price Administration for a further substantial increase in manufacturer’s prices of shoes. It is significant that this move is opposed not only by consumers but also by the retailers. The retail shoe trade is keenly aware of the grave danger of missing their historical opportunity to extend the market for medium- and low-priced shoes. These men know that only a mass market for well-made low-priced products will provide a basis for stable increased postwar production and stable postwar sales for the entire trade. That is the road to full employment.

Is the further shoe-price increase justifiable or necessary? The record shows that even in the case of the original 4½ percent price increase, many manufacturing organizations have not yet taken ad-
vantage of the relief offered, adhering to their old prices”—New York Times, March 19, 1946. This proves that the need for even the original price adjustment did not extend beyond a few producers and a market-wide price increase was without justification. This shows also that it is very easy for a whole industry, manufacturing an essential cost-of-living commodity, to be caught in the treacherous current of inflation. A further substantial rise in shoe prices will be the first move to price people out of shoes. If we allow ourselves to be priced out of the mass market for consumer goods, consumption will be curtailed, curtailing, in turn, both future production and future employment. That is the road to the next depression.

In the case of southern pine lumber, three consecutive raises in the price ceiling were made on the ground that these were needed to induce increased production. Practically all of these price increases were absorbed by landowners and no substantial increase in the volume of the desperately needed production was brought about. In the case of cast-iron soil pipe, the Office of Price Administration raised ceilings four times since VJ-day without a marked effect on production. Expectation of still higher prices is no doubt an important factor in slowing production of a commodity which is vital to a speedy solution of the Nation’s housing shortage.

Let us be realistic about the present price-control policies of the Office of Price Administration. It should be remembered that in the case of reconversion items, automatic pricing is now permitted to all small manufacturers and the use of this method is being extended. In the case of larger manufacturers, extremely generous price increases have been permitted.

A Plymouth car which sold for $784 in 1941 has been granted a retail list ceiling price of $998—an increase of $214. The average increase in the price of all Plymouth models now in production is between 28 and 30 percent. These increases do not reflect the fact that the Plymouth low-priced model, the Road King, has been completely eliminated.

In only 2 weeks of this month—between March 7 and 21—price increases significant to the consumers’ cost of living included an increase up to 10 percent of cotton textile and yarns; an increase up to 10 percent on such articles as radios, fans, and toasters; an increase on all meats; a substantial increase on all canned meats; and an increase in the price of bread by permitting a decrease in the size of the loaf without a corresponding price decrease.

In many other lines, price control has already been either suspended or exempted. This has frequently led to sharp increases in prices. In the field of textiles, out of six items which have been decontrolled, prices rose in every instance except one. Just one example of the creeping price rise is the narrow fabrics industry which manufactures fabric tape, ribbons, and similar items.

After price control was lifted, prices rose nearly 4 percent in October, 8.1 percent in November, and over 9 percent in December. By now the average prices for the industry products are up nearly 25 percent. The same pattern is followed in all other commodities on which price control was lifted for which the demand is great. This covers the whole range of items from wax, which has risen from 25 to 100 percent, to hearing aids, on which most manufacturers have raised prices considerably.
There are many instances in which the Office of Price Administration has been in the wrong, in which its actions have been arbitrary and in which conditions have called for prompt relief. Sometimes, it was exasperatingly slow in recognizing and meeting genuine inequities and real hardship. But in reviewing the entire record, it can be said with certainty that there has been no substantial delay in actual production due to the operation of price control. In virtually every instance where production was actually held up because of price policies, the blame rests squarely on those who have either threatened curtailed production or actually did curtail it as a weapon for gaining price increases.

On the other hand, actual production delays have developed in the areas in which price controls were removed soon after VJ-Day. In the case of a number of such items, production and marketing soon became completely demoralized. The fur industry illustrates the point. Prices for decontrolled fur items increased by leaps and bounds. As the result, the market for them has been paralyzed. Production has sharply fallen off while distributors and retailers have curtailed their orders waiting for the stabilization of the price level. These and other instances illustrate what destruction upon stable production and expanding trade can be wrought by a wild scramble resulting from premature suspension of price control.

There are whole areas of price-control policy in which the existing regulations and procedures need a thorough review and where the handling of both price control and its enforcement needs to be improved, strengthened, and streamlined. One such area is the maximum average price type of regulation in which the administrative rules have been extremely cumbersome and complex. Under this type of regulation, which was applied generally to the items of wearing apparel, quality deterioration, which results in hidden price increases, has been precipitous and widespread. At the same time, production was concentrated increasingly in the high-priced items at the expense of the low-priced lines. Faced with complete disappearance of low-priced items, the consumer was forced to spend two or three times as much for high-priced substitutes. In this vital area of cost-of-living control a review of the price policy, designed to prevent further runaway price increases is urgently needed.

The American Federation of Labor asks that the Emergency Price Control Act be extended for 1 year from July 1, 1946, without weakening amendments. Under the present law, removal of price control in areas in which prices have begun to recede is feasible and is now being contemplated by the Office of Price Administration. Many price controls have been removed prematurely, yet in the coming months an increasing number of items will be in sufficient supply to warrant the suspension of price ceilings on these commodities long before July 1947.

It is important that in doing so utmost care be exercised not to throw orderly reconversion out of balance. If, in the same line of products, price control is removed from expensive items of the luxury class and retained on the similar medium-priced and low-priced items, it is not difficult to predict what would happen. Prices of uncontrolled items will rise; it will become more profitable to manufacture them; production will be quickly diverted to the manufacture of...
luxury goods, at the expense of necessities, whose output will be curtailed; and scarce materials will be shifted to the least necessary use. Only when the flow of materials and supplies is ample enough to support the output of the entire range of classes of commodities in the same line can price control be safely terminated. It can then be lifted from the entire line of output with good assurance that its removal will be permanent.

There are a few areas in which special problems of price control and cost of living will persist to which special consideration must be given. The most important of such areas is rent control, which must be continued unimpaired for a full year beyond the expiration of the present law and probably for another year after that date. The housing shortage will remain extremely acute during that time. There is already a widespread real-estate boom. Evictions of tenants are already numerous, and many are directly traceable to the desire of property owners to cash in on the inflated market. When this happens, the tenant families are thrown completely on the doubtful mercy of the inflated market. They are forced to choose between homelessness and moving into slums. We must not allow the forces of inflation to price American families out of their homes.

Let us make it quite clear that I am not giving a blanket endorsement to the entire economic stabilization program as it now stands. The policy as a whole is made up of a patchwork of conflicting decisions. Careful restudy and rethinking is in order to arrive at a sound revision of the program in its entirety.

In the hope that a realistic approach to all phases of our problem of inflation will be made by Congress, I ask for prompt enactment of the extension of price control until July 1, 1947. It is my belief that a firm commitment by Congress will enable us to look upon that date as a date for termination of the wartime price control for all time.

Unless this measure of necessary regulation is provided now, with the view to its gradual elimination, America must face the alternative of even more far-reaching governmental regulation which we will bring upon ourselves if we permit the forces of inflation to bring us to the brink of collapse.

The Chairman. Thank you for your very fine statement, Mr. Green.

Mr. Baruch was a witness before this committee yesterday, and he advocated the control of wages. He also said there ought to be a moratorium on strikes for a year. I thought we would like to have you comment on that.

Mr. Green. Well, I deplore strikes. I am of the opinion that there is a better way to settle differences between employers and employees than to resort to strikes. If we could substitute judgment and common sense and fair dealing for feeling and passion, we could, in a very large measure, reduce strikes to a very low minimum.

I have always advocated genuine collective bargaining—not merely collective bargaining in form, without substance, not merely shadow boxing on the part of either side, but real, genuine, collective bargaining where employers and employees sit around a conference table and, in a frank, open way, speak to each other and deal with each other, keeping nothing back, laying all the facts on the table, and then arriving at a conclusion based upon the facts. That is real, genuine collective bargaining.
Then, if that fails, I favor scientific, up-to-date, modern mediation on the part of a well-prepared mediation section of the Department of Labor.

Then, if that fails, I favor voluntary arbitration as a settlement of the differences which may still remain.

That is a constructive policy, and one which we—those I represent—have pretty generally followed since VJ-day. It seems to me that it would be of interest to you if I stated that the figures show that less than a fractional part of 1 percent of the membership of the American Federation of Labor have been involved in strikes since VJ-day.

But to go to the extreme of suggesting that strikes must be legally and morally forbidden is going too far; because, after all, it is a cherished right that labor possesses; and if such a declaration was made, I fear that it would encourage hostile employers to take advantage of labor.

The threat of a strike has a wholesome effect, even though it may not occur; and I could not, at this time, approve the suggestion that such a moratorium be declared, for the reasons I have just stated.

However, I will supplement that by saying that it is the purpose of the American Federation of Labor, and a fixed policy of the American Federation of Labor, to avoid strikes, to settle through collective bargaining and voluntary arbitration, and we shall pursue that policy religiously.

The Chairman. I think that a man has a right to decide whether he should work and whether he should not work, and I know of no way in which you can compel a man to work.

Mr. Green. It would be a form of involuntary servitude and would violate our constitutional and fundamental rights.

The Chairman. It has been a principle of equity which has been embedded in our law for generations that personal services cannot be enjoined. You cannot make a man work, and you cannot make him render personal services. I think you have the right solution of the problem, in that we should encourage the principle of collective bargaining, which has worked very successfully in the case of the American Federation of Labor.

Mr. Brown.

Mr. Green. Mr. Green, I think we all agree that if we have full production, production in balance with demand, we will not have inflation. You agree with that, do you not?

Mr. Green. Yes; I agree that full production is the remedy for inflation.

Mr. Brown. Well, what are your suggestions about full production?

Mr. Green. Full production?

Mr. Brown. Yes; rapid production. We all want to get production. How do you suggest we obtain it as quickly as possible? As the chairman just stated, you cannot make these people go ahead and produce. Now, what are your suggestions? I think we would like to have something along that line.

Mr. Green. My suggestion is that all those connected with industries which produce material where shortages of materials now exist, management and labor, and all others connected with production in
those particular fields, should unite and join in teamwork in increas-
ing production in those particular industries.

Mr. Brown. I agree with you a thousand percent. But how are you
going to get them to do it? There has to be incentive—more than
we have now, apparently, because we are not getting sufficient pro-
duction now.

Mr. Green. Well, I think that the Office of Price Administration
has been dealing with that question in a very constructive way by
agreeing to lift prices in those fields where a price increase ought to
be allowed. That has been particularly true in the textile field, and
also in the industrial field, where you produce materials that enter
into building construction.

Let me point out this fact: Many of these industries were always
low-wage industries. For instance, the textile industry has been
recognized as a low-wage industry. And, as a result of that, textile
production declined because workers drifted into other industries
where higher wages were paid. The same is true of brick production,
and that is so badly needed in building now. Most of the brick plants
of the country were closed altogether, because there was no general
demand for brick during the war. Besides, the wages were so low in
brick-production industries that workers were not influenced to go
into those industries.

Mr. Brown. I agree with you. Now, if it is necessary to get
production, as we did in the steel industry, if it is necessary to raise
wages, we should raise them. But I think you have to be fair to the
producer. You have to raise the ceiling for the producer as well.

Is that not sound reasoning?

Mr. Green. Yes; they raised the ceiling price of steel, and I am
of the opinion that it will not be long before steel mills of this country
will be in full production.

Mr. Brown. I have no quarrel with the raises granted to steel work-
ers and steel industry, because we have to have production. I under-
stand the price of steel has been raised about 15 percent; is that right?

Mr. Green. I am not sure about that.

Mr. Brown. Well, what is true in the steel industry should be true
in the textile industry, and every other industry, do you not think so?

Mr. Green. It should be; yes.

Mr. Brown. Yes.

Mr. Green. And as the workers come back into the industry now,
following VJ-day, there will probably be increased production in that
line. That is one reason why we strongly favor the enactment of
the amendment to the Fair Labor Standards Act, so as to raise the
minimum rates of pay and thus require the people in these low-wage
industries to at least pay a decent minimum wage.

Mr. Brown. At the same time, you advocate an increase in the
ceilings to the producers, too, do you not? If you increase labor costs,
you want to increase the prices for the producers?

Mr. Green. Yes; but in a number of instances, Congressman——

Mr. Brown. That is, if it is found necessary and fair to increase
the price for the producer, you are in favor of that, too; is that right?

Mr. Green. In a number of instances, when employers secure an
available labor supply—a shortage of labor increases costs—when they
secure an available labor supply, their costs are reduced. And I have
known many instances where increases of wages have been paid and
the product produced sold at a reduced cost, because they find ways of
cutting down costs, and a full, available labor supply means a reduc-
tion in costs. It always does. And if the textile industry can have
a full, available supply of labor, they can reduce costs very materially.

Mr. Brown. I think production is the main thing at this time,
because we can get out of this inflation period much sooner if we
have full production. Everyone agrees that that is our main weapon
against inflation. If it takes a pattern like the steel settlement, an
increase in price to the producers, to do it, I think it ought to be used
in everything else, if it is necessary to get production. Do you agree
with me as to that?

Mr. Green. In a very large measure; yes.

Mr. Brown. That is all.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Green, first, I want to congratulate you and
the American Federation of Labor for the constructive pattern you
are laying down in American industry through your efforts to avoid
and prevent strikes and meet the issue, by other means. I think your
organization is the outstanding organization in the United States
today, which valiantly fights for the protection of the American enter-
prise system. In my opinion, it is one of the greatest forces operating
throughout the entire world.

Now, going directly to your testimony: On page 2 you protest
against the premature abandonment of price control, do you not?
That is in the second paragraph.

Mr. Green. What sentence do you refer to, sir?

Mr. Crawford. The last line in the second paragraph on page 2
of your statement.

Mr. Green. "They look forward to the termination of all forms of
emergency regulations"?

Mr. Crawford. No. "It calls upon Congress to discharge," and
so forth. The last sentence in the second paragraph of page 2. I
will quote it:

It calls upon Congress to discharge its clear and grave responsibility and avert
the certain chaos which the premature abandonment of price control would
inevitably bring.

Mr. Green. Yes.

Mr. Crawford. In other words, you are protesting against the
premature abandonment of price control?

Mr. Green. Yes.

Mr. Crawford. You want to emphasize that thought to the com-
mittee?

Mr. Green. I want to emphasize that thought; yes, sir.

Mr. Crawford. I submit my question in that manner because, over
on page 4 of your statement, in the last paragraph—I want to tie this
in—"It is my belief that a firm commitment by Congress will enable
us to look upon that date"—referring to July 1, 1947—"as the date
for the termination of the wartime price controls for all time."

Mr. Green. Yes.

Mr. Crawford. Now, having in mind the premature abandonment,
and your language there which says, "a firm commitment by Con-
gress," and so forth, will you expand on that thought of a firm com-
mitment by Congress a little so that we will know exactly what you mean? Do you mean to say that, based upon conditions as best you can analyze them now, Congress should at this time extend price control to June 30, 1947, and now make a firm commitment to the effect that as of that date price control is to cease?

Mr. Green. I did not have that exactly in mind.

Mr. Crawford. Will you give your explanation of that thought?

Mr. Green. What I had in mind was that we extend price control for 1 year.

Mr. Crawford. Yes, sir.

Mr. Green. And let us sort of fix in our mind that at that date we will terminate price control permanently all over the country. But if we could eliminate price control before that period I would be strongly in favor of it.

Mr. Crawford. I understand.

Mr. Green. Because I want to get away from it all, myself. Speaking for labor, I know that that is the attitude of labor. But we know there is some price control that must probably be extended for a longer length of time. I emphasized rent controls, for instance. We are not going to be able to supply the country with its housing needs within a year. It will probably take some time to do that. And the need for exercising pretty rigid rent control will continue for even a longer period than 1 year.

But I think we ought to be governed by the realities of the situation. Where we can abandon it because full production has been reached, we ought to abandon it. Where it is necessary in order to protect the public interest, let it be continued, with the hope that in 1 year, aside from rent control and perhaps some other control which we cannot think of at the moment, let it be abandoned.

Mr. Crawford. I think that explains the language "firm commitment by Congress."

Mr. Green. That is what I had in mind.

Mr. Crawford. Now, on page 3 of your statement, where you are referring to the southern pine lumber situation and the advances in prices, and also in connection with your language here which refers to a number of advances in prices which the Office of Price Administration has permitted, and which I would construe as somewhat critical of them acting so hastily, would you care to commit yourself on whether or not you advocate additional price increases being granted to manufacturers of building materials in the form of subsidies or premiums, or do you feel that the manufacturers of building materials, on today's price level structure, would be amply rewarded if they can get their plants back into reasonable maximum production?

Mr. Green. Well, I think the facts in connection with building material production ought to be considered very carefully, and if it is necessary to lift the price ceiling to some extent in order to stimulate production so that housing can move forward in a proper way, then, it ought to be granted, and we ought to face the facts and grant it. But only after all the facts in connection with production of building materials are very, very carefully considered.

Mr. Crawford. By doing that, it would eventually shorten the period of rent control to which you referred?

Mr. Green. Yes, sir.
Mr. Crawford. Now, at the bottom of page 3 of your statement, where you refer to the maximum average price, beginning with:

There are whole areas of price-control policy in which the existing regulations and procedures need a thorough review and where the handling of both price control and its enforcement needs to be improved, strengthened and streamlined.

Mr. Green. Yes.

Mr. Crawford. I think that is one of the most powerful sentences you have in your entire statement, and I certainly agree with that. Having in mind that language, and your original thought, that you protest against what might be termed weakening or crippling amendments, based on your study of the economic consequences of the application of the maximum average price, do you feel it is necessary for us to amend the law with respect to the Office of Price Administration procedure, under that heading, or do you feel that the present law gives them full authority to make those changes with respect to improving and strengthening and streamlining to which you refer?

Mr. Green. My opinion is that the present law confers upon the administrators of the Office of Price Administration full authority to deal with a situation of that kind. I feel that it might cause some confusion if you were to attempt to amend the law in order to cover that point.

Mr. Crawford. Yes. I think you have made yourself clear on that. You simply want it fixed so that our people can purchase the low-cost and the low-priced items, instead of letting the maximum average price continue in such a way as to drive the low cost and low priced items out of the market, leaving only the high-cost and high-priced items for the people to buy.

Mr. Green. Yes.

Mr. Crawford. Now, on your last page, where you refer to the fact that you are not giving a blanket endorsement to the entire economic stabilization program as it now stands, in that sentence, you go outside the field of the Office of Price Administration, do you not, with respect to the whole economic stabilization program of the Government?

Mr. Green. I feel that the stabilization program, which was announced a short time ago, has created much confusion. It is such a complete reversal of the policy that was announced shortly after VJ-day, and the action of the Administrators of the Office of Price Administration following the announcement of the new stabilization policy, or at about the time when the new stabilization policy was announced, seemed to me to be a complete reversal of the policy that had been pursued previously. It seemed as though there were two Administrators of the Office of Price Administration, one previous to the date when this new stabilization policy was announced, and another one, perhaps the same person, but apparently a different type, or a reversed type, acting when the new stabilization policy was announced.

I know it has caused us plenty of trouble, plenty of trouble. And time and experience is proving that, after all, Government interference in our national economy only works out to the disadvantage of all, and I have engaged in very strong criticism, on a number of instances, of the new stabilization policy as it has been announced, and I am hoping that it will be terminated before long.

Mr. Outland. Will you yield, Mr. Crawford?
Mr. Crawford. Yes. That answers my question on that particular thought.

Mr. Green. There is another thing, too. Just pardon me for a moment. It is an economic fact that if you keep raising prices just merely upon the appeal of somebody to give him an increase in ceiling prices, and then increase wages correspondingly, you are helping nobody, but you are injuring the public, because, in the last analysis, the wage-earner is no better off, if the increase in wages which he has been given is offset by increasing prices. His standard of living is not in any way improved or even maintained.

Mr. Crawford. I yield to Mr. Outland.

Mr. Green. So that that policy of "I will give you an increase in your selling price, I will lift your ceiling, if you will increase wages," that is economically unsound.

Mr. Crawford. I agree with you on that.

Mr. Crawford. On this thought that you expressed with respect to genuine and up to date, strictly modernized mediation and collective bargaining, that is very interesting to me. Can management and those who speak for organized labor in collective-bargaining negotiations really do the kind of job you have in mind in the absence of some additional machinery on the part of Congress, and, if the Government is going to sit in there and try to dictate every few minutes or every few hours what the other two parties have to do, can you obtain your objective?

Mr. Green. Yes; let the Government stay out. What you want is to make industry and labor free, and put the responsibility right on them.

Mr. Crawford. Yes, sir.

Mr. Green. The trouble has been that collective bargaining, in so many instances, failed because it is not genuine.

Mr. Crawford. That is right.

Mr. Green. One side or both sides participate in collective bargaining with mental reservations, and they are moved by suspicion. They have no confidence in each other. And, as a result of it, they engage in what I refer to as shadow boxing—never any commitments, no dealing with facts, no appreciation of the fact that we are partners in business and not enemies, and we must find a solution of our common problem here around the conference table. That is the reason collective bargaining failed so much.

The illustration perhaps can be best brought out by making comparison between seasoned troops and new recruits. We know what that comparison is. Well, that is the way it is in collective bargaining. The more it is experimented with, and the longer it is experimented with, the more success is gained, and it is gained because of mutual confidence and trust.

Now, if one organization representing 7,000,000 members in good standing can negotiate an agreement covering months of time during a critical period such as this we have been passing through, through collective bargaining, then, why is it that we cannot do it generally? It is because of the failure or refusal—may I put it that way—of one or both parties to collective bargaining to bargain in a genuine, honest, upright sincere way.

Mr. Crawford. Would we dare go a step further in our understanding of your statement and add this last constructive statement you
have made to the other one with respect to the recently announced stabilization plan: I think you brought out the thought a few moments ago that certain elements appeared in that plan which make it extremely difficult for you and your associates to speak for and act for those under you by reason of this Government stepping into the picture. Is that right?

Mr. Green. I think that is right.

Mr. Crawford. I yield to Mr. Kunkel.

Mr. Kunkel. Mr. Green, along the same line of thought, but just directing it to a more specific application, it seemed to me, in some of these major strikes which have occurred, that instead of devoting their energies to collective bargaining, both parties have had a tendency to try to win Government support for their position, instead of trying to settle their own differences, they have been trying to get the Government in on their side. Do you not think that that is one of the big arguments against having Government come into labor-management disputes?

Mr. Green. I am glad you touched upon that point, because that enables me to make a comparison between two forms of economic philosophy.

The one form, practiced by the American Federation of Labor, is that free enterprise can succeed when industry is free and labor is free. Free to deal with their common problems; free to work out a solution of their common problems, without governmental interference.

We always maintained that if government can give, it can take away. If we are to be regimented by government, then, we are not free. Labor sells its labor to industry. Industry buys that labor. Let them bargain just as freely as the landlord owner of a property seeking to sell his property to someone who wants to buy it.

Time and experience, or experimentation, in our national economy, have proven that that is the successful way.

Now, there is another economic philosophy which teaches that when you want to get a price increase, or when you want to get a wage increase, go to government, and tell government to get it for you. And if government does not get it for you, curse the head of the government, because he does not get it for you. Well, now, that economic philosophy is unsound and wrong, because if the economic tide changes, and you reach the point of increasing prices, and you begin to go down the other way because of overproduction, the other side can go to the Government, and say, "Take it away from them," and the moment you recognize the right of government to come in and fix your standards, shape your pattern, make your suit and put it on you, then, you are risking your future. The welfare of labor depends on the least amount of interference in the affairs of industry and labor, and under normal conditions, labor and industry can work out their problems directly.

But the trouble has been that during the last few years there has developed a state of mind, a psychological condition, which causes people to rely on the Government. "The Government must do this for me." "Government must do that for me." "I must call upon the Government to do it and I have a right to demand that the Government shall do it and if the Government does not do it, then, I am going to curse the Government."
That is economically unsound, and ought to be exploded. Now, the American Federation of Labor does not subscribe to that kind of an economic philosophy.

Mr. Kunckel. When you call the Government in to get a temporary advantage through Government action, you are actually selling your birthright, are you not?

Mr. Green. Yes.

Mr. Kunckel. Thank you, Mr. Crawford.

Mr. Crawford. Mr. Green, the statement you have just made was magnificent, and I repeat that you are still the greatest constructive force in private American enterprise.

Mr. Green. You afforded me the opportunity to make it, so I made it. I do not know whether it has anything to do with this, but it seemed appropriate to make it.

Mr. Crawford. Now, I have just one other question. I think it would be well for you to expand a little bit on that thought you expressed, that a full labor supply enables a unit of industry, or an industry, or American industry, to effectuate a reduction in the cost of the goods and services turned out. That is, in my opinion, as truthful an economic statement as anyone could make. Would you expand on it just a moment for the benefit of all of us? It cuts costs in every way.

Mr. Green. I have been dealing with economic problems within industry for a long time, and I can testify, out of my experience, that where employers and employees engage in genuine collective bargaining, work out their wage agreements, assume full responsibility in the execution of said wage agreements, because it is a sacred obligation that each has assumed, that through the excellent services which labor can render, and the skillful management which management can give, costs can be reduced, even though wages are increased.

That seems contradictory, but nevertheless it is true. And I am confident that as we move into full production, that even with increased wages, the cost of material production is going to be reduced. During the war, many of our large industries—large and small—have been developing new and better means of production in the laboratories of the Nation. These new methods and new means will be applied in the field of production as time and opportunity will permit. The worker is going to be more efficient.

Mr. Crawford. His per capita production will increase?

Mr. Green. Less men are going to do more work. Fewer workers will produce more. That is inevitable. It is in the offing. It is coming. We are moving into it, and will be into it ere long, just as soon as we get away from this extraordinary economic situation.

That means that if fewer men can produce more, that the wages of the fewer men will be lifted, because they are more efficient. But even with the lifting of the wage, the cost of production will decline.

Mr. Crawford. I agree with you.

Mr. Green. I have tried to make that clear to you.

Mr. Crawford. I agree with you.

That is all, Mr. Chairman.

The Chairman. Mr. Patman.
Mr. Patman. Mr. Green, you have made a very fine forthright statement. I do not care to take up your time, because I know other witnesses are waiting, and you have gone into it rather fully.

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Green, I have had the opportunity of speaking at a meeting of the Brotherhood of Electrical Workers not long ago, and the vice president of that organization told me, in line with what you said about your "no strike" record during this reconversion period, that they had practically all their contracts signed, and that they had not had any work stoppages. I thought that was a most remarkable record.

Now, I would like to direct your attention to the question that Mr. Crawford asked concerning subsidies. I understood you to say that they should only be applied, if at all, with the greatest care and after the greatest study, to articles needed in the building trade. Is that a fair statement of your position?

Mr. Green. Yes; that is a pretty fair statement.

Mr. Kunkel. Well, under the present law, the President, through the Administrator, can name any article that is strategic and critical, and he can come to Congress and get an appropriation that is already authorized to pay subsidies on that particular item. In other words, that method provides for a certain amount of supervision and care. Do you think that is an adequate way to administer subsidies in the building industry?

Mr. Green. I would rather acquaint myself with the facts in that case before making a direct answer to your question. That is in your housing plan.

Mr. Kunkel. But the same law that governs the subsidies now paid on copper and certain other items will apply to any item that is denominated strategic and critical, except agricultural commodities, which are excepted from that provision. I just wondered if you felt that was an adequate way to handle subsidies. If you are not familiar with it—

Mr. Green. I think it is a fairly adequate way. That is my impression at the moment.

Mr. Kunkel. I think you have covered everything else I wanted to ask you in answer to Mr. Crawford's questions. Thank you very much.

The Chairman. Mr. Barry.

Mr. Barry. Mr. Green, is it your position that the Office of Price Administration has not curbed production to any great extent in its administration of the act?

Mr. Green. That it has not what?

Mr. Barry. That it has not curbed production in its administration of the act. That is, the Office of Price Administration officials.

Mr. Green. Increased production?

Mr. Barry. Has not curbed it.

Mr. Green. Oh, no; I do not think it has curbed production. I do not know of any instance which has come to my attention where the Office of Price Administration could be charged as having curbed production.
Mr. Barry. Do I gather correctly from your statement that the Office of Price Administration has not been unreasonable in granting price adjustments on things like clothing, shoes, and so on?

Mr. Green. Well, I think in some of those instances that the Office of Price Administration has lifted price ceilings where it was unnecessary to do so, and perhaps in other instances they have neglected to lift price ceilings where the facts justified and warranted such lifting of price ceilings.

Mr. Barry. Do you believe that in the majority of cases they have been reasonable in making price adjustments to encourage production?

Mr. Green. Oh, yes; generally speaking, I think so; yes, sir. Generally speaking.

Mr. Barry. That is all. Thank you. I think you have made an excellent statement.

Mr. Green. Thank you.

The Chairman. Mr. Talle.

Mr. Talle. Mr. Green, I liked your statement very much. I would like to go a little further than my neighbor, Mr. Kunkel, went, or, rather, I would like to add another point. Historically, in our country, the two-party system is so definitely fixed in our political life that it probably could not have been more definitely fixed if it been a part of our Constitution.

Mr. Green. That is right.

Mr. Talle. That is true up to now, at least?

Mr. Green. Yes.

Mr. Talle. And historically, your great organization has always taken the stand that you would support those who were friendly to you, regardless of party.

Mr. Green. Yes; that is right.

Mr. Talle. In other words, you would take no direct part in subscribing to any political party?

Mr. Green. None whatever. I would not want to be understood as doing that at all.

Mr. Talle. That is another reason why collective bargaining should be free, because if you are forced to be tied up with one party, you will be in favor, as long as that party is in power, and then you will be in disfavor when some other party comes into power.

Mr. Green. We are committed to a nonpartisan political policy. We strictly adhere to it. We have refrained from and refused to be influenced to tie our organization up with any political party.

Mr. Talle. And, therefore, you are entirely consistent in holding the views which you hold at the present time.

Mr. Green. That is right.

Mr. Talle. That is all.

The Chairman. Mr. Folger.

Mr. Folger. Mr. Green, I am tremendously impressed with your insistence that one of the very important things to arrive at is genuine, good-humored collective bargaining between industry and labor. Not meeting in an adversary attitude, but trying to work out a problem, both sides being interested in the solution.

Mr. Green. Yes, sir.

Mr. Folger. That is what you mean to say?

Mr. Green. That is right. The atmosphere ought to be conducive to the promotion of genuine collective bargaining, and that could be
done if all were honest and free, without any reservation, I repeat again.

Mr. Folger. And without suspicion of one against the other?

Mr. Green. That is right.

Mr. Folger. Or without one trying to put something over on the other?

Mr. Green. In support of that, you will pardon me if I say this: We have some organizations in our great movement that were formed almost three-quarters of a century ago, and have functioned continuously without interruption ever since. And more than 95 percent of all the workers in the industry are members of that organization, on a national basis, and they have been negotiating their agreements for a half century. I do not know whether you will believe me when I tell you that during that half century they have never had but one small strike. During the remaining period, they have negotiated contracts through collective bargaining, every year, or every 2 years, as the contract term would designate, successfully, without a single moment of interruption in the industry. That is a tribute to collective bargaining, genuine collective bargaining.

Mr. Folger. While you, therefore, have reason and grounds for reference to that as a great source of satisfaction, you want an improvement, if it can be made in it, so that it will be near perfect?

Mr. Green. That is right; if there is any improvement, we want it.

Mr. Folger. I hesitate to mention the matter of political parties, but you have answered that question, and what you do is to leave every man free to himself?

Mr. Green. That is right.

Mr. Folger. That is all.

The Chairman. Mr. Brumbaugh.

Mr. Brumbaugh. Mr. Green, I want to compliment you on your testimony. Let me ask you this question: Do you believe in the soundness of subsidies from an economical standpoint? The continuance of subsidies?

Mr. Green. Well, I think, of course, that the subsidy policy, so far as it applies to some lines in the administration of the Office of Price Administration, has proven sound and successful.

Mr. Brumbaugh. Do you think they should be continued indefinitely?

Mr. Green. I would not approve of widening or extension of the policy, but the war taught us that it was needed, and until we get away from the effects of the war, I presume that it would be part of the wisdom to continue that policy.

Mr. Brumbaugh. Do you think they should be eliminated at the same time as the Office of Price Administration is eliminated?

Mr. Green. The Office of Price Administration?

Mr. Brumbaugh. At the same time? Subsidies should be eliminated at the same time?

Mr. Green. Yes.

Mr. Brumbaugh. Thank you.

Mr. Green. I think they ought to be discontinued, though, as quickly as possible.

Mr. Brumbaugh. Thank you.

The Chairman. Mrs. Woodhouse.
Mrs. Woodhouse. I have no questions.

The Chairman. Mr. Kilburn.

Mr. Kilburn. Mr. Green, there is one thing that we would all like to get your advice on. We are agreed that that production is the only thing that will cure inflation, and, of course, we are all against inflation. What I would like to get your ideas on is this: Do you think this committee, in view of the fact that many witnesses here have testified or have given the impression to me, at least, that the Office of Price Administration was very reluctant to remove controls, even when production was equal to demand, should amend this law in any way to make the Office of Price Administration give up their controls when production reaches demand?

Mr. Green. As I stated in my statement, I am of the opinion, after giving all the facts careful consideration, that it would be unwise to amend the existing Office of Price Administration Act, because we are approaching its termination. But I share your point of view, to the effect that the Office of Price Administration ought to release price control when full production, or approximate full production has been reached, so that it can operate without any further Government interference. I agree with that. But I doubt the wisdom of amending the act so as to require that.

Mr. Kilburn. Even in view of the fact that some witnesses, some industries, have testified that they will not remove them even though production is up to demand?

Mr. Green. Well, some industries may want to be removed from the influence of the Office of Price Administration too soon. The facts, though, on production, should be the determining factor, because when you reach approximately full production, there is no need of any further price control.

Mr. Kilburn. Well, suppose the facts divulge that production is up to demand, then do you think that the Office of Price Administration should lift their controls?

Mr. Green. They should lift the price control then.

Mr. Kilburn. Should this committee direct them to by law?

Mr. Green. Well, I doubt the wisdom of that, because if you attempt to change the act, I repeat again, you may create more confusion, and a new interpretation, and varied interpretations. Then you get into trouble.

Mr. Kilburn. That is all, Mr. Chairman.

The Chairman. Mr. Hays.

Mr. Hays. Mr. Green, it is not quite clear to me what you mean on page 3 with reference to the landowners absorbing the price increases of lumber. The top paragraph.

Mr. Green. That means that those who own the pine territory absorb prices without——

Mr. Hays. Oh, you mean the producer. Where you said the landowners, you meant the producer?

Mr. Green. That is right.

Mr. Hays. We have so many landowners who sell.

Mr. Green. Perhaps the word is not well chosen.

Mr. Hays. You say the lumber producer simply made a higher profit without increasing his production?

Mr. Green. That is right.
Mr. HAYS. The ceiling is really applied to the finished lumber, as I understand it, and not to the stumpage as it is taken from the landowner?

Mr. GREEN. That is what I mean; the lumber producers.

Mr. HAYS. That clears it up.

Now, I wanted to ask you about the minimum wage proposal, since that does have some bearing on this problem of inflation control. Would you regard that as a violation of the principle that you enunciated regarding the interference by Government in natural economic laws? Some of us are disturbed about the effect on small businesses in our section, of an inordinate increase in the minimum wage, and while it has some strong appeal for us, because of the plight of some of the low-income workers, I am concerned about its relationship to this whole problem of preventing inflation, and I wonder if you would care to express an opinion on that to assist us in the consideration of this entire problem?

Mr. GREEN. It is my opinion that the establishment of a decent minimum wage will not interfere with the economic philosophy which I expounded a moment ago, as approved by the American Federation of Labor, because it does nothing more than establish a floor for wages, a basis, a minimum below which nobody, of course, should go.

However, the legislation on that subject should stop right there. It should go no further. If you were to attempt to fix any graduated rate, or maximum rate, then you would be violating our free national economy.

Mr. HAYS. I did not want to press you for an opinion on the minimum wage bill before you were ready to express yourself, and I am sure at the proper time you would want to do that, but, for the light that it throws on this problem, I asked that question.

Mr. GREEN. Yes.

Mr. HAYS. You would agree, would you not, that it does have some bearing on this problem of controlling inflation?

Mr. GREEN. Yes.

Mr. HAYS. And that it would be a violation of the principle of which you spoke if there were an inordinate increase in the minimum wage?

Mr. GREEN. Well, certainly, it ought to be a reasonable minimum wage, a sound floor for wages, a sound foundation, so that no employer could go below that. That would have a stabilizing effect, and that stabilizing effect would contribute very largely, toward the promotion of our broad national free economy.

Mr. HAYS. We heard yesterday, from Mr. Baruch, a good statement regarding the critical nature of this problem, and you have voiced very much the same viewpoint. So I am simply stating that—this is not a question that I am asking you, but it is more a plea, with your group and with others, to realize that sometimes there are disappointing answers to people who have a grievance. Low-income workers, for instance, when we are in a great crisis. And we need to present that viewpoint with some vigor to the Nation. That was my purpose in asking the question.

Mr. GREEN. Yes.

The CHAIRMAN. Mr. Buffett.
Mr. Buffet. Mr. Green, when Mr. Baruch was before this com-
mittee yesterday, he suggested that action be taken to eliminate, by
law or administrative edict, all strikes or lock-outs for a year.
Mr. Green. I answered that.
The Chairman. Mr. Green has answered that question.
Mr. Green. Yes. I answered that before you came in.
Mr. Buffet. I beg your pardon. You have indicated in this state-
ment that you favor the extension of the law for 1 year.
Mr. Green. Yes.
Mr. Buffet. Do you believe that when it is extended for 1 year,
that the extension should be announced at the time we extend it, as a
termination point? Is that correct?
Mr. Green. That is right.
Mr. Buffet. With the exception of rent control?
Mr. Green. That is right.
Mr. Buffet. Everyone agrees that tenants today have no real
bargaining power, and until some bargaining power is restored, you
cannot end rent control with any assurance of stability.
Mr. Green. That is right. Well, there might be some other pro-
duction industry that we cannot think of at the time which might
still need to be the subject of price control.
Mr. Buffet. That is right.
Mr. Green. But we cannot see it at the present time. But the
whole application of price control should be dealt with in a most
flexible and elastic way. That is, any industry producing goods,
where they reach full production before the year is up, there is no
reason why price control should continue for that year, even though
the law is extended for a year. Price control should be discontinued
in all lines where the economic facts show that it should be discon-
tinued.
Mr. Buffet. It is an economic narcotic, price control?
Mr. Green. That is right.
Mr. Buffet. The faster we taper it off, the better off we are?
Mr. Green. Yes; it is more of an economic problem than any
other problem.
Mr. Buffet. Yes, sir.
Now, in your discussion here, you indicated that a lot of what we
called collective bargaining was, in fact, shadow boxing.
Mr. Green. That is the reason collective bargaining fails in so
many instances.
Mr. Buffet. Now, I would like to suggest to you, and see what
you think of this transfer of the phrase "shadow boxing." It is my
contention that as long as the Government resorts to deficit financing,
and issues more dollars than there are goods produced, that the value
of our money is going to deteriorate, and we are inflating, regardless
of price control. Would you agree with that analysis?
Mr. Green. Well, I will say to you this: That shadow boxing and
mere forms of collective bargaining are caused, very largely, because
of a reliance on governmental interference. That has been demon-
strated in collective bargaining during the last few months. They
do not go into it in a sincere way, because—that is the mental reser-
vation I referred to—they rely upon Government to step in at the
proper time, and they are more interested in creating a situation
which will influence Government to step in than they are in working
out an agreement through collective bargaining. They rely on it. They rely on Government. And what is needed is a strong Government to say to employer and employee: “Now, under no circumstances are we going to get in. You negotiate your agreement, because Government is not going to get into it in any shape or form for one or the other or against one or the other.” Eliminate that state of mind, that mental reservation that “Government will help me out,” and then call on the Government to do it.

Mr. Buffett. I agree with that statement a hundred-percent, Mr. Green, but I want to come back to this other point. Do you not believe that as long as we issue more currency than there are goods produced, whether it is by deficit financing or foreign loans, that we are, in fact, inflating the value of our money, and diluting its purchasing power?

Mr. Green. I think that is about the correct analysis.

Mr. Buffett. Do you not think that that is the basic cause of inflation?

Mr. Green. Very largely. It is a great contributing factor.

Mr. Buffett. We have had testimony here from the Chairman of the Federal Reserve Board that deficit financing is the true cause of inflation, and that we cannot stop price increases by price fixing alone, that it treats the effect and not the cause. Do you think that is a correct analysis?

Mr. Green. Yes; that is a very important factor in inflation, and there are so many other factors that enter into it. Of course, a scarcity of a material, like nylon stockings, will cause inflation. And all of that enters into it and it serves to promote inflation. And the worker is the one who pays most when inflation comes.

Mr. Buffett. That is exactly right, and that is why I feel that the worker has the greatest interest in this country in a balanced budget, and I hope that your great organization gets into that fight as effectively as you have in these other problems, in which I think you have frequently done a very fine job.

Mr. Green. Thank you.

The Chairman. Mr. Outland.

Mr. Outland. Mr. Green, just two or three questions. I wanted to get very clear just what your position was about the continuation of the act. On page 4 you stated that you wanted to see the act continued until July 1, 1947, without crippling amendments, and in the meantime, as production picked up in certain fields, price control should be taken off those articles; is that correct?

Mr. Green. That is right.

Mr. Outland. I am a little more uncertain as to what you mean by a statement on the part of Congress that all controls be removed after July 1. Do you want this committee to include in the law a statement that after July 1, 1947, there will be no more price control bill?

Mr. Green. Oh, no. No, I just offered that as—well, I think I should have put it as an opinion, that price controls should be lifted after July 1, 1947, except in some extraordinary situations, such as rents, and so on.

Mr. Outland. Yes. I think we all agree with you that we are anxious to get away from price control at the earliest possible moment.

Mr. Green. That is right.
Mr. Outland. But if, in addition to such fields as rents, after July 1, 1947, there is a scarcity in certain fields, you would then feel that price controls should be maintained on those articles?

Mr. Green. Oh, yes, in those special instances where it should be.

Mr. Outland. And while we look forward to a year’s renewal, that in that year’s renewal we hope we will be taking care of the emergency, at the end of that time, if, in certain fields conditions still prevail that necessitate price control, you would be in favor of it?

Mr. Green. That is right. Take, for instance, the case of rent. It must be clear to all thinking people that it will be impossible for us to supply even the partial need for new homes by July 1, 1947. Probably thousands and thousands of people will be seeking new homes then, July 1, 1947. It would be inflationary if we were to lift rent control then.

Mr. Outland. I have received a great many letters during the past few weeks asking me if this committee would consider an amendment to the Price Control Act to establish price ceilings upon business establishments, not just upon housing—also from people who run little businesses, who have seen their rents increase 200 percent during the past year. What would you think of this committee considering an amendment along that line?

Mr. Green. Well, I think there is merit in it. But so far as an amendment is concerned, I do not know just what the law provides in that respect, whether or not it has any control over that. I know that many small business people are the victims of high rents, increasing rents, and increasing demands for the payment of higher rents.

Mr. Outland. Perhaps in view of the fact that those building materials that we do have are going to be channeled more and more into housing, where they actually belong, it might be worth while for this committee to at least look into the problem of price ceilings on business establishments.

Mr. Green. Yes; I think it would.

Mr. Barry. Will you yield, Mr. Outland?

Mr. Outland. Yes; I yield.

Mr. Barry. Mr. Green, on that proposition of production catching up with demand, I want to call your attention to the food situation. We have produced more food—the farmers have—35 percent more this year than they did in prewar days. So production is high. At the same time, we are trying to feed all of devastated Europe and Asia, and I think it is going to be a very difficult problem to decide whether production has caught up with demand, because of those extraordinary circumstances, and that if we lift the ceilings on food today, which are rather high, higher than they have ever been, they would still go higher, in my opinion. I would like your opinion on that.

Mr. Green. That is particularly true of food, because of the extraordinary distressing situation that exists abroad. And we will have to be still the arsenal of democracy, where we will have to feed the world. And that is going to create a heavy demand for our food production.

Mr. Barry. Well, my point is that as far as the United States is concerned, our production is far greater than it has ever been.

Mr. Green. Yes.
Mr. Barry. But despite that, if we lift ceilings now, taking into consideration these other factors, food prices will go very high. In New York City today the prices are 45 percent higher than in 1940.

Mr. Green. Yes.

Mr. Barry. So, in addition to rents, I want to bring that situation to your attention.

Mr. Green. Yes.

Mr. Barry. Food is the biggest item in a housewife's budget.

Mr. Green. Yes; that we will have to deal with, I think, as with the picture on homes. Because we cannot tell, really what the situation with food will be a year from now, but I am of the opinion it will still be acute and that the demand will be in excess of our ability to supply, because of this terrible situation abroad.

Mr. Barry. I am afraid you are right about that.

Mr. Kilburn. Will you yield, Mr. Barry?

Mr. Barry. Yes.

Mr. Kilburn. In your comparison, do not forget that before the war we were killing little pigs.

Mr. Outland. I think, Mr. Chairman, that that killing-of-little-pigs argument has been so well exploded that I do not think it belongs in the discussion of price control. I have no further questions.

Thank you, Mr. Green.

The Chairman. Mr. Riley.

Mr. Riley. Mr. Green, I merely want to thank you for a very fine statement. You have been very helpful to the committee.

Mr. Green. Thank you.

The Chairman. Mr. Hoch.

Mr. Hoch. I have no questions.

The Chairman. Mr. Thom.

Mr. Thom. Mr. Green, there has been some discussion of deficit financing as it affects inflation, and I think it is wise to ask permission to insert at this time a newspaper clipping which shows that the Treasury will make a $2,000,000 payment on April 1 on the national debt, so that our finances are being put in order, and there is going to be a reduction in the national debt. I ask that this be included in the record.

(The following was submitted for the record:)

NATIONAL DEBT CUT APRIL 1

Washington, March 15 (AP).—The Treasury announced today that another $2,000,000,000 cut in the national debt will be made April 1, in addition to a $2,750,000,000 reduction this month.

The combined reductions, accomplished by redemption of maturing certificates with cash from the Treasury balance, indicated the national debt would approximate $275,000,000,000 next month. This compares with the record high of $279,764,369,348.29—an average of more than $1,993 for each American—at the end of last month.

Together, Treasury officials said, the reductions constitute the biggest cash outlay within so short a time for debt retirement. But percentage-wise—comparing the reduction with the total—it has been surpassed, although not in at least 14 years.

The April 1 reduction will be accomplished by cash retirement of $2,000,000,000 of a $4,810,554,000 maturing issue.

The balance of the issue will be refinanced by an offering of 1 year seven-eighths percent certificates of indebtedness.

Anticipating oversubscription of the exchange offering, the Treasury said subscriptions would be received subject to allotment to all holders on an equal
extend price control and stabilization acts of 1942.

percentage basis, except that subscriptions in amounts up to $25,000 will be allotted in full.

The CHAIRMAN. That may be done.

Mr. THOM. Now, I wanted to ask you, Mr. Green, in your idea of conscientious and sincere collective bargaining, do you believe that decision is helped or hurt by rushing to the newspapers with great advertisements, presenting the adverse claims of the two sides to the controversy?

Mr. GREEN. I do not think it contributes toward harmony and cooperation and the settlement of differences between employers and employees.

Mr. THOM. It tends to promote disharmony, does it not?

Mr. GREEN. Disharmony, and it creates feeling.

Mr. THOM. I wanted to ask you: In view of Mr. Baruch's recommendation yesterday that we ought to ban strikes for a year, what your feeling is about the future settlement of wage disputes. Will we have more strikes or less strikes?

Mr. GREEN. It is my opinion that strikes are going to be decreased, but, unfortunately, as I pointed out awhile ago, this new stabilization policy which was formulated by the administration has contributed toward industrial discontent, because it has created a psychological condition that is not conducive to the promotion of industrial peace. If that could be withdrawn and eliminated, and if labor and management could be free to bargain collectively without interference on the part of the Government, if Government could announce, as its definite, fixed policy, that it was going to stay out, then, I believe we would settle down on the basis of industrial peace and strikes would be reduced to a very low minimum.

Mr. THOM. That is all.

The CHAIRMAN. Mr. Hull.

Mr. HULL. No questions.

The CHAIRMAN. Mr. Green, I wish to thank you for your very fine, thoughtful, and constructive statement. We are always glad to hear from you on questions to which I know you give great study. Thank you for coming this morning.

Mr. GREEN. Thank you, Mr. Chairman and members of the committee, for your kindness and courtesy.

The CHAIRMAN. The National Association of Automobile Dealers will appear next.

Mr. Mallon. State your name and identify yourself for the record.

STATEMENT OF W. L. MALLON, PRESIDENT, NATIONAL AUTOMOBILE DEALERS ASSOCIATION, NEWARK, N. J.

Mr. Mallon. I am W. L. Mallon, a retail automobile dealer of Newark, N. J. I also am president of the National Automobile Dealers Association. Our national headquarters are at 1026 Seventeenth Street NW., Washington, D. C. I and all other officers of the association, except the executive vice president, serve without salary.

Our membership today consists of a vast majority of the 32,000 new-car dealers of the United States. They are located in every county and State in the Union.
Before the war there were between 42,000 and 45,000 dealers in the Nation. Because between 1942 and 1946 no new cars were made, old cars were driven into black markets by the Office of Price Administration regulations, help was scarce, and business costs skyrocketed more than one-fourth of the dealers of the Nation were forced out of business. They either went broke or quit to save expenses. Most of the 32,000 who kept their doors open have existed largely on repair and service work. Here and there a large dealer who had been able to buy substantial stocks of new and used cars before the supply was exhausted made good money during the war. But he was the exception. The little dealer, who constitutes more than 80 percent of our trade, has had rough sledding.

To the credit of your committee and Congress, let me say that our condition would have been worse if you had not come to our rescue. The passage of the Murray-Patman Act, in which this committee played a large role, kept open the doors of three out of four dealers in this country. If it had not been for congressional help in passing that act, most dealer establishments in the United States would be closed and repairs and services for 25,000,000 car owners stymied.

The attitude of the National Automobile Dealers Association toward the price-control law is simple and clear. We believed that it was necessary when originally passed, and to date we never have advocated immediate termination of the act. We now believe that controls should be lifted as rapidly as possible when goods and supplies become adequate, and that certain amendments which will compel the Office of Price Administration to carry out congressional intentions in regard to established trade practices should be adopted.

Most automobile dealers today are filled with uncertainty. At the close of the war they began expanding their plants and personnel under the impression that new cars soon would begin to flow to them in large numbers. They believed statements made last fall by the Office of Price Administration Administrator Bowles and others to the effect that they might soon expect an average annual output of 5,000,000 cars. The National Automobile Dealers Association and other informed automobile groups warned them against over-optimism, but so eager were they to get going that they paid little attention to conservative warnings, often investing their last dollars in expansion programs. Now they are holding the bag. Strikes came but new cars did not. Now this large group of small dealers and the 10,000 dealers who were put out of business at the beginning of the war are greatly concerned about their futures. Lack of stocks, increased cost of help, space, and so forth, and a persistent whittling down of retail automobile trade discounts by the Office of Price Administration have them desperately worried.

In an effort to leave the impression that retail automobile trade of the United States has prospered under Office of Price Administration regulations, Administrator Bowles has told you here in person, by charts and in widely circulated booklets, that its profits were 200 percent greater in 1943 than they were in 1939. That is a grossly misleading statement.
Primarily, so far as we have been able to learn, there exists nowhere a trade-wide report on automobile dealer incomes for 1943. As to 1939 dealer incomes, they were among the worst of the prewar period. Less than one-half of the corporate dealers reporting to the Bureau of Internal Revenue broke even that year. The total number of dealers reporting average only four-tenths of 1 cent profit before taxes on every dollar's worth of gross business done. So, if the Office of Price Administration statement of a 200 percent gain could be proved, it would only mean that dealers in 1943 earned $\frac{1}{5}$ cents profit on each gross dollar before taxes. But nowhere can we find proof of the Office of Price Administration statement.

Prior to appearing here, Mr. Bowles told the House Small Business Committee that the net profit of the 32,000 dealers of the country—and I quote him—"jumped from 1.3 percent in 1939 to 9.3 percent in the first 6 months of 1945." That statement which never has been substantiated by an unquestioned national report appears to have been forgotten by Office of Price Administration chart drafters when Mr. Bowles appeared here recently.

The truth is that in arriving at both the 1943 and 1945 estimates here quoted, the Office of Price Administration followed its customary method of arriving at national trade income averages. That method known as "sampling" is one in common use in advertising agencies throughout the Nation when preparing sales campaigns. The agency does not make a complete national survey of the trade or industry in question. Rather, a handful of income reports are studied and from these national conclusions to prove whatever is desired are drawn.

A good example of how the Office of Price Administration follows this practice was had during hearings by the House Small Business Committee last fall when automobile dealers protested against the Office of Price Administration's first attempt to lower their established trade discount averaging 24 percent. The Office of Price Administration then was contending that dealers could easily absorb a cut of from 11 to 13 percent. It further declared that a survey of the industry made by the Office of Price Administration proved it. Pressed by committee members for details of that survey, Mr. Bowles admitted it had covered only about 300 dealers out of 32,000 in the Nation, or less than 1 percent of the trade. It is on this wholly inadequate survey that the Office of Price Administration still is inflicting profit cuts on dealers. These cuts will total $\frac{7}{8}$ percent, or an amount equal to about one-third of the average established trade discount.

Common sense and a fair memory for facts will defeat any studied attempt to make it appear that the retail automobile trade nationally is as well or better off than it was before the war.

There is no denying that the war put one-fourth of the dealers out of business and they still are out. In attempting to explain away this incontrovertible figure, Mr. Bowles suggested to the House Small Business Committee that many of these dealers went to war. Some did, but most of them went to the wall. At all odds, they closed their doors against their wishes, and therefore became business casualties of the war period. Fairness demands that any comparison of average prewar and present incomes for the trade include the operations of these missing men.
Other factors which must be weighed are these: Dealers received no new cars for almost 4 years during the war and before the war new car sales always formed the backbone of dealer income. Used car sales, profitable while a supply of merchandise lasted, faded rapidly in legitimate dealer ranks after Office of Price Administration ceilings were imposed. After that, the bulk of used-car transactions were between individuals and private buyers and gyps or black-market racketeers who kept no books and operated in fine disregard of Office of Price Administration rules. More than 5,000,000 old cars were junked during the war, thus reducing the potential market for repairs, services, and supplies by at least one-sixth. Gas and tire rationing not only cut supply sales for cars in use but put countless thousands of cars into dead storage.

Add all of these indisputable dealer handicaps together and you have a true picture of what the war did to our trade. The mere trickle of new car deliveries since partial production was renewed last July has changed the picture only slightly. Nor will it be changed greatly until new-car deliveries are being made to dealers in large volume.

During the last 6 months the Office of Price Administration forecasters have been building up imaginary future profits on unproduced and undelivered new cars and then assessing trade discount cuts against them. The fact that strikes, material and labor shortages, increased costs, and acts of God may intervene to overturn Office of Price Administration estimates apparently means nothing to the agency. It stands by its figures, once they are made.

I am talking now about our experiences with the income forecasting under Mr. Bowles. The same statisticians and advertising agency chart drafters who helped him arrive at his rosy but wrong conclusions about possible dealer incomes up to March 1, 1946, are, I understand, still on the job under Mr. Porter. We hope that Mr. Porter will insist on far broader coverage of our industry than Office of Price Administration "samplings" to date have shown.

The forecast of new car business for 1945-46 upon which Mr. Bowles built his plan to take from 11 to 13 percent from the automobile dealers is a splendid example of Office of Price Administration miscalculation. It was predicated on the theory that once the Office of Price Administration made an estimate of dealer earnings they were as good as in the till. I shall show you how widely Mr. Bowles and the Office of Price Administration missed the mark.

When Mr. Bowles appeared before the House Small Business Committee on November 13, 1945, he predicted an average annual new car production of about 4,000,000 by March 1946. Well, it is now March 1946, and official new-car production reports which we have just obtained from the Civilian Production Administration show that Mr. Bowles's estimate was slightly more than 800 percent too high. During February 1946 new passenger cars were produced at the annual rate of less than 600,000 and not 4,000,000 a year. Furthermore, since new passenger-car production started last July up to March 1, last, exactly 190,232 units had been produced. That is an average of 23,779 cars per month, or a rate of less than 300,000 per year.
There were several special reasons for this low production, of course. During the House Small Business Committee hearings we called attention to possible curbs on production. We pointed out that both the automobile and steel plant strikes would slow up assembly lines. But did the Office of Price Administration back up on its figures? Not for a second. In fact, Mr. Bowles on the witness stand became so enthusiastic over dealer prospects for 1946 that he suggested a 5,000,000-car production average by midsummer.

It is just as impossible today for the Office of Price Administration to forecast future new-car production accurately as it was last fall. Do not think that because the automobile and steel strikes have been designated by the Government as settled that full new-car production is just around the corner. Not all strikes in General Motors are settled. The new back-to-work policy announced by the management today improves the outlook, but many plants making vital parts have been unable to resume operations. Trouble is being had in plants of other companies over the failure of workers to produce at reasonable speed. Likewise, there is possibility of a coal strike early in April. If miners strike, all steel plants will be closed down within 2 weeks and the supply of steel for automobile factories shut off.

Dealers everywhere are being importuned for new cars and information as to when normal production will be reached. No one can answer that. The best-informed production men in the Nation today doubt if more than 60 percent of normal production can be reached this year even under the most favorable circumstances.

The national business situation cries for a coordination of planning, not by amateurs or persons interested in only one phase of the subject but by persons of sufficient scope of economic vision to see the whole picture. It needs the attention of a group which will admit frankly that a plan which is fair to all is the only one which will put the production of the country into high gear. Congress unquestionably must take the leadership in doing this job. Various Government agencies, including the Office of Price Administration, have demonstrated their inability to get results due to the biased methods adopted. The principal reason why these agencies have failed is that they have sought to favor some groups at the expense of others. That, fundamentally, is what is wrong with the Office of Price Administration particularly today. Administrator Bowles, for reasons doubtless regarded by him as sufficient, has persistently encouraged increased labor costs throughout industry, especially where Congress of Industrial Organizations unions were concerned, and then raised his hands in horror at the suggestion that some of these costs be passed along to the public or almost anybody but the retailer.

The retail automobile dealers of the United States have had a striking example of that policy impressed upon them within the last few days. The Office of Price Administration, unquestionably under the direction of Mr. Bowles, has warned dealers that they may expect to be compelled to pay the entire wage increases won by the Congress of Industrial Organizations automobile factory workers in their recent strikes. This will be approximately $80,000,000 a year. That is more money by five and a half million dollars than all of the dealers in
the United States who pay Federal income taxes netted during 1941, the last full year of new-car production.

Not one penny of these Congress of Industrial Organizations wage increases is to be paid by either manufacturers or the public, dealers have been advised by the Office of Price Administration. Manufacturers cannot afford to meet the increases, the Office of Price Administration says. The Office of Price Administration also vigorously protests against the ability and willingness of the public to pay the increased costs of new cars. The consumer simply must not be permitted to spend his money in this way, the Office of Price Administration insists. It is bad economy for the prosperous buyer to pay such cost, but good economy for the hard-up dealer to do so, we are told.

Nothing was said by Mr. Bowles and others during the strikes about the dealers having to pay these wage increases. Emphasis was laid by the strikers, Secretary Wallace, and other administration leaders on the ability of the automobile manufacturers to pay. When the strike was settled, it was the dealers who got it in the neck.

The first that the dealers knew about the Office of Price Administration plan to make them pay for the strike came a few hours before the strike was called off officially on March 13. The dealers' advisory committee was called to Chicago and, without any preliminaries, told that the dealers' profit margin would be cut 2 percent to pay the strike bill. No dealer or any member of the advisory committee was consulted in advance about the ability of dealers to pay. The Office of Price Administration officials simply said the dealers would have to take the rap and that was that.

The total 7½ percent in dealer-profit reductions which has been taken by the Office of Price Administration under guidance of Mr. Bowles has consisted of three bites.

The first, of 2½ percent, was announced by Mr. Bowles last November, following an interesting hearing before the House Small Business Committee. Mr. Bowles had planned a cost absorption cut of 5 percent, but he said after the hearing that income and cost figures produced by the dealers had helped convince him that 2½ percent would be sufficient. The fact that more than 400 Members of the House and about 50 Members of the Senate appeared at the hearings and protested against any and all cost-absorption cuts being imposed on automobile dealers may also have influenced Mr. Bowles's decision.

Incidentally, Mr. Bowles at that hearing assured the House committee that the cut in dealer income he then proposed to make would be the last one. His statement to this effect appears on page 1538 of the printed record of the hearing. Representative Ploeser, of Missouri, had asked him the direct question if more cuts of dealers income were to follow the first one then under discussion. Bowles denied there would be other cuts. The testimony:

Mr. Ploeser. The next question then is this: Is this the end of this, or is it just the first mile, and are you going to take another crack at it in another few months?

Mr. Bowles. This is the end of it. We are establishing the consumer prices on automobiles and once they are established, they are established.

While Mr. Bowles was thus testifying, his office was in the process of putting into effect another, but secret, 3-percent cut in dealer earnings. This levy was taken out of the dealer handling charge, a 5 percent allowance which had been recognized in the trade for many years.
and was approved by an Office of Price Administration order in 1942 which remained in effect until the Office of Price Administration cut it in the fall of 1945. The fact that this 3 percent was thus taken away from dealers never has been publicized by the Office of Price Administration. For several months after the House hearing, until late in January 1946, the Office of Price Administration even evaded all efforts by the National Automobile Dealers Association to learn what was being done on the vigorous dealer protest against the cut. Finally, Mr. Bowles, in a letter to me, approved the cut and sought to defend it. Parenthetically, we have appealed this decision to Administrator Porter and he has agreed to give us his findings soon.

Now, the present 2-percent strike wage cut brings the three bites up to 7½ percent and makes Mr. Bowles' statement to the House Small Business Committee that the original cut would be the last one sound strange indeed.

We believe that our chief difficulties with the Office of Price Administration rise from our two wholly different interpretations of what Congress intended to say about the Office of Price Administration controls when it wrote the price-fixing law. The Office of Price Administration and the National Automobile Dealers Association opinions divide on these two important points:

1. Dealers believe that Congress intended that trade advisory committees should be consulted by the Office of Price Administration in advance of the issuance of any orders affecting the respective committee's industries and their recommendations should be given weight. The Office of Price Administration customarily ignores our advisory committee except as a channel for announcing decisions already reached.

2. Dealers believe that Congress intended that section 2 (h) of the Pricing Act should prohibit the Office of Price Administration from changing any and all established trade and cost practices. The Office of Price Administration takes an opposite view and has used this section of the law as a vehicle for unloading vast cost-absorption charges on automobile dealers.

Neither of these complaints was applicable to the Office of Price Administration in its formative period. In fact, Mr. Bowles' predecessors, Leon Henderson and Prentiss Brown, in their relations with automobile dealers, gave evidence of holding the same views on these two points as do the dealers today.

Mr. Henderson at the outset of his administration assembled a well-trained group of automobile men who earnestly endeavored to cooperate with our advisory committee. Of the greatest importance, Mr. Henderson urged these assistants to adhere strictly to the wording of the law wherein it sought to prohibit the disturbance of standard trade practices.

When Mr. Henderson retired in favor of Mr. Brown, one of the most widely experienced automobile men in the Nation, the late former Senator Clyde Herring, of Iowa, was installed as Assistant Administrator and supervisor of automotive matters. Having helped draft the pricing law, he appreciated congressional intent and shared the dealer views in that regard.

With the passing of Administrators Henderson and Brown, great changes in the personnel and the interpretation of the Office of Price Administration's duties and powers came.
Trained automobile men disappeared from the organization with marked rapidity. The last man with any extended retail experience, Mr. Jo Roberts, left several months ago. In their stead, to handle the most intricate dealer problems frequently involving possible losses of hundreds of millions of dollars and grave service disturbances, came men who knew absolutely nothing about the retail-motorcar business. The single remaining man at the Office of Price Administration who has had any automobile experience is a former member of the personnel bureau of an auto-manufacturing company. He is without retail automotive experience.

The most noticeable changes of all, however, have come in the Office of Price Administration's attitude toward consulting the advisory committee and using section 2 (h) of the law as a means of enforcing severe cost absorptions.

Ignoring our dealer advisory committee has become a commonplace practice. In the beginning, Office of Price Administration officials invited 81 dealers from all parts of the country to come here at intervals and at their own expense to advise the agency. Many of the best dealers of the country gladly responded and for a time they were consulted. They did not always agree with the Office of Price Administration's decisions, but at least they had a chance to express their views. With the advent of Mr. Bowles, the situation changed. After that the advisory committee, which now has been reduced to 25 members, usually was not consulted on any major subject, but was simply called in and told what the Office of Price Administration had decided to do to the dealers.

It has been under the Office of Price Administration's interpretation of section 2 (h) of the pricing act, that dealers have suffered most. In a manner which dealers regard as wholly contrary to the intent of Congress, the Office of Price Administration during the administration of Mr. Bowles, sought persistently to change the trade practices and lower trade discounts of retail automobile dealers. It is in absolute defiance of this section of the law, as interpreted by dealers and many Congressional members who wrote it, that the Office of Price Administration already has cut dealer profits 5½ percent. The Office of Price Administration now states an additional 2 percent is to be imposed and dealers have no assurance that the end is yet here. They may still be called upon to bear increased steel costs. You will recall that following the study of the incomes of 300 dealers last fall, Mr. Bowles advised the dealers that they might have to accept cuts of from 11 percent to 13 percent in their 24 percent gross trade discount. Dealers have good reason to believe he still has such total cuts in mind.

At the request of congressional leaders, the National Automobile Dealers Association has made every effort to work out its problems with the Office of Price Administration officials administratively. It recognizes the great burdens which Congress is carrying. But congressional leaders have told us repeatedly not to hesitate to come directly to the Hill if we find we cannot work out our problems administratively with the Office of Price Administration. That time has arrived and that is why we are here today. We shall tell our story here and before other committees as it seems necessary and prudent. We dealers believe implicitly in the right of the American
businessman to come to Congress and speak for himself. Likewise
we respect the right of Mr. Bowles and others to disagree with us.
We believe that there is nothing sinister or greedy in such frank
exchanges of views.

Auto dealers contend that if section 2 (h) of the Emergency Price
Control Act were interpreted by the Office of Price Administration as
Congress intended it should be, the retail automobile dealers of the
United States today would be enjoying their normal average trade
discount of 24 percent. Under it no more than 75 percent of the
income-tax-paying dealers ever made money, so endeavoring to hold
that discount scarcely can be termed avaricious.

The section of the law to which I refer reads as follows:

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, or changes in established
rental practices, except where such action is affirmatively found by the adminis-
trator to be necessary to prevent circumvention or evasion of any regulation,
order, price schedule, or requirement under this Act.

Congress obviously intended that this section should prohibit the
Price Administrator from changing trade practices and trade dis-
counts at will. He was authorized to make such changes only when
it became necessary to prevent evasion of a pricing order. Not by the
wildest stretch of the imagination can anybody conceive of the Office
of Price Administration cuts automobile dealers have had slapped
down on them being classified as a result of attempted evasion of the
law. These income slashes have been made for other reasons.

Let us suppose for a moment that Mr. Bowles had asked Congress
to write into the law definite authority for him to do to the automobile
dealers under section 2 (h) what he has done to them. For instance,
suppose he had asked for this provision:

When, in the opinion of the Administrator, the retail automobile dealers can
stand a cut of 2½ percent in their new passenger-car prices, he may, without
surveying the incomes of more than 1 percent of the dealers of the country and
without examining the manufacturing costs of more than one-fourth of the
automobile industry, inflict a 2½-trade discount cut on the said dealers.

Does any member of this committee contend that Congress would
have granted Mr. Bowles any such authority? Of course not. Yet
in November 1945 Mr. Bowles imposed on the 32,000 retail automobile
dealers of this country just such a cut as suggested and in exactly the
manner described.

Again, suppose Mr. Bowles has asked for this sort of a provision
in the law:

When, in the opinion of the Administrator, the Office of Price Administration
approved 5 percent-handling charge allowance for dealers should be lowered,
he may lower it to 2 percent without consulting either dealers or their advisory
committee.

Does anyone say that Congress ever would have granted Mr. Bowles
such authority? Of course not. Yet in the fall of 1945, when it
became apparent that dealers were about to oppose Mr. Bowles' initial
attempt to cut their trade discount, he quietly cut their handling
allowance by 3 percent. He also did this without consulting a single
dealer in the United States or any member of the dealer advisory
committee.
Finally, suppose Mr. Bowles had asked Congress to approve this amendment:

If, as a result of strikes, the wages of employees of automobile manufacturing plants of the country are increased, the Administrator shall have the power to impose the full cost of these wage increases upon the retail automobile dealers by lowering their trade discounts. Further, the Administrator may impose the cost of these wage increases of manufacturer employees upon dealers without consulting any dealer or the dealers' advisory committee.

Does anyone suppose that Congress would have written such a provision in the pricing law? Of course not. Yet within the last fortnight, the Office of Price Administration has advised the dealers that they are going to have to pay for the wage increase granted by the manufacturers, and this action was decided upon by the Office of Price Administration without any dealer consultation whatsoever:

Ladies and gentlemen of the committee, we automobile dealers feel that the ignoring of advisory committees and slashing of dealer discounts by the Office of Price Administration are clear violations of the intent of Congress. Fortunately we are not alone in that view. Our position on these matters has been clearly upheld by the chairman of the House Small Business Committee and your colleague on this committee, the Honorable Wright Patman, of Texas.

At the time of our hearings on the first proposed discount cut, last November, Chairman Patman directly questioned Mr. Bowles particularly regarding his changing of automobile dealer cost practices. Chairman Patman told Mr. Bowles as forcibly as any man could that section 2 (h), which Mr. Patman helped write, never was intended to give Mr. Bowles and the Office of Price Administration the power to slash dealer discounts which they had been exercising.

I quote from the official transcript of those hearings. On pages 1515, 1516, and 1519 the following interchange between Mr. Patman and Mr. Bowles appears:

The CHAIRMAN. I was one of the authors of the amendment in the Banking and Currency Committee considering price control, and which provided for these advisory committees. It was the judgment that each industry should furnish committees of their own of informed men, to keep you advised of the facts concerning that industry.

Mr. BOWLES. That is correct.

The CHAIRMAN. In order, possibly, that there may be a minimum of increase made?

Mr. BOWLES. That is right.

The CHAIRMAN. I was interested in writing that bill, and, as you know, we spent 4 months in that committee writing it; but there was another thing that we wanted to make sure of, and that was that established business practices would not be interfered with. We wanted to make sure that the methods of business were not interfered with, and we wanted to make sure that everything would go along, as far as possible, the same as they did before. I recall now—and I do not say this because you are in the advertising business, because, as I understand it, you have sold out your interest in that business; it is not personal at all: but when we brought this question up a lot of people said, "This is going to destroy all national advertising; it will eliminate every budget on advertising; it will ruin the newspapers and magazines, and it should not be done at all."

For those reasons, among others, we were very careful that we wrote into the law something to the effect that we would recognize established trade practices. Do you have a copy of the act there?

* * * * *

The CHAIRMAN. I wish you would turn to section 2 (h). I believe that is the section that was written into the bill relating to this matter. I have a copy of section 2 (h) here, and I will read it:

"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
aid to distribution, established in any industry, or changes in established rental practices, 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.”

Now, is not that written into the law?

Mr. Bowles. That is right. You have read it correctly.

The Chairman. That is the part that disturbed me when this matter came up, because I was rather clear about the objects and intentions of the people who sat around that committee table, like this one here, writing the original act, and I gave you that advertising example because it is the one that was brought to our attention first. They said “You must write something in there that will not change business abruptly; we have to keep business; we have always had it,” and this language was written in there for the purpose of preserving it.

* * * * * * * *

The Chairman. It seems to me that the very intent of the provision of the act that has been quoted here was to stop you from having authority to interfere with and wreck established cost prices, but that your duty is to stop the increases of prices.

I am not a lawyer, nor a legislator, but as a plain citizen and a businessman I believe I know what Congress had in mind when it wrote this pricing law. It wanted to set up a temporary control of prices so as to hold them within reasonable limits until such a time as something near peacetime production would restore the greatest price control agency of all, free competition.

Congress certainly never intended to create the Office of Price Administration or any other agency to harass and financially cripple automobile dealers in every one of the 3,300 counties of the United States. Yet that is what the Office of Price Administration is doing today.

Rather than devoting its energies to finding ways of compelling dealers to pay wage increases to employees of other industrialists; it seems to us that the Office of Price Administration might better be applying itself to evolving methods to help dealers get new cars on the roads and keep used cars in repair. Improved private transportation today is the outstanding need of the Nation. Millions of persons urgently require new automobiles. The currently running 22,000,000 used cars are desperately behind in repairs and service. It is to the retail automobile dealers of the country that these car users look for aid. At every crossroads, in every village, town, and city these 32,000 dealers are actively engaged in rendering service and 10,000 more waiting on the sidelines are eager and anxious to put motor transportation back on its feet.

Selling and servicing cars is the life work and ambition of this army of dealers. You know them. Most of them are located on corners near your homes and look after your car for you and your families. They are alive. They are leaders in your communities. They have been prominent in local war activities. They now are assisting with local postwar plans. They are rearing to go. But they are bewildered and perplexed not only by a shortage of goods, but by a succession of confusing orders and severe levies on their future possible earnings by the Office of Price Administration. It seems to them that they are being singled out particularly by the Office of Price Administration for shellackings. The workers get more money with the Office of Price Administration approval—the manufacturers get increased prices with the Office of Price Administration approval—the car buyer gets prices practically on a 1942 basis with the Office of Price Administration approval—and the dealer gets cuts in his
future income with enthusiastic Office of Price Administration approval.

The dealer comes to Congress earnestly asking for help. He does not seek a bonus nor a subsidy. All he wants is an opportunity to conduct his business, at least until he gets back on his feet, under the same trade rules and practices that obtained before war forced the stoppage of his supply of new goods. He believes that Congress originally intended to assure him of that right and still wants him to have it. Maybe all he needs is a little clarification of the present law. He would like you to apply your knowledge and experience in making the law read so that no Government expert can read into it some handicap for retailers which a majority of Congress never intended should be there.

The dealer is not an expert on words or legal phrases, but he thinks some such remedial steps as these would help him:

1. Amend section 2 (h) so that neither the Office of Price Administration nor any other Government agency may change standard trade practices such as the dealer handling charge and all such changes of this nature previously made by the Office of Price Administration shall be declared null and void.

2. Amend section 2 (h) so that neither the Office of Price Administration nor any other Government agency may change established cost practices and trade discounts and that all such actions previously taken shall be declared null and void.

3. Amend the existing law so that all price controls in a given industry shall be automatically lifted, without the necessary of obtaining the consent of the Office of Price Administration, upon production in the individual industry reaching 75 percent of the average normal production for the years that may be adopted as the base period. The advisory committee or committees of the respective industry to certify and support by evidence the fact that the required production levels have been reached.

4. Incorporate in the existing law the provision that all Office of Price Administration instituted controls and changes whatsoever in normal methods of doing business shall expire with the lifting of price controls in a given industry and that thereafter any attempt to continue such controls shall be illegal.

Mr. Chairman, in this statement we have confined our presentation to the serious problem of the cut in dealer discount. We appreciate the fact that this committee is interested in what is necessary to bring about more satisfactory operation of the law, and we have recommended those amendments, which we believe are highly desirable, and most beneficial to our industry.

We have refrained from including in our statement other angles of the administration of the Price Control Act, as it applies to the retail automobile industry, which at this moment have dealers very much exercised and very much worried. From all the reports we are receiving daily, it would appear that there is under way a concentrated drive on enforcement as it pertains to the automobile dealer establishment.

The manner of conducting this drive, in many instances, from the reports which we have received, indicates that the methods being pursued are far from what we might consider an American custom.
It is not our purpose to bring that before your committee, sir, today, because the Office of Price Administration makes it a rule to assemble factual data before we undertake to discuss a subject. We have under way at the present time a complete investigation of this situation which is worrying dealers, as I said before, and which, in some localities, we are informed is bringing about a reaction on the part of dealers, of a contemplated action that would be very serious, indeed, and we hope it can be eliminated.

The Chairman. You have repeatedly brought these complaints before the Office of Price Administration, I presume?

Mr. Mallon. Yes, sir; we have a complete record of that, for months. We keep a very careful record every time we present a complaint.

The Chairman. You say they have ignored the recommendations of your Advisory Committee?

Mr. Mallon. That is correct, sir. The fact of the matter is, Mr. Chairman, that they call a meeting of the Advisory Committee—as a matter of fact, the last two meetings of the Advisory Committee were called on a 5-day notice, whereas the regulations of the Office of Price Administration clearly and emphatically state that there shall be a 10-day notice, and an agenda sent out with the notice calling the meeting, so that every member might be prepared, when he attends, to discuss the items on the agenda. That has not been done, and the custom now, for over a year, has been to call a meeting of the Committee when the representative of the Office of Price Administration would address the Committee, stating that the Office of Price Administration has decided to put into effect such and such a regulation. There was no consultation.

After the announcement was made, the members of the Committee were then permitted to discuss it, but the order had been issued, with rare exceptions—and only pertaining to incidental provisions in a regulation—has there ever been a change made by the Office of Price Administration in an order after it had been issued, except as they might see fit to amend it.

The Chairman. What were the normal prewar trade discounts?

Mr. Mallon. The average was 24 percent, sir.

The Chairman. What is the trade discount now, under the Office of Price Administration?

Mr. Mallon. The Office of Price Administration originally cut it by 2½ percent last November. And then quietly took out 3 percent more by virtue of reducing the handling charge, which made a total of 5½ percent. At a meeting of the Industry Advisory Committee, suddenly called in Chicago 10 days ago, I think, the representatives of the Office of Price Administration then announced that they had decided to impose upon the dealer an additional 2-percent cut, which would make a total of 7½ percent.

The Chairman. The disposition is to make the retail dealer absorb increased costs. Has not that always been the tendency?

Mr. Mallon. Yes, sir.

The Chairman. Well, I am frank to say that I can not see how a good many of you people remain in business.

Mr. Mallon. That has been a great mystery of the times, Mr. Chairman.

The Chairman. I called up a dealer the other day and said to the dealer, "Can I buy a car?" He said, "I have one car on the
floor and I do not own that. I have 700 orders, and I cannot satisfy any of them," and your overhead and expenses continue, without profit.

Mr. Mallon. That is our situation, Mr. Chairman.

Might I have the privilege of correcting a statement that was made earlier today, I think, a misunderstanding?

The committee was led to believe that the price of a Plymouth car to the public had been increased by 200 percent. Unfortunately——

Mr. Patman. I think you are mistaken, Mr. Mallon. I think it is $214.

Mr. Mallon. Pardon me; $214. You are right, Mr. Patman. That is, however, not correct, sir. The $784 figure that was used as an example was the 1941 price, and the 1942 cars had been increased in price by the Office of Price Administration at the time they issued Price Schedule 85. Also, that was a model that is not under production at the present time, nor has it been priced.

I have before me, from our records, comparative prices on every model which is being produced at the present time by Chrysler, and which has been priced, and the largest increase on any model was $109, and that is due to the fact that the model has been so improved that the Office of Price Administration has allowed the factory an increased cost to cover the specifications, the improved specifications.

The comparison I have does not include the 2-percent additional increase which the factory is about to receive. But the comparative figures I have do take into consideration the 2½ percent which has been taken away from the dealer.

The Chairman. Mr. Brown.

Mr. Brown. Mr. Mallon, the automobile business is quite different from any other business. As a matter of fact, the manufacturer of the cars has always had a ceiling on the cars to the retailer. The Ford car price in Atlanta is the same as in Washington, except for the freight. I think that is the standard way of doing business, and I think it should be kept that way.

It seems to me if the Office of Price Administration would put a ceiling on the price at the factory, that would control the prices of cars.

Mr. Mallon. The price of cars could be controlled that way, Mr. Brown——

Mr. Brown. There is no competition between cars. There is no competition on Fords, for example, because they are the same price everywhere, with the exception of freight. That, in a way, is the ceiling that the manufacturer puts on it. It looks to me as though the whole thing could be regulated at the factory. Of course, it is very difficult to tell what the profit on a car is at the factory.

I remember when Ford changed from the model T, he was 6 or 8 months in getting out the first car. The first car cost him probably thousands of dollars, until he got under way with production, then, of course, the cars did not cost so much.

It looks to me as if you dealers have always been controlled. I doubt whether you ought to be interfered with. There is a ceiling at the factory on the price of cars.

There is never any competition for the same car. If you are a Ford dealer, you cannot sell it any higher than another Ford dealer. You have to sell it at the same price as anybody else and the only difference
you have is the freight. It looks to me as if you are pretty well regulated.

Mr. Mallon. That is true, Mr. Congressman, if the Office of Price Administration sees fit, based upon the facts of the case, to increase the cost of the car at the factory, that amount should be raised so that the mark-up which we dealers have remains the same.

Now, even on that basis, I would like to call to your attention the fact that the dealers are gambling pretty widely. We are pretty good gamblers, as a whole, because even if the selling price of the car is marked up for the increase obtained at the factory, and we retain the 24 percent, we still will not be making more money than we did before, because of the fact which they seem to lose track of. That fact is, namely, that the labor which the dealer employs, our rental, all our overhead costs, have gone up just as the factories' costs have gone up.

Mr. Brown. I know that, Mr. Mallon. I saw costs go up after World War I and those dealers should have had a pretty good margin. I know thousands and thousands of people who went out of the automobile business during World War I just because they could not afford to continue to pay the rent on buildings, and other expenses, waiting for the time when they could have cars to sell.

I believe regulations should be at the factory for the reason that your costs have gone up, and the fact that you dealers are not in competition with each other. I think the factory ceiling should be sufficient.

Mr. Mallon. I think you can rest assured that if the ceiling were established at the factory, no factory or dealers would be inclined to increase the gross margin under which we have operated for many years.

Mr. Brown. That is all.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Mallon, have you any other witness that will appear for you group today?

Mr. Mallon. No, sir.

Mr. Crawford. In this previous testimony, there was this sentence—I want to have this very clear for the record because this problem of yours is not solved in my opinion, by it—"A Plymouth car which sold for $748 in 1941 has been granted an increase in ceiling price of $998, an increase of $214" established by the Office of Price Administration.

Mr. Mallon. That is correct, as far as that goes.

Mr. Crawford. Do you happen to have that price, do you?

Mr. Mallon. No, sir; I do not happen to have it here. I am sorry, but may I point this out, that that particular model is not being made now, and where the new figures obtained, it applies to another model of car which is being manufactured.

Mr. Crawford. I think that clears it up.

In September 1945, when the 3-percent cut was made in your handling charges, your group did not appear before a congressional committee at that time, did it?

Mr. Mallon. No, sir.

Mr. Crawford. Then when the second cut of 2½ percent in November 1946 was placed on you, you did appear?

Mr. Mallon. That is correct, sir.

Mr. Crawford. Before the Patman committee?

Mr. Mallon. Yes, sir.
Mr. Crawford. What results did you get out of the Office of Price Administration through that appearance?

Mr. Mallon. I would like to answer it in this way. Mr. Congressman: We did not bring up the question of the handling-charge reduction, which had appeared in an order issued in September because it has always been our policy to endeavor to correct anything we can administratively and not bother the committees of Congress with it.

That was announced on September 12, and on September 20, National Automobile Dealers Association submitted a brief on the subject, containing factual data as to why it was not right and as to why the 5 percent should be restored. We followed that up, as we do all of our pleadings, very carefully every week, and we have been constantly informed that they were giving consideration to the request and were not in a position to make an announcement.

Consequently we did not include that in our presentation, except very sketchily, in November. Now, if you will read the transcript of the November hearings, Mr. Bowles made it quite clear that he expected the initial reduction in discount would be 4 percent, and on further questioning, he said he doubted if it would go over 5 percent.

We presented a great deal of data, and we were also informed by the Office of Price Administration that they had received, at just about the time we were testifying, large volumes covering many tables, from General Motors, which was the first information they had received from them. Forty-eight hours after that, they advised us that they had looked over these large volumes of General Motors' figures and taken that into consideration, together with the figures that we had produced for the committee, and that they felt that 2½ percent would be sufficient.

So, I would say that from the pressure of our testifying before the committee, the evidence we produced had some effect in bringing it down from the 4 to 5 percent level, down to the 2½-percent level.

Mr. Crawford. That is what I wanted to get into this record, that particular development.

What make of car do you handle in your business?

Mr. Mallon. Pontiac and Oldsmobiles.

Mr. Crawford. Is it the custom of the companies you represent, to have among their dealers across the country, what is known as uniform accounting system for recording their transactions?

Mr. Mallon. Yes, sir.

Mr. Crawford. So then, if in your industry, there should be no difficulty on the part of anyone who really wants to obtain the actual facts, in getting the net operating results, whether profits or losses, from the dealers representing the various automobile companies, would there?

Mr. Mallon. That is the final net, Mr. Congressman?

Mr. Crawford. Yes, sir.

Mr. Mallon. I would like to qualify that so as to make the record clear.

The smaller the dealer, the less does he utilize the complete breakdowns that the larger dealer uses.

Mr. Crawford. I understand that.

Mr. Mallon. So that very often, on a given item, it is not possible to go across the country and obtain it all, but the net result, on the bottom line, the answer is "yes."
Mr. Crawford. In other words, that is information or data which the automobile manufacturer and which the dealers themselves must necessarily have in order to carry on the automobile business in this country.

Mr. Mallon. That is correct, and may I say another thing at this stage in that respect, Mr. Congressman: We dealers as a whole do not feel that the recommended accounting system of the factories, of the manufacturers, which we use because that is a part of our contractual relationship, we do not feel that they are prepared to fully disclose the true picture of a business operation.

It is conceivable that the manufacturer is interested in seeing a good profit figure in the movement of new cars, which is basically what he is interested in, and it has long been a contention in our industry, and much discussed, as to the necessity of the National Automobile Dealers Association developing a system which would point out the actual returns much more factually than what these accounting systems which we are now using, show. I hope I have made that clear.

Mr. Crawford. I understand. The manufacturer of automobiles, based upon the showing which he obtains from you, from your accounting system, and especially with reference to what you have just pointed out, will certainly look after the matter of not letting your margin be too wide. You can depend on that, can you not?

Mr. Mallon. Well, it took us all of 18 years, Mr. Congressman, to get the manufacturer to increase our discount from 18 percent to 25 percent and he only did that because he knew he had to do it to keep us in business.

Mr. Crawford. Yes, sir; to have that service for his product.

Mr. Mallon. And I feel quite certain they are not going to let us go hog-wild on the discount.

Mr. Crawford. You are now caught in the squeeze between the manufacturer and the Office of Price Administration, constantly reducing your service charge and your over-all discount?

Mr. Mallon. Yes, sir.

Mr. Crawford. Do you believe that the office of Price Administration will give your industry any relief in the absence of the language which you suggest here?

Mr. Mallon. You are asking for my opinion?

Mr. Crawford. Yes.

Mr. Mallon. My opinion is no. Now I want to qualify that.

We have a new Administrator and I do not want to be unjust to Mr. Porter, but barring a complete change of thinking on the part of Mr. Porter, the answer is no.

Mr. Crawford. I want to ask you a technical question, which I think the Congress will have to deal with, and this committee may have to pass on it. I am dead sure it will not be passed up by the Senate committee when this bill does go over there. It is a technical question and it has to do with some of the technical phases of this law.

I will give you a little background before I ask you the question. Back in 1942, there was placed in the law the McKellar amendment, and wrapped up in that amendment there was what has become to be known as the "over-all profit theory" as related to the generally fair and equitable margin, which comes in under the generally fair and equitable phraseology found in the law.
Then down in 1945, there showed up, in the act as approved by Congress, that is the amended act, the Barkley-Bates amendment, and wrapped up in that is the proposition of a reasonable margin of profit. So then, we have, running in the discussion between Members of the Senate and the House, and the Office of Price Administration and their economies, this over-all profit theory, this generally fair and equitable margin theory, and this reasonable margin of profit theory, and I think we are going to find some rather bad conflicts tied up in these several approaches.

Now, here is my question: In your dealings with the Office of Price Administration, have you run into this particular philosophy as expressed in those two amendments to the 1942 act and the 1945 act?

Mr. Mallon. We certainly have, sir. I cannot recall the names. I do not follow the names of each one of those amendments.

Mr. Crawford. The McKellar amendment is the 1942 amendment.

Mr. Mallon. Basically, the Office of Price Administration has insisted upon the exclusive right to determine the margin of profit that any merchant, in any line of business, shall enjoy.

They claim that they have the exclusive right to produce the facts and figures to substantiate their finding, and as far as we are concerned, they have given little if any credence to any facts or figures we have presented, even though the source has been indisputable, such as the Bureau of Labor Statistics, the Internal Revenue Department, or what have you.

Mr. Crawford. Based upon what has occurred under these two amendments, with respect to the act, I do not believe there is any chance of your getting any relief under the old or new administrators, unless this law is again amended.

Mr. Mallon. We are thoroughly convinced of that, Mr. Congressman.

Mr. Patman. Mr. Mallon, I happen to know something about this. In order to bring the record up to date, the automobile dealers, about 30,000 or 40,000 of them in 1941, were the first business victims of this war.

Overnight, the production of automobiles was stopped. The automobile dealers throughout the country, fortunately, had quite a large supply of cars on hand. But they were immediately frozen. So they had these cars which they could not sell. Their expenses were going on just the same. They were certainly in a squeeze, and you will recall that our Committee on Small Business here in the House, and Mr. Murray’s Committee on Small Business in the Senate, commenced working on the problem immediately.

It resulted in the passage of an act which gave the automobile dealers the right and privilege of adding so much each month to each car, each new car, which they had in their possession, for the purpose of helping those dealers stay in business.

The Government had a selfish reason in wanting to keep these dealers in business. We knew, with all the war plants all over the country, that we could not rely upon public transportation. We knew that. We knew we had to keep these 25,000,000 automobiles rolling. The only way to do that was to give the dealers some incentive to stay in business, and the dealers came before our committee.
They did not whine, they did not complain, they did not criticize. They just said, "Well, anything that you do to enable us to just stay in business and keep these cars rolling, will be all right with us." I think they assumed a very fine, patriotic attitude. They never did complain or criticize after that law was passed, the dealers operated under that law, and I do not see how they did it.

I do not see how they stayed in business so well. A comparatively few went out of business, is that not right? The ratio is small?

Mr. Mallon. Much smaller than we all expected, Mr. Congressman.

Mr. Patman. That is right, much smaller than we all expected.

Mr. Mallon. And smaller than it would have been if it had not been for that law.

Mr. Patman. And they rendered great service. They were there available with their mechanics, incidentally their mechanics did not have any Selective Service preference. They were inducted into business just like people in other lines of business, and notwithstanding Selective Service pulling out their mechanics, notwithstanding the fact they had no new cars to sell, they kept the automobiles of this country in pretty good shape and condition, and they kept transportation going, and contributed a major part to the winning of this war, and I think the Government owes the automobile dealers of this country a great debt of gratitude.

Certainly we should see to it that they are not imposed upon, and we certainly should see to it that no injustice is done to them. I think your statement is a very interesting one, and I, of course, am willing to vouch for the part in which you have referred to me in this statement, to the things that happened before our committee last November.

For the information of Mr. Crawford, at first the discounts that were talked of were about 12 percent. Then they commenced talking about 9 percent, 8 percent, and 7 percent, and they got down to about 5 percent, and we saw that was about all they were going to do and we called that hearing. After the hearing was over, the Office of Price Administration was convinced, and they admitted it, they were acting sincerely about it, I think, that the proposed reduction was entirely too great. They made it 2½ percent instead of the proposed 2, or 5, or 7.

Mr. Mallon. That is correct, but they omitted to bring out the fact that there was another 3 percent which they were gradually taking off in the handling charge. That is the unfortunate part of it, sir.

Mr. Patman. Yes; I knew about it. But you gentlemen did not want to bring it up, because you were absolutely fair with the Office of Price Administration at all times.

You felt it was your duty to first present that to the administrative agencies and get a ruling from them before making any complaint about it.

Mr. Mallon. That is correct.

Mr. Patman. For that reason it was not mentioned in these hearings at all. At any rate, the Office of Price Administration estimated the difference between what was proposed and what was actually done amounted to $90,000,000 to the dealers to which they are entitled under normal production, which, of course, has not occurred.

Mr. Mallon. Nor it won't until the 3 percent handling deduction is ended.

Mr. Patman. I know, but we did not handle that, Mr. Mallon.
Mr. MALLON. I appreciate that but I wanted to make the point clear that the dealers are worse off, although the remarks you have made are perfectly true, and it makes it appear that we are a little better off.

Mr. PATMAN. No; just from that standpoint alone.

Mr. MALLON. Yes, sir.

Mr. PATMAN. You are still worse off on the straight percentage basis?

Mr. MALLON. That is right.

Mr. PATMAN. But you would have been a lot worse off if this situation had not arisen?

Mr. MALLON. That is correct and we are very appreciative of the help we received.

Mr. PATMAN. I thought the dealers were entitled to it and I think they are entitled to everything they are asking for.

Mr. CRAWFORD. If the chairman will permit, I want to say for the record, I am familiar with what he just informed you of.

I intended to follow the thing through. What I am interested in now, is preserving them from here on. I am not interested in your past benefits. I am interested in the future.

Mr. MALLON. Mr. Congressman, we feel very strongly that it is absolutely necessary to have amendments along the lines that we have recommended for the consideration of this committee, in order to correct the injustice that is being done at the present time to the automobile dealers of the country.

Mr. PATMAN. Are there any other questions, gentlemen?

Mr. BARRY. I have a question.

Mr. PATMAN. Mr. Barry.

Mr. BARRY. Mr. Mallon, did you ever file a formal protest when these reductions were made, in September or November, with the Office of Price Administration?

Mr. MALLON. Yes, sir, on September 20.

Mr. BARRY. Was that denied by them?

Mr. MALLON. That is the one that I told you about, on the handling charge, Mr. Congressman, when we were told, we had a letter a month later acknowledging receipt of it and saying it would receive consideration. Then we personally followed it up and kept contacting the junior officers of the Office of Price Administration all the way through, until December, and we got as high as Mr. Clement, who was Deputy Administrator, and he promised to look into the matter and give us an answer.

That was about the 12th of December. Then on January 22, which was 4 months after we first presented our statement and brief, I asked Mr. Bowles to personally see me and took the matter up personally. He stated he was not familiar with it at all, but would be very glad to look into it and let us have an answer.

I was out in Chicago at the meeting of our board of directors in the ensuing week and not having received a reply from him I phoned in and found he had left for North Carolina, but that he had left some pencil notes, which were to be transcribed into a letter and sent to me and I received that letter by air mail at my request the next day, and I recognized, in the phraseology, the same language that we had been hearing from the junior executives of the Office of Price Administration for the preceding 3 months.
Mr. Barry. Was that a formal protest against the reduction of your discount, which the Office of Price Administration has to pass upon within a reasonable time, and from then on you can appeal to the court of emergency appeals.

Mr. Mallon. I think I would like to make that clear, Mr. Congressman.

National Automobile Dealers Association, as an association, cannot apply to the emergency court. That is if we understand the law correctly. When the Office of Price Administration issues a regulation—as they did this time with the 3 percent cut in the handling charge—

Mr. Barry. Well, any individual.

Mr. Mallon. An individual dealer, sir, has to protest to the Administrator, that there has been a hardship created. If the Administrator denies that, then that individual dealer may appeal to the emergency court of appeals, and it takes several months, sir, before you get your case up.

Mr. Barry. I understand that. I am on your side.

Mr. Mallon. I was trying to make clear why we tried to do it administratively as far as possible, Mr. Congressman.

Mr. Barry. I think we might save time. As I think this section 2 (h) is clearly violated by this procedure:

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, or changes in established rental practices, 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.

I think the clear intent of Congress was that such a practice as you have described here was meant to be covered by that section, and I feel that if you had appealed in November, and gone to the emergency court of appeals, your chances of winning would be excellent.

Mr. Mallon. May I say this, Mr. Congressman?

There have been two or three cases—I am not sure of the exact number—in other lines of other industries, which are parallel to the principle involved here, and when they were carried out, the decision has been in favor of the Office of Price Administration.

Consequently, as long as the Office of Price Administration reads into the intent of the law, which is the method they are now exercising, and as long as the special emergency court finds in favor of that interpretation, why, then, we feel that it is necessary to have the law spelled out so that there can be no controversy.

Mr. Barry. If you are correct that the same kind of cases, were decided in the same way, I agree with you, we should amend the law. The amendment seems so clear to me that I think it applies here. I do not see how you could find that the purpose of the discount was to evade.

Mr. Mallon. Not by the widest stretch of the imagination could you read that into our actions.

Mr. Barry. That is my only point. I think an injustice has been done your industry. I really think that if it had been taken up through the proper methods, by a protest and review at the time, that you would have won out, or that you should have won out.

Mr. Mallon. We will let it go at that last remark, sir.
Mr. Barry. As far as the intent of Congress is concerned. That is all.

Mr. Patman. It is 1:15, and we have another witness at 2.

The Chairman is anxious for us to finish with this witness if we can before we adjourn for lunch.

Are there any other questions, gentlemen?

Mr. Kunkel. I would like to ask a question.

Mr. Gamble. I would like to ask a question.

Mr. Patman. Mr. Gamble.

Mr. Gamble. Prior to the Office of Price Administration when you made a contract for the purchase of automobiles, and agreed to sell so many a year; whatever the terms were, did that contract fix the selling price that you were to get or did it put a ceiling on that car?

Mr. Mallon. There was a time when the factory, in the early days, did not put any selling price on. The dealer put it on according to his own judgment. Then a period came along where the factory stipulated the selling price. Then the Attorney General got busy with the manufacturers, and after that, when a new model came out, the manufacturer would tell us what he suggested as the price, and the price upon which he would give us the 24 percent discount.

I want to make it clear that the factory is not making it mandatory, but they do establish the top price upon which the 24 percent discount, average discount, is granted.

Mr. Gamble. I assumed that, because in those days, the manufacturer advertised the sales price of his car, free on board, or whatever it was, so I assumed that there must be something in that contract to that effect.

Mr. Mallon. Yes, sir.

Mr. Gamble. On this service charge, now.

There have been a number of people who have wondered why they have to continue under ceiling prices on these service charges. I am looking at the thing from the Office of Price Administration's angle now.

Is that because they maintain that supplies are scarce, and there must be a ceiling on labor? What is the reason for it?

Why can it not be taken off now?

Mr. Mallon. The only reason for it that we can see, is the basic theory of the Office of Price Administration that the public must not pay more in 1946 than they paid in 1942.

When the prices on service were frozen, a lot of dealers had their prices at quite a low level. That was due to the fact that there were large volume dealers, doing a large volume of repair work, and according to this locality or that locality, in their judgment it was wise to keep their price on service to that low level.

The Office of Price Administration froze that, and we found, through these past 3 or 4 years, a dealer on this corner, with a $3 ceiling price in his labor, and a dealer on this other corner with a $2.25 ceiling price on his labor, and the Office of Price Administration would not do anything to change that unless the dealer on this corner, when he applied for an increase, could show that he was losing money in his entire business—not that he was losing money in his service department, but he had to lose money and be going into the red right across the board, before they would consider granting him any raise.
Consequently he was in a position where he was working under a handicap in comparison with the dealer at the $3 level.

There is no over-all ceiling price for service, under the Office of Price Administration rules.

It varies in every dealer establishment.

Mr. Gamble. But there is an over-all ceiling for every dealer?

Mr. Mallon. For each dealer; yes.

Mr. Gamble. Individually?

Mr. Mallon. Yes, sir.

Mr. Gamble. Then is there a ceiling price on every part that you use in making repairs?

Mr. Mallon. Yes, sir.

Mr. Gamble. That was my understanding.

Mr. Mallon. Yes, sir. That was placed, may I also say:

When the Office of Price Administration issued that ruling, Maximum Price Regulation 453, dealers were not conferred or advised with at all. The order was simply issued and when it was issued it eliminated a number of practices which had been enjoyed by dealers throughout the country preceding the Office of Price Administration operation.

Mr. Gamble. You have really learned something from the regulations which you did not know before, having been in business for many years.

Mr. Mallon. It has been a liberal education.

Mr. Gamble. That is all, Mr. Chairman.

The Chairman. Are there further questions?

Mr. Kunkel. Mr. Chairman.

The Chairman. Mr. Kunkel.

Mr. Kunkel. That last amendment, on the last page, the purpose of that is to prevent the automobile manufacturers from making Office of Price Administration practices established business practices after the Office of Price Administration controls are lifted, is it not?

In other words, you have had your margin cut down due to these cost absorption tactics, and when you go into the postwar period and those are lifted you are afraid manufacturers may take advantage of this situation, and this amendment is destined to prevent it.

Mr. Mallon. Yes, sir. We felt that when decontrol took place in our industry, we should wash the deck clean, and we do not want anyone tempted to try to take advantage of the situation.

Mr. Kunkel. That particular amendment would have no effect whatever on the administration of the Office of Price Administration Act itself, would it?

Mr. Mallon. I have not studied that all the way through but off-hand I would say the answer would be “No,” Mr. Congressman.

May I state here, with your permission, that the contacts that I have had with the manufacturers—and that has been with practically everyone of them—have indicated very clearly that they do not approve of the reduced discount which the Office of Price Administration is placing upon the dealers, and some of them have informed me in no uncertain language that when the Office of Price Administration passes out of the picture, they will reinstate the original discount.

I think that is only fair to put in the record, in answer to your question on suggestion No. 4.
Mr. KUNKEL. I believe that competition will probably take care of that anyhow, because they will want to keep their outlets, and there will probably be more automobiles made after they once get into production.

Now, the dealer discount varies from about 21 to 27 percent, does it not?

Mr. MALLON. Yes, sir; on different makes, different models. But the average is 24 percent on a thousand-dollar car.

Mr. KUNKEL. What I am driving at is, if you get a 7½ percent cut or a 5½ percent cut, and that is on the 21 percent just the same as it is on the 27 percent?

Mr. MALLON. That is correct.

Mr. KUNKEL. In other words, it is much higher proportion of cut on the dealers operating on the 21 percent discount than it is on the dealers operating under a 26 or 27 percent discount?

Mr. MALLON. Yes, sir.

Mr. KUNKEL. That is all.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Mr. Mallon, when charges of violations or regulations have been brought by the Office of Price Administration, how have your members been treated? In a reasonable manner, or an unreasonable manner, or what do they say about it?

Mr. MALLON. It is rare that we find a zone or a district where the dealers are treated in a reasonable manner. I would say that the vast majority of cases, it seems to be the thinking—whether it is inaugurated in the Washington office or locally, I do not know—but there seem to be so many cases that it must indicate some directive from the top—but in far too many cases, in the majority of cases, the treatment is absolutely unfair, and un-American.

For instance, a case came to my attention yesterday, where an Office of Price Administration investigator went into a dealer's establishment to check his repair orders. He checked, I think, 380 orders, and found 20 cases where there had been a little deviation in the price, and the total of all 20 cases, was $19 and some odd cents.

This is clearly indicative of a mistake in the write-up man or the servicing manager or the bookkeeper. There were a number of cases in which the dealer could show where he had undercharged, by the same token, through a mistake, but they ignored the undercharge.

They said, "There are 20 cases here in which you are in violation, and under the law, we want $1,000, or $50 minimum for every one of the 20 cases." That is only one example. I could go on for about 2 hours and just cite one after another. That happened to come to my attention yesterday. That is an example of the general line of treatment.

Another thing that has upset dealers very much indeed, is where an inspector goes in to a representative dealer, an outstanding dealer—I had a case of eight dealers in one community, all representative dealers—and as the investigator left each one of them he said, "Well, you seem to be in the clear. It is all right." They took a long sigh of relief, and said, "Well, that is fine."

Then one Saturday night out of the blue, about a month later, in the newspaper, eight of them were summoned to court for violation, and all the names listed.
The dealer had never been called down, never conferred with, never given an opportunity to explain or understand. Three days later, they received a summons, and that summons had a mimeographed sheet, and on that mimeographed sheet was listed every known violation that you could think of on service work.

It was not marked in each individual case, but he was being accused of being in violation of the whole list, which is contrary to regulations.

So, the answer to your question, Mr. Congressman, is that endorsement by the Office of Price Administration, as a whole, has been very much abused and has not been fair.

Mr. Tallie. A businessman's good name, or anybody's good name, is something that cannot be evaluated in dollars and cents, but I think it is true that every man puts that asset higher than any other.

Mr. Mallon. That is right.

Mr. Tallie. And yet his name is cited in the newspapers, placed in an unfavorable light and without notice. Is that what has occurred?

Mr. Mallon. Absolutely; yes, sir.

Unfortunately, the average man of that caliber of which I have just given an example, would rather pay the $50, or the $100, than go through with all the ramifications of a case in which the cards were all stacked against him.

The intimidation which the Office of Price Administration brings on the dealer is this:

"We have gone over 1 month. We found 20 cases out of 380. You better pay that $1,000. If you do not pay the $1,000 we will put auditors in here and go over your books for 4 years and you can bet your life we will find more than 20 cases" and they probably will; not deliberate violations, but small amounts.

I know one dealer who paid $100 because he had $1.70 discrepancy on two orders. $1.70 on two orders.

Mr. Tallie. You pointed out, Mr. Mallon, how your dealers have been able to get along so far in spite of all the difficulties they have had to contend with.

From here on out, what will happen to them unless they get relief?

Mr. Mallon. Well, it is very difficult for us to see how these 32,000 dealers, or approximately 32,000 dealers, who have been able to carry through, are going to be able to continue on the present basis very much longer. In fact, a number of the smaller ones are terribly concerned right now. We are receiving reports. They had hung on, and, after VJ-day, they said, "The cars will come and I can survive." Here, 7 or 8 months have gone by, with nothing but disappointments. Some of them are getting pretty near the narrow edge. And when the few cars come through, which will be comparatively few, in comparison to the number that they ought to have to carry their business and their overhead, they are going to absolutely need the full 24 percent if they are to have a chance of surviving at all, until the full production starts to come, which is going to be some months off.

Mr. Tallie. You know, that figure is referred to by some people as if it represented net profit to the dealer. Whereas the net profit to the dealer runs very low, does it not?

Mr. Mallon. May I say here that before the House Small Business Committee we quoted the figures from the Bureau of Internal Reve-
extend price control and stabilization acts of 1942.

Mr. Talle. I think that fact should be brought out.

Mr. Mallon. I would like to emphasize that.

Mr. Talle. Thank you.

Mr. Brumbaugh. Mr. Chairman.

Mr. Brumbaugh. As you stated, they threatened to go back over the books 4 years to find violations. As I understand the law, they can only go back 1 year.

Mr. Mallon. No, sir; I think that is in error, Mr. Congressman.

Mr. Brumbaugh. Are you sure about that?

Mr. Mallon. I am not sure about that.

Mr. Brumbaugh. If you have to go back to this decreased commission basis, will that put the dealers in about the same position they were in 10 or 15 years ago, when you really expected an automobile dealer to go through bankruptcy as soon as a little depression came on?

Mr. Mallon. If we continue to have that discount reduced; 7 1/2 is pretty serious. That is about a third. It is a question in my mind if they will not be worse off than they were 10 or 15 years ago.

In other words, the answer is yes to your question.

Mr. Brumbaugh. They would be worse off than at that time?

Mr. Mallon. Yes; because they did not have the overhead, they did not have the investment they have now.

Mr. Brumbaugh. That is what I thought the result would be.

Mr. Mallon. Mr. Congressman, I am corrected by our learned counsel. I am sorry. That was just 1 year.

Mr. Brumbaugh. That is what I thought.

Mr. Mallon. But the law, as I recall it, says that you have to preserve your records for 2 years.

Mr. Brumbaugh. Yes. But they can only go back 1 year on your violations.

Mr. Mallon. That is right.

We will adjourn now to meet at 2 o'clock.

(Whereupon, at 1:40 p.m., the committee adjourned, to reconvene at 2 p.m.)

AFTERNOON SESSION

The Chairman. The committee will be in order.

Mr. Williams, chairman of the board of R. J. Reynolds Tobacco Co., will be the witness.

Mr. Folger will preside.

Mr. Folger has informed me that he is not going to seek reelection. He will be a great loss not only to us but to the Nation as a whole.

Mr. Folger. Thank you, Mr. Chairman.

I want to say to Mr. Williams we have been rather rushed. We did not recess until about 20 minutes of 2. Then there was a roll call on top of that. Some other members are coming as they have opportunity.

Mr. Williams, I suppose in order that we may get along you may take your seat and make your statement without interruption, and then you will be subjected to questioning.
Mr. Williams. I should like that method very much, Mr. Chairman. If you will let me stand instead of sitting, I will work easier.
Mr. Folger. Just as you please.
May we have your name, please?

STATEMENT OF S. CLAY WILLIAMS, CHAIRMAN OF THE BOARD OF R. J. REYNOLDS TOBACCO CO.

Mr. Williams. My name is S. Clay Williams. I come from Winston-Salem, N. C., where I am chairman of the board of directors of R. J. Reynolds Tobacco Co.

Mr. Chairman and gentlemen, I want to address the remarks that I shall submit to the committee this afternoon to one narrow phase of this quite intricate and entangled proposition of price control, wage control, and measures against inflation.

I shall direct everything that I say in the first two instances to this question of whether or not controls should not be removed from commodities and lines of goods in which supply has come into reasonable and substantial balance with demand.

After I have submitted some observations and facts then I hope to turn to the industry in which the company that I represent works, and there make some specific applications of some of the things I shall have said with respect to the general situation in the earlier part of my remarks.

When one thinks, Mr. Chairman and gentlemen, of the genesis of Office of Price Administration, it is difficult to realize that at this stage it would seem to be necessary to have something done here in the Congress by this committee and in the Congress in order that the country might have the advantage of Office of Price Administration's doing what from the very inception of Office of Price Administration it was assumed on all sides would be done when supplies came into balance with demand.

Let me hand up a fundamental proposition or two, not by way of talking elementals to you gentlemen who know both elementals and intricates so much better than I do, but by way of backgrounding what I have to say.

When Office of Price Administration and price control generally was first suggested, the only statement made with respect to justifying it—and I think it was fully justified—the only reason for putting it into effect and putting an otherwise free economy in which free men and free units were operating competitively one with another any measure of Government control, was in the single proposition that Government buying having come into the picture and taking over the facilities for production to such extent that many great lines of goods would develop into scarcity, it was necessary to have a price-control method in order to apply to price something in substitution of what the competitive method when goods are in supply applies to price.

That was the conception, the only conception, of Office of Price Administration and price control in the first instance: to replace what we had in the competitive situation because what we had in the competitive situation in the way of a mechanism for fixing and determining price had been destroyed through Government buying, to say it in simpler terms.
That was not only true with the inception of Office of Price Administration, but so obviously true, and continued to be so obviously true, through the years, that even Mr. Bowles, himself, spontaneously has repeatedly recognized that proposition.

Let me refer to a memorandum in order that I may use his exact words instead of approximating them, and I will give you a few of his comments with respect to, and in recognition of, that particular concept.

As an example of such declarations of position the statement of Mr. Bowles made before your committee on June 4, 1945, when Mr. Brown asked him:

Your argument is that when production catches up with demand, that is the time to lift the ceiling. Is that right?

Mr. Bowles. That is right:

Mr. Brown. I think that is a good philosophy.

Mr. Kunkel. That is going to be an item-by-item process. It will be done necessarily item by item rather than all of a sudden.

Again at pages 44 and 45 of the report of hearings before the Senate committee in late February and in March 1945, marking the fact that Mr. Bowles took the position not only publicly a great many times but here before this committee, and over before the Senate committee:

Senator Buck. Mr. Bowles, before you take that chart off: There isn't any inference there that you have changed your mind and think that price control should be carried on a reasonable time after the war is over?

Mr. Bowles. We will come to that. I feel that price control ought to be gotten rid of exactly as fast as you can get production in these things up to meet demand. That is finally the whole problem. After all, Office of Price Administration is a stopgap. The way to answer inflationary threats is with production; and the quicker you get production to meet demand, the quicker you are going to get rid of all this control.

Senator Buck. I read that, but if you read that you can project it beyond the postwar or into the postwar.

Mr. Bowles. Well, if there is any such implication we ought to change that, because certainly there is none. We are just a stopgap during a period when supply and demand are way out of balance.

Without belaboring the multiplied references and statements to that effect let me quote one of very recent date from Vital Speeches issue of January 1, 1946, in which Mr. Bowles said:

Price control should and must be removed as rapidly as supply conditions permit. Fearing continued labor-management difficulties, the production estimates for 1946 indicate that industry after industry during the next 12 months will find supply and demand coming into balance. As that occurs, I assure you that your Government will move promptly to eliminate the last vestige of price restrictions in those industries.

Mr. Bowles' Saturday Evening Post article of 1944:

As the inflationary danger gradually passes we must eliminate price controls, rent controls, and rationing control item by item and industry by industry. There will, of course, be some industries in which output will increase rapidly enough to permit controls to wither away during the next 6 to 10 months. When that happens you can count on us to drop them promptly, and let there be no mistake about the basic fact—all price controls must be utterly and completely eliminated as soon as normal peacetime conditions permit.

To the same effect is Mr. James F. Brownlee's testimony before your committee on April 14, 1944:

However, we think that after the end of the war in Europe some commodities will become much less tight. As time goes on controls can be removed from one
set of commodities after another. In 1940-41 inflationary pressures spread
from one commodity to another. Similarly, the disappearance of these infla-
tionary pressures will not come all at once in all commodities, but will probably
spread from one field to another. Hence just as selective impositions of price
controls was appropriate in 1940-41, selective removal of price controls will be
appropriate during the transition period. This can be done, of course, under
the law as it now is.

Turning from what the gentlemen representing Office of Price
Administration said with respect to the proposition of detaching con-
trols by industries or lines when supply comes into balance with
demand, let me take one more minute to show the acceptance of that
concept both by this committee and by the Senate committee in the
words of the committees themselves.

In your own report accompanying the bill extending Office of Price
Administration for its current term there are these phrases [reading]:

These wartime controls should be continued as long as the need for them
continues and no longer. They will come to an end in two ways: First, by
the selective termination of price control for particular commodities, or of
rent control in particular defense rental areas; and second, by the general
termination of all authority to fix maximum prices for any commodities or
maximum rents in any rental areas.

The first type of selective decontrol must be done administratively. The gen-
eral principles to be applied are clear and unquestioned. Control should cease
for particular commodities or rental areas just as soon as it ceases to serve the
purposes of the stabilization laws. Primarily, this means just as soon as the
supply of the commodity, or of rental accommodations within the area, comes
into reasonable balance with demand * * * The responsibility must be
that of the Price Administrator to carry out the plainly stated purpose of
the laws.

Before I have finished, I expect, if I may, to address myself to that
proposition of the committees and the Congress having depended upon
the Office of Price Administration administratively to accomplish
these things so plainly declared as the intention of Congress in the
area.

Now, a short quotation from the Senate Committee's report accom-
ppanying S. J. Res. 30:

The committee has been assured by the Price Administrator that price con-
trols will not be continued a day longer than necessary. As inflationary pres-
sures subside, as production comes into balance with supply, controls will be
removed—as they were imposed—on a selective basis.

So much as to what was behind Office of Price Administration in
the first instance and the recognition stated as to what was going to
happen to it.

Let me reiterate, Mr. Chairman and gentlemen, that this com-
ment of mine is no attack upon Office of Price Administration in
the past or in general at the moment.

It is narrowed to the single question of whether or not when supply
comes into balance with demand, controls should not in that industry
or in that commodity or line of goods be removed.

Before I have finished, I shall proffer to the committee two sug-
gested amendments that I think will meet the point that I have in
mind. But at the moment, as against the background presenting so
perfectly clearly a foundation for and determination as to the method
and term of operation of a concept like price control, against that
background why is it that at the moment on that simple proposition
there is a failure on the part of the Admininistrative unit to detach
controls as supply comes into balance with demand, and an assignment of new reasons why that should not be done?

Gentlemen, I want to bring this to concrete cases.

If you will let me read one more little paragraph I think I shall have established the proposition that in spite of all these declarations of administrators of Office of Price Administration, in spite of the unmistakably clear mandate of this committee, the Senate committee and the Congress, the House and the Senate, it is true today that Office of Price Administration is not living up either to its own declarations or to the intentions of the committees and the Congress in that respect.

I read you what Mr. Bowles said about December 6 last year just before Christmas, to the effect that—

Price control should and must be removed as rapidly as supply conditions permit * * * in industry after industry during the next 12 months we will find supply and demand coming into balance. As that occurs, I assure you that your Government will move promptly to eliminate the last vestige of price restrictions in those industries.

In finding the facts with respect to one situation at least I am in position to furnish you the Office of Price Administration's own order in which it says, in connection with an amendment of an order that removes the prohibition against selling single cigarettes, which prohibition had good reasons for existing during the war, there is the recital that since May of 1945 cigarettes have been coming into ample supply, and are now in ample supply. That regulation is changed. That is not particularly pertinent here, gentlemen, beyond the fact that it serves to give a specific instance in Office of Price Administration's own actions and Office of Price Administration's own words, with the declaration out, that supply is in balance with demand, there is still no detachment of controls.

That is the point I want to make on that order. I have no concern with the order otherwise.

Of course, Mr. Chairman and gentlemen, a change of front like that, or shall we say a change of policy like that, a failure to live up to such an unmistakably declared mandate so spontaneously received by the administrators through all the intervening years must have some explanation that carries some plausibility with it.

I think it is a quite simple thing. I admit that in the controversies that have developed in recent weeks and months of Office of Price Administration and inflation and price and wage, so many feathers have been grown on the price-control proposition that it is hard to see the original skeleton or ground work of the thing for all the feathers that have been put on it.

The main one that is attached here as a justification for this failure to function along the lines along which the mandate lies is that inflation is involved. It is as simple as that.

You say, "inflation is involved."

Let me look at that a minute. They are not talking about currency inflation. They are not talking about credit inflation. They are talking about price inflation and no other kind of inflation. What is inflation, and what are the three essential elements of it?

By all of the economists that I have read in the last 10 years—and it all has but read me to death in reading about economists'
views in the last 10 years—by all of the things that those that can be regarded as at all sound, say there are three elements, every one of which is essential before you can have price inflation:

No. 1, you have to have a citizen who has some money. You are not going to get any inflation if you haven’t got a citizen who has some money.

No. 2, you have to have that citizen ready to spend and anxious to spend and looking for a way in which to spend that money. But you still haven’t got any inflation.

The third element is that you have got to have a shortage of the thing that he wants to spend that money for.

In all the books on economy that I know you find the absolute categorical statement that it is a sheer impossibility to have price inflation unless you have got all three of those elements.

Now, I ask respectfully, in situations where by admission of the Office of Price Administration in formal order, and there are many others not covered by such administration, you have goods in ample supply, how are you going to get any inflation out of the fact that citizens have got money and they want goods if the goods are there in supply?

Then we are out from under price control and American competitive basis from which prices come. I think it is as simple, gentlemen, as just that. I see no reason which is the sum total of all that I have said up to now. I see no reason, no more than this committee saw, or the Senate committee saw, or the House saw, or the Senate saw, or the Administrators of Office of Price Administration saw until recently for continuing price control on anything that is in full supply.

Gentlemen, I want to ask a question there, and I think it is a very, very serious question for this country. Certainly I know it is an exceedingly serious one for the industry of this country, and in my thinking I never have been able to differentiate the interests of the people of this country from the activities of the industries of this country.

What reason can be assigned if all we say to believe is believed. The competition and competitive forces will bring out the right price for anything.

What reason can be assigned for continuing control when you have got a full supply of goods of any kind?

I undertake to say, gentlemen, that when that reason comes out—and I doubt very much if you get a full statement of any such reason advanced here before this committee—I will undertake to say to you that it will bear an un-American mark. It will look like a false god in the economy and among the economic principles of this country.

Office of Price Administration was on a sound basis. Whether Office of Price Administration can continue to be on a sound basis when it insists upon the artificiality of control when the old fundamental of the competitive force control of price is back in the picture, I don’t know. I don’t see how it can. I don’t think you can explain price control by inflation, and fear of inflation, as I just said, because there cannot be inflation in a fair price for goods, a fair price de-
terminated by the conditions in the competitive situation when the goods are in fully supply.

Let me hurry on to another phase of this same situation.

I have tried so far to support to some extent an argument that all of the original reasons for adopting and continuing the use of Office of Price Administration has not failed. I have tried to say that in my search of the literature of economics I cannot find any other and new reason that would support that continuation.

Let me turn over to the other side under this question: If the reason for its existence has disappeared, if it is not going to serve anything that the American people will want served or that is compatible with and helpful to the operation of the American economy as we desire it to be, then out of that comes the lack of reason for continuance.

But, let us turn to the other side and see affirmatively if there are not reasons for its discontinuance.

In that phase of my comment I would like to come back home to my own company and to the industry in which that company works, and make some applications of some things that I have said, all under the category of reasons, if you please, why, without any desirable objective in the picture to be served by continuing control where supply is in balance with demand, there are real objections and real hurts to the American economy and to the American citizen through continuing.

I want to illustrate that by some things in my own industry in which I work.

Start with this one: A continuation of control of price in the tobacco industry—and I am talking upon control of the price of leaf tobacco we buy as well as about control on manufactured products that we sell—a control in that industry where supply is generally and substantially in balance with demand will limit, in my opinion, the expansion of that industry. Hear me a minute, if you will. This point is probably more peculiar to the tobacco, and particularly to the cigarette industry end of that field, than it is to any other industry in this country, because advertising has meant so much in the development of the cigarette industry which has come to be the most important of all ends of the industry for everybody concerned. The Government draws nearly a billion of taxes out of cigarettes, as against very much smaller returns out of other tobacco products.

The manufacturers are able to employ their labor and pay their wages more on account of cigarettes than anything else.

Coming on back to the farmer and then going to the distributors.

The chairman of this committee knows that I speak the truth when I say this: The farmer gets what he gets that is worth having out of the kind of leaf tobacco that goes into cigarettes. Said in one sentence from a man who is familiar to some extent with the industry—the farmers have told us for decades that they cannot live on kind of leaf tobacco you make plug tobacco out of. I don't think they can.

They say they can barely live on the kind of leaf tobacco that you make smoking tobacco out of. Again, I think they are right.

They say that where they make their money, and the only place they make money in substantial and satisfactory amounts is in the grades of leaf tobacco that go into cigarettes, which is a round-about detailed way of saying that to the farmer and with the manufacturer and with-
out belaboring with a description the same advantages to the retailer and jobber, it is the cigarette end of this industry in which everybody from farmer to Government and right on through backward and across have their advantages.

Let me give you a Government figure or two as to what has happened in this industry in a few decades on this question of what goes with the tobacco that the farmers in this country grow.

I should drop a footnote to say this, which your chairman and many of you other gentlemen know so well—you cannot grow a tobacco plant that is all cigarette leaf any more than you can grow a turkey that is all white meat. They come a heap nearer growing a turkey with all white meat than a farmer has come to growing tobacco that is all cigarette tobacco. Whether you want to or not, you will have some low-grade leaf, some medium, and some high. It comes that way, and there is no way to get away from it. They have got to grow the same thing.

I have a point a bit later to hang on that one. It is not particularly pertinent at the moment, while I go on with this other thing.

In 1911, astoundingly, if you please, as against figures we are accustomed to today, the pounds of leaf tobacco raised in this country that went into cigarettes, including a little bit brought in from abroad, was only 38,446,231 pounds. 38,000,000 pounds of tobacco went into cigarettes in this country in 1911.

Let me remind you the American people were chewing tobacco, smoking pipes, and some of them rolling their own, though that had not come into much vogue at that time.

Shortly after that the process and practice of advertising cigarettes as the most sanitary, the most delightful, probably the most unhurtful of all uses of tobacco was developed.

Without giving you the interim figures which I have here, in the year 1943, which is the last year I have the published official figures for, the poundage of tobacco in this country that went into cigarettes was 860,416,435 pounds. Thirty-eight million up to eight hundred and sixty million. Meanwhile, one other figure and I will go on.

In that same year of 1911, this country manufactured only 10½ million cigarettes. In 1945, there were manufactured in this country, 332 billion cigarettes.

Now, against that background of fact let me introduce the idea that I have with respect to what advertising—and it comes around to what Office of Price Administration has done to folks who advertise tobacco products—before I get through with it—during that period advertising was increasingly applied in the cigarette industry with an almost constant, and sometimes very rapid, upstepping of the cigarette curve as against your smoking tobacco and chewing tobacco curve.

Let me call your attention to something you know: You don't smoke a cigarette to be smoking a cigarette and you don't smoke a cigar and you don't chew tobacco because it is chewing tobacco.

We all do our devilment, if devilment it be, in that area for the effect of tobacco. It is the tobacco effect. You can get it by dip and snuff by chewing tobacco, by smoking a cigar. If everybody does it by dip and snuff and chewing tobacco, nobody, including government, makes anything. You haven't got any healthy or prosperous segment of the economy in the tobacco area. If everybody smoked a pipe you don't
get very far. If they do it by cigarettes everybody is way ahead of
the game. That is the way advertising comes in.
Advertising in this industry is the instrumentality that leads the
private citizens to seek their tobacco satisfactions not in the cheap forms of to-

bacco out of which nobody makes anything, but in the form most
sanitary, most delightful and so forth, in which farmer, worker, trans-

portation folks, distributors, manufacturers, and Government to the
tune of a billion dollars a year get their money.

What has happened?
Congress had a section H in this original act in which it was provided
that price controls should not be used so as to force changes in cost
methods and accounting practices and the use of aids to distribution.

I thought, as so many thousands of other people thought—that meant
you could not put a price ceiling down so tight on your head you had
to eliminate advertising. I looked at my facts and said, "That is
pretty bad; it's pretty bad. You have to throw out your advertising
and make much less money than you are making."

I said, "To do that you have to borrow $100,000,000, put out more
stock, because you have to have credit in this game. Have to throw out
advertising, I reckon."

"We cannot give you relief," they said. I wrote them a letter,
stated the case, and got this answer. It will interest you. "Price
ceiling put on you squeeze out your advertising, but administrator did
not intend it should so do."

"It is an easily maintained position that the Administrator did not
intend."

I don't use their exact words, but my own approximation substan-
tially of what it said. Criminal proposition was involved?

You gentlemen said the Administrator should not use price con-
trol to force out aids to distribution. It happened. The Administra-
tor said he didn't take the axe with the intention it should happen.
That may look all right to him, Mr. Chairman and gentlemen, but it
does not help solve the problem in the industry even a little bit.

Coming back to that—when we could not get any price relief 2
years ago we reduced our advertising more than $6,000,000. When we
could not get it a year ago we reduced it more than four million more
dollars.

I have said to you, I have argued you in the first part of this state-
ment, that if these controls are continued it will affect the limitation
on the expansion of this industry.

May I desist from that point and leave it upon what I have said
there—in an industry where your growth is so readily and obviously
shown as due to, and where your sustained position is so obviously
due to, your capacity and ability to advertise, I say that the continua-
tion of controls that exclude the possibility of advertising, and ad-
vertising stencil, amounts to a limitation on the possibilities of that
business and production from that industry.

I must hurry on more expeditiously than I have.

A second comment, which I will make as short as I can. I am
talking about affirmative reasons why controls should be detached
when supplies are in balance with demand. I have remarked as to
the necessity of attaching them to avoid a limitation in an impor-
tant industry, to avoid reducing production in an important industry,
and reducing employment and wage payment and tax.
Let me take another: I think probably in the long run if we were going to live a long time under price controls in this country the second thing I am going to mention is the most disastrous of all results that are calculated to flow from continued price control where you have got your supply in balance with demand. It is this: The effect of a too low ceiling—I am not sure it is not true of any ceiling, but certainly of a too low ceiling, below normal ceiling—in any industry reverses one of the most important fundamental concepts and methods of American industry which has its existence in fact—it always has been true in American industry—that the rivalry between producers was to make a better product than the other man in the game. That is your better muse trap fellow in New England and a lot of the rest of us around over this country one place and another, and it is what made this country’s produced goods go entirely out of the class of goods produced in a great many other places. On price control the ceiling is too low.

You have had it in hundreds of instances in this country in the last few years. I am not complaining about it as an emergency situation. I am talking about what kind of policy we want to work on now that the war is over, and in industries where you have full supply and can go back to the old basis.

But you have had the situation where, under the ceiling which represented an inability to charge more, and under the necessity of staying in business and doing the best you could, there have developed in a great many industries competition not in the direction of making better goods than the other fellow, the best that can be made for the money, but a very, varied competition to make the cheapest and shoddiest thing that could pass in the category. That is an unhealthy situation.

A lot of us refused to yield to that pressure. A lot of us thought it was more important to maintain the standards of quality of whatever you make whether you made much of it or little of it, or whether you made any money in making it or not.

But I stand here as a representative of one company who has fathered that policy and say to you gentlemen of the committee that while it is possible to follow it for a while under ascending costs, it is not possible to keep on and on and on following that policy and still stay in business.

I think there is the clearest indication that we have got to the point where it is beginning to react.

In your chairman’s State before the burley markets closed this year, burley tobaccos were selling off below what they had sold for. What is happening? We have reached, if you please, in my judgment, gentlemen, the end of the rope when it comes to this thing of paying more and more and more for raw materials and labor and all of the expenses and still being held under a control that does not leave that normal return to competitive forces.

Let me advert to a few more figures, and I am almost through, gentlemen. I am afraid I am tiring you, but I want to give you a few more figures. It is what the leaf tobacco has been costing. I have before me from the official returns, tabulations of figures representing the crop average price, the average crop price of both burley tobacco and flue-cured tobacco.
Let me give you 4 years, from 1937 in flue-cured. It sold at 23 cents a pound. In 1938, it sold at 22.9/10 cents a pound. In 1939, 14.9 cents a pound. In 1940 it was 16.4 cents a pound. Those are before the war averages for the flue-cured crop, averages after the distresses of 1931 when England went off of the gold standard and later in 1933 when Mr. Wallace conceived of the marketing agreements. You gentlemen supported that.

The markets were delivered from the distress in 1930, 1931, 1932, and 1933, and put on a limited production basis. These were the prices that obtained in the period following all of that under regulation by the farmers themselves.

In 1943 and 1944, flue-cured prices running 23, 22, 16.4—they ran 40.2 cents, 42.6 cents, and the '43 figure was close to the 1944 figure. I have not got it exactly.

In burley—those same years, 1937—20.1; 17.3; 16.2. Those were 1937 to 1940 figures. 1943 figure, 45.6, 1944 figure, 44.1.

I am not complaining, gentlemen, about those prices. I rather glory that the farmer has been able to get returns like that. That is not my point. I am calling your attention to the fact that with prices of our raw material having approximately doubled, as you see from the official figures that I read you, we are selling cigarettes today at the same price we sold them in 1937 with an adjustment of 25 cents net covering one tax increase made by the Federal Government men, while all of which only means there are pressures behind this situation. Volume, of course, is all that enables anybody to go at all and throw in his advertising. That was all that enabled him to go along in creditable enough shape to give him credits he needs to finance his business.

I am talking about those who were caught. I have to footnote that because some manufacturers were not caught in that position.

If you had an excess of leaf tobacco on hand when this war situation developed—to say it in another way, if you had not been able to sell in the period immediately before the war all the cigarettes you had expected to sell and had bought tobacco for—that was the smile of good fortune instead of misfortune, because, with that excess of tobacco on your hands, you could make more cigarettes in the first war year, good advantageous time to make them that first war year, and in making more you had a disappearance of more tobacco in pounds, and the next year the Government would let you buy more tobacco out of that crop because you have used more the year before, and so on.

The Reynolds Tobacco Co., unfortunately, from that point of view, had been able to sell in the years immediately preceding the war all of the cigarettes that it had estimated it would sell and that it bought tobacco to sell. Therefore, it did not have excess of inventory when we started.

There is only one other point that I want to make, as that is akin to one I have already made in what I have said. The pressures under a too low ceiling of prices are in the direction of poorer goods instead of better, and in supplying poorer goods instead of better, of course, there is as much inflation as there is in charging more for the same goods.
I want to bring that around to a rule that the Office of Price Administration has worked on continuously from the day of its inception and beginning of its administration.

You are familiar with your industry rule. All that was developed in the way of declared policy under the phrase “generally fair and equitable.” Without making any particular point on that now in terms of a suggestion that it should be changed, let me remark that that industry rule was a crucifier. There is no high-cost producer—and I mean by that no producer of a product made out of the high cost raw materials and made in the best ways—that didn’t take his punishments under the industry rule. As the ceilings came down, of course, they got on the head of the fellow who made the high-cost product or the product out of high-cost raw materials.

I am not talking about high cost because of inefficiency. The fellow who was making the lower-cost material was not caught so early.

That situation continues today, Mr. Chairman and gentlemen, and I cite it as another affirmative reason for the detachment of these controls, in order that you may begin to have not only in product against product a question of who can have the best product, but in company between company can have restored that old competitive spirit under which one assumes to make the product out of better materials and a better product.

Maybe another one elects to make a medium quality product. I am not talking about one industry alone, but I am talking about a great group of industries.

Maybe another elects to make a low-priced product.

When we were free and industry was in the hands of men managing who were willing to select and able to select, willing to take the risk of one policy as against another, even the risk of making a product out of a higher-cost material when the lower-cost material was available and he could make it out of that and probably get away with it almost as well, when we had this situation you developed American industry as we have known American industry. Putting it in one word, a continuation of controls in industries where you have high-cost producers and medium-cost producers and low-cost producers, tends, inexorably and very destructively, to put out of the game the American manufacturer who insists upon using the high-cost material, doing the high-class job of manufacture, and furnishing the American citizen the best product.

I hope, gentlemen, I have gotten myself expressed as believing two or three things:

No. 1. That the original fundamental reasons for the adoption and application of the Office of Price Administration have in some industries in this country disappeared in that the supply of the product of those industries is now in balance with demand.

I hope I have said emphatically that that being so there is a failure of the original reasons to support the continuation of the Office of Price Administration.

I hope I have cast some suspicion on what the reasons for the insistence of its continuation in areas where all of the original reasons have disappeared may be.
I have said that when you get a statement of those reasons they won’t sound like American economic principles, and they look like false gods in the American economy.

Then I have turned, and I hope I have said, that in addition to the failure of reason for the continuation of the Office of Price Administration where supply is in balance with demand there are affirmative reasons of the strongest and most important kind as to why it should be discontinued because of the damage that it will do if it is continued.

I have listed under that the limitation that will come to some industries, notably my own, through the fact that under the administration of Office of Price Administration as it now is, advertising, the instrumentality of expansion, has been largely eliminated in my own company. Scarcely more than a third of what we used to spend for that purpose is being spent.

I have pointed, too, to the fact that Office of Price Administration is at work in situations of the kind I am talking about, and has reversed the principle of contest and incentive to make a better product supplied in place of it an incentive for making a worse one. I have applied it to some extent in the tobacco industry in other aspects which I won’t detail now.

I am not, gentlemen, saying that I have had any issue with the original concept of Office of Price Administration. I am not attempting to speak to a broader point today than the single one stated in the beginning—that I think where supply is in balance with demand then the controls ought to be lifted.

No. 2. I have said that I think this committee and the Senate committee and the Congress have to rewrite it in the act that they be lifted, because I am convinced that however many declarations committee and Congress make that Office of Price Administration will apply, there have been certain failures to so apply.

May I present, Mr. Chairman and gentlemen, the two amendments that I have in mind to suggest as a curative of the things I have been talking about? Amendment No. 1 is as follows:

**SUGGESTED AMENDMENT TO PRICE CONTROL ACT TO REQUIRE TERMINATION OF CONTROL WHEN SUPPLY COMES GENERALLY AND SUBSTANTIALLY INTO BALANCE WITH DEMAND FOR ANY COMMODITY OR LINE OF PRODUCTS**

(Suggested for addition as section 6)

Whenever the supply of any commodity or line of goods is generally and substantially in balance with existing demand thereat at the prevailing price or prices thereof, the Administrator shall immediately terminate all regulations, orders, and price schedules under this Act as related to such commodity or line of goods and shall not thereafter reestablish any maximum price for such commodity or line of goods. For the purpose of this section, no distinction shall be made between commodities or lines of goods because of grade, brand, size, or price thereof or because of the producer, manufacturer, or seller thereof.

By way of insuring, as far as possibly practical to assure, an administration in line with that, I propose the second amendment which it seems to me would appear appropriately as subsection B of section 203.

I should make one explanatory word. You cannot get decisions of Office of Price Administration sometimes and you cannot get them in court sometimes, even their own court there, the court established to administer that kind of thing, because while theoretically they are supposed to decide properly, they take your case and sit on it for...
6 months and don't say yes or no, and you cannot take it into court and get them reviewed.

There are instances in abundance where that procedure has been followed.

I do not suggest where the Administrator fails to make a decision that the decision should be presumed against him or favorable to the protestant, but I do suggest that it would not be unfair when he said 30 days in which to make his decision, and has not made it, that then a decision against the petitioner be presumed, so that the petitioner could go on and take his case to whatever board, court, or what not it is due to go to.

In pursuit of that objective this amendment would provide:

**Amendment No. 2**

**Suggested Procedural Amendment for Purpose of Making Amendment No. 1 Promptly Effective**

(Suggested as subsection (b) of section 203)

If the Administrator shall fail to terminate any regulation, order, or price schedule as required by section 6, any person affected by such failure may, in accordance with regulations to be prescribed by the Administrator, file a protest setting forth such failure with affidavits or other writings in support of such protest.

Within a reasonable time after the filing of any protest under this subsection, but in no event more than 30 days after such filing, the Administrator shall either grant or deny such protest in whole or in part.

If the Administrator shall fail to grant or deny such protest within 30 days after the filing thereof, such protest shall be deemed denied at the expiration of such 30-day period.

In the event that the Administrator denies any such protest in whole or in part, he shall inform the protestant of the grounds upon which decision is based, including a disclosure of any economic data relied on and any facts of which the Administrator has taken official or judicial notice.

I am not an experienced legislative draftsman, Mr. Chairman and gentlemen, but I hope those two scripts at least convey the idea.

Mr. Folger. Without objection they may be filed as a part of your statement.

Mr. Williams. I thank you, Mr. Chairman and gentlemen, and I would like to answer any questions members of the committee may ask.

Mr. Folger. I will ask of the chairman to resume the chair.

The Chairman. Mr. Williams, what proportion of the output of cigarette manufacturers was purchased by the Government during the war?

Mr. Williams. Mr. Chairman, the figures on production last year as recently published show 332,000,000,000 cigarettes. My recollection is that the withdrawals tax paid for 11 months of last year were 261,000,000,000, and the twelfth month a production of a little over 16,000,000,000. So that would be 277,000,000,000 tax paid as against 332 total production, which is a difference of 54,000,000,000. I believe my arithmetic is right.

That would indicate the amount of cigarettes that were purchased by the Government for the armed forces for consumption outside of the United States, plus whatever cigarettes were exported tax free for civilian consumption in foreign countries, which business amounted
to practically nothing during the war because we could not supply all of the domestic demand, therefore were not seeking foreign demand for civilian use.

I cannot, Mr. Chairman, answer your question in terms of how many cigarettes Government bought for consumption by soldiers and other members of the armed forces in this country because they are lost in the tax-paid production.

The Chairman. That was a very great number, was it not?

Mr. Williams. Enormous number of cigarettes.

The Chairman. That is for foreign consumption?

Was there not a civilian shortage of cigarettes because the Government purchased so many for the armed forces?

Mr. Williams. A very severe civilian shortage. For many, many months, Camel cigarettes were distributed on the basis of 40 percent of what the customers had bought in a prewar period, early war period. I mean in the early war period and not prewar period. They are now back to 20-odd percent.

The Chairman. That Government demand now has ceased. The Government purchases very few cigarettes now, I suppose?

Mr. Williams. It can hardly be said it has ceased, but it has been so greatly reduced that it is no longer a very considerable item.

The Chairman. You are in favor of abolishing price ceilings on the leaf and on the manufactured article?

Mr. Williams. I am, on the general principle that was the basis of Office of Price Administration, application of Office of Price Administration, and on the economics involved.

And, Mr. Chairman, your question, and particularly your reference to cigarettes going abroad, puts my mind into another area on which I would like to say a paragraph to you and committee if I may ask for that much additional time?

The Chairman. You may proceed.

Mr. Williams. Apropos of what the chairman has said, let me add this little paragraph: Mr. Folger knows it—it is in his area. There are about 1,200,000,000 pounds of leaf tobacco of a type different from burley, because there are a great many products made out of one; other products made out of the other; and there are shifts of price as between cigarette and other smoking tobacco.

In addition to that there are possibilities—I don't know the extent to which they are prosecuted—of substitution of one or other as against various products.

I can talk on it in terms of ceiling on leaf, because it was a ceiling imposed on leaf. Grade by grade, we could not pay above a certain price for tobacco of a certain grade put on it by the Government.

In Mr. Folger's area, the Southeastern States, it worked differently. We had to meet a certain average. If it went above it, we took all kinds of penalties. You could pay what you please for an individual pile and an individual grade. But you had to come out with a certain average. What was the effect of it?

Without going into detail, the nub of it has been that instead of your grade prices ranging wide that way, they all jammed up together. That is true in every tobacco area in this country.

That happened, with the result that your flue-cured crop last year moved, I would say—it is dangerous to use percentages—but almost all of it in a price range between 38 and 53 cents.
In normal times, and judged by the differences in crops and the differences in leaves as it comes from different positions on the plant, that range would have been from maybe 5 or 6 cents to 65 or 70 cents. Instead of that, it was all jammed up in a range between 38 and 53.

In your burley area nearly all of the tobacco sold between 40 cents and 58 cents. Normally, and paralleling what would have been normal in the flue-cured area, the range of that tobacco would have been from below 10 cents up to 75 cents.

But going on, I am going into territory that is distinctly farmers' territory, but there is no way to treat this area without covering the whole thing.

Out of that billion two hundred million pounds of tobacco more than half was due to go to foreign countries. More than half of the flue-cured crop is exported. That has a very vital relationship from the farmer point of view, and it has a vital relationship from the point of view that I represent; though, frankly, it will cost what I represent a whole lot more money for cigarette tobaccos than it would otherwise cost us.

I am not saying cigarette tobaccos will come higher next year or lower, but I am saying they will come higher under this change than they would come without this change. Here is what has happened: Mr. Hudson, in Agricultural Adjustment Administration—who knows as much about tobacco, if not more, than any man I know—recognizes this situation. I talked with him some days ago about it.

You used to have a situation in leaf tobacco where the plant grows every kind of leaf from the very low grade to the top. You used to have a situation where the price range was very wide. The man who grew the very fine tobacco got a premium price. The man who grew the very poor tobacco did not get a premium price. The leaves that were inferior on the individual stalk did not get a good price, and leaves that were good got a good price.

What has been the effect of this price ceiling on leaf tobacco? It is related to the price ceiling on product 2.

Now, let us go to flue-cured. The boys that raised flue-cured tobacco are dependent upon the foreign markets for a market for more than half of that crop. What is puzzling them today—and I don't speak for them, but I speak from knowledge of what they are talking about—is the stark fact that foreign markets cannot pay those prices for tobacco. If they cannot, this process that England is following of getting flue-cured tobacco in Rhodesia and various other nations, growing it within their own borders or within their colonies or areas under their control, the flue-cured farmer in great numbers of fields is going to increase to the point where we lose in the Southeast a very substantial part of that market for that very valuable flue-cured crop, and lose it because we are under regulation, and instead of allowing the jammed low-price tobacco to be sold at a high price.

I am kin to this, and it is kin to me.

You will find, Mr. Chairman and gentlemen, if you investigate in official agricultural circles in Washington, that there is now quite some concern about how to get some low-priced tobacco for the foreign markets without destroying the farmer's average return. I am trying to suggest that to me the common-sense way to do that is to throw these controls that keep us from paying more than 58 cents.
for the best grade of burley tobacco that ever grew—let us pay 75 cents if we want to—but at the same time have a condition under which there is some 20-cent tobacco.

Mr. Folger. I have an engagement for 1 minute outside, and I will be back.

The Chairman. I would like to know why the burley tobacco people did not stay within that price.

Mr. Williams. I think I know the answer, but it is an opinion answer. I think it is found in the thing I am talking about.

Manufacturers have just as well admitted, as far as I knew them in my group, and I suspect the same is true of other manufacturers, just cannot buy, and are not interested in buying tobacco or anything else at a price they cannot get their money out of or make some money out of after they have processed.

Under this burley situation this year, with a failure of any relief of price on leaf tobacco, without throwing advertising out of the window, in spite of the fact that our company bought enormously more than it had bought last year and bought way beyond its allocation, that price went down. I think it went down on account of these ceilings, to some extent.

The Chairman. Any further questions?

Mr. Crawford. Mr. Williams, I think you are the third witness who has appeared here and categorically informed the committee of the way Office of Price Administration rules and regulations are surrendering the American market for foreign producers. In that respect, your statement interests me very much.

Mr. Williams. I think we have a peculiarly striking example of it in this flue-cured tobacco situation.

Six hundred million pounds of flue-cured tobacco going abroad is quite a sizable lot of money. At this year's prices, it is a quarter of a billion dollars.

Mr. Crawford. Our colleague, Mr. Brown of Georgia, who just left the room—I understand he is sponsoring an amendment to force decontrol when supply comes in reasonable balance with demand.

I have stated publicly I would support an amendment similar thereto. It may be your amendment is better worded than the other one.

Mr. Williams. I would deny that.

Mr. Crawford. This change in concept to which you refer wherein Office of Price Administration has somewhat changed the rules of the game, running contrary to what the committee has said in its report—both House and Senate—and what Mr. Bowles and others have said who are connected with Office of Price Administration—I agree with you that the substance of that is un-American and an imported proposition.

My friend sitting here to my right, I think, has something he would like to say on that.

You believe that Office of Price Administration will change their present attitude unless we put these amendments in the bill?

Mr. Williams. A man used to live between here and home who said, "I have no lamp by which my feet are guided except the light of experience."

Mr. Crawford. I think that answers it.
The Chairman. There is another gentleman who is anxious to get
out by 6 o’clock. I am hoping to get a chance to hear him.

Mr. Brown. You made a very interesting statement. I appreciate
the fact another witness has to be heard, and I will ask one question:
Do they grow burley in the Southeast?

Mr. Williams. They cannot grow it this side of the Allegheny.
They grow it a little. In the northeast corner of your State they can
grow it a little. You cannot grow it on this side of the ridge.

Mr. Brown. I know a good cigar but little about cigarettes. I did
not understand why they could not grow it there.

Mr. Williams. It is a different breed of tobacco. It is a leafy and
porous type.

Mr. Brown. I believe that when production meets demand you will
not need price control. I have prepared an amendment that I think
will meet that situation.

Mr. Williams. I am delighted to hear that.

Mr. Brown. I expect to present it.

Mr. Williams. I rejoice greatly, Mr. Brown, that you do. I think
that will do wonders.

Mr. Brown. I am for extending price control with certain amend-
ments.

Mr. Williams. As a former administrator of a kindred though not
so important unit, I know what relief it is to have the Congress write
it in the bill that so-and-so “must be this way.”

Thank you.

Mr. Kunkel. Mr. Williams, assuming price controls were removed
from cigarettes, what would happen to price?

Mr. Williams. The price of a good many cigarettes would go up,
if I don’t miss my guess. We would have to raise the price of Camel
cigarettes. Camel cigarettes are on the bargain counter. They are a
high-cost raw material cigarette. They have been punished ter-
rifically. We would have to raise the price.

Mr. Kunkel. Then there is a very high competition in the tobacco
industry, is there not?

Mr. Williams. Very, very strong competition.

Mr. Kunkel. The idea on releasing controls at the time supply gets
somewhat into adjustment with demands is because at that time there
should not be any appreciable price rise. That is one of the reasons
advanced.

Mr. Williams. That is right; yes.

Mr. Kunkel. Yet you think it would result in a definite price rise
entirely aside from any possible export markets which you might
develop.

Mr. Williams. The export market reference that I made was the
raw leaf tobacco and not in the application I gave it to manufactured
product.

But one remark you made leads me to ask you, if I may, to express
myself on that point. You say “objectionable that price goes up when
you take off price control.” That was substantially your position?

Mr. Kunkel. Yes; I said that is the contention.

Mr. Williams. I am glad you asked me that question. I will answer
it in my view of it very shortly, and say that happens to be the view
of the New York Times editorial board and a great many other eco-
nomic writers. Let us say it in this way: Presumably—this is approxi-
mately the way the New York Times' editorial said it, and the econo-
mists—presumably there would not be price control on any given 
article except under circumstances where the article would sell at a 
higher price, except for the control. Now, if it is in short supply, that 
is one explanation of that. If it is not in short supply, then there 
is another reason for its selling at a higher price when controls are 
taken off, because you do not get inflated price except through a man 
with money determined to spend it and to spend it for something that 
is in short supply. There is no inflation in fair price.

The point of the New York Times editorial attacking the very thing 
that you state has been contended was this: To say they will not take 
off—this goes further than I have gone in my statement here, because 
it was not pertinent to what I have been talking about, directly per-
tinent—that to say you won't take controls off of anything until sup-
ply is in balance with demand is fallacious, for the simple reason you 
have disregarded the fact that prices are always a necessary element 
of the equation of supply and demand. If goods are cheap enough, 
there is a great big demand. If they are too high, you have got a 
shrunken demand.

So the editorial states that Mr. Bowles proposed a proposition to 
keep whatever is under control forever under control. I don't quote 
it in identical words.

There is a situation in which price must come up. If goods have 
been too cheap when once controls are taken off them, price will 
come up. They should come up, because there is no inflation in a 
fair price.

More important from the angles of consideration by members of 
this committee and Congress in general on this price control, they 
should come up for the sake of production, because we have to have 
maximum production. You cannot get maximum production of 
goods under a price ceiling that puts the goods on the bargain counter 
to the extent that it is not sufficient, satisfactory, or a safe return 
from the standpoint of making the goods.

Mr. Kunkel. Under price ceilings, how is it that American Tobacco 
Co. always can pay 20 or 30 percent more, as the auctioneer always 
does?

Mr. Williams. I think I should answer that by saying I am not 
factually equipped to respond to that. You stump me on that.

The Chairman. We are glad to have had your statement, Mr. 
Williams.

Mr. Buffett. Mr. Williams, by maintaining price control after 
production equals demand, is it not entirely possible that we will 
have a system of regulation which amounts to socialization even while 
we continue to pay lip service to private enterprise?

Mr. Williams. I think the tendency of continuing price control 
after supply is in balance with demand is very distinctly and definitely 
in the direction that you indicate. Say it another way: If, when 
supply comes in balance with demand you have not found occasion 
to take off price controls, I would have a great deal of difficulty pre-
dicting any place or situation in which the man who would not take 
them off under those conditions would be willing to take them off.

I am afraid that the germ of self-perpetuation is in some of these 
formulas like this idea that you won't take off a price control until
prices soften. You won't take off price control except as it can be assured that prices won't go up. There is a germ of self-perpetuation of controls in that line of thinking. That is what I am afraid of.

Mr. Buffett. You will be interested to know that is the exact pattern whereby business was nationalized in Germany in the last few years. They preserved private enterprise but it became a meaningless legal concept, except they paid lip service to private enterprise.

Mr. Williams. I think we should not either consciously or subconsciously fall into that.

The Chairman. We are glad to have had your views.

The Chairman. Mr. LaRoe is our next witness. State your name and identify yourself, Mr. LaRoe.

Mr. LaRoe. If the committee please, my name is Wilbur LaRoe, Jr., attorney at law, Washington, D. C.; general counsel for the National Independent Meat Packers Association.

STATEMENT OF WILBUR LaROE, JR., GENERAL COUNSEL FOR THE NATIONAL INDEPENDENT MEAT PACKERS ASSOCIATION

Mr. LaRoe. Our association represents more than 700 meat packers in various parts of the United States. We are the largest organization of meat packers in this country. We have consistently supported price-control as essential to the war effort. We believe that prevention of inflation was a necessary part of the war effort and that it is also a necessary part of the reconversion program where reasonable price control is possible.

There is no use denying the fact that the Office of Price Administration was one of the very important war agencies, or in denying the enormous savings to consumers which it is making during the reconversion period. We do not recommend the discontinuance of the Office of Price Administration or the sudden ending of price control but we do recommend as to meat the termination of price control under a planned program by June 30 if possible and certainly not later than December 1, 1946.

Why this apparent inconsistency on our position? Price control on meat has completely broken down. Prices are dictated by the black market and not by the Government, and there is more inflation than there would be in a free market. People are paying enormous prices for meat.

The people are paying over $700,000,000 a year in subsidies to maintain the fiction of price control and countless additional millions are being paid by consumers in the form of black-market prices. Legitimate slaughterers are unable to obtain cattle in competition with the black market—may I pause there long enough to say that I feel on this point like a lawyer pleading for the life of his client because, gentlemen, I do not exaggerate when I say that many of these small packers today can not get cattle and they are closing down—with the result that in all parts of the United States slaughterers are closing down completely or drastically curtailing production, making it difficult for housewives to obtain beef in the usual channels.

This kind of price control is hurting all concerned. The Government is hurt by $700,000,000 spent to no purpose but to subsidize an
enormous and vicious black market. The consumers are hurt in a twofold way by extremely high black-market prices and by scarcity of beef in legitimate channels.

The meat packers are hurt and many are threatened with ruin because they cannot compete with the black market. Additional enforcement officers even at huge expense would not solve this problem because enforcement against the black market is as impossible as enforcing prohibition.

I appear here today on behalf of clients who are not only badly hurt but who are nearly desperate because of the Government's failure to control the black market. I shall not attempt to reply at length to the unkind reference by Mr. Bowles to the packers' lobby in Washington. I believe that this committee feels that my clients have the same right to appear here as Mr. Bowles has.

We do not appear here to use pressure on the committee but to tell the truth and to lay all the facts before this committee. It is not a contribution to the cause of democracy to discourage the presentation of the truth to committees of Congress, or to cast reflections upon those who do so. We gladly concede the right of Mr. Bowles to appear before you and argue for subsidies or for anything else he honestly believes is in the public interest, and I wish he would extend the same recognition to us when we appear on behalf of the independent packers.

There is no real shortage of meat today, but there is a tendency for the legitimate channels to dry up. I was told this morning by a highly competent man that in Cincinnati the beef production is down 50 percent.

The cattle population is enormous, the figure being 79,791,000 head on the ranges at the end of 1945. The slaughter in 1945 was also enormous, being over 34,000,000 head, or the equivalent of 11,500,000,000 pounds of beef and veal, enough to give every man, woman, and child 89 pounds. All that is needed is a removal of restrictions to let this enormous production reach the consumers through legitimate channels.

Subsidies are dangerous in principle from a democratic viewpoint because their very purpose is to transfer money from one group to another. If we pay $700,000,000 in subsidies in order to keep the price of meat down, we are requiring all the people to pay $700,000,000 in the form of taxes in order that purchasers of meat may save $700,000,000.

And since the consumers of meat are almost all taxpayers and since almost all taxpayers eat meat, it is a question whether we are not just fooling ourselves by taking money out of one pocket and putting it in another. That in itself would not do much harm if it were not for the fact that in the process we are supporting a vicious black market and threatening to bring ruin to a legitimate industry.

I want to say with a great deal of emphasis that my clients just cannot obtain cattle today in competition with the black market. One of our very able members made a check of the Fort Worth market for 7 days recently and actually counted and examined every scale ticket.

He found that 12,954 cattle were weighed, of which a total of 1,620 went to the legitimate packers who have customarily bought on that market and the balance of 11,334 disappeared into other channels. At
Chicago on March 19, Swift & Co. got only 37 out of 6,500 cattle sold on the Union Stock, and if they can get only 37 what chance does the small packer have if he is equally honest? At Oklahoma City last week the Wilson plant, according to the United Press, got only 150 head as compared with a normal 5,000. The legitimate channels are drying up.

We are faced today with the anomaly of abundant cattle on the ranges and adequate slaughter of beef but a drying up of legitimate channels with most serious consequences to legitimate slaughterers. The condition of which I complain is Nation-wide, and I have excerpted from letters and telegrams recently received, and not solicited, the following items:

San Antonio, Tex.:

Beef packers in this territory are in a tragic position and some relief must be forthcoming at once.

Oklahoma City, Okla.:

We have been forced to discontinue all beef slaughter except for sausage purposes and soon will have to close down our sausage room. Black-market operators and retail slaughterers are running wild.

Sioux City, Iowa:

Everyone out here * * * is out of compliance.

This comes from a large-order buyer on the Sioux City yards.

Memphis, Tenn.:

The beef business is in such a chaotic condition that I hardly know what to recommend in order to improve conditions. It really seems to me as though the bottom has dropped out of all price controls with reference to meat.

We also know that the black market is as bad if not worse than it was at any time during the war. The Office of Price Administration has proven ever since they have been in existence that they either could not or had no desire to correct that situation.

We have had to reduce our kill drastically the last several weeks due to our inability to buy live cattle at the ceiling * * *.

Central Tennessee:

This thing has certainly got in a mess and it does not look like our operators are going to be any better. We are losing money on cattle. As a matter of fact, we have practically discontinued buying cattle in an effort to try to stay in compliance. Hog receipts are beginning to drop off and with curtailed volume our overhead is going to be higher.

Southwest Illinois:

Because of market conditions at the East St. Louis stock yards, Strack Bros. find it impossible to purchase cattle within the limits as prescribed by Maximum Price Regulation 574, and therefore, have closed their plant and are rationing a small amount of inventory on hand among their customers.

Forty-five people have been thrown out of employment, and 350 meat markets are not receiving their normal requirements. The only slaughterer in our city, namely Weyhaup Bros. Packing Co., is also closed. The majority of independent slaughterers in this area which includes St. Louis and East St. Louis have likewise closed their plants. Only the large companies are delivering meat, but in small quantities. At the present there is an acute beef shortage.

Eastern Pennsylvania:

Back in March 1944 the beef situation became so bad that we could not operate profitably. Our beef business always inclined to the better grades of cattle and we could not recover our costs at ceilings. Furthermore at about that time we were stopped from fabricating our beef for the reason that we did not do this job in the base period, so after a negative showing in subsidy, and paying a
peace offering to the Office of Price Administration, we quit selling beef. It is impossible to buy bulls in any market to keep within the maximum permissible payment.

Eastern Pennsylvania:
For more than 2 years now we have been killing only three or four AA and A grade cattle only because of our inability to purchase this quality beef within compliance prices. Even at maximum or near maximum prices we are not able to show a profit. It is becoming increasingly more difficult to keep in compliance.

Eastern Missouri:
We will be forced to close our plant unless relief is given us because we cannot buy enough live cattle at prices in compliance with the Office of Price Administration live cattle regulation Maximum Price Regulation 574. There are about 16 other plants in our area that are shut down at the present time.

St. Louis area:
Lost $55,185 in first 11 months of 1945 on sales of $2,855,084.
This is from one of our finest members in St. Louis.

Ohio:
We have restricted our cattle slaughter this month to about 50 percent of capacity, thinking that we might be able to stay in compliance with a limited slaughter but it looks doubtful that even with this reduction that we will be in compliance. With hundreds of small packers operating on this limited basis in an effort to stay in compliance, the black market operator has a better opportunity to increase his operation, which in turn reflects directly on the cost of cattle. This in turn further restricts our operation which eventually will put every legitimate operator out of business.

We discontinued the killing of cattle for dressed beef effective February 8 and do not intend to resume operations until we can buy the cattle within compliance and sell them within the ceiling and realize some return on the thing.

Ohio:
Our figures indicate that we cannot any longer kill any types of cattle and remain in compliance. We have managed so far to regulate our live cattle purchases and stay at or under the Office of Price Administration ceilings, that is until the past week or so. In our case we are confronted with considerable aggressiveness on the part of nearby small slaughterers who pay no attention to any price ceilings.

Ohio River Valley:
Lost $47,210—10 months 1945 on $17,657,134.

Northern Ohio:
We have tried in every way to comply with these regulations and I wonder if everyone else has the same difficulty. When we find near the end of the month that we are high in our costs, we find it impossible to offset these costs when cheaper cattle cannot be found, so we are helpless to remedy the situation.

California:
Our losses have become intolerable. Last month a loss of $21,000 was incurred on slaughterhouse operation. We cannot stand these losses in legitimate business that must be supported by very risky and speculative livestock program. We would like to enter a bitter protest against the present Government program. We cannot stay in business with their present policy. Their present policy of relief is too little too late. Adequate relief must come now.

Maryland:
Last week, the three largest independent packers in our city were out of beef. It is upon these packers that the independent depend largely for their supplies. On the other hand, the chain stores who have bought out slaughtering plants
pay over the ceiling price of course losing the subsidy; sell at the retail ceiling price and still show a profit. They can get the livestock because of forfeiting their subsidy, they can pay over the ceiling price.

Texas:
All present at meeting in San Antonio felt they would be forced to close in 10 days—
because of failure to enforce Maximum Price Regulation 574.

Central Texas:
Discontinued beef and calf slaughter 3 months ago account not our duty feed general public at loss. Texas cattle costs outrageous against Midwest due high price and low yield. Insist change regulation enabling all legitimate slaughterers turn immediate mass production permitting business flow through legitimate channels instead black market.

West Texas:
* * * no control or order should be held on legitimate business any longer than is necessary; and, to continue these controls to the extent of putting legitimate businesses out of operation and in their stead condoning flourishing black markets is nothing short of criminal.

Alabama:
It is utterly impossible to obtain sufficient supply within maximum permissible and guarantee our employees 36 hours a week which is covered by our union contract. * * * We do not advocate discontinuance of controls, but we cannot continue operating under present circumstances.

Tennessee:
This thing has certainly gotten in a mess, and it does not look like our operations are going to be any better. We are losing money on cattle. As a matter of fact, we have practically discontinued buying cattle in an effort to try to stay in compliance. Hog receipts are beginning to drop off and with curtailed volume our overhead is going to be higher.

Indiana:
Beef operations are unprofitable, and if it were not for the fact that our customers should have some beef, even though only a very small percentage of what they need, we would discontinue slaughtering cattle altogether. It is unprofitable, and it is also impossible to keep in compliance.

Oklahoma:
I had to quit my cattle operations about a month ago, except that I have a few cattle yet in the feed lot, that I am killing out at the rate of four to five a week. Sold about 20 head this week, alive, for 13½ cents—cattle that, had I dressed them, would have had to sell at 15 cents a pound. And what cattle I am killing would bring 15 to 15½ alive easily. Yet when I dress them I get only 20 cents. There just is not any part of this program that makes sense to me, and truly, I am looking for just any kind of a straw to help me keep my head above water. * * *. I still have to make a living and I have not any more money to lose. Lost $1,500 in January on 161 cattle.

One of the sad parts of this story is that the legitimate slaughterers are losing their business not only to the black market but to retailers who legitimately go into the slaughtering business under Office of Price Administration regulations because it is only by using their retail margins that they can compete with the black market in the slaughter of beef.
In other words, they can afford to shrink some of their retail profit which the legitimate slaughterer cannot do because he has no retail
business. The whole industry is being disrupted and threatened with ruin by our shallow pretense at price control.

The Office of Price Administration keeps telling us that if we will be patient they will control the situation better. The fact is that their every attempt at enforcement has been a dismal failure. They can no more enforce their regulations than prohibition can be enforced. Meanwhile, our members suffer very seriously.

We acknowledge our dependence on the farmers. It is they who produce our meat animals. It looks to me as if farmers are in for some tough treatment caused by the fact that the prices on their live animals are fixed whereas wages go up and up and up. The shortage of animal feed will reduce the return to the farmers for the animals they raise because they will be of lighter weight. And what they cannot raise we cannot slaughter.

It is interesting to find agreement between such widely divergent commentators as John Steele, national commander of the American Legion; Edward A. O'Neal, president of American Farm Bureau Federation; Anna Lord Strauss, president of the National League of Women Voters; and the editorial columns of the New York Times on the proposition that price control should not extend beyond the time when goods cease to be scarce.

Meat today is in reasonably abundant supply, or would be if restrictive Government regulations were abolished. If a commodity is sufficiently abundant to make rationing unnecessary, there is no longer excuse for price control. Restrictive regulations impede production and interfere with reconversion. I warn you that unless restrictions are removed the farmers will produce less meat animals and meat will become more scarce, and you will further encourage the black market which thrives on scarcity. Why not give the farmers a break and give the black market a deathblow by ending the restrictive controls?

We hope that price control on meat and meat animals can be ended on June 30, 1946. If the committee considers this date too early we ask that the controls be ended contemporaneously with the seasonal upswing in production. The grass-fed beef animals will be coming along in volume by September 1 and hogs by December 1. We therefore ask that at the latest price control on beef and veal and on beef animals and calves be ended September 1, 1946, and on pork, hogs, and sausage on December 1, 1946.

It is a false idea that the ending of price control would cost the public more for meat. The chief inflationary factor today is the black market which would be killed if price control of meat were discontinued. Not only would the Government save $700,000,000 a year, but the people would save untold millions which are now being paid to the black market.

If I may interrupt myself at that point to quote a brief paragraph from the National Provisioner:

Price control? Where is price control? Do you find it in the sales rings across the country where legitimate packers must drop out when prices soar above compliance levels? Do you find it in the terminal markets where any buyers in the know garner the loads for the boys who can pay big? Do you find it in the coolers of the smart custom slaughterers, at the back doors of the locker plants, in the corner garage, where you pick up a half of a warm beef? Do you find it in the retail store around the corner, where the dealer hands the housewife a wrapped order and names the amount and treats her like the lowest form of insect life if she asks the price per pound?
This enormous subsidy of $700,000,000 a year does not save the consumer very much money.

This $700,000,000 a year subsidizes the meat bill of the American family to the extent of approximately $1 1/2 cents per pound on pork and about 41/2 cents per pound on beef.

The Department of Agriculture estimates that the civilian per capita consumption of meat in the United States in 1946 will be 150 pounds.

Now, that, gentlemen, is after taking out what the Army and UNRRA need. Will you mentally compare that 150 pounds net for the civilians with the 130 roughly prewar average.

Mr. Thorn. So that is the highest per capita consumption of meat in the history of the country.

Mr. La Roe. Yes; that is the highest. That would be the highest per capita consumption, and please get this point: That that very high per capita consumption is after you take out for UNRRA and the Army. So that there is no scarcity of meat.

This consumption is divided about evenly between beef and pork. It will be seen that the meat-subsidy program amounts to 75 pounds of pork times $1 1/2 cents, or $1.88 per person per year.

On beef the annual figure is 75 pounds of beef times 4 1/2 cents per pound, or $3.38 per year. In other words, this huge subsidy program is paying the general American consumer’s meat bill to the extent of less than $2 per year on pork products and less than $3.50 per year on beef products.

Added together, the taxpayers of America are paying the same amount on their meat bills.

These figures are based on the whole carcass and therefore as to hogs are not accurate unless allowance is made for lard which constitutes, roughly, 17 percent. An idea of the amount of the hog subsidy on the different cuts may be obtained from the actual $1.30 subsidy paid for the roll-back in pork prices which can easily be converted from $1.30 to $1.70. Based on the $1.30, the figures on typical cuts are as follows:

<table>
<thead>
<tr>
<th>Cents per pound</th>
<th>Cents per pound</th>
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</thead>
<tbody>
<tr>
<td>Shoulders</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Green hocks</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Smoked hocks</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Jowls</td>
<td>1/2</td>
</tr>
<tr>
<td>Spareribs</td>
<td>2</td>
</tr>
<tr>
<td>Pork loins</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Smoked hams</td>
<td>3 1/4</td>
</tr>
</tbody>
</table>

Now what damage are we doing in order to save the consumer 1 1/2 cents per day?

We are hurting the farmer by putting a ceiling on his prices while wages and other costs go up.

We are hurting the feeders because they are part of the legitimate channels which are not being used.

We are playing havoc with the stockyards, which are drying up.

We are bringing ruin to legitimate packers.

We are taking $700,000,000 from the taxpayers.

Gentlemen, that is an awful price to pay for price control which does not work.

The Office of Price Administration has never enforced the Barkley-Bates amendment in spite of two different attempts by Congress to
make the statute clear. The Government always succeeds in interpreting the statute in such a way as to leave a very substantial part of the industry operating without profit.

This is such an important matter that it is well to be specific about it. At the request of the Senate Small Business Committee the Office of Price Administration submitted its memorandum which was used as a basis for the making of meat prices.

In that memorandum appears the following sentence:

A return of 0.7 percent on sales represents the average base period return to the industry measured in terms of a percentage of net worth. However, to reduce the 28 percent of the sales volume in a loss position to approximately 19 percent, it is necessary that the average return on sales for the fiscal year 1946 be increased to approximately 1.5 percent.

I underscore that because they admit that 1 1/2 percent would leave 19 percent in a loss position and I am going to show you in a minute that they left more than that in a loss position.

This means the Office of Price Administration reached the conclusion that it was necessary for our industry to have a profit on sales of at least 1.5 percent, and that even this would cause approximately 19 percent of the industry to be in a loss position. The Office of Price Administration accordingly recommended the payment of subsidies which would yield to the industry 1.5 percent for the fiscal year 1945, but when their recommendation got up to the office of Mr. Snyder it was cut back to 1 percent which is the base actually employed in the making of our prices.

It necessarily follows that the number of slaughterers in a loss position greatly exceeds 19 percent and probably exceeds 25 percent and this is under a statute which provides that the profits must be reasonable. How can profits be reasonable when at least one-fourth of the industry is in a loss position? In fairness to the Office of Price Administration it should be said that an arrangement was made to bail out those who received less than 1 percent on sales, by the payment of special subsidies to them, but they were not entitled to that unless they had earned it before the war.

But I wish to point out that the Barkley-Bates amendment says nothing about a prewar base period. Much less does it say anything about using a very unfair base period as the Office of Price Administration has done.

I stress the fact that the 1.5 percent on the values of sales which the Office of Price Administration deemed both reasonable and necessary has not been granted to our industry but that it has been chiseled down to 1 percent.

Those figures, gentlemen, show the return in percent of sales for the years shown. Will you please pick out with your eye the first worst years in that table. Those are the 4 years which the Office of Price Administration used as our base.

Mr. Thom. Let me ask you why you do not use the capital stock of your companies—

Mr. La Roe. I beg your pardon.

Mr. Thom. Why is it not your practice to use the capital stock of your company to show earning? Why do you use sales instead?

Mr. La Roe. It has been customary in the Office of Price Administration and customary in our industry to use the percentage of return
that we make on the sales. I am going to show you in just a minute why we use that in comparison with other industries.

Meat packing industry net earnings as percent of sales—after taxes—

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933</td>
<td>1.4</td>
</tr>
<tr>
<td>1934</td>
<td>1.6</td>
</tr>
<tr>
<td>1935</td>
<td>1.3</td>
</tr>
<tr>
<td>1936</td>
<td>1.1</td>
</tr>
</tbody>
</table>

\[\text{Loss.}\]

The underscored years in the above table represent the base period employed in the making of our prices. I call attention to the fact that the year 1938 showed an actual loss for the industry instead of a profit. I also call attention to the fact that 1937 was a very subnormal year. Yet the Government has been so unfair as to use these two bad years as part of our 4-year base period.

It is an interesting fact, and I am sure the committee will be impressed by it, that in selecting our base period the Government chose the year 1938 which was the worst year shown in the table and the year 1937 which was the next worst and the year 1936 which was the next worst and the year 1939 which was the next worst as four typical years for our industry.

The use of those 4 years, together with the use of figures reported to the Department of Agriculture by nearly 600 slaughterers, produces a return of 1 percent on sales, whereas if they had used any other 4 years they would have gotten a more favorable result. But to make matters worse, they selected 59 firms and arrived at a figure of 0.7 percent which they claim to be the correct Barkley-Bates base.

The Government does not explain how it arrived at the original figure of 1.5 percent of sales, but I would like to compare it with the corresponding figures for other industries as shown by the following table:

<table>
<thead>
<tr>
<th>Industry:</th>
<th>8-year average 1937-44, percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum products</td>
<td>7.7</td>
</tr>
<tr>
<td>Chemical products</td>
<td>6.9</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>6.7</td>
</tr>
<tr>
<td>Agricultural implements</td>
<td>6.2</td>
</tr>
<tr>
<td>Paper products</td>
<td>5.8</td>
</tr>
<tr>
<td>Automobiles</td>
<td>5.6</td>
</tr>
<tr>
<td>Beverages</td>
<td>5.4</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>5.1</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>4.8</td>
</tr>
<tr>
<td>Food products (excluding meat)</td>
<td>4.3</td>
</tr>
<tr>
<td>Textiles</td>
<td>3.8</td>
</tr>
<tr>
<td>Meat price base suggested by the Office of Price Administration</td>
<td>1.5</td>
</tr>
<tr>
<td>Meat price base actually used</td>
<td>1.0</td>
</tr>
</tbody>
</table>

That table shows how much each industry takes out of the product for its net earnings and I call your attention to the favorable showing which meat makes.

By far the most important standard in both the original amendment to the Price Control Act and the Barkley-Bates amendment is the requirement for a reasonable profit margin for the processing of live animals. In the original amendment of 1942 it was expressed as a generally fair and equitable margin and in the Barkley-Bates amendment it was expressed as a reasonable profit on each species.
Congress could not have spoken more clearly than it did on the proposition of a reasonable profit margin for the processing of live animals. It said not a word about former peacetime profit margins, some of which were so inadequate that in several years there were actual deficits for the industry as a whole.

Instead of specifying a prewar standard of reasonableness, Congress simply issued a mandate that the profit margins should be generally fair and equitable and, in the later amendment, that they should be reasonable on each species. The reason for this later amendment was that the Office of Price Administration was taking the absurd position under the original amendment that there could be heavy losses on some species if they made it up on others, a proposition which Congress rather angrily repudiated, and justly so because several hundred beef people have no pork at all.

At the risk of repetition, the Office of Price Administration frankly admits that if our prices were made so as to yield 1.5 percent before taxes on sales, 19 percent of the industry would be in red ink. But prices have actually been made 33 1/3 percent lower than that, namely on a basis of 1 percent on sales before taxes, with the necessary result that far more than 19 percent of the industry would be operating in red ink if not rescued by the bail out. Now, this absurdly unfair result is caused by the use of a base period of 4 years in which 2 of the years were bad years.

Since two attempts by Congress to put teeth in the law have failed, we recommend a further amendment as follows:

*Provided, however, That in making prices on meat and meat products the net earnings for the industry as a whole and for the processing of each species of live animals shall not be less in relation to value of sales than in a typical period of four nondeficit years to be selected by the Secretary of Agriculture.*

Your big task is to decide whether price control on meat shall be continued. You cannot continue price control because there is no price control. The black market is running wild. An Office of Price Administration agent in Iowa who said in the public press on March 22 that the black market does not exist should be removed from office for incompetence. Let me assure you, at the risk of repetition, that the farmers do not want control continued because it is hurting them; the meat packers do not want it because it is threatening them with ruin; the consumers are not profiting by it because of an extensive black market. The only people who are profiting by it are the profiteers, and if you vote to extend price control on meat for another year, you are unconsciously voting to perpetuate the black market.

We would not be unwilling to have the controls, such as they are, gradually released between now and December 1 as to pork and between now and September 1 as to beef. To extend price control beyond that period would be extremely serious for the legitimate slaughterers for whom I speak.

There is just one other point, if the committee please, and that is, you will recall that one of the witnesses this morning complained that the Office of Price Administration had not called the advisory committee together, representing his industry. I would like to make the same complaint.
I get letters from members of the advisory committees to the effect that they have not been called for a year. Yet, Congress intended that the prices should be worked out in consultation with these industry advisory committees.

McKellar Amendment—Stabilization Act of October 2, 1942

*Provided further,* That in the fixing of maximum prices on products resulting from the processing of agricultural commodities, including livestock, a generally fair and equitable margin shall be allowed for such processing.

Barkley-Bates Amendment—Amendment to Stabilization Act of June 30, 1945

Section 3 of the Stabilization Act of 1942, as amended, is further amended by inserting at the end thereof the following:

"Provided further, That on and after the date of the enactment of this proviso, no maximum prices shall be established or maintained on products resulting from the processing of each species being separately considered, which, taken together, do not allow for a reasonable margin of profit to the processing industry as a group on each such species."

For your convenience I have attached, herein, copies of the Barkley-Bates and McKellar amendments.

I will be glad to answer any questions if I am able to answer them.

The Chairman. You want subsidies abolished and all price ceilings discontinued with reference to meat?

Mr. LaRoe. Yes; if the committee please, we ask that subsidies be removed as quickly as possible. They are doing a great deal of damage. They are the reason for the black market, mainly, and we ask that all price control be eliminated just as soon as the committee sees fit to do it, because we honestly feel that the public will be better protected with the black market wiped out and with the keen competition between several thousand slaughterers than they are now when they are so largely at the mercy of the black market.

The Chairman. Well, you would not advise that both of those measures be taken immediately, would you? The immediate abolition of subsidies and the immediate lifting of ceilings?

Mr. LaRoe. We have an alternative in here, since the pork will not be at top season until December 1, we ask a period of months in there with the relinquishment of price control on pork by December 1, but the beef will be coming along in August, and we hope that can be eliminated by September 1, at the latest.

The Chairman. What effect would that have upon the price of beef?

Mr. LaRoe. Our honest opinion—and we are very sincere in it—is that it would not increase the price of meat. The price of meat today is not the price that the Office of Price Administration publishes. The people are paying far in excess of that, and if you wipe out this black market, and get the product back into legitimate channels, with a couple of thousand slaughterers, or more than that, competing with each other, with the abundant supply that there is—if there were scarcity it would be different, but there is not a scarcity of meat.

The Chairman. Well, now, you say there is abundant supply. Is there adequate distribution? Does the supply of meat equal the demand?
Mr. LaRoe. Sir, there would be adequate distribution if it functioned through the normal channels. The picture today is, as you know, that the normal channel is forced to go out from the legitimate slaughterhouse and wholesalers and retailers and the store. But it is not going that way. It is going into the black market. It is going in ways that are difficult to follow and where the housewife cannot get her hands on it conveniently, and if she does, she pays very high prices for it.

The Chairman. Where do the black markets operate?

Mr. LaRoe. They operate almost everywhere in the United States. They operate in the garage, even in many retail stores, where meat is pulled from under the counter if you pay a little extra for it. It takes so many insidious forms that it is difficult to mention them.

The Chairman. Well, is it a rule that your butcher, whom you have patronized, will go into the black market? I have never seen any of that.

Mr. LaRoe. Well, in the first place, Mr. Chairman, the legitimate butcher is having difficulty getting his normal supply of beef and meat. He cannot satisfy his customers. My wife goes to the market to get a cut of beef, and she is told that she cannot get it because she has not dealt there more than 4 years. It is those who have dealt there more than 4 years who get the preference over her. The reason for that is that his normal and legitimate channels of supply, including the big packers, have dried up. They cannot get the supply through, because they cannot get the animals.

The Chairman. Do you mean that he prefers some customers over others? Or that he charges them outrageous prices because of their necessity.

Mr. LaRoe. I do not like to make black-market charges against retailers, because that would not be fair. Many of them are not only preferring customers, but charging more than retail prices as published by the Office of Price Administration.

The Chairman. And you think that is pretty general?

Mr. LaRoe. How can it be otherwise, when, on the Fort Worth market, which is a typical market, 12,000 cattle come into that market, and less than 2,000 of them can be obtained by the legitimate buyers customarily in that market?

The Chairman. Where do the others go? Can they not trace them?

Mr. LaRoe. I cannot answer that question. I know where they do not go. They do not go into the legitimate channels.

The Chairman. Will the stockyards not continue to sell to their regular patrons?

Mr. LaRoe. No; the stockyards are drying up, themselves. The stockyards are very hard hit, Mr. Chairman, terribly hard hit. The stockyards are not getting it, either. I think the stockyards are as hard hit as we are.

Locker plants are starting up all over the United States. You have got one of them right outside of Washington here, a big one. Those locker plants did not formerly exist. And those locker plants are now being filled with meat—I am told there are 6,000 of them in the United States. You ask me where the black market is. It is almost everywhere.
The Chairman. And a great many of those cattle do not clear through the stockyards; is that it? They are sold directly to the black market?

Mr. LaRoe. Even some of the cattle which go through the regular stockyards find their way to the black market; yes. Many of them do. And I am not sure that most of them do not. I want to say to you that in spite of legitimate stockyards drying up, as to their available supply, when my people go into the legitimate stockyards to buy, even there they find the stuff getting away from them into other channels. They cannot purchase in competition with black market prices.

The Chairman. Is that true of almost all the small packers in the country?

Mr. LaRoe. I could bring here scores and scores of witnesses to testify about the tragic situation confronting them. Instead of that, I have tried to conserve time by quoting from their letters to me. But I can bring them in, if the committee wants me to. You see, we do not fight price control; we do not fight the Office of Price Administration. The Office of Price Administration has had an awfully hard job to do, and we recognize it. But when we talk to them, they admit that it is out of their control. When we talk black market to them, they are frank and honest about it and say, "We cannot control it."

Now, you do not want to spend $700,000,000 for continuing a price control which the Office of Price Administration admits is not working.

The Chairman. You represent the smaller packers? You do not represent the big packers?

Mr. LaRoe. No; we do not represent the big packers.

The Chairman. How are they getting along; the big packers?

Mr. LaRoe. They are having almost as hard a time as we are, in finding a legitimate supply of cattle. They are trying to buy their cattle honestly, but the sources to which they go are dried up, just as our sources are.

How long are we going to finance a black market at the cost of $700,000,000 of Government money a year? With the people paying more for their meat in order to satisfy the black market? We do not oppose price control. We ask for an honest recognition of the fact that price control on meat has broken down. And with an abundant supply, it should be turned back as soon as possible, and by June 30, if possible, to private competition. There might be an upswing immediately in prices, but when you knock the black market out, normal competition will be restored, and when all these big packers start competing with the two or three thousand little packers, and more, and the competition is keen and direct, an abundant supply, you do not need to worry about black-market prices under those conditions.

The Chairman. Does that condition prevail, do you say, with reference to all livestock?

Mr. LaRoe. The black market is worse on beef than it is on hogs, quite a bit worse. But there is a black market in hogs also. Hogs are difficult to get in legitimate channels. I could tell a long story about how they go to the farm gate, where they did not formerly go, and bargain there for the animal, and pay something on the side. It would take the whole Russian Army to police it, and they could not do a good job of it.
You will knock all of that out if you will knock out price control on meat. I am pleading for the salvation of these small packers, because I want to tell you that they are desperate. A business of 50 years. It is no fun to build up a business for 50 years, and then have the black market wipe it out through some phoney type of price control.

The Chairman. Well, I realize you are interested in that, but do you not feel that if we do away with all these controls and subsidies immediately, ceilings and so on, that the price of meat will rise vertically and very high?

Mr. LaRoe. No; I do not. I think there would be a temporary rise in price, but with it, you will knock out the black market, and with the resumption of normal competition, it would not be long before prices settled down to a base where the total paid by the public for meat would not be as much as it is today on the black market.

The Chairman. What character of people are in the black market? Are they a new crowd, like the bootleggers in prohibition, or are they the same old thing?

Mr. LaRoe. There is every conceivable type. If we had time I could bring witnesses here to show you a new plant that has been built at a cost of a half million dollars, and is all paid for now. Every type of person is in the black market, from the big plant down to the fellow who slaughters under a tree along some brook. And there are plenty of trees in the United States, and quite a few brooks.

The Chairman. Mr. Folger.

Mr. Folger. Mr. LaRoe, in your opinion, would there be any black market if price control were taken off meat? Would there still be any black market?

Mr. LaRoe. No; taking off price control would take away the whole incentive for the black market, because the lifeblood of the black market is their ability to sell at prices higher than the established ceiling price, and they could not do that if there were no ceiling price.

Mr. Folger. Well, if that is true, would that not mean that prices, in the legitimate market, would rise precipitously?

Mr. LaRoe. No; it does not mean that at all. There are two reasons why the prices would not rise precipitously.

The first is that you have an abundant supply of meat. You have abundant competition. And in addition to that, you would knock out the black market, which is the chief cause of high prices today.

Mr. Folger. That is all, Mr. Chairman.

The Chairman. Mr. Gamble.

Mr. Gamble. Mr. LaRoe, if you wiped out controls, the increase in price would only be a temporary thing until the range cattle got into legitimate channels again, would it not?

Mr. LaRoe. Exactly so. I do not see how the prices could stay up after the meat flows back into the normal channels, and the abundant supply begins to be fed to the consumers, with intense competition. I do not know of any industry in the United States where the competition is keener.

I do not need to tell you, Mr. Gamble, that the competition between Swift and Armour is keen, between Armour and Cudahy is keen, between Cudahy and Wilson is keen. But in addition to all that competition, you have the competition of a couple of thousand or more
small independent slaughterers who are competing in every market with those big packers. It is a terrific competition, and you just cannot have anything like monopolist prices under those circumstances, unless you have a great scarcity, which you do not have.

Mr. Gamble. Well, the competition there is about as keen as any industry in the country, is it not?

Mr. LaRoe. It is extremely keen competition.

Mr. Gamble. Your price level, then, would average out, and is it not a fact that probably, in leveling out, it would be lower than the average price between Office of Price Administration prices and black-market prices that are being paid today?

Mr. LaRoe. I do not have the slightest doubt about that.

Mr. Gamble. Of course, some people do not come into the black market, but I know how prevalent it is up around metropolitan New York.

Mr. LaRoe. I want to be frank about that, Mr. Gamble. I could bring witnesses here from nearly every part of the United States, many of whom would testify that in their immediate territory the black market is more substantial than the legitimate market.

Mr. Gamble. And is it not more substantial, or is it not larger today than it was during the war?

Mr. LaRoe. It is worse than it was during the war.

Mr. Gamble. And is it not on an ascending scale?

Mr. LaRoe. Yes; I have to say yes to that.

Mr. Gamble. Did not Mr. Porter admit the other day out in Chicago or some place that the black market was pretty bad?

Mr. LaRoe. Yes, he did.

Mr. Gamble. And that they were going to do something about it?

Mr. LaRoe. The Office of Price Administration has been frank and honest about the black market, and about its worries concerning the black market, and about its inability to control the black market. If the Office of Price Administration admits that the black market is so bad that it cannot control it, why should I have to prove a black market? I can prove it, but I should think you would accept their admission.

Mr. Gamble. If we take controls off, we will get back to the law of supply and demand?

Mr. LaRoe. That is right.

Mr. Gamble. Just one other thing. Maybe you will not want to answer this entirely, but is not the quality down in the legitimate markets?

Mr. LaRoe. The quality is very definitely down; yes.

Mr. Gamble. And the quality is very definitely up in the black market?

Mr. LaRoe. Definitely so. In fact, I think—I am not sure of my facts—but I suspect that the black market specializes more in the better quality of meat.

Mr. Gamble. And they buy the better quality cattle and the legitimate man comes along and takes what is left, if he gets a chance.

Mr. LaRoe. That is right.

Mr. Gamble. That is all, Mr. Spence.

I am delighted to have Mr. LaRoe here to tell us about this.

The Chairman. Mr. Hays.

Mr. Hays. What percentage of total meat production is going into foreign markets?
Mr. LaRoe. I would estimate, today, between 20 and 22 percent. That is just a rough guess. You mean United Nations Relief and Rehabilitation Administration and so on?

Mr. Hays. Yes.

Mr. LaRoe. I would say that United Nations Relief and Rehabilitation Administration and the Army are taking today a little over 20 percent of the total supply. During the war the set-aside figures on certain grades got as high as 80 percent. In other words, what had to be set aside for the Government. But those figures have been cut down very substantially until now the figure averages more like 20 percent, and I think that a fifth is the best rough figure that you can use.

Mr. Hays. That is not likely to get any lesser, is it, with the meat for famine areas?

Mr. LaRoe. No. Please get this point clear: That after you get through taking care of your commitments abroad, after you give the 20 or 22 percent, or whatever it is, which has to be taken out of the normal supply for use abroad, you still have left, on the basis of 1946 figures, you still have left 150 pounds net for civilian consumption of pork and beef, as compared with around 130 pounds prior to the war. In other words, there has been such an increase in the production of meat, the farmers have done such a grand job producing the meat, that we can be liberal with the European countries, and still have more left for our civilian consumption than we had in a typical prewar period.

Under those facts, how can you say that there is scarcity in meat? And if there be no scarcity, what is the excuse for continued price control?

Mr. Hays. Well, some have urged, you know, that we should put on rationing again in order to increase the amount that goes abroad.

Mr. LaRoe. I have heard that suggestion made. I have heard that suggestion made, but I have also heard it repudiated by every Government official to whose attention it has been brought. The Government officials that I have read have all expressed themselves as feeling that, in view of the abundant supply, rationing will not be necessary. Total for the 1946 packer year, 23,400,000,000 pounds less 3,000,000,000 allotted to noncivilian use, Army and foreign relief. The supply is going to be abundant even after we take care of the foreigners.

Mr. Hays. And, of course, there is a big source of meat for the stricken areas in other countries, Argentina, Australia, and so on?

Mr. LaRoe. They do not depend solely on us.

Mr. Hays. That is all, Mr. Chairman.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. LaRoe, in the Eighth Congressional District of Michigan, at Chesney, Mich., is located an independent meat packer. Harley Peet is manager and principal owner. You know the firm very well.

Mr. LaRoe. Yes, sir.

Mr. Crawford. You know the character and integrity of the Peet Packer?

Mr. LaRoe. We have no better member than Harley Peet.

Mr. Crawford. Harley Peet, as you know, will close his plant completely before he will participate in black-market operations.

Mr. LaRoe. That is right.
Mr. Crawford. There is no question about that whatsoever. Now Harley Peet is unable to buy his usual run of meat animals at the present time. That is a fact, is it not?

Mr. LaRoe. That is a fact, too.

Mr. Crawford. Now, if he goes to St. Charles or Merrill or St. Johns or Breckenridge or Corunna, Mich., and appears in the cattle ring to purchase cattle, so long as he is determined to operate on a legitimate basis, he must buy his cattle within a certain price range as fixed by the Office of Price Administration. That is a fact, is it not?

Mr. LaRoe. Yes, sir.

Mr. Crawford. Now, if I, as a black-market operator, appear in that ring alongside of Harley Peet or his buyer, and I have in mind operating illegitimately, I can outbid him at those local markets, and take the hogs and sheep and cattle away?

Mr. LaRoe. And that is just what is happening, because his animals are getting away to others who pay higher prices.

Mr. Crawford. Yes, sir. Now, the thing which prevents him from obtaining the animals is the fact that he operates within the legitimate formula?

Mr. LaRoe. Because he is honest. Gentlemen, it is the honest man who is suffering today.

Mr. Crawford. And this $700,000,000 premium which you referred to, we are spending that money from the taxpayers' pocket to promote the illegitimate person who appears in those cattle rings or at those markets, and buys the live animal.

Mr. LaRoe. I know that you are not doing it intentionally, but you are using the Government money to support dishonest people in a trade that is viciously injuring legitimate packers, and the consumer.

Mr. Crawford. In almost every State in the Union, you have independent packers, in a similar situation to Peet Packing Company of Chesney, Mich.?

Mr. LaRoe. He is just a small example of a general condition.

Mr. Crawford. And you know that to be a fact?

Mr. LaRoe. I know that to be a fact.

Mr. Crawford. On page 3 of your statement you say, "At Chicago on March 19, Swift & Co. got only 37 out of 6,500 cattle sold on the Union Stockyard."

Mr. LaRoe. Yes.

Mr. Crawford. That is because Swift & Co. is trying to operate legitimately?

Mr. LaRoe. That is right.

Mr. Crawford. And they cannot bid, if they operate with any economic realism, cannot bid higher than the Office of Price Administration ceiling permits them to?

Mr. LaRoe. The honest people are out of the market.

Mr. Crawford. Suppose you and I operate a ranch in Irion County, Tex., represented by that distinguished son of Texas, Sam Russell, and we have a thousand or 1,500 or 3,000 head of cattle there on the ranch. Is there any means whereby, under the present controls, they can prevent truckers from coming to the gates of our ranches and buying cattle on the hoof, loading them on trucks, and taking them into the black market?
Mr. LAROE. I do not think there are enough enforcement officials in the United States to prevent those operations at the farm gate.

Mr. CRAWFORD. It is preposterous to even talk about controlling it, whether it applies to cattle on the hoof or hogs in the pen or chickens in the poultry house.

Mr. LAROE. What further proof do you need than that the enforcement has not been accomplished?

Mr. CRAWFORD. Now, those trucks, no matter where they are, can move from 75 to 300 miles overnight, and deliver their goods to one of these illegitimate packing plants, process the animals, and move them into the illegitimate black-market trade in the cities, can they not?

Mr. LAROE. That is right.

Mr. CRAWFORD. In your opinion, are they doing that very thing?

Mr. LAROE. They are doing that extensively.

Mr. CRAWFORD. And therein is some of the machinery of the black market?

Mr. LAROE. You have given one illustration only of the black market. But it is a very good illustration.

Mr. CRAWFORD. It is a practical thing, which we know is happening.

Mr. LAROE. That is right.

Mr. CRAWFORD. There is no question about it. You point out on page 3 of your statement also that the legitimate channels are drying up. And that drying up process is in part, as you have described here in answer to these questions.

That is all I have, Mr. Chairman.

Mr. GAMBLE. Do you need any more proof than when Swift and Wilson cannot buy in Chicago? There must be something wrong. They have been in business all their lives.

Mr. CRAWFORD. What do Swift & Co. operate their enterprises for, if it is not to slaughter animals and serve meats to the people of this country?

Mr. LAROE. Of course, Swift has the advantage that they can buy in numerous markets all over the United States, but I want to tell you Swift is having a tough time today finding beef animals, the same tough time we are having, because Swift buys honestly.

Mr. CRAWFORD. There is one other question I wanted to ask you. Perhaps you have answered it. You spoke of three billion pounds. What figure did you give?

Mr. LAROE. Yes; I read you that figure from this report. I will repeat that. Civilian meat consumption for the second half of 1946 packer year may be estimated at an annual rate of 20,400,000,000 pounds, or 148 pounds per capita; total for 1946 packer year, 23,400,000,000, less 3,000,000,000 allotted to noncivilian use, that is, Army and foreign relief.

Mr. CRAWFORD. That is the figure I had in mind. So far as you know, are we processing for export at the present time as much or more or less pork and beef than we did during the actual fighting?

Mr. LAROE. Oh, you mean if we count United Nations Relief and Rehabilitation Administration?

Mr. CRAWFORD. No. I am speaking now about export for foreign use outside of our own forces.
Mr. LaRoe. We estimate that the amount now being exported in total is about 30 percent less than it was during the war, but that is only a rough guess.

Mr. Crawford. That is the figure I want. That is all. Thank you, Mr. Chairman.

The Chairman. Thank you, Mr. LaRoe, we are glad to have your statement. I think one of the packing companies in my district is a member of your organization.

Mr. Talle. May I ask a question?

The Chairman. Mr. Talle.

Mr. Talle. Did you have an opportunity to read the editorial that appeared in the Washington Post this morning on the black-market situation?

Mr. LaRoe. Yes; I read that.

Mr. Talle. Are you familiar with a news item from Des Moines, Iowa?

Mr. LaRoe. To the effect that there is no black market?

Mr. Talle. Yes.

Mr. LaRoe. Yes. The man who made that statement certainly was not qualified, because the truth is just diametrically the opposite to what he said.

Mr. Talle. You have to read those two simultaneously to get the true picture. One more question. Do we have about 81,000,000 head of cattle now?

Mr. LaRoe. We have around 80,000,000 head, yes.

Mr. Talle. Is the proper number of head going into the feed lots for fattening?

Mr. LaRoe. No; I think the feed lots are being discouraged by the grain situation. The weight of cattle is going to be less, because of the feed situation.

Mr. Talle. That is all. Thank you.

Mr. Thom. Let me ask you a further question, please. You say in your statement here:

I warn you that unless restrictions are removed that farmers will produce less meat animals and beef will become more scarce, and you will further encourage the black market.

I just cannot follow that. Your testimony has been to the effect that there is more cattle than ever on the range, and that the per capita consumption is the highest in the history of the country despite the fact that we are shipping out great quantities for foreign consumption. Now, evidently the farmers have been producing more meat; is that not right?

Mr. LaRoe. That is true.

Mr. Thom. As long as the black market does what you say it does, goes out and buys from the farmer, how do you figure the farmer is going to quit producing?

Mr. LaRoe. I am not going to deny that if the regulations continue to be unenforced, if the black market is permitted to run wild and to grow, that the producers will continue to produce to the extent that they can under a limited feed situation, which is going to hit them very hard.

Mr. Thom. Well, they cannot produce without feed.
Mr. LaRoe. You are right, though, Mr. Congressman, that to the extent that the black market thrives, and it is not controlled, to that extent the farmer gets a higher price for his animal. That is to say, do not generalize there, either because it is the farmer who does not obey the law who gets the high price. The honest farmer—and there are lots of them—fortunately they are in the majority, the honest ones—they will not get the same advantage out of it that the dishonest farmer will get.

Mr. Thom. Here is another question. You say that we are consuming 148 pounds per capita, black market plus legitimate market, and yet there is a great demand for meat. Now, is it not a fact that that great demand is the basis of this trouble, and that so long as the people have the money, and the cattle are available, that they will pay any price they are asked to pay in order to secure it?

Mr. LaRoe. Well, we do not think you need worry too much about the demand, because the supply is going to be sufficient to take care of it on the basis of 150 pounds per capita. Before the war it was 130 pounds per capita. Right now this country is almost flooded with poultry so that it is difficult to sell. Every warehouse of the country, almost, is filled with poultry and they cannot get rid of it. Sausage is today in abundant supply in most of the cities, and with the increased cattle run coming along in August, and the increased hog run coming along in the late fall, you are going to have no shortage of meat. In other words, I admit that demand, but it will not be greater than the supply.

Mr. Thom. That is pretty hard to estimate, what that demand is, if it comes out in full.

Mr. LaRoe. That is right.

Mr. Thom. The cattle that are coming to market are coming from these so-called feeder lots; is that correct? Is that the chief source now of the cattle?

Mr. LaRoe. Of course, the feeder lots supply the best quality of cattle. It is the cattle that are well fed that come from the feeder lots.

Mr. Thom. I understand that the ranges do not market their cattle at this time of year.

Mr. LaRoe. That is generally true. This is not the range season.

Mr. Thom. This is the short season for meat?

Mr. LaRoe. That is right.

Mr. Thom. Am I right in assuming that cattle are now coming from the feeder lots?

Mr. LaRoe. That would be the natural assumption at this season of the year.

Mr. Thom. What is the population in the feeder lots for this year? I think those figures are collected by the Department of Agriculture.

Mr. LaRoe. I can get those figures for you. I do not have them now. I will be glad to supply them for the record.

Mr. Buffett. Mr. Chairman.

Mr. Brown. Mr. Buffett.

Mr. Buffett. I think the comment Herbert Hoover made to some of us about 3 years ago answers, in part, this great demand for meat. He said as a result of all these restrictions and regulations that everybody was eating their steak or bacon each day as though it was going
to be the last piece of meat they would ever get. That is pretty much
the kind of emotion that is governing the appetites of the people, is it not?

Mr. LaRoe. We are all human, and as long as we are, we like to try
to get that which we think we are forbidden.

Mr. Buffett. In the area where I come from, I think, although my
colleague from Iowa may dispute it, is about the largest cattle-feeding
area in the United States—Omaha, Nebr. The situation that prevails
at the moment is this: Generally you cannot buy protein or any other
cattle feed without paying black-market prices. That means the
farmer who gets proteins generally has to ignore the law. Then, when
he sells, again there is the temptation for him to sell to a black-market
operator because he has paid black-market prices before. That follows
all the way along the line to the retail store on the corner, where the
woman who wants to get meat, with a short supply, has to give the
meat-market man perhaps $5 every other week or maybe a pint of
whisky, or some other attractive bit of side merchandise. Do you
know of any more certain way of destroying the morality of the
American people and driving all honesty out of business than that
sort of thing?

Mr. LaRoe. I am sorry to say I do not. I feel a great deal of damage
has been done morally to the meat industry of this country. So much
so that the legitimate industry, as I speak here today, is trembling
between life and death because of a situation which they cannot control
and which the Government admits it cannot control.

Mr. Brown. Thank you, Mr. LaRoe.

Mr. Murchison will be our next witness.

STATEMENT OF DR. C. T. MURCHISON, PRESIDENT, COTTON
TEXTILE INSTITUTE

Mr. Murchison. My name is C. T. Murchison, president of the
Cotton Textile Institute, with headquarters in New York City.

I realize the hour is getting late, Mr. Chairman, so I will be very
brief.

Two years ago, after very careful study of the price problems of
the cotton-growing and cotton-textile industries, the Congress added
to the Price Control Act the Bankhead-Brown amendment. It was
our belief then, as I am sure it was the belief of the cotton farmers and
the Congress, that with this amendment the pricing problems of this
industry were solved; that the industry could proceed to direct all its
energies to production; and that never again, during the life of the
Office of Price Administration would it be necessary to make another
appearance before this committee.

That, however, proved not to be the case and the industry again
finds it necessary to appeal to Congress, through this committee, for
further help. The necessity for this appeal, we are confident, arises
not from any inadequacies inherent in the amendment as now written,
but rather to the failure of the Office of Price Administration to admin-
ister it in accordance with the intent of Congress.

The fundamental purpose of the amendment was to achieve two
objectives: (1) parity price for raw cotton and (2) an increased and
balanced production of cotton textiles—by balanced production I
mean a production which included the production of all essential
fabrics in the correct ratio—and particularly those most urgently needed for the civilian economy. There objectives were to be achieved by pricing separately all major items so as to include cotton costs at the landed mill parity equivalent, a weighted average of mill conversion costs, and a reasonable profit. In the year that followed the major part of the industry's production was so priced. I have reference there to the year immediately following June 30, 1944.

Now, on this point, the industry and the Office of Price Administration are in agreement. However, as we view it, it was not the purpose of the amendment to attain parity price as a maximum to be allowed in the determination of cotton-textile price ceilings. It has been our position that the objective of parity price as contemplated in the amendment was merely a minimum requirement. The Office of Price Administration has taken the position that the price of cotton exceeds parity and therefore that it is under no obligation to include the actual cost. It is on this issue that we make our presentation before this committee. The issue is an important one because it will influence both the production of textiles and the price of raw cotton.

When the act came before the Congress for renewal a year ago, the Administrator announced a new interpretation of the amendment. Briefly, he stated that he reserved the right to reduce ceiling prices whenever the actual cost of cotton was below the parity price and that adjustments in prices to meet new cost conditions would be made primarily in accordance with the industry earnings standard.

That is a standard which does not take into recognition the pricing of cotton goods item by item, but contemplates the over-all profit of the industry, without reference to the cost of any particular item.

After considering the Administrator's statement of policy with respect to the amendment, the committee made the following statement in its report:

The committee insists that the purpose of the amendment be effectively carried out in accordance with the intent of Congress at the time of its enactment. The committee does not desire its recommendation that the amendment be continued without change to be construed as indicating approval of any construction of the amendment which is inconsistent with its original purpose. From the history of the amendment and from its provisions, it is evident that its original purpose of assuring that ceiling prices on cotton-textile items do not prevent cotton producers from receiving parity will not be carried out unless the maximum price for each major cotton-textile item is fixed and maintained at not less than the sum of the following:

1. The cotton cost (which must be computed at not less than the landed mill parity equivalent for the grade and staple of cotton used; except that, after the initial adjustments required under the amendment have been made, the amendment does not require the continued use of a cotton cost figure which is, and for a representative period has been, above or below the actual cotton cost);  
2. A weighted average of mill conversion costs; and  
3. A reasonable profit.

The conference report of the two committees also studied the matter and in almost identical language reached the same conclusion:

The conference has given consideration to the operation of the Bankhead-Brown amendment to the Stabilization Act of 1942, relating to the pricing of cotton textiles. The conference is in agreement with the conclusion of the Senate and House committees, that the purpose of that amendment will not be carried out unless the maximum price for each major cotton textile item is fixed and maintained at not less than the sum of the following:

1. The cotton cost (which must be computed at not less than the landed mill parity equivalent for the grade and staple of cotton used; except that, after the initial adjustments required under the amendment have been made, the amend-
ment does not require the continued use of a cotton cost figure which is, and for a representative period has been, above or below the actual cotton cost;  
2. A weighted average of mill conversion costs; and  
3. A reasonable profit.

The conferees are advised that the Price Administrator has informed the chairman of the Senate Banking and Currency Committee that the policy which he intends to follow in administering the amendment will be in full accord with this opinion as to its requirements.

Accordingly, the intent of Congress with respect to the application of the amendment seems to us clear, but the Administrator has refused to take this view.

The Administrator's attitude toward the amendment has been shaped by the Office of Price Administration's estimate of the future course of raw cotton prices and when its estimates were proved wrong, by its efforts to influence their course. More than a year ago the Office of Price Administration stated that "at this stage of the war" there is little reason to anticipate a further rise in the cotton market, and on March 1 and 25, 1945, the Administrator advised the Senate committee that he would adjust prices downward if cotton prices failed to reach and maintain the parity level.

As the members of the committee know, since July 1945 the parity price of cotton increased from 22.70 cents to 24.07 cents—and I have reference there to the 15-16-inch Middling—and the actual price of cotton increased from 22.41 cents to 26.94 cents, which was the average of the 10 spot markets yesterday. At the same time conversion costs, due to higher wages and higher prices for mill supplies, also increased and total costs were pressing hard against the ceilings. It was for exactly this situation that the amendment was designed and, accordingly, several months ago the industry, through the appropriate advisory committee, appealed for price relief in accordance with the formula and the requirements of the amendment.

I might add there that the ceilings then in effect on cotton goods were those established and the parity price was at the filing of July 1945, since which time cotton has gone up approximately 4 cents a pound. That is above parity.

The administrator refused to recognize the applicability of the amendment to the new and, for him, unexpected situation. It is his position, from which he has not receded, that the use of the pricing standard laid down by the amendment is limited to the situation in which the market price of cotton is below or at parity, and that when the market price exceeds parity the applicable standard is the "industry earnings standard." He further stated that while he recognized "the necessity for a stable relationship between raw material costs and textile price ceilings * * * he is disturbed over the possible further impetus to speculative activity if a price increase were now granted on textiles."

It is rather a remarkable fact that the Office of Price Administration should undertake to use the manufacturing division of the industry as a brake on the behavior of the raw cotton market. The cotton mills, of course, are in the position where they have to pay whatever may be the market price for cotton. Whether that takes it above parity or not, and if the mills are not allowed a ceiling price on cotton goods which will cover the cost of the raw cotton, then it means that the mills are expected to bear the brunt of keeping down the cotton market.
Into the cotton market has come, during the past year a tremendous speculative element, which is tending to put prices up, and any effect upon the market which the mills could have would be produced only by deliberate reduction in the consumption of cotton, which, of course, is the last thing we want, not only from the point of view of the consumption of raw cotton, which we want to be as large as possible for the sake of the American farmers, but also from the point of view of cotton textile supplies, which are so essential now for the well-being of the American people, and which are in scarce supply, because unlike the cigarette people and meat people, we are unable to say that there is an adequate supply of textile supplies.

Since this statement was made the Office of Price Administration has granted some adjustments in textile prices in an effort to expand the production of urgently needed textiles, which are now in shorter supply than at any time during the war. In the price determination the Office of Price Administration expressly refused to allow the inclusion of actual cotton costs. It merely included the average price for the period February 18-26, based on May futures, minus 50 points, minus the customary cushion, minus the carrying charge, which all together make the difference of about 110 points in the customary treatment of cotton in the price computations.

This calculation is considerably less favorable than that allowed a year ago, when it added to the parity price a cushion of 25 points for fluctuations in parity and 35 points for carrying charges.

Under such pricing it is clear that the industry will not be able to achieve the production goals which both the Office of Price Administration and the Civilian Production Administration in joint meetings with the industry have stated are the bare minima required to meet the needs of this country and to permit it to make some contribution to the devastated countries of the world.

I might add there that the export set aside for United Nations Relief and Rehabilitation Administration and for other exports constitute approximately 10 percent of the industry's total production.

We will not make any prediction of the future course of cotton prices, but there is good reason to believe that the demand for cotton is fundamentally so strong that further increases in price are not unlikely. I might say that further substantial increases in prices, Mr. Chairman, are not unlikely. The demand for cotton for domestic consumption is, as all of you know, very high and exports since the end of the war have shown a remarkable increase.

It is estimated that the current exports for this crop year will be about three and a half million bales. The current crop is only about 9 million bales, just about equal to this year's domestic cotton consumption. Consequently, the visible supply of cotton in the United States is shrinking very rapidly, and by August 1, at the beginning of the new crop year, it is likely that the total carry-over will not exceed substantially seven and a half million bales, which is not very much in excess of the normal.

The cotton-textile industry is willing to pay for cotton whatever market price is required to bring forth the necessary production and it does not want its prices to be used to hold down the price of raw cotton and to restrict its consumption in this country.

Unless the prices of cotton textiles are responsive to our cost, the over-all production of textiles will decline, the impact will be heaviest...
on the low end fabrics, and the industry will be compelled to seek relief by shifting to more profitable lines, within the limits permitted by present production directives and plant flexibility.

In commenting upon that point, I might call the attention of the committee that only within the past 2 weeks the Office of Civilian Production Administration has seen fit to restore production directives on something like 40 percent of the industry's total production.

Accordingly, the only recommendation the cotton-textile industry desires to make to this committee is that the difference of opinion between it and the Office of Price Administration on the interpretation of the amendment be resolved by the following amendment to section 3 of the Stabilization Act of 1942:

Section 3 of the Stabilization Act of 1942, as amended, is amended by adding at the end thereof the following new paragraph:

"On and after the date of the enactment of this paragraph, it shall be unlawful to establish, or maintain, any maximum price for any commodity processed or manufactured in whole or substantial part from cotton or cotton yarn unless the maximum price for each major cotton textile item is fixed and maintained at not less than the sum of the following:

A. The cotton cost, delivered at mill (which must be computed at actual cost if the price of cotton is above parity and in any event at not less than the landed mill parity equivalent for the grade and staple of cotton used);

B. A weighted average of mill conversion costs; and

C. A reasonable profit."

That is a plea, Mr. Chairman, for a statutory confirmation of what we believe to be the law, what we believe to be the intent of Congress, over which a dispute has arisen with the Office of Price Administration.

In view of the current situation, in which the mills are not allowed actual cost of cotton, in the computation of price ceilings, the mills are put to great disadvantage in their production schedules, and in a position of very grave uncertainty regarding the future months when the industry does not know what the course of cotton prices will be.

The industry is one in which sales contracts for goods are made anywhere from 60 days to 9 months in advance. The industry is totally unable to know what its position is with respect to costs on its production schedules.

Mr. Brown. Thank you very much for your statement. I agree with you very much. I think that your suggested amendment cannot do anything except clarify the Bankhead-Brown amendment. There is no doubt about the interpretation of the Bankhead-Brown amendment. It speaks for itself. We had the formula. We put the formula here in the report and also in the Congress report, and I cannot understand why they are looking for other interpretations except that which was intended by Congress.

Of course, you people ought to be allowed your costs at the mills, and if you cannot do that, we are going to curb production. Anybody ought to know that. Why anybody cannot see it that way, I cannot understand.

Mr. Murchison. Those are exactly our views, Mr. Chairman.

Mr. Brown. Very well.

We have two other witnesses.

Mr. Murchison. I appreciate that fully, and I know that Mr. Blake is coming to speak on the subject.

Thank you.

Mr. Brown. Mr. Stephany is the next witness.
STATEMENT OF B. CHARLES STEPHANY, ON BEHALF OF NATIONAL ASSOCIATION OF RETAIL CLOTHIERS AND FURNISHERS

Mr. Stephany. Mr. Chairman, I represent an industry which, I believe, is a little closer to all of you than the ones you have been listening to here. It is clothing. We could all do without cigarettes; I believe; we could all do without meats, we could eat other things; but up to now there has been no substitute found for clothing.

I am B. Charles Stephany, of K. Katz & Son, Inc., of Baltimore, and I am appearing as a member of the board of directors of the National Association of Retail Clothiers and Furnishers, pinch hitting for our president, Mr. Myers, who unfortunately could not be here. Our trade is that of the men's independent specialty stores—the type that you gentlemen of the committee probably patronize for your clothing and haberdashery. There are 30,000 such stores in the country, predominantly small business, with the average having less than 4 employees.

On behalf of our trade, we are rather proud of our war record. Not only have our members contributed to and in many instances spearheaded the patriotic efforts such as the bond drives, but on the economic front we have fully performed. Despite reports to the contrary, men's outer clothing has been more stable in price than the great bulk of consumer goods. While we do not have figures, we are confident that the Office of Price Administration's Enforcement Division will report that our trade has complied with its rules and regulations to a remarkable degree—with few complaints, practically no injunctions, and rare instances of punitive action.

We urge prompt reenactment of the Price Control Act. With all its inherent and fundamental objections to control and regulation, nevertheless, our association is so fearful of what would happen, particularly to the small merchant if prices were uncontrolled, during this period when production is not keeping step with consumer demand.

If we are faced with the alternative of price control in its present form, or no price control after June 30, we would reluctantly say on behalf of our trade; “Renew the present act for a limited period of time.” Fortunately we have this opportunity, in our democracy, to appear here and point out some things that we think will make the act more effective and more workable.

Our board of directors meeting on January 16 adopted a series of eight resolutions on this subject, which I would like to read and briefly elaborate upon.

First, our association joins the administration in urging all possible steps to prevent and to curb inflation, recognizing that uncontrolled inflation would mean the death knell for many individual merchants on the Main Streets of America. This resolution was adopted because many of our members have written us, recalling to our minds, the write-down of inventories of 1920 and 1921, causing the bankruptcy of many small men's wear merchants.

Second, production is the major preventive of inflation and in our field it is particularly necessary so that we can perform our obligation to returning servicemen by supplying them with needed apparel.
Administration, and well known as the conqueror of Okinawa, writes us on March 18:

The critical shortage of civilian clothing for men has resulted in a severe impact upon the returning veteran. In many instances he has been unable to secure a job because he has not the proper clothing to wear in his civilian job.

Price control will not manufacture merchandise. In this especially critical situation it must not hinder or slow production and distribution as it has unfortunately done, in our field, in the past six critical months.

Third, we approve the strong and vigorous effort made by Mr. Chester A. Bowles to prevent price inflation and, as we have done in the past, we again pledge our full constructive cooperation. We agree with many of his principles, but call to his attention the fact that clothing is not a general term to be applied to all apparel—men's, women's, and children's—and that men's outer clothing has according to Government figures increased by 5.4 percent in price. We also suggest to Mr. Bowles that any inference classifying all trade associations with those who have urged immediate abolition of price control is improper. May I say that Mr. Bowles after receiving a copy of these resolutions wrote us a letter recognizing our position and I am pleased to insert into the record a copy of this letter.

Mr. Brown. That may be inserted at the end of your statement.

Mr. Stephany. Fourth, we are informed that unanimous opinion of manufacturers and reports in the trade press are that the maximum average price orders are retarding production as well as shipment of goods already produced. We therefore urge immediate steps to correct any Office of Price Administration order that retards production and deliveries. To elaborate upon this, may I call to your attention only one of the many horrible examples, that could be sighted—the one that has been given the most publicity—that very scarce commodity—the white shirt. Although some modification of the maximum average price has been made in regard to shirts, the available supply, up to now, is less than enough to fill the need from returning servicemen only. It is unfortunately correct that maximum average price while sound in theory, has contributed, in its practical application, to many shortages in the men's apparel field.

The maximum average price order should be done away with without further delay.

Fifth, we feel that price orders particularly in the industries where there has been but slight increase in price at consumer levels, and where shortages are very acute, should provide for necessary increased costs and permit incentive pricing orders to be issued immediately. Just this month, gentlemen, the Office of Price Administration has issued such orders for men's and boys' clothing and for cotton goods—sorely needed. These are tremendous steps in the right direction, and we have our fingers crossed hoping that goods will start to flow so that our returning servicemen can be served. After we have heard from one or two of our other members, I wish to say a few words about the order just referred to.

Sixth, we adopted and urged the principle that as costs of doing business increase for merchants, relief to the degree of such increased costs should be promptly provided for. We further urged that such absorption as may be necessary be equitably distributed at all levels
Mr. Bowles wrote us that he completely agrees with our position. Yet, recently, retailers who have historically sold the famous jockey shorts for 60 cents—even before the war—must now sell them for 55 cents. This is only one of many such items. But—rent, salaries, and other costs of doing business in our field, as in all other fields, have gone up. The act should make clear that price control should be applied only where prices have increased and then normal present-day costs of doing business should be recognized at all levels of manufacture and distribution.

Our seventh resolution has nothing to do with price control, but I want you to know our position on this important subject: Our association has for a long period urged its members to give preference to returning servicemen. We welcome the Office of Price Administration statement of policy, and in view of the acute shortages urge its adoption by all retail clothiers and furnishers. We particularly appreciate the Government statement which clearly shows that men's-wear merchants are the victims of conditions beyond their control.

And, finally—number eight—we urge all possible and immediate steps to increase production so that business may once again be on a competitive basis and price control will no longer be necessary.

Mr. Chairman and gentlemen, our association's position was arrived at after long debate and naturally represents compromises within our own group. There are those among us who favor the immediate abolishment of the Office of Price Administration, who sincerely feel that its continuance represents and invites shortages. There are others who are so enthused with what they believe has been accomplished by Mr. Bowles, Mr. Porter, and the Office of Price Administration that they want renewal for another full year without any amendments. I have presented our official position unanimously arrived at, but in order to be truly representative we have with us today several gentlemen who would like to present variations of our premise. May I introduce these gentlemen, who in turn will speak briefly? Thank you.

(Letter of Chester Bowles:)

Price Administrator Bowles Lauds NARCF Stand

Members of the board of directors of NARCF will be gratified at the prompt recognition given the recent resolutions adopted in the following letter from Chester Bowles:

Office of Price Administration,
Washington 25, D. C., January 24, 1946.

Mr. Louis Rothschild,
Executive Director, National Association of Retail Clothiers and Furnishers,
Washington 4, D. C.

Dear Mr. Rothschild: I have read with considerable interest the very carefully drawn resolution which you sent to me with your letter of January 19. The strong support you express for continued price control so long as it is necessary is most encouraging.

The distinction which you make between a technical meaning of the word "clothing" and the general conception of that word as it is understood by the layman is a point I already recognize. I believe the Collier's article made this distinction consistently, although the illustrations were perhaps unfortunate, in that they did give the impression that comments on clothing were directed primarily toward men's outer clothing.

If I understand the import of your suggestion with regard to cost absorption, I agree completely with it. It has always been my thesis that where cost absorption is necessary, it should be distributed equitably at all levels of industry.
extend price control and stabilization acts of 1942.

As you probably know, the manufacturers were the first to come in for cost absorption, and the principle became well established some time ago in connection with price control at the manufacturing level. More recently, as manufacturing costs in certain areas continued to rise, the point was reached where no further absorption was possible. At that point, an increase in manufacturers' prices became necessary, and this represented an increase in cost at the following levels. At that point, cost absorption became a very real question to levels of distribution which followed the manufacturing level.

Your comments about trade associations do not leave me in any disagreement. I am exceedingly grateful and thankful for the work of many trade associations which have been constructively trying to improve the price-control program. There have been some pressure groups, and these are by no means confined to trade associations alone, which have worked with equal diligence to destroy price control. I have, on occasion, spoken critically of these groups, but I do want to make it very clear that such criticism does not extend beyond those particular organizations.

In closing, let me say that I think it is a very encouraging sign to find such well-thought-out resolutions as those which your association sent to me.

Sincerely,

CHESTER BOWLES, Administrator.

May I call Mr. Henri A. Benoit, of A. H. Benoit & Co., Portland, Maine, who is also a member of our board of directors?

STATEMENT OF HENRI A. BENOT, DIRECTOR, NATIONAL ASSOCIATION OF RETAIL CLOTHIERS AND FURNISHERS

Mr. Benoit. Mr. Chairman, I have a prepared statement, which I will leave with the committee.

Mr. Brown. It will be inserted in the record.

Mr. Benoit. I will not read it at this time. I will simply point out a very few things and be very brief.

My name is Henri Benoit. The views that I express are the views of the men that are associated with me in A. H. Benoit & Co., as well as my own views.

We operate six men's stores in five Maine cities. Our headquarters are in Portland, Maine, and we have been in business for 55 years.

I think perhaps that I should be classed with the directors of our association who feel that a better job of curtailing inflation has been done this time, with price control, than was the case during the last war. I feel that with all its imperfections, the Office of Price Administration has accomplished its major objective of preventing runaway inflation, and, believing that the danger of inflation is greater now than ever, we, therefore, recommend a strong Office of Price Administration and recommend that the Office of Price Administration be continued.

I would like to point out that the directors of our association may not see eye to eye on every phase of the Office of Price Administration, but I would like to state positively that on all fundamentals, we do agree, as you have heard from the statements made by the previous gentleman, that we favor a strong Office of Price Administration; that we favor prompt action on the Office of Price Administration; and that the Office of Price Administration should be continued.

As I see the situation, there are three courses before the Congress, three courses of action: one, is the abolition of price control; two, the weakening of its structure so that it becomes price control in name only; and three, continuation of a strong price control during this period of shortages, while the danger of inflation is so great.
As I have said, the association is definitely pledged to the third course, continuation of a strong price control.

Now, what do we mean by the continuation of the Office of Price Administration? We are not being asked to subscribe to a principle of price control for the rest of our lives. It would appear, though, from what some of the opponents have to say, that we were deciding upon an economic theory which would govern our business from now on and forever. That is not so. All that is being asked of us, as I understand the situation, is for twelve short months, to receive the same basic rules for the conducting of our business that we used while the shooting was going on. That is about all there is to it.

And that would not be so bad. The rules we have been accustomed to have not hurt us very much as yet. I cannot help but recall conversations with some of my friends, and no doubt some of you gentlemen had the very same conversations at the very beginning of this war when we thought we would really have to make some sacrifices. We were not talking then about the profits that we would derive from our business. We were, rather, thinking about this: that if we were fortunate, after this total war, after waging and fighting this total war, if we were fortunate in winning, and to have any portion of our capital left, we would be very lucky. We felt it was not a matter of profits, but how much could we retain of our capital.

We all know what happened. It was nothing of the kind. I would simply like to say, most positively, that the results that we have had under these rules under which we have been operating our business have been profits beyond our fondest dreams.

The cost of living, as I understand it, has increased approximately 30 percent, 31 percent, 32 percent, 33 percent—I do not know the exact percentage—and that, compared with the increase of 108 percent during the last World war, is an improvement. But 30 percent or 31 or 32 percent increase in the cost of living is no mild inflation for millions of people in this country. Those people, many people, have to spend their entire incomes for the cost of living items. Some people would modify the Office of Price Administration to the extent that they would have it apply to food only. What would happen then to the balance of the cost of living items, the other 60 percent?

Food, as a matter of fact, represents about 40 percent of the cost of living; rent, 17 percent; clothing, 13 percent; house furnishings, 3 percent; fuel, ice, electricity, miscellaneous, somewhere around 27 percent.

Let us take that little item of house furnishings at 3 percent. It means a great deal more than 3 percent for returning veterans right now who would set up housekeeping for the first time. The same can be said about clothing for these returning veterans. It means very much more than 13 percent of their cost of living for the clothing they are required to purchase at this time.

There is no doubt that inflation would hit the veterans very much harder than it would the rest of us.

The real danger we see is the mortification of the Office of Price Administration with amendments which would render it price control in name only. We do not agree with the National Association of Manufacturers, but we must admit that they are honest about it to the extent that they are not saying, “Oh, yes; we believe in price control,”
and then move heaven and earth to pass an amendment that would strangle it and make the Office of Price Administration worthless.

I do not want to say that all amendments would render the Office of Price Administration worthless, but I do say that amendments are dangerous for a strong Office of Price Administration, and that they should be weighed very carefully and any amendment that is inflationary or that would weaken the Office of Price Administration should be thrown out.

The uncertainty of this question of whether or not the Office of Price Administration is going to be extended is bound to cause the delay of deliveries of merchandise. Who could blame a manufacturer for not breaking distribution records now, if, after June 30, we are not to have an Office of Price Administration, or if we are to have an Office of Price Administration which will allow more profits?

Early action will help the veterans get badly needed merchandise. The continuation of the Office of Price Administration will protect the veterans against inflation, against the runaway inflation, and we submit that he, more than anyone else, would be affected by inflation at this time.

We feel that the time has come for all of us to stop listening to pressure groups, whose spokesmen very often are the leaders of large concerns, financial giants, that can weather any storm. That is not the case with the merchant on Main Street. We cannot weather a boom and a bust.

On the present huge volume—for which we cannot take any credit—the retail business can net more under the present Office of Price Administration regulation than was the case before the war. But even if we could not net more profit, why could we not, for the next 12 months, continue to work and to produce, and to conduct our business with the same patriotic motives, with the same rules, that we had while the shooting was going on? This war will not be won, and the emergency will not be over, until there are no longer shortages of goods. When that day comes, lift controls, and let the law of supply and demand take over. We want a strong price control, and we would like to have price control extended, and the question settled as quickly as possible, without any unnecessary delays.

Mr. Brown. Thank you very much for your statement, Mr. Beloit.

(Statement of Mr. Beloit is as follows:)

STATEMENT MADE BEFORE HOUSE BANKING AND CURRENCY COMMITTEES BY HENRI A. BENoit, DIRECTOR OF NATIONAL ASSOCIATION OF RETAIL CLOTHIERS AND FURNISHERS, WASHINGTON, D. C., MARCH 26, 1946

My name is Henri A. Benoit. The views which I shall express represent the views of the men associated with me in A. H. Benoit & Co., as well as my own. We operate six men's stores in five Maine cities. The company has been in business 55 years.

As a director of National Association of Retail Clothiers and Furnishers I should be classed with those directors and members who believe that with price control a far better job has been accomplished in curbing inflation than was the case in the First World War without controls and that OPA with all its imperfections has accomplished its major objective, the prevention of a runaway inflation. Therefore we urge that a strong OPA be continued. (Greater danger of inflation this time.)

Like in all things, it is true that we directors do not see eye to eye on all phases of OPA. Nevertheless it is also true that the vast majority of us agree on the fundamentals of price control.
The statements made here today by our president, Mr. Meyers, prove this. He said:

"We urge prompt reenactment of the price control act."

"We are fearful of what would happen particularly to small merchants if prices during current shortages were uncontrolled."

"If we were faced with the alternative of price control in its present form or no price control, we would reluctantly say on behalf of our trade: ‘Renew the present act for a limited period of time.’"

Here again some of us would say this with less reluctance than others. The thing that counts is that the vast majority of us under those conditions would say renew the present act.

It is also significant that at the last meeting of our directors we unanimously adopted resolutions which again proved that we were in agreement on fundamentals. Mr. Meyers mentioned it today, but I would like to again call your attention to one statement contained in those resolutions:

"We approve the strong and vigorous efforts made by Mr. Chester A. Bowles to prevent price inflation and, as we have done in the past, we again pledge our full constructive cooperation."

I think that you will agree that these fundamental beliefs of our association are in sharp contrast with those of some of the business leaders of other groups. The National Association of Retail Clothiers and Furnishers has made an honest effort to correctly represent its members and I am proud to be one of its directors.

As I see it, there are three courses for Congress to take regarding the future of OPA:

1. The abolition of price control.
2. Weakening its structure so that it is price control in name only.
3. The continuation of a strong price control during this period of shortages, while the danger of inflation is so great.

The National Association of Retail Clothiers and Furnishers is definitely on record as favoring the third course.

Now when we or anyone else advocates the continuance of a strong OPA, what do we mean? Is anyone being asked to subscribe to the principles of price control for the rest of their lives? Of course not! The opponents of price control make it sound as if we were deciding upon an economic theory that would govern our business forever.

Let's get this thing straight.

All that is being asked of any of us is for a period of only twelve short months beyond June 30 to accept the same basic rules for the conduction of our business that we used while the shooting was going on; that’s all! What’s so difficult about that? These rules haven’t hurt us very much yet. Remember what we said when the war started? Words to the effect that “When this terrible war is over if we have left a portion of our capital, we’ll be very lucky.”

We all know what happened: profits beyond our wildest dreams.

Even if we lost money (and that won’t be necessary) from now until a year from next June, in doing whatever is required of us to balance supply and demand, the net profit balance would still be very much in our favor.

The greatest danger lies in the second course, weakening the structure of OPA by offering amendment after amendment to cut down the powers of OPA, so that we would have price control in name only. For example, there are some who would continue OPA but for food only. If this were done we would be in effect abandoning controls for the cost of living.

On the average, food represents 40 percent of our cost of living. What about the balance, the 60 percent?

Rent is 17 percent; clothing, 13 percent; house furnishings, 3 percent; fuel, ice, electricity, and miscellaneous other things make up the remaining 27 percent.

The small item of house furnishings of only 3 percent becomes very important to the returning veteran who at this point is setting up housekeeping as so many are trying to do. His problem is far different from yours and mine in this respect.

The same argument holds good in the matter of clothing for the returning veteran.

I am sure we can agree that with an increase of 108 percent in the cost of living after the First World War (with no controls) and only 30 percent increase this time (with controls) a better job has been done.

But, in spite of this improvement, for many the present increase of 30 percent means that their entire income must be used for cost-of-living items. In such
cases, to regulate food prices and allow other cost-of-living items to skyrocket would help very little. That kind of an OPA would not be received very kindly. We want price control that controls prices.

We don’t agree with National Association of Manufacturers who want all controls lifted immediately, but we must admit that they are honest about it. They are not saying we believe in price control and then try to strangle it with amendments. I don’t say that all amendments would render OPA worthless, but I do say that amendments are dangerous. Each should be tested very carefully and, if they weaken OPA, they should be thrown out.

First we urge you to give us a strong OPA and then we urge prompt congressional action on this issue of the extension of price and rent control.

Until it is definitely known that price control will be extended beyond June 30, deliveries of merchandise are likely to be delayed. Who could blame any manufacturer for not breaking distribution records now if after June 30 there is to be either no price control or a price control that will allow still greater profits.

As long as there is any uncertainty about the outcome of OPA, the amount of goods we will receive is bound to be affected. Because of shortages and the great necessity of supplying our returning veterans with much-needed apparel, we can’t urge you too strongly to settle the question quickly.

Early congressional action will help the veteran get the things he needs so badly and with less delay. The continuation of price control would protect him against runaway inflation and certainly if anyone needs to make the dollar go as far as possible, it is the veteran who is already finding it very difficult to obtain profitable employment.

It’s time for all of us to stop listening to pressure groups whose spokesmen are very often the representatives of big business, financial giants capable of riding out any storm. That’s not the case with the merchant on Main Street. We can’t stand a boom and a bust any better now than we did the last war.

On the present huge volume of business (for which we can take no credit) business can continue to net more profit under present OPA regulations than it was able to net before the war. But even if we have no profit for one year, why should we not continue to work, produce, and conduct our business with the same patriotic motive, with the same rules as we did while the shooting was going on?

The war will not be won and the emergency will not be over until there are no shortages of goods. When that day comes for any commodity, then lift the controls and let the law of supply and demand take over.

In the meantime we want price control that controls prices. We want price control extended as quickly as possible.

Mr. Brown. Mr. Mahon.

I want to say that Mr. Mahon was in Congress for a number of years, and is one of the finest gentlemen I have had the pleasure of knowing. He lives about 65 miles from my home town.

I have known him for many years and he knows his business, knows his trade. We are glad to hear from him.

STATEMENT OF G. HEYWARD MAHON, JR., OF GREENVILLE, S. C.

Mr. Mahon. Thank you. My name is G. Heyward Mahon, Jr., and I want to say on behalf of the members of the clothing industry that we appreciate the patience of this committee and the courtesy of you gentlemen remaining here until this late hour to hear what we have to say.

Before reading a very brief statement, part of which I will eliminate to conserve your time, I want to say that I am here for one reason and one reason only:

Not with any profit motive for my particular business, but because I am interested primarily in an effort to secure badly needed wearing apparel for millions of returning veterans who offered their all overseas for us.
At a meeting that I attended this morning, along with my colleagues here, a discussion was held as to what we could do, as retailers, to give priority on wearing apparel to veterans.

The consensus of opinion was that we could not give priority on what did not exist.

It would be taking the time needlessly of you gentlemen of the committee to tell you that there is and has been a scarcity of wearing apparel for men.

Mr. Chairman, you and I, and our friend, Mr. Riley, there, live in territory where they grow a lot of cotton, and spin and weave and finish a lot of cloth and make it into garments.

Probably we produce more cotton shirting than any section of the world. Yet there is not a store that I know of in America where a shirt of a standard brand could be bought by you or by any veteran this very afternoon.

I, in an effort to find out why, so that we could supply these veterans with what they need, as well as the civilians who are also badly in need of them, have asked manufacturers, outstanding upright American manufacturers, some of whom have been in business for almost a century, manufacturers of shirts, suits, pajamas, shorts, hats, and other things that men badly need, as to why there is a shortage, when we know that there is more raw material than at any time in our history, and the answer in every case has been “maximum average price.”

Now, gentlemen, I am not here this afternoon to either praise or bury the Office of Price Administration. I am here with some very definite suggestions.

If it is true that maximum average price is the reason for these shortages, I say let us throw maximum average price out the window. It seems to me that is a very simple thing to do, if you gentlemen in your wisdom and after investigation, find that that is the reason for the shortage.

Very briefly I will read this prepared statement. My home is in Greenville, S. C., where I serve as president and treasurer of a medium-sized retail store selling men's and boys' apparel.

I am a member of the board of directors of the National Association of Retail Clothiers and Furnishings.

As a former member of the House of Representatives, I can fully sympathize with you gentlemen in your efforts and desires to take such steps as are wisest and best to prevent inflation in these reconversion days. Unquestionably, the subject has been thoroughly covered during the various hours of hearings that you have held and, specifically, our part in the subject has been well covered here today.

Generally speaking, I agree with my colleagues who have already testified. Certainly, I agree that the men's apparel industry, especially at the retail level, has been among the best behaved of all industries during the war period and so far during the period of reconversion, yet I also believe that it has been kicked around as much as, or more than, any other industry.

For example, Mr. Chairman, you and I know that if we should start out today to buy a fur coat for our wives we would have to pay about double the price that fur coats were a year ago, and yet within the past month, the Office of Price Administration has forced retail...
men's apparel dealers to sell 65-cent shorts, that being the prewar price, at 47 cents per pair. It just does not make sense. We cannot lower prices. Honest people cannot, and pay more for wages, and more for rent, and more for the other things that go into the manufacture and distribution of these commodities.

It is not necessary for me to take your time to say that I am opposed to inflation. Practically everybody is, naturally. I think also that nearly everybody agrees that price controls are necessary and not objectionable in war times, but that in peacetimes, we should have free enterprise as soon as practicable and no controls except where absolutely necessary.

As State director of civilian defense, back in South Carolina during the early days of the war, it was my duty and my pleasure to set up the rationing boards on a voluntary basis and I preached cooperation in efforts against inflation all over the State. Certainly the results of the efforts to keep prices down during the war, as compared, for example, with World War I, were marvelous.

While I agree that the Office of Price Administration has done some fine things and while the whole plan of price control is fine in theory and while I agree that Mr. Bowles deserves a lot of praise for his determined efforts to hold the line, yet the matter of continuing this agency and considering the conditions under which it should be continued are too important to brush off without being a bit realistic and practical. So I take the liberty of giving you some purely personal observations.

The Office of Price Administration, has, from all appearances, unintentionally, of course, encouraged so-called black markets and these do flourish in many lines. The black market in the automobile industry is quite well known.

The regulations and restrictions of the Office of Price Administration have also operated, in many instances, in favor of new and fly-by-night manufacturers, and against old line, honest establishments. They have permitted new producers to get away with inferior products at higher prices, while choking off some of the leading firms of the Nation.

For example, I have seen men's shorts offered for sale at $1.75 per pair that were poorly made of what appeared to be practically cheese cloth, while shorts, when available, of excellent quality from reputable manufacturers were obliged to sell at 69 cents per pair.

I have seen men's shirts, of very poor material sold in the open market within the past few days at $3.98 each, while far better shirts have, because of the Office of Price Administration regulations, been necessarily held in warehouses of outstanding manufacturers. These shirts if released, could be sold and would be sold at lower prices than those referred to above.

The Office of Price Administration, has, largely through maximum average price regulation, greatly retarded production and distribution in the men's apparel field and in this connection has apparently been exceedingly hard-headed about listening to suggestions that could have been helpful, from manufacturers and retailers who had the welfare of the country at heart. Suddenly, this attitude changed when it appeared a few weeks ago that the Agency would not have its appropriation renewed for another year.
The Office of Price Administration has been very negligent, or to say the least, unforgivably slow in handling important correspondence. That may sound like a small matter but to me it is a very important matter.

Only last week our store received an answer to a very important letter written to the Office of Price Administration headquarters in Washington on last October 25, 5 months if you please, with no excuse or explanation or apology for the unreasonable and almost unbelievable delay.

While it has nothing to do with the clothing business, but does definitely have to do with the Office of Price Administration and is of extreme importance, I call your attention to a current matter in my home city.

The newspapers during last week carry accounts of the closing down of the retail meat markets, so far as the selling of beef is concerned, in all retail stores of one of our largest and best food chains.

The newspapers also carried accounts of the closing down of a large packing company in our city, so far as the slaughtering of beef is concerned.

Both organizations gave full credit to Office of Price Administration regulations, which make it necessary for them to slaughter beef at a loss, if at all. These organizations are not black-market operators, but on the contrary, two of the most outstanding, most liberal-minded and most civic-minded and most law-abiding organizations that I know anything about.

In passing, it is well to remind the committee that even though we all talk of preventing inflation, we already have it in many lines. We all read in the newspapers where haircuts in Chicago have gone up to, I believe, $1.25, while they were 40 cents in 1942. In my home town they recently advanced to 65 cents, while starting at 40 cents in 1942.

Our store has had its newspaper advertising rates increased approximately 25 percent within the past few months. Last week the company that compiles the city directory for our community, solicited advertising and the sale of a copy of the new directory from us at an increase in price of approximately 60 percent.

Women's fur coats, so I was advised yesterday, have doubled in price. I recently bought a corsage for my wife's birthday and it cost me $10. The same corsage in 1942 was priced at $3.

We are all familiar with the fact that many restaurants and hotels' dining rooms while in a sense maintaining ceiling prices, have at one time or another, cut out the serving of butter, cut out the sugar, cut down on portions and cut down on service, yet charges the same price for the meal.

Lining for men's suits has been as scarce as butter or sugar, perhaps more so, yet we could not deliver a suit of clothes without lining in it, at the same price. Buttons have been scarce, silk and nylon thread have been hard to get, yet we have not been permitted to deliver suits without buttons and have been obliged to use thread bought at any price in order to have practical garments.

In other words, almost everything that we buy or pay for, including, of course, labor is up, yet we have been obliged to maintain prices as of March 1942.
I know that fur coats and corsages are not cost-of-living items, but today in America, they are a mighty important part of living.

In a democracy, regulations should apply to all alike. It is, therefore, unfortunate that just a few lines of business are forced to operate according to definite regulations, sometimes very hurtful, while others are permitted to run wild. There is no use to cry over spilled milk, but I think that we can all see now how wise it would have been for the original Baruch plan, of the freezing of all prices and all services alike on a definite date in wartime and perhaps during the reconversion period to have been adopted.

Next time, and I hope there will be no next time so far as war is concerned, we will probably know better how to start.

Definitely, some of the regulations recently issued, that pertain to the men's-apparel industry, have been or will be very helpful. It is to be hoped that these will continue and that all cooperation will be given the manufacturers and distributors by the Office of Price Administration in getting needed merchandise to consumers, especially in getting needed apparel to returning servicemen.

I have read with interest a report of the Committee on Postwar Economic Policy and Planning. In making a recommendation concerning the Office of Price Administration, they state that they are choosing the lesser of two evils and that as between taking a chance on inflation and renewing the Office of Price Administration with its wings greatly clipped, or words to that effect, they chose the latter.

I agree in general with that, but I certainly hope that the Office of Price Administration will definitely be ordered to throw maximum average price out the window, and if I said nothing else I would want to emphasize that. We all know, although the Office of Price Administration did not seem to know it, that the best way to prevent inflation, is to have plenty of production. That is so basic that it seems almost foolish to put it down here, and yet it is extremely important. So, whatever we do with the Office of Price Administration, please insist that they encourage production and distribution in every way possible and let us get back to free enterprise as soon as that is possible.

In the final analysis and summarizing what I have said, it appears wise, perhaps, under all circumstances, to renew the Office of Price Administration for a limited time, probably not to exceed 6 months, certainly not a year, but definitely, with all unnecessary, unwise, and hurtful regulations, with particular reference to maximum average price definitely eliminated and not permitted to be renewed, with the distinct understanding that production of needed things will be encouraged, rather than hindered; and that no business organization at any level, any more than any laborer at any level, will be expected to operate at a loss or without a reasonable and honest profit.

Mr. Brown. Thank you very much, Mr. Mahon.

Mr. Stephany. Mr. Chairman, may I have 2 minutes more?

Mr. Brown. Yes.

STATEMENT OF B. CHARLES STEPHANY—Resumed

Mr. Stephany. We have made it very clear, I believe, that our association is in favor of price control as long as the production is so short of the demand but I do not know to what extent you gentlemen
have control over what the Office of Price Administration does, and how, but I wonder if you know of the recent order they have just gotten out.

Mr. Brown. You may place the order in the record. It will not be necessary to read it.

Mr. Stephany. No, I am not going to read it. I just wanted to mention an order that was just gotten out by the Office of Price Administration, which is greatly helpful, which controls small merchants, every tailor in the country, whom you gentlemen probably patronize, who does not over $20,000 a year, an 82-page item, which I defy any of those tailors to understand.

Mr. Talle. What was your inventory loss in 1920 and 1921? You mentioned that earlier?

Mr. Stephany. I am only quoting from memory, which you can well understand goes back 25 years, the business that I am connected with, if I remember correctly, in 1 year, took a write-down of $80,000 in our inventory.

That is from memory of 25 years back. You can take that for what it is worth.

Mr. Talle. You do not remember the percentage drop?

Mr. Stephany. I cannot remember that figure, sir.

Mr. Brown. All right, thank you very much Mr. Stephany.

The committee will adjourn to meet tomorrow morning, at 10 o'clock.

(Whereupon, at 6 p. m., the committee adjourned, to reconvene at 10 a. m., Wednesday, March 27, 1946.)
The committee reconvened at 10 a.m., Brent Spence (chairman), presiding.

The Chairman. The committee will be in order.

Our witness this morning is my fellow Kentuckian, Secretary Vinson, who has not only brought great honor upon himself, but his State also has acquired glory because of his achievements.

He is the chief big job holder not only of the United States, but so far as I know, of the world. He has added to his many other positions, since he last appeared here, that of governor of the International Banking Fund.

Mr. Secretary, it is always a pleasure to hear you. I understand you would like to continue your statement uninterrupted by until it is completed.

Secretary Vinson. Yes; I would like to have that for the sake of continuity.

The Chairman. All right, you may proceed.

STATEMENT OF FRED M. VINSON, SECRETARY OF THE TREASURY

Secretary Vinson. Mr. Chairman, and gentlemen of the committee, I certainly appreciate those kind words.

With regard to the monetary fund and the bank, I will have to accuse and convict the Congress and particularly this committee or the members on this committee for cooking up or helping to cook up those institutions and passing the legislation which brought them into being. Of course, we all feel that that work of the Congress was a real contribution.

I am always very pleased to appear before this able committee of the Congress. Before this committee comes some of the most important legislation considered by the Congress. I have ever found your work to be painstaking and thorough and all of the members of the committee have a high devotion to duty and honesty of purpose.

Of all the important subjects you are called upon to consider, none, in my judgment, outranks the prevention of inflation. The extension of the Stabilization Act, without crippling amendments, is the biggest single aspect of our battle against inflation. We won this battle year after year during the war, and I am confident that now we are not going to walk off the field and lose by default.
The battle against inflation was my direct assignment from our great President, Franklin D. Roosevelt, for nearly 2 years. Later in the Office of War Mobilization and Reconversion, I had a no less vital interest in economic stabilization while William H. Davis was the field general in the Office of Economic Stabilization.

At all times both of us had the courageous and able help of Chester Bowles, the Administrator of the Office of Price Administration. I should like to report also that Paul Porter was one of my assistants while I was in the Office of Economic Stabilization. He did a fine job for us there, and I have full confidence in his ability to administer with success the Office of Price Administration while Chester Bowles is carrying out the over-all program of economic stabilization.

We were all fortunate to be working under a law, for which this committee was largely responsible, that gave us full opportunity to accomplish the results that were desired and expected. We had a good team to administer the law. And my brief summary shows that the team, while having some changes, is still intact.

It is, I believe, a part of our common knowledge that war brings powerful inflationary pressures to bear on the economy. This is because a large proportion of the population is removed from its normal tasks of making goods and rendering services for the civilian population, and is placed, instead, in the business of making the goods and rendering the services of war.

The product of the persons in the armed forces and in the war industries is not of a type which can be sold to the civilian population; but the persons producing it continue to receive incomes, and these incomes will be spent, in large part, on the products of the persons still in the civilian industries. During war, all of the population is living on the product of only part of it.

An upward pressure on prices is inevitable, therefore, and can only be counteracted by vigorous measures on the part of the Government. In the case of the war which we have just finished, these upward pressures were the most powerful which have yet been generated in the American economy; but the American people, acting through their Government, combated them so vigorously that the rise in prices during the war which has just ended was less than in any previous major war in which the United States has been engaged.

I recall in the early days the irritations growing out of rationing and price controls, and I have always said, and I would not refrain from saying it here, that it was the good sense, the good judgment, of the American people, after they were informed of the need for controls, price controls and rationing, that made it work.

I realize that there are some who skip a little here and there, but by and large, it is the American people which makes any law work, and makes the clock tick—as far as our Government is concerned—their considered judgment governs the country.

For a considerable period during World War II, about half of the national product was going for war purposes. This compares with a maximum of only about one-fourth of the national product going for war purposes in World War I—and then for a much shorter period.

Yet, retail prices paid by consumers, as measured in each case, in World War I and World War II, by the index number of the Bureau of Labor Statistics, advanced only 31 percent between the outbreak of
the war in Europe in 1939 and VJ-day, as compared with a rise of 62 percent between the outbreak of the war in Europe in 1914 and Armistice Day.

What were the measures by which prices were thus held down during World War II? They may be grouped into three major classes: taxation; the stimulation of savings; and direct controls over prices, and the physical allocation of goods.

All three of these methods were applied also in World War I; yet prices rose much more, although in response to weaker pressures. Why, then, were we so much more successful in World War II?

In the first place, we applied all of the methods in a more vigorous fashion. This was made possible, in large part, because we started sooner. We took our first step toward the wartime level of taxation with the enactment of the first Revenue Act of 1940 in June 1940; we formed the Advisory Commission to the Council of National Defense in May 1940, and so commenced the organization of the allocation of goods on the physical level; we formed the Defense Savings Staff in March 1941, and so commenced the organization of war savings. In World War I, all of the corresponding steps were taken after we had entered the war.

As a consequence, in part, of starting earlier, we have achieved better results on the fiscal front in World War II. From July 1, 1940, about the beginning of the program of defense finance, to the present time, 44 percent of the expenditures of the Federal Government have been covered by taxation and other nonborrowing receipts. This compares with 33 percent for the World War I period beginning with the outbreak of the war in Europe and continuing to June 30, 1919.

The most important difference between World War I and World War II, however, is the difference in emphasis on the different types of controls. We learned a great deal from experience. In World War I, very little emphasis was placed on direct controls. There was no rationing at the retail level; and no public announcement of fixed prices, even of war goods, until September 1917. Furthermore, such price control and allocation as existed were removed almost immediately after the armistice.

The inflationary pressures generated by a war continue for some time after it has been concluded on the battle fronts. In World War I, retail prices rose 62 percent in the 52 months between the outbreak of the war in Europe in 1914 and Armistice Day. From Armistice Day until June 1920, retail prices rose another 46 points, making a total of 108 percent above the 1914 level. On the other hand, retail prices have risen only 0.5 percent between VJ-day and January 15, 1946.

The problem before us is to prevent a repetition of the experience after World War I. We can prevent it if we try; and one of the most important things to do is to extend the Stabilization Act with as little delay as possible.

The task ahead of us does not appear so difficult if we remember the work that we have done. During the fight against the armed enemy abroad and the insidious enemy of inflation at home, certainly we had our headaches and our heartaches.

There were shortages of raw materials. There were great transfers of manpower from peacetime pursuits to war production, and from...
the homes to the factories. There were kinks in the production line and in the transportation system. In large part we had to prepare for war after the battle had started. And we were fighting enemies who had prepared for years. Yet we overwhelmed the enemy with our armed might, had more than enough to live on at home, and kept our economy on even keel.

After the shooting stopped we had to change over again, this time from war to the pursuits of peace. Again we have had our problems. By and large, however, the job is done, and we can say it was well done.

Today we can be more optimistic about the future than ever before. But it would be pathetic if we muffed this grand opportunity. We must maintain our controls over inflation a little longer.

In view of the work I have had in the field of stabilization, I have, of course, a strong personal interest in the subject. Of much more importance, however, is the fact that as Secretary of the Treasury I have a vital official interest in the prevention of inflation.

Two of the most important subjects in the Treasury Department are taxes and the management of the public debt. Inflation, or its prevention, has a direct effect on both problems.

At present, we are traveling a sound and pleasant road. Our receipts are larger than the estimates made at the time of the President's budget message. In fact, our net receipts from July 1, 1945, through March 22, 1946, have been only 2 percent less than during the corresponding period of the previous fiscal year. Our revenues have been large because our national income has stayed at a high level.

Meanwhile, expenditures are smaller than the estimates made at the time of the budget message.

I might say that in 1944 the gross national product was $198,000,000,000; in 1945, the gross national product was $197,000,000,000, one billion less.

In fact, our expenditures in February were $3,500,000,000 against the high of $9,700,000,000 last June. This decline of nearly two-thirds in 8 months is because we have all made a wholehearted effort to leave the wartime basis and adopt the peacetime course. The two together mean that we are well on the way to a balanced budget. That has a novel sound, but it is a happy situation which I am glad to report to this committee, to the Congress, and to all the people of the country who have the same problem in their daily lives.

With our current expenditures much lower, the cash balance of the Treasury can be less. Chiefly by this means we have been able to make two substantial reductions in the public debt. That, too, has a novel sound. In fact, they are the first substantial reductions in 16 years.

In spite of this generally good situation, taxes must remain high and the burden of carrying the public debt is still significant. The raising of substantial revenues and the carrying of the public debt can both be done without undue burden to our economy. Can be done, that is, if our economy is maintained at a high level.

The only desirable, sound, long-term solution to the problems of revenue and debt management is high-level production, employment, and national income. With our economy in high gear the burden will be much lighter. The war has demonstrated that we have a $200,000,000,000 nation. Of course, it is worth much more than that, but
that is the figure of the gross national product, or near that figure, in both 1944 and 1945.

As Secretary of the Treasury, I want a sound and expensive economy. And on that point the prevention of inflation has its all important impact. We cannot have that stable, high-level economy with full production, full employment, and high national income, nor can we meet successfully our revenue and debt management problems, if we have the dislocation of all values and relationships throughout our economy that comes with a bad case of inflation.

We have built up a tremendous demand for most consumer goods. This demand is backed up by large savings. The amount of currency, bank deposits, and United States securities, owned by all nonbank investors has increased from about $82,000,000,000 at the end of 1939 to about $300,000,000,000 today. Our wants, fortified by these liquid reserves, can give us the impetus to begin a volume of peacetime production far greater than we have ever seen. Moreover, these savings can be the flywheel for our economy for a long time to come. This can give us the future that all Americans want. It can be the pleasant aftermath of war.

This result, however, is not an inevitable one, and I would like to emphasize that. We could quickly spend ourselves in the dissipation of spiralling prices and speculative markets. We have the heart and the mind to avoid this catastrophe. Let us have the fortitude and the wit to carry out the decision that we know is right. Our children would look back and consider it the most pathetic thing our generation ever did, if, after thwarting the inflation ogre all through the war, we gave up just before the job was finished.

Production to meet the demand, of course, is the final answer. Some quarters, taking advantage of the appeal of this end, have suggested that the removal of price controls is the best way to stimulate production and is therefore the best way to beat the inflation danger.

These people, consciously or unconsciously, overlook the needs of the interim period. Although we are well on our way of peacetime production, we cannot produce enough tomorrow or the next day to meet the demand that has accumulated over months. During that period, the removal of price control would be stimulating—stimulating in a fanciful, dizzy sort of way. In my judgment, there would be so much effort spent in beating the market, in buying and selling materials and inventories, in concentrating on the speculative gain, that we would find total production decreased rather than increased.

I, therefore, take issue with those who say that removal of price control will stimulate and increase production. This sounds like the 1946 version of the old argument that price control has stifled production.

In 1945, the war on one front closed early in May, there was considerable reconversion between VE-day and VJ-day and a lot of planning, so that we had a head start toward reconversion after VJ-day. Yet, we find that the gross national product, with VJ-day occurring in August is $197,000,000,000 in 1945, against $198,000,000,000 in the full war year 1944. I think that industry has performed a wonderful work, in reconverting as quickly as it has, and it just did not happen by chance. The industrial leaders were thinking about reconversion for months prior to VE-day. They did not
retard their production before VE-day, but they had planned, they were working toward the time when they could get back into the production of civilian goods, and when VE-day came, there were tremendous cut-backs, billions of dollars of war production stopped. You might have a factory that was producing products for war in one part of it, and reconverting for peace in the other part, and when VJ-day came—and in that period between VE-day and VJ-day—even though some folks talked about vast numbers of unemployed, the reconversion was smooth, and you did not have that large unemployment. VJ-day came and folks made a bad guess about what the unemployment situation would be, say, at about this time. My notion about it is that the planning and preparation permitted industry to really go into reconversion in earnest, more quickly, after VJ-day, than some folks thought possible.

In my judgment, price control did not stifle production during the war and in spite of the obstacles we have had, the expansion of peacetime production in the period since VJ-day as a whole has been more rapid than in any other period of our history.

Take the farm front. We had price control and we broke record after record. The American farmer and the American people, hampereled and handicapped as they were with old machinery and scarcity of labor on the farm, went forward with the spirit of America and broke production records and made a real contribution not only to the winning of the war, but to our standard of living, our living conditions here during the war.

The present physical level of production in the whole economy is now above the average of the year 1941, despite the tremendous problems which have been presented to industry in the past year by the change-over from a wartime to a peacetime demand. When the pipe lines are full, most types of consumers’ goods will be on the market in volume, but the extension of the Stabilization Act is necessary to hold the line until supply once more matches demand.

When we are served up tempting departures from our present program, let us remember that the record under price control is remarkably good. Please do not think for a minute that I do not know that mistakes have been made and that I do not know that there were hardship cases, but I say when you take it on the whole, with our complex economy, that the record, I repeat, is remarkably good.

Let us recall that after November 11, 1918, prices continued to increase rapidly until June 1920 when they reached a point double what they were at the start of the war. Then came the crash. This time prices have been relatively stable since the end of the war. We are in a good position to avoid an insecure boom followed by a terrible collapse. Let us not undo what we have done. I fully endorse the extension of the Stabilization Act.

The CHAIRMAN. Mr. Secretary, you advocate the balancing of the budget and the continuation of high taxes which are essential to control the reservoirs of credit, and in order to fight inflation. But that is the long-range program. Is there any other way to combat high prices except by the continuation of price controls and the Stabilization Act, for the immediate consumers?

Secretary VINSON. I think the taxes enter into the fight, Mr. Chairman. The question of the amount of money available. But, of course, the control of prices is the major weapon in the fight.
The Chairman. We have heard, in the last two weeks many complaints, and they all go to the administration of this law. I think many of those complaints were just. I think there were many hardship cases. Many of the witnesses advocated amendments to the law to meet the peculiar problems of their particular industry. How far do you think we ought to go in amending the law in order to see that the administration is carried out in conformity with the wishes of Congress?

Secretary Vinson. Frankly, Mr. Chairman, I have not been able to follow in detail suggested amendments. I am not in position to know just precisely what each would do. I have no doubt that in most instances they are presented with a sincere purpose to meet a particular situation, but I have said before this committee, and I can repeat today, that I think it was a remarkable job, the drafting and the passage of the Stabilization Act. You have plenty of flexibility in the language which you gentlemen wrote.

Upon former occasions, when certain amendments were offered, I stated that we had the power under the act to do the job and if the job was not done it was the fault of the administration. You have the power under the act to meet many hardship cases, and many hardship cases were met.

What is the fundamental basis of the law? It proceeds on the idea that a fair and equitable margin will be provided. Now, I know that there may be a difference of opinion, as to what is a fair and equitable margin, but under the law Congress has provided for what they considered to be and what I considered to be fair and equitable treatment in regard to the period of war, and the conditions and circumstances are such today that it is just as imperative to continue those controls as it was during the war.

It all boils down to a question of fair administration, because I know that you gentlemen are saturated with the thought that such a law as this has to be administered by the folks entrusted to administer it, rather than by the Congress of the United States.

The Chairman. I think you are perfectly right, and I think that practically all of the complaints that we have had here could be remedied by administration, and it seems to me that it is exceedingly difficult to write anything into the law except general principles and directions as to what should be done under those general principles.

I do not see how we can comply with all of the requests that were made as to amendments. We will consider them, but I think if the law is administered properly, it would obviate all of their complaints.

For how long do you think the act should be continued?

Secretary Vinson. Well, I would like to see it extended for a year, at least. And when the conditions arise the controls can be removed. Certainly the administration has demonstrated its desire and purpose to keep faith with the Congress and the American people in the removal of controls, and I think in some instances moved too quickly. I want to say that the reason why they moved too quickly was because they wanted to demonstrate good faith to the Congress and the people that they did not want controls just for control's sake.

The Chairman. Do you think that the controls should be removed when the supply reaches substantial balance with demand?
Secretary Vinson. I would say that if supply were in balance with demand, controls could well be taken off. Controls should be taken off. But it is a very difficult problem to work, and I think you should know that the supply was equal to the demand. You have had several specific instances, I know, which have been called to your attention, with regard to the taking off of ceiling prices; and what happened? They had to go back and take different action. I am sure you know the story about oranges. I do not know it in exact detail, but I know that it was thought, evidently, that supply was of sufficient quantity, compared with the demand, to allow taking the ceiling prices off oranges. And the price went up considerably. I do not know just exactly how far, but I have heard it said they went up a hundred percent. I am not stating that myself because that is second-hand information.

But, at any rate, they had to place the ceilings back on. I think it should always be kept in mind, and I think many people forget, that a ceiling price is not a floor. If you have a supply in such abundance that it equals demand, or is in excess of the demand, the price will go below ceiling.

I have always been interested in the coconut story. The way I got the story, they were considering taking the ceiling prices off coconuts. I did not hear the arguments, I did not have anything to do with it. They said, “Well, now, the value of coconuts imported into this country is X dollars. That is just a small amount, it will not affect the cost of living materially.” I do not know whether it is in the index or not. “We will just take the ceiling price off.” Well, while they had one eye, or both eyes, closed, they took the ceiling price off. As I heard the story, coconuts were selling for a ceiling price of $61 a thousand. And in about 3 weeks or so they jumped to $252 a thousand. Wright Patman can probably check me, or some of the rest of you gentlemen can, on the figures.

Mr. Patman. To be exact, they were selling for 1.6 cents each. They kept going up to either 51.50 or 61.50, when the Office of Price Administration placed a ceiling price on it. And then the Office of Price Administration was persuaded to take the ceiling price off because it was an imported article, and the quantity was negligible and the price was taken off, and almost overnight they went up to $252 per thousand.

Mr. Kunkel. Do you mean they went up to $1.50 a coconut?

Mr. Patman. They went up to 5.1 each from 1.6 cents each. Then they put the ceiling on them. They took the ceiling off and they went to 25.2 cents each.

Secretary Vinson. That would be $51 a thousand as against $252 a thousand.

Mr. Patman. That is right.

Secretary Vinson. Now, I realize, gentlemen, what the Members of Congress are up against. I just know, and I know that when the people get a wrong idea about a thing, they can be as irritated as if they were right. I understand that perfectly well. But what many people will forget is that prices, prewar prices, have gone up under price control considerably. Coconuts, of course, went up nearly four times the prewar value even under price control.

But take your basic agricultural commodities, in re parity, and you will see that there has been a very considerable increase above prewar price levels.
The Chairman. Is there not another element that enters into the supply and demand, and that is the element of distribution? There might be an adequate supply, but if it is not properly distributed, the supply would not meet the demands of the people.

Secretary Vinson. That would be true of a particular area, if the goods did not reach that area. And that is a big problem. There is no question about that.

The Chairman. There has been a good deal of testimony here to the effect that if you set the date for the discontinuance of price control, before that arrives there will be a period of disintegration and weakening of the agency, because of the loss of personnel, because of people keeping their inventories on their shelves in order to dispose of them after the elimination of price control. What is your opinion on that? Is that not a cogent reason why we should continue it for at least a year, because if we continue it until next June, the period of disintegration will probably start in March of next year, and will weaken the agency so that it will be ineffective towards the end of the year.

Secretary Vinson. My notion about that is this: if you continue it for a year, you have almost one more full year of expanded production, and I think you would be in a much better position at that time. It may be that before the end of the year, you could have changes in the controls, by the administrative process. But I just know, or, at least, it is my considered judgment, that there is no one around Washington who wants to keep controls on just for control's sake.

I know how happy I was to see certain things done, when I was on that front, and I know that I had that in mind when I came before the tax committees in regard to the repeal of the excess-profits tax. I had in mind the question of the removal of that control to aid in increased production, to aid in the reconversion period, and I believe that it helped materially.

The Chairman. I am sure the people generally agree with you on that point.

Secretary Vinson. Now, in regard to the question of hoarding of inventories, I have what is possibly a little different view from that held by some people. I know it is easy to start a rumor that inventories would be hoarded. There would be a natural impulse on the part of some to hold up sales for higher prices, and, of course, toward the end of the Stabilization Act, why, that incentive might be greater. But during the war I used to get stories that they were hoarding—work shirts, for example, at one time. We were very, very short of work shirts. I immediately put some men investigating the hoarding of that particular item of inventory, and the report came back to me that the rumor was not correct.

You will have some. I have no doubt about that. But when you take people who really are making goods in large quantities, nationally advertised brands, I believe that they do not want their good will interfered with, and that that kind of people will not act in an unseemly way.

The Chairman. Thank you for your very excellent statement, Mr. Secretary. This committee is always glad to have your views on all subjects. Thank you, sir.

Secretary Vinson. Thank you, sir.

The Chairman. Mr. Brown.
Mr. Brown. Mr. Secretary, I want to congratulate you on your splendid statement, for the retention of price control on articles and commodities which are in scarce supply, as shown by your experience and by your observation. I agree with the chairman that it is very difficult—almost impossible—for us to write sufficient amendments into this bill to satisfy all complaints. I think amendments submitted should be of a general nature, but I want to add one thing. It might be necessary to have clarifying amendments. It might be necessary to clarify the intention of Congress, where the Administrator gives a different interpretation, I think we ought to be frank and spell out the intention of Congress in amendments.

I noticed on page 5, paragraph 3, of your statement, this language:

With our economy in high gear, the burden will be much lighter. The war has demonstrated that we had been able to produce a gross national product of $200,000,000,000.

Do you mean that the yearly production of this country amounts to $200,000,000,000?

Secretary Vinson. The gross national product, in 1944, was $230,000,000,000—$198,000,000,000, to be exact—and in 1945, it was $197,000,000,000. That is the gross national product. The gross national product this year will not approximate those figures. But I just used this figure to demonstrate that we had been able to produce a gross national product of $200,000,000,000.

Mr. Brown. I want to congratulate you also for saying that when production equals demand, controls should be taken off. I know of no man who has his finger on the pulse of the people more than you.

Secretary Vinson. Thank you.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Secretary, on this point that Mr. Brown mentioned in his last question, and which I think the Chairman raised earlier, in your statement on page 6, where you say:

But the extension of the Stabilization Act is necessary to hold the line until supply once more matches demand.

In your reply to the Chairman and to Mr. Brown, do you mean to say that you are in favor of removing these controls, area by area, as supply matches demand?

Secretary Vinson. I do not know that I just understand exactly what you mean by "area by area." Let us take citrus fruits as an example. You would have an oversupply in the area close around the production area.

Mr. Crawford. Do not let me confuse you. I mean an economic area. Industry-wide areas.

Secretary Vinson. And what is your question?

Mr. Crawford. My question is—and this was so completely analyzed for us yesterday afternoon by Mr. Clay Williams, chairman of the board for the Reynolds Tobacco Co., wherein he went back and quoted from the record time and again how Mr. Bowles and others of the administration had gone on record to the effect of the desire to remove these price controls when supply reached balance with demand. It is all a matter of record. Now, the question I ask you is this—and I do this because of the interrogation of the chairman, and also Mr. Brown—are you in favor of removing these controls on the part of the Office of Price Administration, when the supply of an important basic
commodity comes into balance with demand, whether it will be steel, automobiles, petroleum products, or capital machine tools, machines, or any other economic area to which we might refer? Or do you take the position that these controls are to be maintained over all of our economy by the Office of Price Administration, as long as the Stabilization Act and the Price Control Act are in existence?

Secretary Vinson. Well, my position is the former, the first part of your statement.

Mr. Crawford. To remove the controls, we will say, economic area by economic area, or industry by industry, or basic commodity by basic commodity.

Secretary Vinson. Yes, sir. Of course, the main problem to solve there is whether or not actually the supply is equal to or in excess of the demand. Claim may be made that that condition exists when possibly it does not.

Mr. Crawford. Of course, all of us who were friendly to that approach assumed that there would have to be a satisfactory formula bringing forth a determination as to whether or not we had attained that objective.

Secretary Vinson. You might have this situation: Take food, for instance. You have two commodities that, we will say, can be substituted one for the other. You might have a very scarce supply of one. Your supply of the other might be equal to the demand. But when you take the total of the two, the supply does not equal demand. I think in a case of that kind it might be well to go slow, or not remove the controls from the one that equals or maybe is slightly over, because the demand for the two is such that if you did, prices could very well go up.

Mr. Crawford. If you did not go slowly, you would defeat your purpose?

Secretary Vinson. That is right.

Mr. Crawford. Now, I would like for Mr. Patman to complete the record on coconuts, because that has been referred to, and it has been referred to so much in the press and by radio commentators, as well as on the matter of oranges. And I would like to ask you or Mr. Patman if you know whether or not the control on oranges—and the only reason I emphasize this is because you have emphasized it and others have constantly—was the control on oranges removed about the time the crop was about to become exhausted, or at about the time the new crop was coming into the market in full force?

Secretary Vinson. It was my understanding—and I will let Mr. Patman put it in the record, or I can get a historic recitation of the facts for the record—but it was my understanding that it was about the time that the new crop which looked pretty big was coming onto the market. But, frankly—

Mr. Crawford. Well, I do not want to press you on that. I simply want to get into the record here that the story has not been told on oranges.

Mr. Patman. I have it on coconuts and I will be glad to insert it, Mr. Crawford.

Secretary Vinson. I will be very happy to get the orange story presented by the Office of Price Administration and filed for the record.
Beginning in the late summer and early fall, OPA was under constant and heavy pressure from citrus trade interests to remove ceilings from citrus fruits. The line of argument was this. "There is going to be the greatest citrus crop in history. Military purchases are being sharply reduced. All the signs point toward low prices for citrus fruits after the Florida and California naval orange crops come into the market in November, December, and the early months of 1940. In order to compensate growers for low prices expected after these big crops come in, ceilings should be removed now (September) so that growers may earn high prices to make up for lower prices later."

OPA, however, declined to remove ceilings in September and October for the very reasons that trade interests used in urging their removal. That is, it was clear that until the new large crop came into the market, prices would soar and the consumer would be penalized.

In early November, however, it became apparent that the bumper crop would actually materialize, that it was moving toward the market, and that prices were beginning to fall below ceilings. In fact, for three consecutive weeks average citrus prices had remained below ceilings. For the first time, the standards for the removal of citrus price control were met. OPA, therefore, concluded that controls could safely be removed without any serious threat to the cost of living. Consequently, OPA agreed that effective November 19, ceilings should be suspended for a 60-day period—with the warning that if prices moved up substantially, ceilings would promptly be reestablished without prior notice.

It was anticipated that because of extraordinary demand for fruits just before Thanksgiving and before Christmas, there might be temporary upward price flutters in specialty oranges. But it seemed clear that with winter citrus supplies about 7,000,000 boxes above last year's record levels we could expect a prompt leveling off at prices somewhat below ceilings.

After the price flutters in specialty oranges during the Thanksgiving holiday had leveled off, the average of all citrus prices continued to move steadily upward. OPA then requested the restoration of price ceilings but agreed with Stabilization Director John C. Collet, to wait until after the Christmas holiday to test the market trend. During this period the average of all types of oranges continued to move upward with the result that we could fulfill our responsibility to the consumers of the country only by recommending the immediate restoration of controls.

The reasons why prices rose in spite of the greatest citrus crop in our history are instructive. The first reason was that shortages of freight cars made it difficult to bring this huge crop actually into the retail market. The second reason is that apples are in short supply and banana shipments were lower than expected. This increased the demand for oranges and the pressure on orange prices. And the third reason is that consumer buying power is still much greater than the amount of goods and services on which it can be spent. Money which would normally be spent on goods which are still in scarce supply spills over into other fields and creates powerful pressures on the prices of products even though—as in the case of oranges—they are in plentiful supply.

Mr. Kunkel. Will you yield, Mr. Crawford?
Mr. Crawford. Yes.
Mr. Kunkel. I would like permission to put in the statement made by Mr. Phillips, of California, on the same question, giving the other side of the story.
Mr. Crawford. Mr. John Phillips is one of the best-posted men on earth on citrus fruits.
Secretary Vinson. There would be some fellows down in Texas and Florida who would take issue with you.
Mr. Crawford. Well, that may be, but he stands very high here in the Congress, and he has a very enlightening analysis of this whole orange procedure. That is what Mr. Kunkel referred to.
Secretary Vinson. Of course, my statement with regard to oranges was a general statement as to what I had heard. I think I said at the time that I did not know the details.
The Chairman. I do not think that ought to be incorporated in the Secretary's remarks.

Mr. Kunkel. I think it ought to be incorporated with the remarks the Secretary is going to submit on the other question, do you not?

The Chairman. I do not think it is any part of his remarks. It can be put in at the conclusion of his remarks.

Mr. Kunkel. All right.

Mr. Patman. Did Mr. Phillips testify?

Mr. Kunkel. He has not testified, but this has been in the Congressional Record.

Mr. Crawford. Mr. Secretary, when you were before the Committee in your last appearance, I interrogated you with respect to making adjustments for industries and units of industry, where they found, under Office of Price Administration rules and regulations, that they could not proceed to produce, or could not survive economically. You have convinced me that insofar as you are personally concerned that you would not support a continuation of such a policy when the facts were presented to show that that was the case.

Secretary Vinson. That was my position then and it is my position today.

Mr. Crawford. I believe that very sincerely. Reference has been made from time to time to the disintegration that will take place in the personnel of the Office of Price Administration as we approach the termination date. Of course, any man who is informed at all knows the tremendous difficulty of keeping highly skilled and practically trained men in Government service today. Only yesterday I had an experience like this. A very important manufacturer in my district, whose production is now stymied, has been, since the latter part of January, trying to contact a keyman in the Office of Price Administration organization to get an answer on price ceilings of goods he wants to produce, that he has historically produced, which the trade is calling for, and which he has ready, with men, machines, and materials to produce. But he cannot get an answer because this keyman is about to leave the service—and nobody blames him for that—and by reason of being about to leave the Office of Price Administration, he does not want to hang himself on a hook and become involved in the discussion. That is a disastrous state of affairs which is occurring. I am not blaming anybody. I am just seeking help from you.

You have referred, in your statement, I believe on page 1, to the ability of Mr. Porter and the confidence you have in him. I do not think I have ever had the pleasure of meeting Mr. Porter, but to me that is beside the point because we have had Mr. Henderson, we have had Mr. Brown, we have had Mr. Bowles, and we now have Mr. Porter. And a lot of the people in my district believe that the same policies will be continued by the inner group regardless of what Administrator we have on the job.

Secretary Vinson. Well, I think that folks could have any opinion about how it should be administered. But I have known Paul Porter since 1924. I knew him when he was a cub reporter on a Kentucky paper. I know how and where he got his education. I have been pretty closely associated with him. He came here in 1933 with the Department of Agriculture. He did not seek the job that he had. He
came to stay for a short time. He was running a newspaper at that time, down in Georgia, and, as I recall the story, he was up in New York, and he was told that they were going to loan him to the Department of Agriculture for a short period of time. He came down here; he showed real ability; and was very closely associated with Mr. Chester Davis who was heading that Department at that time, and then he went out into private practice with the Columbia Broadcasting Co., at a very considerable increase over his governmental salary.

When the war came on, he was asked to take over rent control. He came back into the Government at a very much reduced salary, and while they said he was pretty hard over in rent control, yet I think that is one of the bright lights of the stabilization program.

As soon as I went into the Office of Economic Stabilization, I began to flirt with him to come over there to be my deputy. He is the only deputy I ever had. He was deputy from the time he came there until they took him away from me to do a job, and I understood he did a pretty fair job there. That was with the Democratic National Committee.

Then he comes back into the Government as Chairman of the Federal Communications Commission, and my understanding is—and I have had this from the industry—there were some discordant notes, in fact, what is known to be a hot spot, the Chairmanship of the Federal Communications Commission, and, according to the information I got, he did a very good job there as Chairman.

I think Paul Porter has sense, ability, honesty of purpose, and tact and a desire not to just injure somebody for the sake of injuring him. I really think he is tops.

Mr. Crawford. In other words, you think he has the strength of character and of conviction to not be pushed around by any inner group?

Secretary Vinson. I just know he has courage. I will say this, though, in regard to that, that any person administering a large department has to rely upon recommendations. But I know that he will scrutinize, just as much as it is humanly possible to do, the recommendations that come to him, and he will determine policy.

Mr. Crawford. I may say to you that I have felt a lot better and safer since you went in as Secretary of the Treasury, because I think you do exactly that: reach your own conclusions.

Secretary Vinson. Thank you.

Mr. Crawford. And then you proceed with your program.

Now, I want to ask you a question with respect to capital goods. First, let me give you two or three facts on which I base my question. For the last 6 months of 1945—that is, following the cessation of major hostilities—the index for new orders for capital goods fluctuated in a relatively narrow range around an index value of 150, compared with an average of about 60 for the period 1935 to 1939. Thus, for the 6-month period following the war, the volume of new orders for capital goods was about $\frac{3}{2}$ times the 1935-39 average volume.

The dollar value of orders in the last half of 1945—annual rate—was about $3\frac{1}{2}$ times the 1935-39 figure. In the 1935-39 period the dollar figure average only $5,000,000,000 annually.
Now, this question has to do with an interrogation I submitted to you when you were before the committee previously, at which time you and I were discussing the proposition of reducing costs, and volume production, maximum production, in a plant or industry. There is every indication that our people are now ready to proceed to buy a great many more capital goods for production purposes and with the purpose of reducing direct labor and material costs, than we bought in the period immediately following the war, assuming we went into war production in July 1940. My question is this: If capital goods are to be used for the purpose of decreasing costs in a mass production economy, why should we hesitate to remove price controls from the capital goods industry? Would you give us your opinion on that?

Secretary Vinson. Of course, you have to figure out first in your own mind whether the ceiling is a fair ceiling, to permit the fair return to the company which is making the capital goods.

Mr. Crawford. Yes, machines and machinery.

Secretary Vinson. If that is a fair return, yes, I do not believe that it would hamper their production. If it is not a fair return, the ceiling price ought to be lifted. But if you take ceiling prices off, assuming that the prices of the capital goods would skyrocket, you would always have, in the plant which purchased them, a higher cost, which certainly would not help obtain a reduction in the unit cost. The original cost to the manufacturer would be at a higher level.

Now, I grant you that there is a great deal in what you say, namely, that if you can get capital goods that will permit a reduction in unit costs, it is all to the good. But I do not believe it is necessary to let the capital goods prices skyrocket in order to get the maximum production.

Mr. Crawford. We have had submitted to us——

Secretary Vinson. Do I make my position clear?

Mr. Crawford. Yes, sir; I understand you perfectly. We have and submitted to us some rather disturbing testimony by the machinery and allied products industry. One case in point is the Niagara Machine Co., which produces machines and machine tools, and it is the old standard company of the industry for generations, decades back. In their series A presses, they call them, numerous sizes running from A up to A-4½—an A-3½ machine under price ceiling is selling about $891 for a machine, which is a loss of about $28 per machine.

The Reliance Machinery Co. is permitted to make a similar machine in performance, size, power, and all, under a price ceiling of $3,100, so this manufacturer, to whom I refer is having to pay about a $2,000 premium, because Niagara is not allowed to produce, by reason of the price ceiling being so low. That is one of the cases I referred to when I spoke to you before about creeping paralysis over the country, and I hope that in matters of this kind, especially in relation to capital goods, Mr. Porter will do some really excellent work.

Now, going directly to your statement, I would like to ask you a few questions. I think you have paid a high compliment to the public there in the second paragraph of page 2 of your statement, where you gave the public great credit for helping handle this problem during the war, and where you speak of them acting through their Govern-
ment. You also mean they are acting with their Government by taking their excess buying power and purchasing Savings bonds.

Secretary Vinson. Yes, sir; I think I amplified the statement on the printed record to state more fully how I felt.

Mr. Crawford. Yes. Now, continuing on that same page, next to the last paragraph, where you referred to the taxation, stimulation of savings, and direct control, I want to ask you three questions, and so that you will understand the question, I am going to ask the clerk to hand these to you, so that, as I read them into the record, you can have the questions before you. I think it is very important for us to get your reaction on these questions because of what has been said by Government officials with respect to price control not being able to do the job alone.

This has to do with the testimony of Chairman Eccles of the Federal Reserve Board who was before us a few days ago, at which time he stated that—

Any further reduction in interest rates from current levels would encourage further bank purchases of Government, and therefore additional monetization of the debt.

He implied the interests rates were now going up. Now, you have referred to the taxation, the handling of the debt, and the fiscal problems of Government. Do you concur in those views expressed by Chairman Eccles?

Secretary Vinson. In the first place, I am not certain that the banks need any encouragement in the purchase of Government bonds. I think that they have purchased, and are purchasing, and would purchase whatever they can. Of course, as you know, there have been certain restrictions in regard to certain issues, which make them non-eligible for bank purchases.

My position in regard to the interest rates is something like this: We have gotten pretty well along in the reconversion period, but I want to be a little further along before I determine upon a change, if any. I am trying to weight my words very carefully, because this situation is very sensitive, and I do not want to create any impression one way or the other. I just believe that with the magnitude of the debt such as it is, and with uncertainties—probably not as much uncertainty as there was when the guns quit firing—but certainly with uncertainties present with regard to reconversion, and that sort of thing, I want to get further into it before I make any statement in regard to the matter.

I can say, however—and the record so demonstrates—that there has not been any reduction in the interest rates paid by the Government from the levels present when I came into office. I can say that during March there was a payment of $2,780,000,000 of obligations, $1,000,000,000 was 7/8-percent certificates; $1,291,000,000, on March 15 was, as I recall, of 1-percent notes; and $489,000,000,000, also on March 15, was, as I recall it, of 3 3/4-percent bonds. And in this month, an announcement was made of a further withdrawal or payment on April 1 of $2,000,000,000 of 7/8-percent certificates. But I am certain that you appreciate, and I believe you would agree with me—I know you would if you were in my position—that we ought to be able to see clearly before a long-range policy, whatever its nature may be, would be announced.
Mr. Crawford. Now, I do agree with you. I am afraid I have misled you with my question. In no way was Chairman Eccles recommending that any step be taken to encourage the banks to buy Governments. The whole force of his argument was to do things to discourage the banks.

Secretary Vinson. Yes; I know Governor Eccles' position, and I did not mean to infer that he said that.

Mr. Crawford. Here he simply makes the observation that a further reduction in interest rates, regardless of the cause or the motives, would encourage the banks to go out and reach into the market, and perhaps pay a premium, for paper which carries a higher interest rate, and in that manner further monetize the debt, and, therefore, add to the inflationary problem. That is what he was discussing there.

Secretary Vinson. That is right. Yes, sir.

Mr. Crawford. Now, secondly, Mr. Eccles stated that he believed the preferential rate of one-half of 1 percent allowed by the Federal Reserve Banks to banks, which banks borrowed money, with Governments as collateral, and those Governments having the maturities of 1 year or less, should be abolished at this time, because that too, you see, further discourages the banks in the monetizing of the debt. Would you care to give us your position on that? That is, the matter of abolishing this permit, which was necessary to have, of letting the banks borrow from the Federal Reserve?

Secretary Vinson. Well, my position has been that the preferential rate should not be abolished at this time.

Mr. Crawford. Then, the third question is this: He was discussing the power of the Federal Reserve Board to take steps that would facilitate controlling these various inflationary forces. He pointed out there that they had about dissipated their power to raise reserve requirements, and if the Board was expected to deal with the monetary aspects of inflation, it would probably need legislation to help them control that situation. Would you care to give us any of your views on that question?

Secretary Vinson. Well, I would rather see the legislation suggested first before I would care to speak on that point.

Mr. Crawford. Along the same line, and going directly to your statement, on page 3, you refer there, in the second paragraph, to the fact that "44 percent of the expenditures of the Federal Government have been covered by taxation and other nonborrowing receipts." And I believe in some place in your statement you referred to the absorption of Government issues by individuals.

Secretary Vinson. Yes, sir.

Mr. Crawford. In considering this inflationary problem, would you tell us how many bonds, all commercial banks, all Federal Deposit Insurance Corporation banks, absorbed during the war period, and how many bonds they absorbed in the last bond drive? Do I make myself clear?

Secretary Vinson. I cannot give you the exact figures in regard to your first statement, but in the Victory Drive there were certain restrictions with regard to various institutions, and commercial banks were not purchasers of those bonds. At the beginning of the war, they purchased bonds directly in the drives. Later they were excluded from the drives, and many of the bonds offered were not
eligible for bank purchase until the last period of their life. I will be glad to give to the committee figures on that in a statement which I will have prepared.

(The following was later received for the record:)

Statement showing the distribution of Treasury borrowing between bank eligible and bank ineligible issues

<table>
<thead>
<tr>
<th></th>
<th>During entire war period (Nov. 30, 1941-Dec. 31, 1945)</th>
<th>During victory loan (Oct. 31, 1945-Dec. 31, 1945)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (billions of dollars)</td>
<td>Percent of total</td>
</tr>
<tr>
<td>Securities eligible for commercial bank purchase</td>
<td>101.6</td>
<td>47.1</td>
</tr>
<tr>
<td>Securities ineligible for commercial bank purchase</td>
<td>113.8</td>
<td>52.9</td>
</tr>
<tr>
<td>Total</td>
<td>215.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1 Commercial banks have been permitted to purchase limited amounts of certain of these securities in various connections. Total commercial bank holdings as of Dec. 31, 1945, of all securities, classified in this table as "ineligible for commercial bank purchase," amounted to approximately $3,000,000,000.

Mr. Crawford. I was getting at that amount. I think the record will show that during the last bond drive, the banks absorbed directly and indirectly in the neighborhood of $11,000,000,000 worth of securities.

Secretary Vinson. No. You are wrong. Of course, when you say they absorbed indirectly, I take it that you mean they loaned money to customers to buy the bonds?

Mr. Crawford. In other words, the holdings of the banks, in their portfolios of Government bonds, as of the beginning of the drive, and their holdings as of the end of the drive, plus the actual determinable bond-collateralized loans made by the banks during the drive, I think you will find, will approximate $11,000,000,000.

Secretary Vinson. I think your figure is high.

Mr. Crawford. Well, we will leave it on the record.

Secretary Vinson. The savings banks were restricted under a formula which was written into the announcement, and likewise the insurance companies. Commercial banks were not eligible to purchase the securities in the drive.

Mr. Crawford. Directly.

Secretary Vinson. Directly.

Mr. Crawford. But there was nothing whatsoever in existence to prevent the banks from absorbing Government bonds from the public, was there?

Secretary Vinson. Many of the securities in the hands of the public were not eligible for bank investment.

Mr. Crawford. Mr. Secretary, you are talking about one thing; I am talking about another.

Secretary Vinson. Well, maybe so.

Mr. Crawford. You are talking about what the banks were permitted to purchase, under your rules and regulations with respect to the issue put out.

Secretary Vinson. Yes.

Mr. Crawford. I am talking about how the banks monetized the debt from time to time, and how the banks did monetize the debt, adding to the inflationary pressures. You see what I mean?
Secretary Vinson. I will be very happy to have a statement for you in just as much detail as possible.

(The following was later received for the record:)

Statement showing bank credit expansion coincident with the victory loan drive

<table>
<thead>
<tr>
<th>In billions of dollars</th>
<th>Beginning of drive period</th>
<th>End of drive period</th>
<th>Net change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank ownership of Government securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks</td>
<td>84.4</td>
<td>90.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Federal Reserve banks</td>
<td>23.3</td>
<td>24.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>107.7</td>
<td>114.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Bank loans on Government securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weekly reporting member banks:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dealers and brokers</td>
<td>1.3</td>
<td>1.9</td>
<td>.6</td>
</tr>
<tr>
<td>Other borrowers</td>
<td>.9</td>
<td>2.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Total</td>
<td>2.2</td>
<td>4.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Other commercial banks</td>
<td>.4</td>
<td>.9</td>
<td>.6</td>
</tr>
<tr>
<td>Total</td>
<td>2.6</td>
<td>5.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Aggregate expansion of bank credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9.4</td>
</tr>
</tbody>
</table>

NOTE.—Figures are rounded and will not necessarily add to totals.

Mr. Crawford. Yes. What I am interested in having is the complete monetization of Government issues during World War II, by the commercial banks. You will probably find it ran less than $500,000,000 as against the monetization in World War II, by the commercial banks, which I think will exceed $90,000,000,000. I would like to have that statement.

Secretary Vinson. Yes, sir.

(The statement requested comparing the proportion of the increase in the public debt financed by commercial bank credit during World War I and II follows:)

**World War I**

<table>
<thead>
<tr>
<th>Fiscal year ended June 30—</th>
<th>Increase in—</th>
<th>Proportion of total increase financed by commercial bank credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total interest-bearing debt outstanding</td>
<td>Interest-bearing public debt held by commercial banks</td>
</tr>
<tr>
<td>1917</td>
<td>1.7</td>
<td>.8</td>
</tr>
<tr>
<td>1918</td>
<td>2.3</td>
<td>1.7</td>
</tr>
<tr>
<td>1919</td>
<td>13.2</td>
<td>1.8</td>
</tr>
<tr>
<td>1917-1919, inclusive</td>
<td>24.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Estimated increase in loans for purchasing or carrying Government securities (for entire period)</td>
<td>2.5</td>
<td>10</td>
</tr>
<tr>
<td>Total, World War I</td>
<td>24.3</td>
<td>6.9</td>
</tr>
</tbody>
</table>
Mr. Crawford. Now, on page 3, you referred to inflationary pressures:

From Armistice Day until June 1920, retail prices rose another 46 percent, making a total of 108.

During that period from Armistice Day, November 11, 1918, to June 1920, did we make any foreign loans to create inflationary pressures against our price structures, through calling for our goods with those dollars so loaned?

Secretary Vinson. Yes; I am sure that they were foreign loans. But I do not speak to the effect. I recall definitely that part of the loans were to pay for goods which were already manufactured, and some of them were in Europe.

Mr. Crawford. Mr. Baruch appeared before our committee a day or two ago, and his testimony is certainly important to this country, as evidenced by the fact that the New York papers carried it in full. Almost a full page. When he speaks the country listens—Democrats and Republicans. And he took the position, indirectly, but almost categorically, that making foreign loans at this time, with such a scarcity of goods, and thus putting out dollars to call back for our goods, would further complicate our inflationary problem. Would you care to comment on that?

Secretary Vinson. Well, of course, I can speak to any loans, but I will take, for instance, the British loan. The British financial agreement. I fall into the habit of calling it a loan because everybody calls it a loan. Certainly, there is money loaned or advanced, and an agreement to pay interest, which are attributes of a loan. But the agreement is much more than a loan. We have certain considerations moving to us which make it really a financial agreement or contract.
But that full amount will not be drawn down at any one time. It will be spread out over a period of several years. The nature of the goods purchased with those dollars in the United States can be handled and the export-import bank loans are in a similar category, with licensing, export licensing, which certainly can relieve against an undue demand upon our economy, and, of course, it is an undue demand upon our economy that makes a contribution to the inflationary spiral. It is my thought that the general betterment of our entire economy, the assurance, with the removal of certain currency and trade restrictions by Great Britain, an expanded world economy, and that production will be speeded up here, and that when you take the minuses that come from the increased demand, and weigh it against the pluses, that come from the increased production, and a longer period of increased production, that the pluses outweigh the minuses.

As I see it, we must be on a high level of production. That is necessary, with our debt, and with our interest charge, and our expenditures, I think it is imperative that we be on a high productive level. Certainly, we will be our best customers, but, as we all know, there will be surpluses if we reach that high level of production, surpluses which must enter the world market, and the advocates of the measure feel that without the dollars, the alternative that Britain will have to take is not only the continuance of wartime restrictions with regard to currency and trade, but they will just as certainly be extended as it is certain that we are living, and the markets of the world will not be open to our goods.

Mr. Crawford. I think I understand your explanation. In other words, in exercising the export license, you would not permit exports away down on scarce goods here unless there was tremendous necessity shown from the other side?

Secretary Vinson. You say that very clearly. And there is one other thought, with regard to the time element. The time when the orders for the goods will be placed and the production of the goods. We feel that our economy will be progressing in such a way that the impact will be materially minimized.

Mr. Crawford. The impact will be materially minimized, and the draw-off would be from goods such as we might have in surplus.

Secretary Vinson. The disposition of surplus production is a most important factor, which I am sure you understand, to our future economy.

Mr. Crawford. Thereby boosting your national product, so as to maintain your high national income, and flow of revenue to the Treasury.

Now, turning to page 4 of your statement, you say:

Two of the most important subjects in the Treasury Department are taxes and the management of the public debt. Inflation, or its prevention, has a direct effect on both problems.

Would it not also be correct to say that, as to how we handle our taxes and manage the public debt, it will have a direct effect on this inflation problem?
Secretary Vinson. I think that is a fair statement.
Mr. Crawford. It works both ways.
Secretary Vinson. I think that is fair.
Mr. Crawford. Thank you, sir.
The Chairman. Mr. Patman.

Mr. Patman. Mr. Secretary, I want to say, without evaluating all
the different statements that have been made by different people—
many good statements have been presented—that no better state-
ment has been presented in favor of the continuation of the Price
Control and Stabilization Acts than your own statement here this
morning. It is a very fine statement, and very convincing, and
brings our points that have not been brought out before, and will
be helpful to us in the consideration of this bill, I am sure.

I agree with you about what you said concerning Paul Porter. I,
too, think the President made a fine choice there, and if he had
looked the country over more carefully he could not have gotten a
better man anywhere in the United States.

Secretary Vinson. And he was not a candidate for the job.
Mr. Patman. I understand he can go out in private industry and
make many times as much very quickly.
Secretary Vinson. Even in the position he had; he was not a can-
didate for this particular job.
Mr. Patman. I understand that. The point has been made by you
that controls help production. That if you were to take the controls
off, production would be decreased. I think you have some good
arguments to support that. Another argument is, if you take con-
trols off, prices are going to go up, and as prices go up, we know that
wages will go up, and we will have a race between wages and prices,
and when wages reach that point, to where wages will not pay much,
people are certainly not going to work for worthless money, and
they will stop producing goods. We will be in a much worse condi-
tion than we were in before.

Secretary Vinson. We used to have an old saying, down in Ken-
tucky, that everything that goes up has to come down.
Mr. Patman. Yes, sir. And that is our experience in the past.
Secretary Vinson. There is no question about it. If you have a
spiral, an inflationary spiral going up, you are certainly going to
have a drop.
Mr. Patman. A deflationary “bust” going down.
Secretary Vinson. Yes, sir.
Mr. Patman. I was interested in your figures about 1944 produc-
tion, $198,000,000,000, and in 1945 it was reduced only $1,000,000,000,
to $197,000,000,000. In view of the fact that VE-day was in early
May, last year, the fifth month of the year, and VJ-day, the eighth
month of the year, evidently about half of that production must have
been in civilian goods, was it not? At least 45 to 50 percent of it?
Secretary Vinson. I do not know just what that percentage is,
but I can get it for you.

(The following was later received for the record:)

1586 EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942
Mr. Patman. That is very encouraging, that the transition developed so quickly, so rapidly.

Secretary Vinson. I think it is a fine compliment to our people, particularly industry, in planning and putting into operation their plans, and getting back into production of civilian goods. And I want to say that I happen to be on record to the effect that I thought they would do it.

Mr. Patman. What is your prediction for the gross national product for the year 1946?

Secretary Vinson. My recollection is that the estimate is about $175,000,000,000 or $180,000,000,000.

Mr. Patman. Unless it is interfered with by strikes or something abnormal, I think the experience of 1945 will justify that high estimate.

Secretary Vinson. Well, of course, that is based on the time when the look is taken.

Mr. Patman. Yes.

Secretary Vinson. But I believe the folks can sell everything they can make, and I believe they will want to make everything they can.

Mr. Patman. Much has been said about when these controls should be taken off. Secretary Vinson, is it not a fact that the best evidence that supply is meeting demand is that the price drops just a little bit below ceiling? That has happened quite frequently. And that would be one of the first evidences of supply catching up with demand. In other words, if we were to pass a permanent Office of Price Administration, which no one is considering, and no one wants, but suppose we were just to make this a permanent law, it would just be a matter of time until the Office of Price Administration would have nothing to do, because production would meet the demands, and the prices would all be below the ceiling, and there would be no occasion for the Office of Price Administration, would there? I do not know of a better way in which you can determine when supply meets demand, than when the prices fall below the maximum prices.

Mr. Kilburn. Will you yield to me right there?

Mr. Patman. Yes.
Mr. Kilburn. If the Office of Price Administration sets the price below cost, you are never going to have supply meet demand.

Mr. Patman. I presume the act is carried out as the Secretary explained, that it contemplates a fair profit. And I think the act does.

Mr. Hull. Mr. Chairman. May I ask the gentleman a question? Will he kindly explain to the witness the loss in the volume of production of butter, $7,000,000 under Office of Price Administration regulation, and it is still going down. How soon are you going to get production of butter?

Mr. Patman. I will let the gentleman take care of the butter situation.

Mr. Hull. I do not get a chance. I have to butt in. Two-thirds of this committee is ornamental and not vocal.

Mr. Patman. I agree with Mr. Vinson that there are exceptional cases that you can point out, but the over-all picture of our economy has been very good. No one wants to keep controls on indefinitely. They want to get rid of them just as quickly as they can.

Secretary Vinson. If I read the figures right, as far as the war years now are concerned, every major group in the United States has a position which materially is better than what it was prewar.

Mr. Patman. In other words, practically all of them have been making money.

Secretary Vinson. The receipts to the Treasury demonstrate that there is very considerable taxable income.

Mr. Patman. Yes. I was agreeably surprised at the loss in revenues to the Treasury—that the loss had been reduced so little as compared to last year.

Now, about the reduction of taxes. I agree that taxes must remain high; and I noticed a disturbing statement this morning, that one of our prominent members of the Ways and Means Committee is now advocating a 10-percent reduction in taxes. If we get the people to believing that they are going to get a tax reduction, and build up that psychology in this country, the first thing you know the Congress will pass a tax reduction bill, which I think would be unfortunate at this particular time; and I hope the Ways and Means Committee does not consider the passage of any tax reduction bill this year, nor next year, nor until we have a balanced budget better on the way.

Secretary Vinson. As to that, I will refer you to the President's message on taxes.

Mr. Patman. I have no further questions, Mr. Chairman.

The Chairman. Mr. Gamble.

Mr. Gamble. I am glad to see you again, Mr. Secretary.

Secretary Vinson. Thank you.

Mr. Gamble. Referring to Mr. Crawford's questioning regarding Mr. Baruch's statement, the purchasing of goods to be sent abroad when we have not got them in full supply for people in the United States: You spoke of the controls system. Under the British law, have you the power, under the control system for exports, so that things in short supply, which you do not think should be shipped abroad, could be handled adequately?

Secretary Vinson. I think the power is in the Department of Commerce, with regard to export licenses.
Mr. Gamble. In other words, anything that went abroad under that loan would come under that law or would require an export license?

Secretary Vinson. Any export, as I understand it, falls under the powers of the Department of Commerce.

Mr. Gamble. So we would not have to worry about that in connection with the rest of the worries of the British loan?

Secretary Vinson. Some folks might.

Mr. Gamble. Is that a war power?

Secretary Vinson. No, sir; I do not think so. I will check that.

Mr. Gamble. It is a separate act, is it not, which we passed?

Secretary Vinson. I will have to check that.

(The information requested above is as follows:)

Section 6 of the act to expedite the strengthening of the National Defense, Act of July 2, 1940, chapter 508, 54 Statute 714, as amended (U. S. C., sup. IV, title 50, App. sec. 701), provides, in part:

"(a) The President is hereby authorized to prohibit or curtail the exportation of any articles, technical data, materials, or supplies, except under such rules and regulations as he shall prescribe.

"(b) Unless the President shall otherwise direct, the functions and duties of the President under this section shall be performed by the Foreign Economic Administration."

The effective date of this act has been from time to time extended, in the last instance by the act of June 30, 1945, chapter 205 (Public. No. 99, 79th Cong.), extending the authority of the statute to June 30, 1946.

Section 4, part I, of Executive Order 9630, dated September 27, 1945, provides, in part, as follows:

"There are transferred to the Department of Commerce all functions of the Foreign Economic Administration and its agencies with respect to—

"(a) Export control, including all functions of the Administration under section 6 of the act of July 2, 1940 (54 Stat. 714), as amended and extended."


Mr. Gamble. We had a great deal of testimony yesterday and previous days about the black market situation. Yesterday, particularly, to decontrols and black market in meat and so forth. That is an additional headache for the Treasury Department, I take it, which would vanish if we got rid of price control?

Secretary Vinson. The Treasury, however, thinks if that condition existed, we might have something worse than a headache; that is, if price controls were removed. You might have a little something here to relieve us from that, but we feel that other diseases might afflict us which are much worse than a headache.

Mr. Gamble. The black market does affect the Treasury revenues, though, I suppose. Or is that so?

Secretary Vinson. Well, we have been getting some money from the black marketeers, and we hope to get more.

Mr. Gamble. You are making a special drive along those lines?

Secretary Vinson. Yes, sir.

Mr. Gamble. That is all, Mr. Chairman.

The Chairman. Mr. Barry.

Mr. Barry. Mr. Chairman, I am in accord with the Secretary's statement, in general, and I share his views. There is just one question I would like to ask you, Mr. Secretary, in connection with the black market, which Mr. Gamble brought up.

I recently introduced a bill which would require all currency of $50 denomination and upward to be returned to the Treasury, and a new
currency issued. That has been done in France, and was recently done in Japan. I am of the opinion that there are possibly billions of dollars of black market currency hidden away in safety deposit vaults and other inaccessible places. My feeling is that if it had to be suddenly turned in, it would be very embarrassing to many of the black marketeers, and they would either be caught by the Treasury Department or they would fail to turn this possibly billions of dollars in. I would like to get your opinion on that.

Secretary Vinson. That matter has been considered for a long time in the Treasury. One of the reasons they did not agree with going below a thousand-dollar bill was the question of the control. The Treasury for a long time thought, I think, and the President thinks that folks do not like controls, and that that would be just a matter which would be resented by many law-abiding people. I know that they gave consideration, before I came to the Treasury, to going below the thousand-dollar-bill regulation. I do not know that they ever considered going down to the 50-dollar bill, but my recollection is, in looking at the memoranda, that they had considered the 500-dollar bill and the hundred-dollar bill, but on the balance it was their conclusion that it should not be done.

Mr. Barry. Well, I do not want to continue this discussion, but it is common gossip that thousand-dollar bills are selling for $800 in Florida, and that thousand-dollar bills are being converted into bills of lower denominations.

Secretary Vinson. How are they converted? By the banks?

Mr. Barry. No. Someone comes along with $800—I have not seen this, but I have heard about it—$800 in small amounts, and he gets a thousand dollars. Then he disposes of the thousand-dollar bill somehow. I feel there is a lot of money being saved in low denominations because of the thousand-dollar check-up, and if it goes below that, the same thing will happen with lesser denominations. I was told it worked out in France. And I understand, the other day in Japan the currency was called in to reissue. That is all. Thank you.

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Vinson, on the first page you say, near the bottom of the page:

We were all fortunate to be working under a law which gave us full opportunity to accomplish the results that we desired and expected.

Do you feel that the present price control law is completely adequate, and was completely adequate, particularly at the time in which you were in the office that was directly concerned with that field of our national endeavor?

Secretary Vinson. I certainly think that the law was adequate.

Mr. Kunkel. And that any faults that occurred under it were due to—

Secretary Vinson. Administration.

Mr. Kunkel. Administrative orders?

Secretary Vinson. Yes, sir; I made that statement once or twice before the committee, and I stick to it.

Mr. Kunkel. As to being a flexible act, there is no amendment that we can put in that can prevent rigidity of administration or bad administration, is there? That is pretty true of all legislation?
Secretary Vinson. You cannot possibly put in an amendment to cure bad administration. Of course, amendments could be put in which would make it less rigid. But I have always felt that Congress did a wonderfully good job in presenting this law to the executive branch of the Government for administration.

Mr. Kunke1. What I am driving at is a flexible act that will not prevent the rigidities developing at the administrative level.

Secretary Vinson. In other words, it is a question of administration.

Mr. Kunke1. I was interested in your remarks about hoarding of inventories before the expiration of the Price Control Act. I think you are right about that, that that point has not been emphasized enough.

In other words, if a man has stock on his shelves, which he can sell at a profit, along the lines the Office of Price Administration has developed, and if there is a sufficient market for him to place that stock, then, he is certainly going to sell it and also take the future profit which he might get after the removal of price control, and I think that is a considerable deterrent along economic grounds rather than legal or enforcement grounds to the situation that so many people fear.

Secretary Vinson. And a large majority occupy that position. I am not unmindful that you might have a minority.

Mr. Kunke1. Yes. There are going to be some.

Secretary Vinson. Who might take advantage of the situation.

Mr. Kunke1. There are bound to be some. There always are.

Secretary Vinson. Yes, sir.

Mr. Kunke1. On the capital goods question raised by Mr. Crawford, you said, in answer to his question, as I understood you—and I am not sure that you meant it just the way it sounded—you said that the same objective could be attained by adjusting ceilings properly, that it was not necessary to remove price control from capital goods—and when I say “capital goods” I mean goods that are to be sold to people in producing industries—that it was not necessary to remove the price controls in order to get the result. But I think that is the wrong approach because I think the question is: do you still need to keep them on. If you do not need to keep them on, should you not take them off?

Secretary Vinson. Well, Mr. Crawford’s illustration was that of a company which could not produce a certain machine and sell it at a profit. And when I spoke about adjusting the ceiling there, I was thinking of that particular company.

Mr. Kunke1. But Mr. Crawford’s original point, Mr. Secretary, was that in the capital goods industry, that is, goods used for the manufacture of producing goods—and Mr. Crawford can correct me if I am wrong on this—that they were never sold unless the purchaser was reasonably certain that the purchase would decrease his cost of consumer goods.

Secretary Vinson. I, of course, do not agree to that.

Mr. Kunke1. You do not?

Secretary Vinson. No.

Mr. Kunke1. Why not?

Secretary Vinson. Because it might be that his old machine was wearing out, and he would buy a new machine and make the same
profit. You could have an improved machine. That is what I thought he had in mind—you could have an improved machine which would reduce the unit cost, and, of course, that would be quite helpful to the whole economy, for that machine to be sold and used in that way. But as I recall it, I said that if you let the price of this machine skyrocket, then, of course, the cost of that machine would enter into the cost of the man’s plant.

Mr. Kunkel. But he does not want to buy that machine, even if he has an aging machine, unless he thinks that the new machine, no matter what it cost, will do the work cheaper than the old machine.

Secretary Vinson. No, he might buy a machine, it seems to me, that would expand his production, even though there might not be a reduction in unit cost. He would just have more units to sell. I grant you that very often, and most often, probably, and the general rule would be that if you did have increased production, your unit costs might be reduced.

Mr. Kunkel. I think we could at least agree that that would be the usual case, would it not?

Secretary Vinson. Yes, if you kept your other machines in operation.

Mr. Kunkel. Turning to the paragraph at the end of page 2, where you referred to three major classes of measures that were taken, and I would like to ask you, are you contemplating any campaign to sell bonds directly to investors in the future, as time goes on, in order to sop up the excess demands? Do you have any plans to make those particularly attractive?

Secretary Vinson. We have continued the organization which was known as the War Finance Division, under the title of United States Savings. It is a skeletonized organization. We have a few persons in each State, and they are helping sell bonds to those persons who desire to buy. I might add that there has been a very great response on the part of management and labor, particularly labor, for the continuation of the pay-roll savings plan. In January of this year—there was sold $950,000,000 worth of savings bonds. In February and March sales were at the rate of $625,000,000 a month and there was no drive or anything of that kind in these months. They were voluntary savings.

Mr. Kunkel. Mr. Secretary, I do not like to inject another criticism against the war bond drives during the war, because they were overall so tremendously successful, but it has always been my feeling, being a member of this committee and getting so much information on the demand side of the inflation, that we should have emphasized the importance of the sales from the standpoint of reducing present demand. I wonder if you are planning any campaign along that line, even though modified, somewhat similar to your war bond campaign. Because I believe that would be of tremendous benefit.

Secretary Vinson. We have not contemplated any so-called drive for the sale of bonds.

Mr. Kunkel. I was not thinking particularly of a drive. I am thinking of emphasizing that thought to the public.

Secretary Vinson. Well, we have bent our efforts in that direction, in other words, for the sale of bonds to individuals, particularly the E bonds, because I think the dollars—
Mr. Kunkel. I am not talking so much of the sale, but during the time of the sale, emphasizing the importance of deferring demand. In other words, spreading the demand that exists today out over a period of time by awakening individual consciousness, in the individual citizen, to the part he can play on that side.

Secretary Vinson. We are continuing, with the help of magazines and periodicals—during the war it was called the Advertising Council, which did much toward selling the country and educating the folks with regard to inflation, what caused it and what they could do to help prevent it, and the question of the purchase of bonds was one of their main items—and they are cooperating with the Government even though the war is over.

Mr. Kunkel. Well, these Office of Price Administration advertisements that they have all the time: the gist of them is "Check your ceiling price to see that you do not pay over the ceiling." Everything of that nature is all very well. But why not start something like: "Think before you buy. Do you actually need it? Can you wait a year? Can you put that money into bonds?"

Secretary Vinson. That was certainly part of the selling program, the question of use of the money for college, and all that sort of thing.

Mr. Kunkel. I think that ought to be emphasized a good deal more. Here in this country we hear more about increasing the supply. Practically nothing about decreasing the demand. Yet, if you are going to bring the two into adjustment, it is just as easy to do it by lowering demand as it is by increasing supply proportionately.

Secretary Vinson. There is no question about that. I have no quarrel in any respect with that, but the Treasury is—I will not say handicapped, although that might be a pretty good word—with respect to the dissemination of information along that line, and along a lot of other lines.

Mr. Kunkel. Do you not think there is pretty heavy inflation already upon us?

Secretary Vinson. I think there is some evidence of it.

Mr. Kunkel. Well, that is a good word which is open to everybody's interpretation. What are your plans on refunding long-term bonds?

Secretary Vinson. That is one of the matters I had in mind when I stated that it was my notion that we ought to get into the reconversion period further before any definite, fixed conclusion was reached in regard to future acts.

Mr. Kunkel. I think that is all I have, except to call attention to the fact that VE-day was in May.

The Chairman. Mr. Monroney.

Mr. Monroney. Judge, I want to compliment you on your splendid statement. I have only one question to ask you: The law of supply and demand, as testified to here by most of the industrialists, seems to break the law of supply and demand down into ten or fifteen thousand little separate cells; that if the law of supply and demand is fulfilled in one of these cells, then, they think it can be isolated from all the rest of the demand, which is in excess of the supply, and removal safely made in any one of those individual lines. The point that I would like to ask you about is this: Are not these various prices interrelated? In other words, if you have extreme scarcity across
a good part of your economy, but you have a few isolated cases where you have adequate supply, then, you cannot merely use a mathematical formula and say we can safely decontrol these particular things, these few particular things which happen to be in adequate supply at the moment?

Secretary Vinson. I think that is a correct statement. I referred to two items, one substituting for the other—let us say food items—with one in full supply and the other in scarce supply. When you total or average both figures, you would have a scarce supply. Then, I thought that it would be good government not to remove the ceiling price on the item that was in full supply, because of the demand for that kind of food.

Mr. Monroney. Everyone wants to decontrol as rapidly as possible, but it should not be decontrolled with an immediate action. It should have skill, and consideration of collateral pressures as well as oversimplification by mathematical formula to the effect that some bright morning you can decontrol this because you find the supply and demand on that particular item happen to be in balance.

Secretary Vinson. I think it has to be done with very much study and consideration.

Mr. Monroney. Would you like to see the decontrol formula written in by Congress which would straitjacket the Office of Price Administration, or would transfer to other agencies the power to decontrol?

Secretary Vinson. Of course, it would be a question of what kind of a provision it was, but with the experience that I have had, I think it would be very, very difficult to write the formula, or any formula that would be fair or do the job, and in regard to the transferring of power to some other agency—I do not know what agency would be selected. I know that on the price front, the Office of Price Administration is the best informal agency. It is a very intricate problem, the question of pricing.

Mr. Monroney. Under the philosophy that has worked pretty well under price control and stabilization through the war years, that power should rest in the Director of Economic Stabilization, such as the office that you formerly had, should it not? That is, the final determination of price and demand?

Secretary Vinson. Well, I would rather not get into that. I just do not know exactly what the present situation is. I feel that when I was in the Office of Economic Stabilization, I thought it worked smoothly between the agencies. Naturally, you would have your irritations and particularly at the staff level, because fellows who really work and do a good job, they get sincerely believing that such and such ought to be done, but I think it was a pretty smooth operation.

The Chairman. Mr. Talle.

Mr. Talle. Mr. Secretary, I recall that you were a member of the Ways and Means Committee for quite a number of years.

Secretary Vinson. Yes, sir.

Mr. Talle. I think you are familiar with the old maxim of taxation that an old tax is a good tax?
Secretary Vinson. I do not know that I would subscribe to that from what I have heard. The maxim that I remember is that "No tax is a good tax," to the fellow who pays it.

Mr. Talle. Well, the textbooks on Government finance, at any rate, say that an old tax is a good tax.

Secretary Vinson. They get more accustomed to it. There is no doubt about that. But we have added, in the last 30 years, many tax bills.

Mr. Talle. That is right. People do not somehow mind it, or else they simply submit to the cross they bear.

Secretary Vinson. They get accustomed to the burden.

Mr. Talle. It is habit formation which enters into the picture. In other words, it has become an institution, just as a good many other things are institutions or things we accept because we have lived with them for a long time. I am wondering if price control may not become an institution in America.

Secretary Vinson. I have not the slightest notion that it will.

Mr. Talle. I hope not.

Secretary Vinson. Well, I hope not, too.

Mr. Talle. I recall your statement in your testimony that every group in the United States was better off during the war than before. Is that right?

Secretary Vinson. Yes, sir; financially.

Mr. Talle. Then, I am wondering if the old philosopher’s statement may not probably be recalled. He says "Demand for change never comes from people who are treated well under conditions as they are.”

Secretary Vinson. Well, that is a very good maxim, but I believe you could bring up a lot of people, and probably they have been here, who claimed they were not treated well.

Mr. Talle. We have heard many of them, Mr. Secretary.

Secretary Vinson. But I have no thought that price control is going to be a permanent institution.

Mr. Talle. The thing I fear is that a good many of our enterprising people may come to the point where they say: "What is the use?" If they come to that point and lose their spirit, then, of course, we may get permanent price control. That is the thing I fear, if they say, "What is the use?” Because it is the spirit of American enterprise which furnished our soldiers and sailors the things they needed to win the war.

Secretary Vinson. I do not believe, now, Mr. Talle, that you need worry about that. My experience with them, on the economic front, and my experience with them today, is that they stand up and fight. I am only advocating controls for a little longer.

Mr. Talle. Well, you have bolstered my spirit, Mr. Secretary. I would now like to ask you about the law of supply and demand. That has been mentioned more often, I think, than any other one thing outside of price control itself in the course of these lengthy hearings. As somebody has said, "If you could teach a parrot to say that the law of supply and demand determines price, and you have made an economist.” It is so easy to say. But what we overlook is a study of the conditions
that lie back of supply and back of demand, and I have been asking a number of witnesses about that. I asked Mr. Anderson, the Secretary of Agriculture, whether his people are devoting time to the study of the conditions that lie back of demand, and I gathered that he had not thought particularly of that aspect.

Secretary Vinson. They are really on the supply end.

Mr. Talle. That is right. I knew that they had devoted time to the supply side. But the demand side is important, too.

Secretary Vinson. Very important.

Mr. Talle. Because if demand is assumed to be a fixed thing, and you think your problem is to lift supply up, you are not getting anywhere if your demand is rising, too, and so while it is true that demand and supply determine market price, that is an instantaneous thing, and more completely instantaneous on the stock exchange than anywhere else, because it is a highly organized market. But there is also a sense in which market price determines demand and supply.

Now, on the supply side, if the price is high enough, there will always be prospective manufacturers or producers who are ready to come in and bring supply up in addition to those who are already in the field and have unused capacity.

Secretary Vinson. Of course, that fellow ought also to be thinking about the demand.

Mr. Talle. That is right.

Secretary Vinson. Because you could have overproduction.

Mr. Talle. So I fear that we will never get to a point where demand and supply will be so beautifully and nicely poised that “Now is the hour,” and you will cut controls off.

Secretary Vinson. Well, I am not an economist, and I would not look to perfection. I would not look for that absolute balance. But I just believe that, with another year—that we will not have to worry about having price control, and probably before a year. I believe it has been demonstrated, even to the point of perhaps haste in certain instances, that there is a desire to get rid of controls.

Mr. Talle. In the meantime, I do hope that not too many people will be forced to say, “What is the use?” because if they do, of course, the supply will not be lifted and again we come back to the possibility that price control may become a fixed institution.

Secretary Vinson. Well, you said a moment ago that I had sort of bolstered your spirit. I believe I am right on that.

Mr. Talle. It was one of those quick conversions that you have to stimulate some more. May I emphasize this: that I do think we cannot make that time for decontrol a fixed point on a chart. There will have to be a zone in which demand and supply will operate. It will not be a nice adjustment. And the citrus case was most unfortunate, because if real study had been given to it at the time of decontrol, they certainly would not have chosen December. January would have been much better.

Secretary Vinson. That was one of the cases where I thought possibly there had been too much haste.

Mr. Talle. That is right.
Secretary Vinson. The desire was there. I know there has been a
desire to keep the faith with regard to getting rid of controls.

Mr. Talle. One other point, Mr. Secretary. I have always been
able to reach you on the telephone, or by letter, and you have shown
me the utmost courtesy, and I want to thank you publicly for it.

Secretary Vinson. Thank you, sir.

Mr. Talle. But I have never been able to contact Mr. Bowles. I
tried desperately for years. I am happy to hear you say that Mr.
Porter is the kind of man you have described him to be. And if I fail
to reach Mr. Porter, I am going to knock at your door, Mr. Secretary.
Thank you.

The Chairman. Mr. Folger.

Mr. Folger. Secretary Vinson, I am glad to see you.

Secretary Vinson. Thank you, sir.

Mr. Folger. You have made a very fine statement.

Judge, going to the fear that we, or somebody, might adopt this
emergency price control, and this procedure as a permanent one, we
recall that in the very beginning, in the first act that was passed, it
said:

It is hereby declared to be in the interests of the national defense and security
and necessary to the effective prosecution of the present war to stabilize prices—
and so forth. That gave rise to this law under which we have been
operating.

Secretary Vinson. Yes, sir.

Mr. Folger. While the postwar period, such as we are in now, makes
it, in the opinion of most men, necessary that the Office of Price Ad-
ministration and the emergency price control law be renewed for a
time, do you know of anyone who would advocate this as a permanent,
satisfactory policy?

Secretary Vinson. No; I do not.

Mr. Folger. It would not do for us to say that the emergency price
control law, which will be extended perhaps until June 30, 1947—it
would not do for us to say definitely, “Now, this is the last, and that
ends it.” We would, as you said awhile ago, have to pick a time and
look and see, would we not?

Secretary Vinson. I think that it would be cautious to take that
view. But I feel as though it is the last time.

Mr. Folger. I do, too, but I cannot absolutely say it is.

Secretary Vinson. There could be conditions—certainly, I could
visualize conditions—but I hope those conditions are not going to
obtain. I do not believe they are.

Mr. Folger. Neither could we in a month or 2 months or 3 or 8
months chop off controls on everything. Is it not true that price con-
trols must follow the outline which you have suggested as fundamental
principle that production, to meet the demand, is the final answer, and
that these controls must be eliminated cautiously but maybe from time
to time, as we find this substantially true?

Secretary Vinson. That is right.

Mr. Folger. That is all.

The Chairman. Mr. Sundstrom.

Mr. Sundstrom. I am glad to see you back, Mr. Secretary. You are
always welcome here. I, too, want to express the opinion, as Mr. Talle
did, that the Treasury officials have always been very cooperative to me in my problems.

Secretary Vinson. Thank you.

Mr. Sundstrom. I was interested in your statement about balancing the budget and doing away with a lot of unnecessary expenditure. I think it is going to be a healthy sign if we can get the budget balanced as fast as we can.

Secretary Vinson. If we do not have unprecedented conditions, I think we are going in that direction quite rapidly. Of course, the bottom might drop out of things, if the national income were reduced, or if expenditures, for one reason or another, were much higher than the President has anticipated, of course, you would have another situation.

Mr. Sundstrom. I was interested also in the figure that you used of $200,000,000,000 gross national production.

Secretary Vinson. Yes, sir.

Mr. Sundstrom. I was also interested in the fact that you estimated that in the hands of the public there was a reserve or a pressure of perhaps some $300,000,000,000. And you are afraid of that consumer demand. I suppose you are familiar with the fact that we have also been asked here to appropriate certain moneys, or at least a certain program, towards subsidies, amounting to some $1,900,000,000, I think is the figure. You are accustomed to handling figures, and knowing how people like to use their money, and how they invest it, and how they spend it. I have always had the opinion that if a man had $5,000 in the bank and he owed me a hundred thousand dollars, there was very little likelihood of his wanting to pay that debt because it was such a small portion of it. But if he owed me $10,000 and he had $5,000 in the bank, the chances are he would say, "I will give these $3,000 for the debt, and only keep two, because it will be reducing the debt proportionately."

I am wondering, if we continue subsidies, with all this money, national production, and pent-up demand, why it would not be a good thing to say at this time, "We are not going to do away with subsidies entirely, but the fact that they are so large, when we remove them, is going to create a terrific problem, and, therefore, it is going to be hard to get rid of them." Why would not this be a good time to say we will reduce the thing one-third immediately? And instead of increasing meat prices, as they were estimated here, 3 cents a pound and butter 12 cents a pound, it might mean meat would go up 1 cent a pound and butter 3, and then we would have only two-thirds of the subsidy left. For our own interest, of course, that would mean we could cut down the appropriation $633,000,000, and that would be doing a nice job for you to help balancing the budget. Do you think that would be a nice way to start on this decontrol of subsidy payments?

Secretary Vinson. Well, I may be influenced by the conclusions that I reached after several subsidy fights. As I recall, we had several real fights to have subsidies and retain them. I think subsidies have played a very, very important part in our cost of living. You say meat will go up 1 cent a pound, butter 3 cents or 4 cents. When those things happen, right now—which I think is the most critical time in the stabilization program—it was after World War I, that was when the
spiral really leaped—it is a real impact on the cost of living. I am not in a position to speak as to the time when subsidies should be reduced or removed, or the method, because it is a very, very intricate problem, and I know that there is much in what you say, to the effect that they would not want them to be removed.

But if you get further along into it, I believe it will work itself out. As a matter of fact, I know—and you probably know, too—the thought and consideration that was given to the reduction and removal of subsidies, and my notion about subsidies was just exactly the same as my notion about price control. I think subsidies should be removed in a skillful manner, and at such time and in such a way as it will have the least impact. But when you talk about bread going up, meat going up, milk going up, butter going up, those are basic ingredients in the American diet.

Mr. Sundstrom. Yes, but you are talking about this terrific demand on consumer goods, and all we are going to do is to feed it to them in small doses. If you are going to do away with it, I think you have got to do away with it gradually rather than try to make it too startling at one moment for all the individuals.

Secretary Vinson. I agree with you that it should require a very skillful and considered operation.

Mr. Sundstrom. It would certainly help you balance the budget if you could save $633,000,000.

Secretary Vinson. That would be quite pleasing, but whether or not the disadvantages that would come from contributing toward the inflationary spiral might not outweigh the saving of that $633,000,000 must be considered—I think that the inflating effect would far outweigh the savings.

Mr. Sundstrom. I think it would be deflationary because it would help remove some of this $633,000,000 pressure you are talking about.

Secretary Vinson. I am sorry, but I am not in agreement with you. I always like to agree when I can, but I do not agree.

Mr. Sundstrom. Is there any thought at all that you know of of any new subsidies? Would you be in favor of any new ones?

Secretary Vinson. I am not on that front, that is, as intimately as I was. I have heard of no new ones, except in the housing field, and, as I understood it, the House had its reaction, very definitely.

Mr. Sundstrom. That is all, Mr. Chairman.

The Chairman. Mr. Kilburn.

Mr. Kilburn. Mr. Secretary, there are two things mentioned in your statement which are not clear to me. You spoke, in answer to the chairman once, to the effect that we wanted the Office of Price Administration continued for another year because we wanted 1 more year of production.

Secretary Vinson. One more year of what?

Mr. Kilburn. One more year of production, increased production.

Secretary Vinson. Before—

Mr. Kilburn. Inferring that the Office of Price Administration was responsible for increased production. We have had a great deal of testimony before this committee, from different industries, indicating that the Office of Price Administration hurt production.
Secretary Vinson. Well, I think I have spoken my views on that. Certainly, my notion as to the added year was that we would have that period to expand our production.

Mr. Kilburn. But we have had different industries tell about closing down mills and cutting their production because of Office of Price Administration regulations.

Secretary Vinson. Well, I heard about a lot of those things, for almost 2 years, when I was in the Department of Economic Stabilization, about threats to close down and in some instances there was closing. I remember in the clothing field, underwear. I think there were some mills which closed down. But the Office of Price Administration got to it, and they went back into production.

Mr. Kilburn. Well, one man here testified that he had 75 lumber mills, and he only had 26 in operation. And he was going to close some of those, because he was losing money on them because of Office of Price Administration regulations. I mean I just gathered the impression that in many fields production was being cut because of Office of Price Administration regulations.

Secretary Vinson. I am not familiar with the present status. But my judgment is that there has not been a great deal of production lost in specific ceiling-price cases, and certainly total production has not suffered. I am not saying that there have not been hardship cases. I made that statement even while I was Economic Stabilization Director. But when you have our economy such as it is, I think that, by and large, it is a pretty fair job.

Mr. Kilburn. One other question. How do you feel that we should end the Office of Price Administration? We are all agreed that it should not be permanent. How do you feel the natural end of the Office of Price Administration is going to come? You spoke once in your testimony about the fact that some things might come off before a year is up. Do you feel that when production in an industry reaches demand, that the Office of Price Administration should then remove controls?

Secretary Vinson. Well, it is a question of the relationship of the particular product with other products, and the possibility of a scarce supply in a substitute product.

Mr. Kilburn. I am talking about a whole industry.

Secretary Vinson. Well, my notion about how the Office of Price Administration should end is that when you have this increased production, which is coming, which is here, and which will certainly expand, when, after thorough consideration, there is no need for price control or other controls, that those controls should be removed, whether that is a month from now, 4 months, 6 months, or 15 months from now.

Mr. Kilburn. We had the petroleum industry here. I know nothing about the petroleum industry.

Secretary Vinson. Well, I spent quite some time in the petroleum fields on a price increase. I feel almost as though I am an expert on that—that is, as of 1943, 1944, and 1945.

Mr. Kilburn. At any rate, these people testified that they had bigger stocks of petroleum on hand now than they have had in the history of the country, and yet the Office of Price Administration will not remove their price controls.
Secretary Vinson. Well, of course, you have got petroleum—that is, crude, which enters into petroleum products. Some of those products may or may not be in short supply—I do not know. When I spoke of my knowledge of the petroleum situation, it was back in 1943, 1944, and the first half of 1945. I am not attempting to speak to any specific action by the Office of Price Administration.

Mr. Kilbourn. I am just using that as an illustration.

Secretary Vinson. Yes.

Mr. Kilbourn. If they have a bigger supply than they have ever had, I do not know why they should not remove controls. I wondered how you felt, since the Office of Price Administration has not done that, apparently, how would you feel about an amendment to this bill providing that, after check and double check and everything else, if we find that supply is equal to the demand, control be removed?

Secretary Vinson. Well, of course, it is a question of what is done with a particular commodity. Take, for instance, petroleum. Petroleum goes into manufactured products. The price of one commodity is the cost of someone else. You have got plenty of crude. There is no question about that. I think production now is something like 4,700,000 barrels a day. I have been interested in it, and I am pretty sure that is what it is. And the peak production was a little over 5,000,000. But if you increase the cost of crude, then, you increase the cost of lubricating oil; you increase the cost of gasoline; you increase the cost of all commodities. I say that, generally, because there might be some absorption, but I know that when the question of the price increase was up when I was there, the refiners took the definite position that you could not have an increase in the price of crude without a corresponding increase in the price of the manufactured product.

Mr. Kilbourn. That illustrates my point. If you cannot remove the controls when you have a big supply on hand, a supply equal to demand, on one industry, without affecting somebody else, I do not see how you are ever going to end price control unless you cut the whole thing out at once.

Secretary Vinson. I think I can see where it can come off gradually.

Mr. Kilbourn. Well, you see my point there?

Secretary Vinson. I see what you say; yes.

Mr. Kilbourn. According to your opinion on it, you would have to have a large supply of not only petroleum but everything that petroleum went into, all the way along the line, and, of course, the thing is so complicated that you would never be able to remove price controls on any segment of our industry, it seems to me, until you remove them all at once. And if you are going to do that a year from now, I think you are going to have an impact just as if you did it now.

Mr. Chairman. Mr. Brumbaugh.

Mr. Brumbaugh. Mr. Secretary, I want to state that I appreciate the kindness your office has shown me.

Secretary Vinson. Thank you, sir.

Mr. Brumbaugh. I just want to ask you one question. Do you believe in the interference with these trade discounts in connection with absorbing additional costs, such as they are asking the automobile dealers to do?

Secretary Vinson. I am not familiar with that issue.
Mr. Brumbaugh. They are asking automobile dealers to reduce their trade discounts in order to absorb additional costs due to raises in wages.

Secretary Vinson. I have not given any thought to that; no, sir.

Mr. Brumbaugh. That is the only question I had, Mr. Chairman, but I wanted to ask the committee whether it would be possible for me to insert in the record after the Secretary's testimony a statement from the Textile Manufacturers Association of Philadelphia.

The Chairman. Without objection, it may be inserted.

(The document above referred to is as follows:)

CONTINENTAL MILLS, INC.,
Philadelphia 44, March 26, 1946.

GENTLEMEN: In presenting this short brief in opposition to the extension of the Emergency Price Control Act, I want to make the statement that I am president of the Continental Mills, Inc., Pennsylvania, manufacturers of men's, women's and children's coatings of wool and related fibers.

I am representing before your committee the Philadelphia Textile Manufacturers' Association, which has 235 members who are manufacturers of textiles and are located in and around Philadelphia. Our members are unanimous in being opposed to the extension of the Price Control Act beyond June 30, 1946.

In addition to this group, I am also representing the American Institute of Smaller Business, which is a new organization of about 100 small businessmen in Philadelphia and vicinity. These small businessmen have had a tremendous struggle to exist under the present regulations and many of them express the doubt of being able to survive another year under the regulations as they are today.

Sincerely yours,

MILLARD D. BROWN.

REMARKS BY MILLARD D. BROWN BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE UNITED STATES CONGRESS IN OPPOSITION TO EMERGENCY PRICE CONTROL ACT, 1946

During the war it was necessary to divert production to provide the materials for victory. Price and production controls were necessary to accomplish that end. The length of the war has resulted in severe shortages of all civilian necessities as well as luxuries.

Hostilities ceased in the middle of August and we are still under price and production controls which are adapted only to a war, or a closed economy and not a free economy. When more than half of our production was devoted to goods and munitions, specified in every detail by our war agencies, it is entirely a different condition from the completely varied wants of American citizens in time of peace. No man or set of men can successfully regulate production and price controls to supply our citizens' wants, unless all manufactured goods are made to Government specifications, and our citizens required to be clothed in uniforms.

OPA wants to maintain price ceilings “only until supply comes in balance with demand.” But the very maintenance of the ceilings has dried up one commodity after another, so that demand and supply never will come in balance.

The price mechanism is the most delicate regulator in the world. Like a thermostat, it keeps all the other elements in the economy in balance one with the other.

The penalties of price controls are either widespread black markets or the destruction of trade. At the present time we are suffering both.

Free pricing in a free market is the only means of removing price inflation. Full production, which is the objective of the reconversion program, will never be obtained excepting by that method.

Price controls and maximum production are not twins. They are opposites, with the former retarding the latter. In fact, the retention of controlled pricing will lower the level of living for the workingman by lowering business activity.

There is but one way to attain maximum production of things we want. That is by free prices under free private enterprise.
If we do not free prices now, controls will continue indefinitely with disastrous consequence to our future liberty. We cannot hold the price of any commodity below its market level without bringing about two consequences. The first is to increase the demand for that commodity. The second is to reduce the supply of it. The only consequence of price fixing, therefore, is to bring about a shortage of that commodity, resulting in black markets or quality depreciation.

Price fixing may seem to be successful for a short time, but the longer it is in effect the more difficulties increase. We are now at that point where we must make a choice; there can be no further extension of price controls if we want full production. The extension of the Office of Price Administration beyond June 30 means decreasing production and ultimately a completely regimented economy.

As an instance of controls defeating their purpose, the Office of Price Administration instituted last year a new regulation called maximum average price, or MAP for short. Ceiling prices already existed on individual articles but MAP was added to keep average prices in line with conditions existing in some period of the past. In other words, it was a production control disguised as a price regulation. (Every bureaucrat is always scheming some method of increasing his power.) As the public demand in the textile industry changes from year to year, without any relation to the past, one result of MAP was to increase the production of lighter weights of clothing for women's wear at a loss in production of over 3,000,000 men's suits in the fall of 1945. There are many more instances showing the effects of which they were intended.

As a result of price controls we have active black markets, lowered quality standards, reduced services, substitute products, tie-in sales, and a large expenditure of Government subsidies.

The return to free pricing will correct these evils and bring balanced production, and quick reconversion. A byproduct will be a reduction in Government expenses, for which we all devoutly pray. The greatest threat to inflation is the continuation of the tremendous cost of our Government.

Several years ago President Roosevelt remarked, "We have built up new instruments of public power" which in other hands "would provide shackles for the liberties of the people." Today "those instruments of power" are in other hands and the evidence indicates they are being used to provide the shackles for our liberties.

President Truman has stated that 1946 is our "year of decision." In this I agree with him. The decisions of Congress and the decisions of our people at the polls later will determine whether the elected representatives of our people will make the laws of the land or whether our laws will be dictated by the President and his bureaucracy.

The Emergency Price Control Act provides, "In order to aid effective prosecution of the war the President is authorized and directed to" etc., thus expressing clearly that the act was for the period of hostilities only. Hostilities ceased months ago. The act should be repealed forthwith as it is not adapted to successful operation in time of peace.

The same methods we are using for price control have been used many times by other peoples in the past and are recorded as failures by history. Like all other nations we are endeavoring to treat the symptoms and not the causes of the disease. Why not profit by past experience? Dr. A. D. White published in 1914 a study called Fiat Money Inflation in France covering the revolutionary years of 1789-96. A commentator writes the following on this book: "It records what is perhaps the greatest of all governmental efforts—with the possible exception of Diocletian's—to enact and enforce a legal limit of commodity prices. Every fetter that could hinder the will or thwart the wisdom of democracy has been shattered, and in consequence every device and expedient that untrammeled power and unrepressed optimism could conceive were brought to bear. But the attempts failed. They left behind them a legacy of moral and material desolation and woe, from which one of the most intellectual and spiritual races of Europe has suffered for a century and a quarter, and will continue to suffer until the end of time."

Until the Congress, by its own actions, insists that our national budget shall be balanced, that every expense of Government, which is not absolutely necessary, will be eliminated, inflation will continue.

Price controls will not stop inflation. The fire was started and is being fed by unbalanced budgets and Government extravagance.

Involved in this issue are all the processes of personal liberty and freedom, for which this Nation was founded.
I earnestly urge your honorable committee to recommend unfavorably this bill to extend the Price Control Act beyond June 30, 1946.

The Chairman, Mr. Secretary, we want to thank you. We all wish you the best of luck in your administration and hope you will have an opportunity to come back and see us again.

Secretary Vinson. Thank you, sir.

The Chairman. The committee will now adjourn, to reconvene at 2 o'clock.

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

(The report referred to is as follows:)

A REPORT ON THE OPA

(Remarks of Congressman John Phillips of California, in the House of Representatives, Monday afternoon, February 4, 1946, speaking as a member of the Republican Congressional Food Study Committee)

When Adolf Hitler was still a paperhanger, trying to improve his social and economic conditions by becoming a political leader, he spent some time in a Landsberg jail. Other than the fact that his freedom was restrained (a condition he subsequently imposed on an entire nation) it was not an unpleasant vacation, and it gave him time to write a monumental work called Mein Kampf. The world never took this book seriously enough at that time, and still does not take it as seriously as it deserves.

Hitler was not an experienced writer. He belonged rather in the group of political pamphleteers. Mein Kampf therefore is now, and will continue to be for many generations, one of the important political tracts of the period through which the world is passing.

Mein Kampf is, in effect, a psychological autobiography. It put down in writing just exactly what the future Fuhrer intended to do, and why he intended to do it. It also says frankly why he thought these ideas would succeed, just as the CIO-PAC, for example, in this country, puts down frankly just how it runs its political campaigns, and why it thinks its methods will succeed.

The reason I say that Mein Kampf is taken with too little seriousness in the United States is because it contained then, in 1926 (Hitler was sentenced in the Peoples Court at Munich in 1924, and wrote Mein Kampf during the next 2 years) and still contains, the blueprint of certain methods now being used politically in the United States.

For example, I quote from page 108 of Mein Kampf, in which Mr. Hitler proclaims to an apathetic world his belief in certain propaganda methods and his reasons for that belief:

"What we mean by the words 'public opinion' depends only to the smallest extent on the individual's own experiences or knowledge, and largely on an image, frequently created by a penetrating and persistent sort of so-called enlightenment."

Please observe, Mr. Speaker, the words "penetrating and persistent."

There are other quotations, and I tried in the short time I had before preparing this talk, to find his comment, which I am certain is in Mein Kampf, concerning the power of repetition. To put it in my own words, if the propagandist repeats a false statement often enough, not only do the people believe it, but he himself may eventually believe it.

The similarity between the methods advised by the late Mr. Hitler and the present Mr. Bowles, should not be overlooked. This is exactly the program of the OPA.

CREDIT WHERE CREDIT IS DUE

Obviously, Mr. Speaker, I could explore this subject, and elaborate upon its details. My intention today is simply to give credit where credit is due. It is a common thing, in science, to attach the name of the discoverer, or the name of the principal developer, to some method or to some disease or to some discovery. We speak, for example, of "Parkinson's disease," an inflammation of the spinal cord; we speak of "Weil's disease," a serious blood disease; or we speak of "Winckel's disease," an internal hemorrhage in newborn infants. These are examples of what I mean.
Mr. Hitler pointed out this method, and Mr. Bowles has taken it almost without change and has imposed it upon the still apathetic housewives of the United States. I think, therefore, in simple fairness to Mr. Bowles, we should in the future refer to this propaganda method as "the Hitler-Bowles method."

At the moment it is being used openly to renew the life of the OPA, and thus impose on the men and women of America a control which is the forerunner of national socialism.

I am on the floor today, Mr. Speaker, to give accurate figures regarding the citrus prices, and to trace step by step the procedure used by the OPA to deceive the American housewives, between November 19 and January 4.

CHARGES SUBSTANTIATED

These figures will substantiate the charges made by the Republican Congressional Food Study Committee, which were as follows:

1. OPA failed to remove price ceilings, as it had agreed to do, late in July 1945, when average orange prices fell far below ceiling.

2. OPA thereafter consistently refused to keep its promise to remove ceilings, although wholesale prices of oranges were from 60 cents to $2.24 below ceilings for 18 weeks prior to November 19.

3. Having failed to remove ceilings when it should have done so, OPA suddenly suspended ceiling prices on November 19, when the demand was the highest and the supply the lowest for several weeks. OPA announced this suspension would be reviewed after 60 days.

4. In removing ceilings just 3 days before Thanksgiving, OPA did so with the knowledge that market conditions would almost certainly bring about a sharp increase in the price of the better grades of citrus fruit. This is the history of holiday marketing in many commodities.

5. OPA propagandists, from district and local press agents to Chester Bowles himself, immediately began a systematic propaganda campaign. They ignored the average price of citrus fruit, talked only of the "skyrocketing" of a few specialty grades; implied that their distorted version was a true picture of citrus prices, and drew from this the conclusion that "this is what happens when ceiling prices are removed, therefore OPA must be continued beyond June 30."

6. Completing the price coup, OPA succeeded in having ceiling prices reimposed on January 3, at a time when adequate supplies were just beginning to reach the market, when prices were already on their way down, and when the citrus market was historically in its period of lowest seasonal prices.

7. In his public statement of January 5, 1946, Mr. Bowles stoops to the low level of using erroneous figures and false ceiling prices in order to make market prices during the period of suspension appear relatively higher than they actually were.

Several times, Mr. Speaker, while this matter was being argued between the OPA, the Office of Economic Stabilization, and the Department of Agriculture, members of the Republican Congressional Food Study Committee, besides myself, accused the OPA of deliberately issuing misleading figures on citrus price ceilings and thus attempting to provide propaganda for the continuation of the OPA.

On December 21 (Cong. Rec., p. 12712), as on December 6 (Cong. Rec., p. 11781), I gave, in the well of this House, the accurate figures regarding both increased and decrease prices to the housewives, for citrus fruits. I pointed out, Mr. Speaker, as you will remember, that on the OPA's own figures, the percentage of citrus fruits selling over the ceiling, was actually less than before the ceiling prices had been taken off. I also pointed out, that the increase, up to that time, for all kinds of citrus fruits, over the United States, was 2.1 cents per box. In order to find the average increase for oranges, you have only to divide 8.6 cents by something over 200 oranges. I said then, and I repeat now, that this does not seem to me to be a very startling, nor a very inflationary trend, and that so far as I am concerned my heart is not bleeding for the well-to-do-purchaser of large sizes, or early fruit, sold on the high-priced city markets.

I also pointed out, as you will remember, that there were difficulties in certain markets, particularly in some markets mentioned here on the floor, because of transportation troubles, and that this exists anytime, and has very little relation to whether or not we have a ceiling price. Then, Mr. Speaker, in the December 21 speech, I gave figures, all of them pointing out inaccuracies in the figures announced publicly by the OPA, and bringing the market prices up to date.
I was trying to show that the housewife benefits directly from as nearly normal a market as possible, and that certainly nothing in the citrus situation justified the concern which I now recognize as part of the Hitler-Bowles method, which was then being expressed by the OPA Administrator.

Promised to give more figures

I said to you, Mr. Speaker, that I would return to this floor following the recess, and give more figures, again bringing the situation up to date. All Members of Congress know what has happened in the meantime. As soon as the Congress recessed, on December 21, the pressure increased steadily. I mean, the pressure to return the ceilings. Having delayed taking off the ceilings, when they were requested prior to October, and having taken them off on November 19, which is historically the time prices begin to rise, ceilings or no ceilings, and when fruit is scarcest, and when the holiday season approaches, all the machinery of propaganda, under the Hitler-Bowles method, was exerted to force the ceilings back on again.

I think it should be said to the credit of the Secretary of Agriculture that he at no time was part of this conspiracy. Correct figures were at all times available in the Department of Agriculture. I now say, in the simplest possible language, that the figures which Mr. Bowles credited to the Department of Agriculture, are not the figures the Department of Agriculture uses to represent citrus prices. I also say that the order announced about January 3, which returned price ceilings, was not favored by the Secretary of Agriculture; and this is a matter of record. He only approved it when directed to do so by the Office of Economic Stabilization. The order returning citrus ceilings came from the office of Judge Collett, the Office of Economic Stabilization.

Mr. Speaker, I will now support these charges. On January 5, 1946, Mr. Bowles released to the press what he called a reply to the charges which had been made by the gentleman from Ohio (Mr. Jenkins) and myself and restated by the distinguished junior Senator from Nebraska (Senator Wherry). In this Mr. Bowles did his best to disprove the charge of propaganda, and admitted that OPA anticipated, when price ceilings were removed on November 19, that the prices of some oranges and grapefruit would go up. Mr. Bowles' "reply" contains misstatements of fact and misrepresentations. It demonstrates effectively the truth of the charge that OPA has deliberately misrepresented the citrus situation and is using it for propaganda purposes.

In this "reply to charges by Senator Wherry and Representatives Jenkins and Phillips" (to quote the latter) that OPA deliberately misrepresented citrus fruit prices in order to provide itself with a propaganda theme for continuation of the OPA, Mr. Bowles admits that OPA knew prices would go up when it removed ceilings on November 19.

I quote Mr. Bowles: "It was anticipated that, because of extraordinary demand for fruits just before Thanksgiving and before Christmas, there might be temporary upward price flurries particularly in specialty oranges."

This is exactly what the Republican Congressional Food Study Committee had charged—that OPA knew when it took price ceilings off that prices of some citrus fruits would advance. That OPA was prepared to take advantage of the "example" of decontrol thus afforded, is demonstrated by the almost verbatim press releases from OPA which appeared in papers throughout the country, and from the many references by Mr. Bowles himself to the "skyrocketing" of citrus-fruit prices.

In each case, it should be pointed out, the OPA carefully selected only the highest prices it could find anywhere on the citrus market nationally; and consistently concealed from the American housewives, from whose pocketbooks the money must come, the fact that, since average prices were little if any above the ceiling, then, of necessity, the housewives were buying a very large percentage of their citrus requirements at less than the prices before the ceilings were removed.

We do not need to go out of the city of Washington to demonstrate this fact. The citrus industry filed, with Judge Collett, tear-sheets from newspapers from all parts of the United States. I offer today only Washington tear-sheets, and I do not need to remind any Member of this House of the fact that Washington prices are not the lowest in the United States.

(Display tear sheets).

Here are advertisements from the Washington Evening Star, beginning with Monday, November 26, and running to Thursday, January 3, showing the prices...
extend price control and stabilization acts of 1942

of oranges and grapefruit in one large group of retail stores. Citrus prices never went over OPA ceilings in this group during the entire period of suspension. On Florida grapefruit and oranges prices were substantially below ceiling throughout that period. Keep in mind, please, Mr. Speaker, that this was the period used by the OPA during the systematic campaign under the Hitler-Bowles method. Oranges and grapefruit were available in adequate quantities. Please observe that these stores were offering them by the box. With a grapefruit ceiling 7½ cents, they were advertised five times at 6 cents per pound; three times at 7 cents, and never went over 7 cents. Oranges, with a ceiling of 8½ cents, were advertised twice at 5 pounds for 33 cents; once at 5 pounds for 31 cents, and five times at 10 pounds for 65 cents.

Texas grapefruit, with a ceiling of 9 cents, were advertised three times for 7 cents per pound, and four times at 9 cents; always under the previous OPA ceiling.

In addition to these local papers I have tear sheets from Syracuse, N. Y., from Burlington, Iowa, and from Hutchinson, Kans. The story in each advertisement is the same; oranges and grapefruit, of the sizes the housewives want, in adequate quantities at less than ceiling prices. This is not the story told to the buying public of the United States by the OPA, under the Hitler-Bowles method.

MR. BOWLES ADMITS CHARGE

Mr. Bowles has, therefore, admitted the only portion of the charges made by the Republican congressional food study committee which was not already a matter of general public knowledge. There are, however, other misstatements and misrepresentations in Mr. Bowles' so-called "reply." For example:

(1) Says Mr. Bowles: "Beginning in the late summer and early fall, OPA was under constant and heavy pressure from citrus trade interests to remove price ceilings from citrus fruits."

The facts are: The pressure for modification or removal of citrus fruit ceilings started in March 1945, when representatives of the citrus industry from California, Arizona, Texas, and Florida came to Washington.

The reasons for requesting removal of citrus prices at that time was that a bumper crop of citrus fruit was then a certainty; there was going to be a record crop of Valencia oranges, but the oranges themselves were going to be the smallest on record. Experience has shown conclusively that OPA ceiling prices tend to become floor prices at the wholesale and retail levels, thus pegging artificially the prices of small fruit at or near ceiling prices and preventing the normal movement of small sizes of fruit and the normal savings to the housewives which automatically occur when the trade lowers the price on such fruit in order to dispose of it.

After a study of the data presented by the citrus growers and the Department of Agriculture, 'OPA promised in April that when the average prices at auction dropped 50 cents below the ceiling price for a period of 10 days, they would suspend ceilings. This promise was never kept." (I quote a statement by Mr. J. A. Stewart, general manager, Mutual Orange Distributors.) The condition prescribed by OPA was met on July 28, 1945, when the average price of oranges at 10 auction markets dropped to a point of $1.52 below ceiling. On July 30, the citrus growers filed a formal petition with OPA and the Department of Agriculture, asking that the agreement to remove ceiling prices be carried out.

I interrupt myself here, Mr. Speaker, only to call to your attention, that Mr. Bowles has several times made this statement regarding ceiling removals; on October 23, before the Banking and Currency Committee of the Senate, he said:

"As rapidly as supply and demand come into balance, * * * other controls will be suspended. However, we will maintain a cautious watch over the price trends in this field, and reestablish any suspended ceilings, whenever inflationary price movements develop."

And in a letter to the House Appropriations Committee dated October 1 (Report 1125) he said:

"Continuing studies of the supply-demand picture are being carried on in each price branch * * * in conjunction with the other agencies of the Government. Controls are being dropped and will be dropped as promptly as supply comes up to demand. It is the policy of the agency to drop controls a little too early, rather than too late, as long as there appears to be no likelihood of a similar increase in the price level."
In spite of its promise to do so, however, OPA refused to remove citrus ceilings during the 18 weeks in which the price of oranges remained from 50 cents to $2.24 a box below ceilings, just as it has delayed or refused to remove other ceilings where this should have been done under Mr. Bowles' own statement. Then on November 13, as supplies were becoming scarce and as the extraordinary holiday demand was beginning to appear, price ceilings were suddenly suspended.

Following are the weekly averages of the 10 auction markets accepted by the citrus industry and by the Department of Agriculture as a reliable guide to citrus fruit prices, starting with the date prices dropped below ceiling:

<table>
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<th>Week ending</th>
<th>Number of cars</th>
<th>Average</th>
<th>Amount below ceiling</th>
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<td>444</td>
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<td>4.33</td>
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<td>2.24</td>
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<td>1.51</td>
</tr>
<tr>
<td>Apr. 22, 1945</td>
<td>661</td>
<td>4.45</td>
<td>1.30</td>
</tr>
<tr>
<td>Apr. 29, 1945</td>
<td>637</td>
<td>4.47</td>
<td>1.30</td>
</tr>
</tbody>
</table>

The validity of the citrus industry's claim that OPA ceilings unbalance the price situation and tend to become floor prices as well as ceilings, is demonstrated by the following table. As is clearly indicated by this table, the price the consumer pays for oranges, under OPA ceilings, has gone up proportionately higher than it did on a free market, and has stayed there longer.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<td>1934</td>
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<td>26.4</td>
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<td>29.9</td>
<td>29.8</td>
<td>32.2</td>
<td>32.2</td>
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<td>33.8</td>
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<td>2.7</td>
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<tr>
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<td>do</td>
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<td>26.0</td>
<td>23.2</td>
<td>23.3</td>
<td>26.3</td>
<td>27.5</td>
<td>27.5</td>
<td>27.5</td>
<td>32.5</td>
<td>32.5</td>
<td>33.1</td>
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<td>24.9</td>
<td>23.3</td>
<td>23.5</td>
<td>25.7</td>
<td>25.9</td>
<td>29.6</td>
<td>27.7</td>
<td>28.5</td>
<td>31.6</td>
<td>22.8</td>
<td>26.3</td>
<td>25.1</td>
<td>23.5</td>
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<tr>
<td>1939</td>
<td>do</td>
<td>24.4</td>
<td>23.3</td>
<td>22.9</td>
<td>23.7</td>
<td>24.7</td>
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<td>25.3</td>
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<td>26.2</td>
<td>26.2</td>
<td>27.6</td>
<td>25.6</td>
<td>28.8</td>
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<tr>
<td>1940</td>
<td>do</td>
<td>33.0</td>
<td>28.3</td>
<td>29.5</td>
<td>28.1</td>
<td>29.5</td>
<td>30.0</td>
<td>29.8</td>
<td>29.9</td>
<td>28.6</td>
<td>28.7</td>
<td>28.7</td>
<td>29.3</td>
<td>26.3</td>
<td>28.6</td>
</tr>
<tr>
<td>1941</td>
<td>do</td>
<td>23.4</td>
<td>25.6</td>
<td>25.6</td>
<td>26.2</td>
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<td>27.6</td>
<td>28.1</td>
<td>33.6</td>
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<td>33.8</td>
<td>36.3</td>
<td>28.0</td>
<td>28.4</td>
<td>10.9</td>
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<tr>
<td>1942</td>
<td>do</td>
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<td>25.5</td>
<td>28.9</td>
<td>27.1</td>
<td>25.9</td>
<td>30.3</td>
<td>34.0</td>
<td>36.8</td>
<td>36.4</td>
<td>41.5</td>
<td>41.9</td>
<td>40.9</td>
<td>33.5</td>
<td>16.7</td>
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<td>1943</td>
<td>do</td>
<td>36.0</td>
<td>35.7</td>
<td>28.3</td>
<td>29.0</td>
<td>41.5</td>
<td>43.2</td>
<td>47.2</td>
<td>49.6</td>
<td>50.7</td>
<td>54.4</td>
<td>44.2</td>
<td>41.1</td>
<td>45.3</td>
<td>15.9</td>
</tr>
<tr>
<td>1944</td>
<td>do</td>
<td>30.2</td>
<td>36.3</td>
<td>40.5</td>
<td>43.3</td>
<td>44.7</td>
<td>45.9</td>
<td>46.4</td>
<td>48.0</td>
<td>48.6</td>
<td>47.8</td>
<td>45.8</td>
<td>41.6</td>
<td>43.9</td>
<td>12.3</td>
</tr>
</tbody>
</table>

It will be noted from the study of the table of retail prices that, before price control, orange prices tended to reach their highest point about September and thereafter tapered off rather rapidly to reach their low about January, with an average spread between the highest and the lowest average monthly price, of 8.3 cents for the 8 years 1934 to 1941. With the impact of price control the market lost its flexibility and not only showed a tendency to reach high prices earlier, but continued them longer, and resulted in a far greater spread, between the season's high and low prices, than on a free market.

For the 3 years 1942-44 inclusive, the average spread was 14.7 cents. This represents an unnecessary cost to the consumer resulting from the destruction of market flexibility by price regulations and the tendency of ceiling prices, which become floor prices, to be determined and foretold, has not operated to lower prices to the housewives but has operated to increase the prices they must pay.

(2) Says Mr. Bowles: "In early November, however, it became apparent that the bumper crop would actually materialize, that it was moving toward the market, and that prices were beginning to fall below ceilings."
The facts are: There are two misstatements of fact in this one sentence: (1) Prices were not "beginning to fall below ceilings;" the price of oranges had been from 50 cents to $2.24 below ceilings for the past 18 weeks, and rather than "beginning" to fall had actually increased somewhat after reaching their low point in mid-August and (2) The bumper crop was not "moving toward the market" but supplies were actually at their lowest point for many weeks on November 19, the date Mr. Bowles chose as the strategic moment to lift ceiling prices.

The fruit that was "moving toward the market," at the time price controls were lifted, was that which had been shipped during the three previous weeks. Shipping records compiled by the Department of Agriculture show that orange shipments for the week ending November 17, 1945, were the lowest since the week ending October 6, 1945.

For a month previous to the moment selected by Mr. Bowles for lifting citrus fruit prices, orange shipments had been falling off and for the 3 weeks immediately preceding November 19 (the supplies which were reaching the market at the time ceilings were removed) total shipments of oranges had averaged only 2,762 cars per week—just about half the normal movement after the full winter supply of oranges reaches maturity.

The following table shows total United States shipments of oranges for the period August 4 to December 1, 1945:

<table>
<thead>
<tr>
<th>Week ending—</th>
<th>California-Arizona</th>
<th>Florida</th>
<th>Texas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Navelses</td>
<td>Valencias</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug. 4</td>
<td>2,001</td>
<td>2,001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug. 11</td>
<td>1,779</td>
<td>1,779</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug. 18</td>
<td>2,135</td>
<td>2,135</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug. 25</td>
<td>2,460</td>
<td>2,460</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept. 1</td>
<td>2,446</td>
<td>2,446</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept. 8</td>
<td>2,411</td>
<td>2,411</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept. 15</td>
<td>2,439</td>
<td>2,439</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept. 22</td>
<td>2,588</td>
<td>2,588</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 6</td>
<td>2,284</td>
<td>2,284</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Oct. 13</td>
<td>2,116</td>
<td>2,116</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td>Oct. 20</td>
<td>2,211</td>
<td>2,211</td>
<td>433</td>
<td></td>
</tr>
<tr>
<td>Oct. 27</td>
<td>1,574</td>
<td>1,574</td>
<td>1,623</td>
<td>402</td>
</tr>
<tr>
<td>Nov. 3</td>
<td>1,003</td>
<td>1,003</td>
<td>1,605</td>
<td>337</td>
</tr>
<tr>
<td>Nov. 10</td>
<td>874</td>
<td>874</td>
<td>1,521</td>
<td>324</td>
</tr>
<tr>
<td>Nov. 17</td>
<td>674</td>
<td>762</td>
<td>1,551</td>
<td>308</td>
</tr>
<tr>
<td>Nov. 24</td>
<td>498</td>
<td>498</td>
<td>1,430</td>
<td>459</td>
</tr>
<tr>
<td>Dec. 1</td>
<td>2,484</td>
<td>2,484</td>
<td>2,772</td>
<td>671</td>
</tr>
<tr>
<td>Total</td>
<td>3,225</td>
<td>31,644</td>
<td>34,869</td>
<td>13,080</td>
</tr>
</tbody>
</table>

The historical price pattern should have been sufficient warning to OPA not to remove ceiling prices in mid-November if it sincerely intended to keep prices down. An examination of the monthly retail price chart on page 8 discloses that, historically, the retail price of oranges in November is still well above the yearly average, and that the lowest price—indicating adequate supplies—is not automatically reached until after the first of the year. This was the time chosen by the OPA to reinstate price ceilings. It will be noted that in the 10 years 1934-43, for which revised retail figures are available, the November price of oranges was well above the average annual price in all but 3 years.

(3) Mr. Bowles says: "After the price flurries in specialty oranges during the Thanksgiving holiday had leveled off, the average of all citrus prices continued to move steadily upward."

Throughout the period of price suspension, OPA utilized every medium of propaganda to capitalize on the increase in the price of specialty citrus fruits which had been brought about by its action. This started with simultaneous and almost verbatim press releases from OPA regional offices throughout the country the day after ceilings were removed, and continued throughout the period of price suspension, in the form of statements by Mr. Bowles, by regional and local OPA press agents, and by other inspired spokesmen. These statements employed a uniform technique: the average price of citrus fruit was ignored; prices quoted were invariably the highest that could be found, even though they might reflect
the price of only a few boxes of specialty oranges out of carloads of all grades which had been sold; the statements uniformly pointed to the increase in citrus prices as an example of what happens when ceilings are removed, and exploited this incident as a major argument in favor of the indefinite continuation of price controls.

**MR. BOWLES TO THE NAM**

The following statement by Mr. Bowles, made to the National Association of Manufacturers December 6, 1945, is typical:

"Some grades of oranges, lemons, and grapefruit moved up 50 to 100 percent in the first few days following the action of OPA in removing the price restrictions. If this occurred on food products which seemed to be in adequate supply, what would happen to meat, vegetables, milk, cereals, and all the other dozens of food products which are in more scarce supply?"

The facts are: Prices of some *specialty* grades of citrus fruits did advance sharply when ceilings were removed. This is not denied. In fact, it is the basis of the charge which has been made against Mr. Bowles—that ceilings were removed at a time when it was *known* that exactly this reaction would take place. It is further charged that in exploiting this situation which it had created, OPA consistently ignored the average price of citrus fruit and publicized only disproportionately high prices, which were not representative of the market as a whole, and which had the effect of misleading the American people.

The further facts are: That throughout the entire period of price suspension the price of all oranges sold at the 10 largest wholesale markets in the United States was only 11 cents a box above the ceiling price. Since there are more than 220 oranges to the average box, this amounts to an increase of one-twentieth of a cent per orange.

During the same period, Department of Agriculture records show that the average ceiling price of Florida interior grapefruit was only 9 cents a box above previous OPA ceilings, while Texas grapefruit averaged 25 cents a box below the previous ceiling. The average of all grapefruit sold during the period was only 25 cents a box above previous OPA ceiling prices, and for all oranges and grapefruit—except Florida Indian River grapefruit—the average price was only 5 cents above the ceiling, again less than one-twentieth of a cent for grapefruit or oranges.

Far from being a run-away price situation, the prices of citrus fruits probably were a normal reflection of the market conditions which existed during the period of price suspension. One of the major factors was inadequate supply. Mr. Bowles himself admits this when he says that "the first reason (for sustained high prices) was that shortages of freight cars, which still persist, have made it difficult to bring this huge crop actually into the retail market." The following table shows the average prices of all oranges and grapefruit during the period of price suspension:

10 auction average prices compared with average ceiling prices (each weighted by number of cars sold in each market) for entire period of suspended ceiling, Nov. 19, 1945, to Jan. 3, 1946

<table>
<thead>
<tr>
<th></th>
<th>Actual price</th>
<th>Ceiling price</th>
<th>Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oranges:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Florida interior</td>
<td>$4.49</td>
<td>$4.59</td>
<td>-10</td>
</tr>
<tr>
<td>Florida Indian River</td>
<td>5.35</td>
<td>5.00</td>
<td>+35</td>
</tr>
<tr>
<td>California</td>
<td>5.55</td>
<td>5.37</td>
<td>+18</td>
</tr>
<tr>
<td>Total</td>
<td>5.16</td>
<td>5.05</td>
<td>+11</td>
</tr>
<tr>
<td><strong>Grapefruit:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Florida interior</td>
<td>3.98</td>
<td>3.59</td>
<td>+39</td>
</tr>
<tr>
<td>Texas</td>
<td>3.33</td>
<td>3.58</td>
<td>-25</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3.40</td>
<td>3.58</td>
<td>-18</td>
</tr>
<tr>
<td>Florida Indian River</td>
<td>4.95</td>
<td>4.10</td>
<td>+85</td>
</tr>
<tr>
<td>Total</td>
<td>4.05</td>
<td>3.80</td>
<td>+25</td>
</tr>
<tr>
<td>Combined oranges and grapefruit: All except Florida Indian River grapefruit</td>
<td>4.83</td>
<td>4.78</td>
<td>+05</td>
</tr>
<tr>
<td>All</td>
<td>4.85</td>
<td>4.70</td>
<td>+15</td>
</tr>
</tbody>
</table>
The following table gives the week-by-week prices of oranges and grapefruit at the 10 leading auction markets in the United States:

### Orange prices—10 auction averages

<table>
<thead>
<tr>
<th>Approximate ceiling</th>
<th>Florida oranges</th>
<th>California oranges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interior</td>
<td>Indian River</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$5.00</td>
</tr>
<tr>
<td>Cars</td>
<td>Price</td>
<td>Cars</td>
</tr>
<tr>
<td>Nov. 23</td>
<td>100</td>
<td>$4.23</td>
</tr>
<tr>
<td>Nov. 30</td>
<td>204</td>
<td>4.27</td>
</tr>
<tr>
<td>Dec. 7</td>
<td>243</td>
<td>4.36</td>
</tr>
<tr>
<td>Dec. 14</td>
<td>236</td>
<td>4.34</td>
</tr>
<tr>
<td>Dec. 21</td>
<td>211</td>
<td>4.31</td>
</tr>
<tr>
<td>Dec. 28</td>
<td>86</td>
<td>5.16</td>
</tr>
<tr>
<td>Jan. 2, 1946</td>
<td>46</td>
<td>5.44</td>
</tr>
<tr>
<td>Jan. 3, 1946</td>
<td>36</td>
<td>5.20</td>
</tr>
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</table>

### CUMULATIVE

<table>
<thead>
<tr>
<th>1 week</th>
<th>2 weeks</th>
<th>3 weeks</th>
<th>4 weeks</th>
<th>5 weeks</th>
<th>6 weeks</th>
<th>Aggregate (Nov. 19, 1945, to Jan. 4, 1946)</th>
</tr>
</thead>
<tbody>
<tr>
<td>160</td>
<td>394</td>
<td>607</td>
<td>813</td>
<td>1,024</td>
<td>1,110</td>
<td>1,192</td>
</tr>
<tr>
<td>$4.23</td>
<td>4.26</td>
<td>4.29</td>
<td>4.31</td>
<td>4.35</td>
<td>4.42</td>
<td>4.49</td>
</tr>
<tr>
<td>42</td>
<td>103</td>
<td>181</td>
<td>275</td>
<td>394</td>
<td>460</td>
<td>502</td>
</tr>
<tr>
<td>$4.63</td>
<td>4.78</td>
<td>4.92</td>
<td>5.54</td>
<td>5.00</td>
<td>5.23</td>
<td>5.35</td>
</tr>
</tbody>
</table>

### Grapefruit prices—10 auction averages

<table>
<thead>
<tr>
<th>Approximate ceiling</th>
<th>Florida grapefruit</th>
<th>Texas grapefruit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interior</td>
<td>Indian River</td>
</tr>
<tr>
<td></td>
<td>$3.60 (pink $4.27)</td>
<td>$4.10 (pink $4.27)</td>
</tr>
<tr>
<td>Cars</td>
<td>Price</td>
<td>Cars</td>
</tr>
<tr>
<td>Nov. 23</td>
<td>17</td>
<td>$3.88</td>
</tr>
<tr>
<td>Nov. 30</td>
<td>18</td>
<td>4.02</td>
</tr>
<tr>
<td>Dec. 7</td>
<td>32</td>
<td>3.96</td>
</tr>
<tr>
<td>Dec. 14</td>
<td>24</td>
<td>3.50</td>
</tr>
<tr>
<td>Dec. 21</td>
<td>17</td>
<td>3.66</td>
</tr>
<tr>
<td>Dec. 28</td>
<td>23</td>
<td>3.37</td>
</tr>
<tr>
<td>Jan. 2, 1946</td>
<td>6</td>
<td>3.24</td>
</tr>
<tr>
<td>Jan. 3, 1946</td>
<td>9</td>
<td>3.01</td>
</tr>
</tbody>
</table>

### CUMULATIVE

<table>
<thead>
<tr>
<th>1 week</th>
<th>2 weeks</th>
<th>3 weeks</th>
<th>4 weeks</th>
<th>5 weeks</th>
<th>6 weeks</th>
<th>Aggregate (Nov. 19, 1945, to Jan. 4, 1946)</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>55</td>
<td>35</td>
<td>67</td>
<td>91</td>
<td>108</td>
<td>159</td>
</tr>
<tr>
<td>$3.88</td>
<td>3.95</td>
<td>3.96</td>
<td>3.88</td>
<td>3.85</td>
<td>3.74</td>
<td>3.68</td>
</tr>
<tr>
<td>78</td>
<td>188</td>
<td>245</td>
<td>343</td>
<td>440</td>
<td>515</td>
<td>502</td>
</tr>
<tr>
<td>$4.75</td>
<td>4.79</td>
<td>4.89</td>
<td>4.87</td>
<td>4.98</td>
<td>4.98</td>
<td>4.95</td>
</tr>
</tbody>
</table>

(4) Mr. Bowles says: "* * * We could fulfill our responsibility to the consumers of the country only by recommending the immediate restoration of controls."
The fact is: Mr. Bowles had to hurry to get under the wire, before the seasonal drop in orange and grapefruit prices. His order restoring price ceilings just barely made it. This made the OPA look good. But historical evidence indicates that the prices of citrus fruits always decline rapidly immediately after the first of the year, because of the seasonal production then moving to market. Reference to the monthly retail prices in the chart on page 8 will indicate that prices in January and February are almost invariably the lowest of the season.

On the wholesale market, the average weekly prices for the past 3 years have been:

Week ending— Week ending (continued) —
Dec. 22 ——————————— $5.67 Jan. 12 ——————————— $5.92
Dec. 29 ——————————— 4.99 Jan. 10 ——————————— 3.83
Jan. 5 ——————————— 4.37

(5) Mr. Bowles says: That the charges by Representatives Jenkins and Phillips and Senator Wherry that OPA removed ceilings on citrus fruits to provide a "shining example of the horrors of removing price controls" is "ridiculous."

The fact is: Even in his press release seeking to refute the charges, Mr. Bowles himself provides the strongest evidence that OPA has been and is now deliberately misrepresenting the citrus fruit situation in order to mislead the American people.

In his statement, Mr. Bowles includes a supposedly authentic chart of citrus fruit prices and ceilings which is so erroneous and misleading that it must be seen to be believed. It is reproduced exactly as it appeared in Mr. Bowles' own press release, including the explanatory paragraph prepared by OPA, but with the addition in parentheses of the average weekly prices for the weeks from which Mr. Bowles has selected the daily prices:

### TABLE FROM MR. BOWLES' STATEMENT, JANUARY 5, 1946

"As an indication of price behavior just before and following the suspension of ceilings, OPA cited the following figures, taken from Department of Agriculture reports, showing average auction prices for oranges in 10 cities—Boston, New York, Philadelphia, Baltimore, Pittsburgh, Cleveland, Cincinnati, Detroit, Chicago, and St. Louis:

<table>
<thead>
<tr>
<th></th>
<th>Florida, interior</th>
<th>Florida, Indian River</th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceiling per box (average price reflected by the ceiling)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average price before suspension</td>
<td>$4.06</td>
<td>$4.48</td>
<td>$4.86</td>
</tr>
<tr>
<td>(Oct. 8 to Nov. 15)</td>
<td>3.85</td>
<td>4.26</td>
<td>4.42</td>
</tr>
<tr>
<td>Nov. 19 (date of suspension)</td>
<td>$4.47 ($4.23)</td>
<td>$5.02 ($4.63)</td>
<td>$4.95 ($5.44)</td>
</tr>
<tr>
<td>Nov. 21</td>
<td>3.96 (4.25)</td>
<td>4.61 (4.24)</td>
<td>5.45 (5.61)</td>
</tr>
<tr>
<td>Nov. 22</td>
<td>4.42 (4.27)</td>
<td>5.04 (4.54)</td>
<td>5.65 (5.61)</td>
</tr>
<tr>
<td>Dec. 5</td>
<td>4.40 (4.36)</td>
<td>5.43 (5.15)</td>
<td>5.35 (5.26)</td>
</tr>
<tr>
<td>Dec. 12</td>
<td>4.24 (4.34)</td>
<td>5.09 (4.86)</td>
<td>5.25 (5.26)</td>
</tr>
<tr>
<td>Dec. 19</td>
<td>4.35 (4.34)</td>
<td>5.23 (4.98)</td>
<td>5.41 (5.26)</td>
</tr>
<tr>
<td>Dec. 26 (includes sales, Dec. 22)</td>
<td>4.39 (4.51)</td>
<td>5.22 (5.15)</td>
<td>5.48 (5.34)</td>
</tr>
<tr>
<td>Dec. 27</td>
<td>4.86 (5.16)</td>
<td>5.69 (6.38)</td>
<td>6.75 (6.41)</td>
</tr>
<tr>
<td>Dec. 28</td>
<td>5.27 (5.16)</td>
<td>6.79 (6.58)</td>
<td>6.07 (6.41)</td>
</tr>
<tr>
<td>Jan. 3 (day before ceilings reinstated)</td>
<td>6.00 (5.16)</td>
<td>7.37 (6.58)</td>
<td>6.26 (6.41)</td>
</tr>
<tr>
<td>The actual ceilings</td>
<td>$5.45 ($5.35)</td>
<td>7.00 (6.65)</td>
<td>$5.42 ($5.32)</td>
</tr>
</tbody>
</table>

### REvised Figures

The figures in parentheses above, showing the average prices, by weeks, for the weeks in which Mr. Bowles' selected days fall, are taken from a California computation. I now list the official week by week averages for California oranges for the same period, furnished by the Department of Agriculture. Please observe, Mr. Speaker, that the following figures are even lower than the ones I have previously used, thus making Mr. Bowles' press release that much more inaccurate.
Week ending—

<table>
<thead>
<tr>
<th></th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 24</td>
<td>$5.32</td>
</tr>
<tr>
<td>Dec. 1</td>
<td>5.61</td>
</tr>
<tr>
<td>“ 8</td>
<td>5.23</td>
</tr>
<tr>
<td>“ 15</td>
<td>5.25</td>
</tr>
<tr>
<td>“ 22</td>
<td>6.34</td>
</tr>
<tr>
<td>“ 29</td>
<td>6.40</td>
</tr>
<tr>
<td>Jan. 5</td>
<td>5.29</td>
</tr>
</tbody>
</table>

For the weeks following, the prices still further decreased:

Week ending—

<table>
<thead>
<tr>
<th></th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 12</td>
<td>$4.99</td>
</tr>
<tr>
<td>“ 19</td>
<td>4.87</td>
</tr>
<tr>
<td>“ 26</td>
<td>4.97</td>
</tr>
</tbody>
</table>

The facts are:

1. Although OPA cites the Department of Agriculture as the source of its information, the figures given do not agree with Department of Agriculture figures covering the same period.

2. Carrying out its program of deception and propaganda, OPA has selected, out of all the market days between November 19 and January 3, the 11 days which fit most nicely into its propaganda theme. The figures in parentheses, following the market figures, quoted by OPA, are the market figures for the whole week from which OPA has hand-picked its daily prices. It will be noted that with only three exceptions at least two out of the three daily prices quoted by OPA are higher than the average weekly prices for that week and must be considered, therefore, an intentional distortion of the price picture, in order to show as high prices as possible.

3. The ceiling prices quoted by OPA are false. The correct average ceiling prices, for the 10 auction markets, for the three types of oranges listed, have been added at the bottom of the chart. These were obtained from the Department of Agriculture.

4. Whatever OPA’s explanation may be in the future of how it arrived at what it represents to be the ceiling prices in this chart, their use in this manner can have been nothing but an outright attempt to mislead the American people. There are hardly words strong enough to characterize this kind of action by a Government agency. I characterize it as the Hitler-Bowles method.

This is fraud

Regardless of where OPA got the figures it represents to be ceiling prices, they are not ceilings applicable to the wholesale markets which OPA quotes. The average ceiling prices of those markets are well known to everyone connected with the citrus trade, and must have been known to the OPA officials who prepared this statement. The use of any figures other than the correct aggregate ceilings for those markets, in connection with market prices, is nothing Mr. Speaker but an outright fraud.

In this statement today, I have discussed this propaganda method from the standpoint of the consumer only. It was upon the average housewife that this fraud fell most heavily. It is the mind and the pocketbook of the workingman and his wife into which the Hitler-Bowles method reaches. Mr. Bowles tried to scare the housewives into thinking they were paying exorbitant prices for oranges and grapefruit. The facts are, for the whole season, the average price for Florida interior oranges has been 41 cents below the previous ceiling, and for California oranges has been 46 cents below the previous ceiling.

(6 and last.) Mr. Bowles says: “The charge that this was a diabolic scheme to perpetuate the OPA is ridiculous.”

The fact is: The charge is eminently sound and I am told it has been made by at least one member of President Truman’s Cabinet, on two separate occasions.

A strange coincidence

Finally, Mr. Speaker, it is in order to call attention to a marked coincidence. The fruit industry requested, in March 1945, that citrus ceilings be removed from citrus fruits not later than October. This would have been a benefit to the people of America, who want to buy oranges and grapefruit. The OPA did not remove the ceilings until November 19, and then announced that the ceilings would be kept off for 60 days, after which time the situation would be rechecked to see what the effect had been.
The prices on specialized and choice fruit, and in certain markets where the supply was short, rose during this period as it has historically risen for generations. It was about to fall, again as it has always fallen historically when the Christmas season was over. It was impossible for the OPA to wait until the time it had set, 60 days. Mr. Bowles convinced the Office of Economic Stabilization that a situation existed which required urgent action. Judge Collett, against the wiser advice of the Secretary of Agriculture, issued an order replacing ceilings. This was on January 3.

On February 5, tomorrow, exactly 1 month after the successful effort to reinstate citrus ceilings the OPA headed by its administrator, Mr. Chester Bowles, will come before the House Committee on Banking and Currency, to ask for its own renewal, and the protection of its own jobs. It seems to me that this is something more than an accidental coincidence.

Had the ceilings stayed off citrus fruits for the time set by the OPA, which would have been, shall we say, until about January 16, the prices would have begun to drop. There would have been no grounds for a request to return citrus ceilings. Under the Hitler-Bowles method, to permit such a condition to develop would have been improper; it was necessary to build up this straw man of inflation, in order that he might be disposed of by Don Quixote Bowles, the great jouster against the windmills of his own imagination, the great savior from an inflation which amounted at its peak to 11 cents per box for an average of more than 220 oranges per box.

The Banking and Currency Committee will be warned

The Republican Food Study Committee is convinced, Mr. Speaker, that the House Committee on Banking and Currency will seriously investigate this situation, and will in the future challenge all charts and all statistics which come from the Office of Price Administration, while Mr. Chester Bowles remains as its Administrator.

Afternoon Session

The Chairman. The committee will be in order.

We will hear the witnesses for the Cotton Council, and I will ask Mr. Brown, who comes from a cotton country and who is deeply interested in that subject, to preside.

Mr. Brown. Will you identify yourself, please.

Mr. Blake. Mr. Chairman, members of the committee, my name is William Rhea Blake. I am executive vice president of the National Cotton Council of America with headquarters at Memphis, Tenn.

Statement of William Rhea Blake, Executive Vice President of the National Cotton Council of America

Mr. Blake. The council is an industry-wide organization representing the six branches of the raw-cotton industry; namely, cotton producers, cotton ginners, cotton warehousemen and compressmen, cotton merchants, cotton spinners, and cottonseed crushers, in the 18 cotton-producing States, extending from the Carolinas to California.

The one great objective of the council is to increase the consumption of American-grown cotton, cottonseed, and the products thereof, in both domestic and foreign markets.

The policies and positions of the National Cotton Council are determined by its 244 voting delegate members. These delegates are selected from each of the cotton-producing States by the established organizations which represent each branch of the raw-cotton industry within that State. No position can be taken by the council until it has been approved by at least two-thirds of the voting delegates representing each branch of the industry, the delegates representing each branch of the industry voting separately.
I give you this information regarding our organization to emphasize two points.

The first is that increasing the consumption of cotton is the council's business. It is the job to which we have devoted all of our thought and all of our energies for the past 8 years, and on which we are spending over a half million dollars annually. We therefore believe that this qualifies us to speak with knowledge and understanding on the subject of cotton consumption and its corollary, the production of cotton textiles.

The second point is that when the council decides upon a course of action with respect to a cotton consumption problem, that course of action has been considered carefully and approved by at least two-thirds majority of the qualified representatives of each and every branch of the entire raw-cotton industry. In this particular instance, the position taken by the council with respect to the problem under consideration by your committee represents the unanimous opinion of the representatives of all branches of the industry.

Since your committee opened its hearings, you have received much impressive information and opinion on the cotton-textile shortage from an array of competent witnesses, representing retailers, wholesale, garment manufacturers, cotton-textile mills, and a number of Government agencies dealing directly and indirectly with this problem.

I shall endeavor to give you primarily the viewpoint of the great group of people who supply the raw material from which cotton textiles are made—namely; the cotton farmers who constitute the bedrock foundation upon which this great industry is built, and those who gin, compress, and handle the farmer's cotton in delivering it to the textile mill.

As has been so clearly brought out in these hearings thus far, we are confronted with the greatest shortage of textiles in history. This shortage has reached such dire proportions that it is not only causing serious inconvenience and privation to our people, but also is playing havoc with the economic structure of our country.

Obviously, there is only one answer to this situation and that is a greatly increased production of cotton goods. Furthermore, human and economic necessity demands that this greatly increased production be achieved with all speed possible.

This brings us to grips with the problem of how we can get this job done—how we can get the textile mills producing at maximum capacity in the shortest possible time.

Our production of cotton textiles is now averaging about 8½ billion yards a year, as compared with about 11½ billion yards in 1942—a net loss in production of approximately 3,000,000,000 yards.

The first question that immediately comes to mind is, "What on earth caused our textile production to decline from 11½ billion yards to 8½ billion yards, in the face of the greatest demand for textiles in all history?"

There are two reasons. One was that the labor supply in the mills was depleted by men going into the service and into war industries. The other was the Office of Price Administration’s price ceiling policies on cotton textiles.
The next question then is, "Can this 3,000,000,000-yard loss be restored and the mills' production again raised to the 11\%\,-billion-yard level?"

The answer: "There is certainly no real reason why this cannot be done."

The manufacturing facilities which produced this 11\%\,-billion-yards are still in place. The supplies of raw cotton with which to make the goods are more than adequate. The workers in the textile industry are rapidly returning to their former jobs from the armed services and war industries — and at wage rates considerably higher than when the peak production of 1942 was achieved. Thus, all of the human and material resources necessary are at hand.

The only remaining factor essential to full production of cotton textiles is a sensible, realistic price policy by the Office of Price Administration.

Whether we have such a policy or not is going to depend almost entirely, in my judgment, upon what Congress does about it.

Our experience during the past 2 years leaves little hope that the Office of Price Administration will, of its own volition, adopt pricing policies that will even permit—much less encourage—full production. It was just exactly 2 years ago—March 27, 1944, that we first wrote Mr. Chester Bowles, bringing this problem to his attention.

We pointed out at that time that the cotton textile ceilings then in effect had been fixed 2 years prior to that time—in April 1942—and that since then all costs entering into textile production had increased materially. We showed that these increases in costs had reached a point that made it impossible to maintain full production of many textile constructions on a profitable basis. And, as evidence of this, we cited the alarming fact that already cotton consumption was down 2\%\, million bales and cotton cloth production was down 1\%\, billion yards below the high of 1942.

We appealed to Mr. Bowles as strongly as we knew how to adjust his price ceilings so as to correct this situation immediately, and we recommended to him a simple, practical method of accomplishing this. Finally, we warned that if these ceilings were not corrected, production of cotton textiles would continue to decline.

More than 3 weeks passed without a reply from Mr. Bowles. On April 19, Senator Bankhead called a special conference of Cotton Belt Senators, Office of Price Administration officials, and cotton industry representatives, to discuss this problem and the Council's recommendations for its solution. At this conference, and during the week which followed, every effort was made by the Senators and industry representatives present, to persuade the Office of Price Administration to adopt the program recommended—but without avail.

On April 25, the Office of Price Administration gave us its official answer, which was a flat refusal to make adjustments of any consequence in its cotton textile ceilings.

The members of this committee are familiar with the result. Senator Bankhead in the Senate, and Congressman Paul Brown, in the House, introduced an amendment which, in a modified form, was subsequently adopted by Congress as the Bankhead-Brown amendment to the Emergency Price Control Act of 1944.
The Bankhead-Brown amendment provided a practical formula for determining ceilings on major cotton textile items that was designed to encourage production. It simply required that the ceiling on any major item should not be less than the sum of these three factors: (1) The cost of the cotton used in making that item, computed at not less than the parity price for that grade and staple of cotton, deliver to the mill; (2) a weighted average of the costs of manufacturing that item; and (3) a reasonable profit on that item. Certainly no sensible person could believe that any manufacturer would produce a piece of goods if the selling price on that goods was any less than his actual costs, plus a reasonable profit.

If the clear intent of Congress in passing this amendment had been honestly and sincerely carried out by the Office of Price Administration, we would not have the critical shortage of cotton textiles which we have today. All of the facts indicate that the downward trend of production would have been arrested and turned upward, as it was for a short time when the results of the amendment first became effective. Certainly we would have been spared the further drastic decline in the annual rate of textile production of another 1½ billion yards.

But the intent of the Bankhead-Brown amendment was not carried out honestly and sincerely by the Office of Price Administration, and that is why this committee has been receiving volumes of testimony during these hearings regarding the cotton textile shortage in this country. With your permission, I would like to give you as briefly as possible an account of just what the Office of Price Administration has done to scuttle the Bankhead-Brown amendment and destroy its effectiveness.

The Bankhead-Brown amendment became law on June 30, 1944. There immediately began a series of conferences between the Office of Price Administration and the advisory committees representing the mills which produce the various types of textiles, with respect to the adjustments in the ceilings on these goods that were required by the amendment.

During these conferences, the Office of Price Administration maintained a constant attitude of defiance and resentment toward carrying out the law which Congress had passed. They had fought the amendment bitterly when it was before Congress and they were determined to resist its being put into effective operation, with every resource at their command. And, as everyone knows who has had any dealings with the Office of Price Administration, their resources along such lines are many and powerful.

One of the Office of Price Administration’s most effective weapons against doing something which it does not want to do is delay—and it was never more effectively employed than in this case. The mills were first told that the figures which the Office of Price Administration had on their manufacturing costs were not adequate, and that they must furnish additional information. This, of course, consumed a great deal of time.

When the figures were brought in, the Office of Price Administration decided that they still were not adequate and further cost surveys were ordered. This type of delaying action went on and on throughout the summer and fall of 1944, and, to cap the climax, when Mr.
Bowles made his appearance before the Senate Banking and Currency Committee on March 1, 1945, to ask for a further extension of the Office of Price Administration for another year, he had to admit that there were still ceilings on cotton textile items which had not yet been adjusted to meet the requirements of the Bankhead-Brown amendment.

Shortly after Mr. Bowles made this appearance before the Senate Committee, it became public knowledge that a wage increase in the textile industry was about to be ordered by the War Labor Board. Mr. Bowles knew that this would mean a substantial increase in the cost of manufacturing cotton textiles. He also knew that the Bankhead-Brown amendment required him to increase textile ceilings to take care of such an increase in manufacturing cost. As Mr. Bowles had told the Senate Committee on March 1, he was bitterly opposed to making this increase. He therefore set about devising a neat little scheme to circumvent the law.

On March 21, 1945, Mr. Bowles went back before the Senate Committee and inserted into the record a statement that once the initial adjustments under the Bankhead-Brown amendment had been made in textile ceilings, the Office of Price Administration did not consider that it was any longer bound by the amendment to make any further adjustments in these ceilings to take care of increased manufacturing costs.

Thus, by the simple device of putting into the record of the hearings his own interpretation of the law—a device which, incidentally, the Office of Price Administration has employed with telling effect on other occasions to rewrite an Act of Congress—Mr. Bowles sought to completely nullify the Bankhead-Brown amendment.

Of course, Mr. Bowles hoped that this inconspicuous little statement would go unnoticed and unchallenged, in which event he would have succeeded in his purpose. However, thanks to the alertness of Senator Bankhead and Congressman Brown, Mr. Bowles’ statement was challenged and a clear-cut definition of the intent of the Bankhead-Brown amendment was inserted in the conference report on the 1945 Office of Price Administration bill.

As Mr. Bowles had anticipated, the wage increase in the textile industry was put into effect in the spring of 1945, and manufacturing costs of cotton textiles were increased substantially. This, of course, immediately rendered out of date and called for a readjustment of the ceilings which initially had been revised under the Bankhead-Brown Amendment. But again the Office of Price Administration defied the amendment by resorting to its old tactics of delaying action.

And, mind you, this was after your committee had written it into the conference report, and it had been accepted by Congress, spelling out just exactly what that amendment meant.

Several months passed before the Office of Price Administration was finally forced, by an alarming drop in textile production, to make the adjustments to cover the wage increase which the law required.

We have been going through, and are still in, a period of constantly rising costs on everything. Where there is an interval of from 4 to 6 months from the time negotiations are started on a ceiling adjustment and the date on which the adjustment actually becomes effective, the new adjusted ceiling is largely out of date when it goes into opera-
tion. Thus the net result of this interminable delay by the Office of Price Administration has not been merely to delay adjustments of the textile ceilings as required by the Bankhead-Brown Amendment, but actually to destroy, in a large measure, the effectiveness of these adjustments.

In view of the consistency with which the Office of Price Administration has applied this delaying action technique, the conclusion is inescapable that this technique has become a part of the Office of Price Administration's fundamental operating policy. It is perfectly clear that the Office of Price Administration has adopted as a philosophy—that every day it can put off making a ceiling adjustment represents a victory for its side, notwithstanding the fact that the delay in making such an adjustment is an outright violation of a mandate of Congress.

One of the most serious weaknesses in the Bankhead-Brown amendment—and in this connection, I want to say this: that if the amendment were being administered by an agency of the Government that had the proper respect for the wishes of Congress, there would be no weakness in the amendment, but as administered by the Office of Price Administration, one of the most serious weaknesses in the Bankhead-Brown amendment is that it contains no provision to force the Office of Price Administration to do promptly what the amendment requires. We strongly recommend that this weakness be corrected in the extension to the Price Control Act which Congress is now considering.

Another weakness in the Bankhead-Brown amendment which our experience in the last two years has revealed, is that the amendment left to the Office of Price Administration the determination of what constituted a "reasonable profit" on textile items. The way in which the Office of Price Administration has abused the discretion which Congress allowed it in determining reasonable profits has proved beyond the shadow of a doubt that it is not qualified to exercise such discretion.

In normal years, profits in the textile industry—when there were any—generally were calculated on a percentage of the sales value of the products. But in revising textile ceilings under the Bankhead-Brown amendment, the Office of Price Administration promptly swept aside this standard practice of the industry as being entirely too lucrative and completely out of line with the Office of Price Administration's policies.

In its stead, the Office of Price Administration brought forth its unit profit formula, which provided that the profit allowed on a yard of goods should not exceed the average number of cents per yard which the mills earned on that product in some supposedly normal prewar period. The ceiling on denims—the cloth used to make overalls and work clothes—was the first to be adjusted after the Bankhead-Brown amendment passed, and this unit-profit formula was used in calculating the denim ceiling. As I recall it, however, this is the only instance where even this formula was used.

Shortly after the denim ceiling was announced, the Office of Price Administration decided that it had been entirely too liberal in its unit-profit formula, and devised a new theory of determining profits which it called the net-worth formula. The principle of the net-worth formula is that a group of mills making a certain type of goods should not be permitted to make a profit on that type of goods greater than
the total dollar-and-cent profits which they earned on their net worth in the base period of 1936-39, adjusted for such increases as may have occurred in their net worth since that period.

This net-worth formula can best be explained by an example. Let us assume that there are 10 mills making a certain type of cloth, and that during the years '36 through '39 they produced annually 10,000,000 yards of this goods. Let us assume further that the total profit earned on this type of cloth by all 10 of these mills combined was $200,000, or a unit profit of 2 cents per yard, in the 1936-39 base period.

Now suppose these same 10 mills are operating today and there has been no change in their net worth. Their production, however, is now twice as great as in the 1933-39 base period, and they are producing 20,000,000 yards of this type of cloth.

The net-worth formula would require that this 20,000,000 yards of today's production be divided into the same profit of $200,000 which they made on half that production in the base period, thus giving a profit today of only 1 cent per yard. This 1 cent per yard would be the figure that the Office of Price Administration would use as a reasonable profit in computing the ceiling price on a yard of this goods under the Bankhead-Brown amendment.

The net-worth formula is one of the most outrageous devices ever contrived. It is inconceivable that it would be applied by an agency of the Government that was charged by the Congress, in the first paragraph of the act creating it, "to assist in securing adequate production."

Certainly the Congress, in passing the Bankhead-Brown amendment, which was designed to increase the production of cotton textiles, never had any idea that this amendment would be so distorted in its application by the Office of Price Administration as to penalize the mills that had done most toward increasing their production. As was shown in the illustration which I have just given, a group of mills that made 2-cents-a-yard profit under highly competitive conditions in the 1936-39 base period, now have their profit reduced to 1 cent per yard, solely because they have doubled their production and the Office of Price Administration does not want them to make any more money in total dollars and cents than they made in 1936-39.

Even an Office of Price Administration economist should be able to perceive and understand the extreme sensitivity of American industry to profits. If the history of cotton-textile production during the past 5 years shows anything, it is that, when it was profitable to make goods, the production went up and when it was not profitable to make goods the production went down.

This stupid device, which the Office of Price Administration calls its net-worth formula, is aimed not only at controlling profits, but cutting profits—and that means cutting production. It is really surprising that textile production has not declined even more than it has in the Office of Price Administration's net-worth straitjacket.

Before leaving the subject of profits, I want to reply to the numerous statements made by representatives of the Office of Price Administration regarding the enormous profits which they claim the textile industry is earning.

The textile industry is a big industry, making many products and performing many different types of processing operations. The actual
production of basic cotton yarns and fabrics represents only a part of the operations of the textile industry. Some mills confine themselves exclusively to the production of this type of goods, but many mills go beyond this and engage in the dyeing and printing and finishing of goods; in the manufacturing of semifinished and finished articles from these goods, such as shirts, towels, pillow cases, bedspreads, bags, etcetera; in the spinning, weaving, and manufacturing of products from other fibers, such as rayon, silk, and wool; and in various and sundry other business enterprises related directly or indirectly to the textile industry.

Whenever we mention the profit which the Office of Price Administration allows on the basic cotton yarns and fabrics, Mr. Bowles and his associates immediately start making speeches and issuing press statements about the total over-all earnings of the textile industry as a whole.

I make no pretense of knowing anything about the profits of the textile industry as a whole, nor do I care what these profits amount to. The total earnings of the textile industry as a whole has nothing to do with the problem we are concerned about, and Mr. Bowles knows it.

Our only concern is with the profits that the mills earn on the basic cotton yarns and fabrics which constitute the textile raw materials from which all of our clothing, household goods, and other articles are made.

The only recommendation we have ever made with respect to these items is that the ceiling price on each of these basic textile items should cover the cost of the raw cotton that goes into that item; the cost of manufacturing the item; and a reasonable profit on the item, that would make it attractive for the mills to produce it in maximum volume.

If the ceiling price on denim for overalls will not permit profitable production, then the mills simply are not going to make denim. And it makes no difference whatsoever what profit these mills may be making on their other operations, or what profit other mills are making on their operations.

We made the charge 2 years ago that the ceiling on these basic textile items was not adequate to cover the costs, plus a reasonable profit on these items. Mr. Bowles emphatically denied this and rushed out the same old figures about the profits of the textile industry as a whole which the Office of Price Administration representatives have presented at these and other hearings.

The fact remains, however, that when the Bankhead-Brown amendment was passed, the Office of Price Administration had to increase substantially the ceiling on every major cotton-textile item in order to meet the minimum requirements of the amendment, even though the Office of Price Administration used its own definition of a reasonable profit in the form of its net-worth formula.

The Office of Price Administration’s action in raising these ceilings is positive proof that these major items could not be produced at a reasonable profit under the old ceilings, the Office of Price Administration’s statements to the contrary notwithstanding. Furthermore, if these major cotton textile items cannot be produced profitably under existing ceilings, those ceilings should be increased regardless of what profits the mills may be making on their operations.
And in saying that, gentlemen, I want to make it perfectly clear that I am not here in an attempt to defend excessive profits of the textile industry or any other industry. The only thing we are talking about is a reasonable profit on these items, these basic textile items that are needed in the manufacture of all clothing and all goods.

The Office of Price Administration's latest act of defiance against the Bankhead-Brown amendment has just taken place, and, while it has already been brought out in these hearings, I feel that it should be mentioned in order to complete this report.

Several months ago the price of cotton rose above parity. After the price had been above parity some 2 or 3 months, and it appeared likely that it would remain there, the mills petitioned the Office of Price Administration for an adjustment in their ceilings to cover this increased cotton cost, as was required by the Bankhead-Brown amendment. After the usual delay of 6 or 8 weeks, the Office of Price Administration came back with the reply that the Bankhead-Brown amendment did not require that they make any ceiling adjustments to cover increases in the cost of cotton above parity, and that henceforth the Bankhead-Brown amendment would be ignored.

Naturally, the cotton industry, as well as the sponsors of the Bankhead-Brown amendment, were dumbfounded. This action by the Office of Price Administration was not only a defiance of the interpretation of the Bankhead-Brown amendment, which had been spelled out in black and white in the conference report, but also was a violation of the understanding which had been reached with representatives of the Office of Price Administration at the time the language in the conference report was agreed upon, as to how this language would be applied in the event the price of cotton should go above parity.

Notwithstanding these facts, and despite the strong protest which has been raised by the Senators and Congressmen representing the cotton States, as well as by the entire raw-cotton industry, the Office of Price Administration still is standing by its decision with characteristic stubbornness.

The Office of Price Administration has brought out just recently a new program which it claims is designed to stimulate production of cotton textiles.

Doctor Murchison mentioned this program to you yesterday afternoon.

Under this program, textile ceilings have been adjusted to take care of the increase in manufacturing costs, brought about by wage increases, and a part of the increase in cotton costs since July 1945. However, the allowance for cotton costs in these new ceilings is still from 1 to 1½ cents per pound below the current price of cotton. This means that most of the important textile items will still be in a loss position. Hence, there is little possibility that this new program can do much toward increasing textile production.

There is one additional factor, not related to the Bankhead-Brown amendment, that is adversely affecting the production of cotton textiles. The ceiling prices on rayon goods contain much more attractive profit allowances than the ceilings on cotton goods. The Office of Price Administration has a long, involved explanation for this, but
that does not alter the fact that mills are rapidly switching over from cotton to rayon because they can make more money by doing so.

This situation is not only reducing the amount of cotton goods produced, but also is doing serious and permanent injury to the raw cotton industry. Once a manufacturer makes the changes in his operations necessary to convert from cotton to rayon, it is very hard to get him to return to cotton. We have endeavored for 2 years to get the Office of Price Administration to rectify this situation. We now appeal to your committee for assistance.

Mr. Chairman, all of us appreciate fully the seriousness of the present textile shortage in this country. We know that it can be remedied only by arresting the present downward trend in cotton textile production and building back the 3,000,000,000 yards of production which we have lost. We know that this cannot be done unless cotton textiles are permitted to sell at prices that will make it profitable for the mills to produce them in maximum volume. It is evident from the record which I have just laid before you that the Office of Price Administration has not and is not going to permit such prices unless it is forced to do so by Congress.

The Congress sensed this situation 2 years ago when our textile production had declined the first billion and a half yards. You passed the Bankhead-Brown amendment, laying down a formula for textile ceilings that would encourage production. The Office of Price Administration destroyed the effectiveness of the Amendment by distorting those features that permitted the Office of Price Administration to use its discretion and by circumventing the remainder whenever possible. Our textile production has now declined another billion and a half yards.

It is unthinkable that the Office of Price Administration should any longer be permitted to exert its crippling influence over textile production. We relaize that it may not be practical, for the short period that price control will be continued, to equip another agency of the Government to take over textile pricing. Therefore, we believe that the best procedure is for Congress to spell out in the pending extension to the Price Control Act the exact methods which henceforth must be followed by the Office of Price Administration in determining cotton textile ceilings.

We recommend the adoption of a new amendment to the Price Control Act to include the following:

1. A restatement of the Bankhead-Brown amendment specifying that the ceiling price on any cotton textile item shall not be less than the sum of the cotton cost, the manufacturing cost, and a reasonable profit.

2. A requirement that the cotton cost be kept current by means of an escalator clause that will automatically adjust textile ceilings upward or downward as the market price of cotton increases or decreases. Adjustment for changes in grade and staple differentials would be required every 6 months.

3. A definition of a reasonable profit as being the average profit on each unit of production of a given textile item that was earned in a representative period during which maximum production was attained.
(4) A provision that in the event the Office of Price Administration failed to make the ceiling adjustments required by the amendment within 30 days after its enactment, or thereafter failed to make subsequent adjustments required to reflect increases in costs, a majority of the manufacturers of a given textile item could work out their own ceiling in accordance with the formula in the amendment, and this ceiling would be effective until the Office of Price Administration establishes a different ceiling. Such action by the manufacturers would not be in violation of the antitrust laws.

(5) A requirement that, in calculating textile ceilings, the Office of Price Administration shall allow all costs allowed by the Bureau of Internal Revenue for tax purposes and shall not require any costs or per unit profits to be determined other than by established accounting methods.

(6) A requirement that the relationship between the ceilings on cotton-textile items and the ceilings on comparable items made from rayon or other fibers should not be such as to reflect any competitive advantage to either.

(7) A provision for the removal of ceilings on textile items as soon as the production of each item becomes sufficient to take care of normal domestic requirements, as determined by the Civilian Production Administrator.

(8) A prohibition against placing a ceiling on raw cotton provided the Secretary of Agriculture shall certify at the beginning of the marketing year that the total supply of cotton is greater than a normal supply of cotton as defined by the Agricultural Adjustment Act of 1938.

This last provision is necessary because the Office of Price Administration has announced its intention of putting a price ceiling on the 1946 cotton crop at the beginning of the marketing year.

The National Cotton Council has voted its unanimous opposition to a ceiling being placed on raw cotton under any circumstances. It took this action not because it wanted to see the price of cotton skyrocket to some fantastic height, but because it knows that a ceiling price on cotton is utterly impractical, unworkable, and unenforceable, regardless of the price level at which the ceiling might be imposed.

Because of the nature of the commodity and its marketing system, there is no way to police a ceiling on cotton. Hence, it would accomplish nothing in holding down the price of cotton, but would merely result in the development of the most gigantic black market this country has ever seen.

Furthermore, there is nothing in the present or prospective situation with respect to cotton prices that warrants a price ceiling. The market is now only a few cents above parity, and certainly it would have to remain at its present level many months to bring up to an average of parity the price which the cotton farmer has received since price control was established.

As to the effect on the cost of living, which is Mr. Bowles' concern, the price of raw cotton could advance a good many cents above its present level before it would have any appreciable effect on the retail price of clothing, provided the Office of Price Administration did not permit pyramiding of costs after the basic cotton goods left the mills.
In that connection, Mr. Chairman, I want to file with the committee this supplemental statement of one page, a table showing the effect in the actual increased cost of cotton on a number of items such as overalls, business shirts, men's shorts, house dresses, sheets, towels and so forth.

Mr. Brown. That may be inserted in the record.

Mr. Blake. That is the effect of each rise of one cent in the price of raw cotton.

Mr. Brown. That may be inserted.

(The above-mentioned table is as follows:)

Effect on price of cotton goods of an increase of 1 cent per pound in price of raw cotton

<table>
<thead>
<tr>
<th>Article (in code numbers of Bureau of Labor Statistics Specifications)</th>
<th>Price (range reported by Bureau of Labor Statistics for December 1945 in 34 States)</th>
<th>Quantity (Bureau of Agricultural Economics estimate of cotton required to make article, including waste)</th>
<th>Increase in price of goods sufficient to reflect increase of 1 cent per pound in price of cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overalls (M091B)</td>
<td>$1.55-$2.80</td>
<td>2.27</td>
<td>2.27</td>
</tr>
<tr>
<td>Dress shirts (111A)</td>
<td>1.20-5.00</td>
<td>.79</td>
<td>.79</td>
</tr>
<tr>
<td>Business shirts (114C)</td>
<td>1.39-3.45</td>
<td>.66</td>
<td>.66</td>
</tr>
<tr>
<td>Work shirts (101B)</td>
<td>.98-1.64</td>
<td>.73</td>
<td>.73</td>
</tr>
<tr>
<td>Men's shorts (331B)</td>
<td>.39-2.50</td>
<td>.26</td>
<td>.26</td>
</tr>
<tr>
<td>Work trousers (M072B)</td>
<td>1.78-4.77</td>
<td>1.80</td>
<td>1.50</td>
</tr>
<tr>
<td>Men's socks (171)</td>
<td>.33-.65</td>
<td>.22</td>
<td>.22</td>
</tr>
<tr>
<td>House dresses (W0830)</td>
<td>1.55-3.98</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Sheets (Y041)</td>
<td>1.25-2.00</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Towels (Y031)</td>
<td>.44-1.12</td>
<td>.60</td>
<td>.60</td>
</tr>
<tr>
<td>Women's gowns (W101B)</td>
<td>.98-4.98</td>
<td>.70</td>
<td>.70</td>
</tr>
<tr>
<td>Men's seersucker suits</td>
<td>14.50</td>
<td>2.10</td>
<td>2.10</td>
</tr>
</tbody>
</table>

An increase of 1 cent per pound in the price of raw cotton would add about $53,000,000 to the value of cotton goods made from 9 million bales of cotton, if pyramiding of raw material prices through various manufacturing, handling, and distributing groups is not permitted. Approximately 40 percent of the total increase would be for wearing apparel, 20 percent for household goods and 40 percent for industrial products.

The total increase in the consumer's bill for cotton clothing and household goods would be about $32,000,000 annually, or about 30 cents per capita per year. Cotton clothing costs should be increased no more than one-half of 1 percent, on the average, ranging one-quarter of a cent on men's socks to 2 cents on overalls.

The cotton farmer gets less than 12 cents of every consumer dollar spent for cotton goods—the rest goes for handling, processing, and distributing.

The suggested amendment would provide adequate safeguards against a runaway situation developing in cotton prices, inasmuch as the prohibition against cotton ceilings would apply only when the total supply of cotton on hand was greater than a supply which Congress has defined as normal in the Agricultural Adjustment Administration Act.

Inasmuch as the supply of cotton is the only factor which could possibly have any real influence in stabilizing cotton prices, there is certainly no reason for putting a ceiling on cotton if we have on hand more than a normal supply.

In conclusion, Mr. Chairman, we have endeavored to give your committee an analysis of the principal factors involved in the present
critical cotton textile shortage and have recommended those steps which we believed must be taken to restore maximum production of cotton goods.

If this can be accomplished, we will not only provide the people of this country with the cotton goods they so badly need, but simultaneously we will insure a consumption of cotton that will quickly remove the huge cotton surplus that has hung over the heads of the cotton farmers for so many years. We have the opportunity of a lifetime to render at one stroke a great service to both the producers and consumers of cotton in this country. We respectfully urge your committee's favorable consideration and support of these recommendations in order to restore maximum production of cotton textiles.

Mr. Brown. Thank you very much.

Does anyone desire to interrogate the witness?

If not, thank you very much Mr. Blake. Mr. Murchison testified yesterday, and I told him I certainly agreed with him at that time that the intent of the Bankhead-Brown amendment had not been carried out and should be carried out and I agree with you.

I think I know the intent of the Bankhead-Brown amendment.

Mr. Buffett. I have one question.

According to your statement here, the Office of Price Administration regulations with regard to your earnings under net worth, it operates to this effect, then, does it not—that the more you make in volume, the less profit you make on the business?

Mr. Blake. Well—

Mr. Buffett. That is per unit, per yard?

Mr. Blake. I think that is right, but let me state it in a slightly different way:

The purpose of the net worth formula is to freeze, for the purpose of determining the profit factor, this reasonable profit that is to be allowed on each yard of cloth, or pound. The formula that is used there, this net worth formula, its purpose is to allow that group of mills making that particular kind of cloth, no more than the total number of dollars and cents that they earned in their base period, based on the percentage of net worth, and they do make, of course, the adjustment for increases in net worth if there have been increases in net worth since the base period.

That is simply saying this:

If these mills in the illustration that I used made two hundred thousand, and were producing 10,000,000 yards of goods, and today they are producing 20,000,000 yards of goods, the purpose of this formula would still be to not let them make more than $200,000, which has had the effect of cutting in half the per unit profit, which they would have made had the thing been based on the same cents-per-yard profit in the base period.

Mr. Buffett. Suppose you cut your production in two to 5,000,000 yards. Could you still make that same profit?

Mr. Blake. According to the net worth formula, if you cut your production from 10,000,000 yards down to 5,000,000 yards, you would make—as I understand the operation of the net worth formula—it would still apply.

In other words, they would still take the production as of now and divide it into the profits that they had at that time, and that would be the standard which must be satisfied before any increase
in the allowances made for the cost of manufacture or the cost of cotton would be allowed.

Mr. Buffett. Then if you had started out to discourage the expansion of production, you could not have done a much better job if you tried, than by this formula?

Mr. Blake. I do not think so. You could hardly devise a formula that would.

To start off with, the very people who had strained to the utmost—and I know that down in the South, mills have put on bus lines, they have sent out labor scouts, to try to recruit people from the country, in order to get the production up to the maximum; all during the war there was the greatest appeal to patriotism, there were bulletins put up, awards were given. Everything was done to get the production the Army needed, and 70 percent of all the cotton produced during the war went into war uses or essential uses connected directly with the war effort, and under priority.

The greatest mills which made the greatest contribution, took the greatest cut, under this net worth formula.

Mr. Brown. All right. You may be excused.

I will ask Mr. Spence to resume the chair.

The Chairman. The National Association of Retail Grocers, Mr. Taylor.

Mr. Taylor. Mr. Chairman, the National Association of Retail Grocers—I would like to yield for a brief statement by Mr. Walker, of the Maryland Association.

The Chairman. All right; you may handle your presentation in any way you prefer.

Mr. Walker.

STATEMENT OF HARRY W. WALKER, SECRETARY-MANAGER OF THE INDEPENDENT RETAIL FOOD DISTRIBUTORS OF MARYLAND

Mr. Walker. I am Harry W. Walker, secretary-manager of the Independent Retail Food Distributors of Maryland, an organization representing 90 percent of the independent food distributors of Maryland, and also secretary-manager of the Independent Retail Grocers and Meat Dealers Association of Baltimore, Inc., an organization of 2,000 retail dealers in Baltimore, and distributors of 68 percent of the food consumed in our State. I am here at the direction of our board, not that I wish to come, since reading the United Press release of March 13, that these hearings were simply to give “everyone a chance to blow off steam”; but my board said go anyway and blow off some steam.

Our organization during the war was never opposed to price control or to rationing. We have, however, fought the mismanagement of the Office of Price Administration from the very beginning, because we saw that the Office of Price Administration was not accomplishing the purpose for which the Congress had established it. Contrary to Mr. Bowles, the average American housewife is not interested in the price of food. She seldom, if ever, asks the price; she is interested in getting the food; and it is a strange fact that these same people who cry loudest for extension of price control are the very
men who come home from work and if the wife can’t place a big meal on the table, the men raise a roughhouse.

As far as the food industry is concerned, price control is absolutely unnecessary for this reason. As you ladies and gentlemen well know, retail food distribution in America is divided between the independents and the chains. In 1941, Pearl Harbor year, the chains were doing 37 percent of the food business, independents 63 percent. However, in '43, '44, and '45 the sales of the independents increased and that of the chains decreased; so that in 1945 the chains were only doing 32 percent of the business and the independents 68 percent. In the 4 years from '41 to '45 the chains' sales dropped 5 percent and the independents' sales gained 5 percent. Naturally this has been a matter of great worry to the chains, and at their national convention held last fall in Chicago they devoted almost the entire time to discussing how to regain this lost ground. And, their decision was, by cutting prices. So that just as soon as any item comes into sufficient supply, the price is immediately slashed and is sold far below ceiling. The result is that we are facing a price war such as America never knew.

When the A & P can issue instructions that their retail stores have only to show a net gain of eight-tenths of 1 percent and that their headquarters will make up the necessary gain in advertising allowance, and what they call stock gains which the Department of Justice proved at their recent trials in Danville, Ill., was simply short change and short weighing the customer; you can readily understand that food will be sold at rock-bottom prices and no one will be overcharged. Competition has always regulated the prices in the food business and will continue to do so.

But we object principally to the Office of Price Administration because of its mismanagement and enforcement policies. When Chester Bowles can address a group of retailers and state that the over-ceiling charges were $1,000,000,000 and then excuses himself and leaves the meeting to his subordinates, and the subordinates immediately show a chart showing that the overcharges amounted not to one billion but to two billion; and when we ask for an explanation of the divergence we are told that it was a typographical error. Now, we submit to you ladies and gentlemen that when an organization is so badly managed that it can make a typographical error of $1,000,000,000 and not have it caught up, something is wrong somewhere.

We are going to give you some examples of the loose method in which the Office of Price Administration is managed. Not from what we tell you, but from documents issued by the Office of Price Administration itself and which, Mr. Chairman, we are going to ask may be filed as part of the records of this committee.

The CHAIRMAN. That may be done.

(The documents above-referred to are as follows:)

OPA COMMUNITY CEILING PRICES, EFFECTIVE FEB. 14, 1946

POULTRY

These prices are for grade No. 1 live and grade A processed poultry. Grade No. 2 live and grade B and C processed poultry sell for less.
**Extend Price Control and Stabilization Acts of 1942**

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Dressed</th>
<th>Live</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broilers</td>
<td>2 pounds and under</td>
<td>40 Cents</td>
<td>33 Cents</td>
</tr>
<tr>
<td>Fryers</td>
<td>3½ pounds and under</td>
<td>39 Cents</td>
<td>33 Cents</td>
</tr>
<tr>
<td>Roasters</td>
<td>Over 3½ pounds</td>
<td>41 Cents</td>
<td>36 Cents</td>
</tr>
<tr>
<td>Fowl</td>
<td>Under 3½ pounds</td>
<td>35 Cents</td>
<td>28 Cents</td>
</tr>
<tr>
<td>Ducks</td>
<td>3½ pounds and over</td>
<td>40 Cents</td>
<td>35 Cents</td>
</tr>
<tr>
<td>Geese</td>
<td>All weights</td>
<td>(1)</td>
<td>(1)</td>
</tr>
</tbody>
</table>

*This item is under price control, but does not require a published ceiling at this time.

Ten cents per bird may be added to the price of a bird sold live for kosher killing according to the Hebraic dietary laws. Ten cents per bird may be added for plucking a bird sold live or killed but unplucked. No additional charge may be made for drawing or cutting up the bird.

Issued: February 20, 1946.

Leo H. McCormick, District Director.

**OPA Community Ceiling Prices, Effective Feb. 14, 1946**

**Poultry**

These prices are for grade No. 1 live and grade A processed poultry. Grade No. 2 live and grade B and C processed poultry sell for less.

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Dressed</th>
<th>Live</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broilers</td>
<td>2 pounds and under</td>
<td>40 Cents</td>
<td>34 Cents</td>
</tr>
<tr>
<td>Fryers</td>
<td>3½ pounds and under</td>
<td>40 Cents</td>
<td>34 Cents</td>
</tr>
<tr>
<td>Roasters</td>
<td>Over 3½ pounds</td>
<td>42 Cents</td>
<td>39 Cents</td>
</tr>
<tr>
<td>Fowl</td>
<td>Under 3½ pounds</td>
<td>39 Cents</td>
<td>28 Cents</td>
</tr>
<tr>
<td>Ducks</td>
<td>3½ pounds and over</td>
<td>41 Cents</td>
<td>36 Cents</td>
</tr>
<tr>
<td>Geese</td>
<td>All weights</td>
<td>36 Cents</td>
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</tbody>
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Issued February 13, 1946.

Leo H. McCormick, District Director.

Mr. Walker. I hold in my hand a price list effective January 21, 1946, and which it states must be posted near the item listed so that customers can read it. On the reverse side they give the prevailing poultry prices of wholesalers to retailers during the week and here are the prices:

**Prevailing retail costs per pound**

<table>
<thead>
<tr>
<th>Item</th>
<th>Dressed</th>
<th>Live</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Broilers, 2 pounds and under</td>
<td>$0.27</td>
<td>$0.33</td>
</tr>
<tr>
<td>2. Fryers, 3½ pounds and under</td>
<td>$0.27</td>
<td>$0.32</td>
</tr>
<tr>
<td>3. Roasters, over 3½ pounds</td>
<td>$0.30</td>
<td>$0.34</td>
</tr>
<tr>
<td>4. Fowl, light, under 3½ pounds</td>
<td>$0.23</td>
<td>$0.30</td>
</tr>
<tr>
<td>5. Fowl, heavy, 3½ pounds and over</td>
<td>$0.29</td>
<td>$0.33</td>
</tr>
<tr>
<td>6. Ducks, all weights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Geese, all weights</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 This price is below ceiling. Others listed above are maximum delivered ceiling prices.
Mind, they instruct us that we must pay 33 cents for live chickens and only 27 cents for dressed. When we called about it, we were informed that it was another typographical error, and that they were telephoning New York to get permission to change it. In the meantime, those prices held. Now, we submit to you that there is nothing more important in the Office of Price Administration than getting the correct ceiling prices; and if the proofreading is so careless that an error of this kind can occur, you surely will admit that an error occurred.

Under the date, effective February 14, here is another circular issued by the Office of Price Administration: Fryers, 3½ pounds and under, dressed 40 cents, live, 34 cents—a spread of 6 cents a pound. Directly under it, roaster, 3½ pounds, dressed 42 cents, live 39 cents—a spread of 3 cents a pound. In other words, the larger the head and feet, the more feathers, the more entrails you must throw away, the less the spread in the price. Remember this is an Office of Price Administration document.

Here is another Office of Price Administration circular to become effective between February 28 and March 6: Opposite many of the cost prices which we must pay the wholesaler there is a star, and at the bottom of the page this star indicates the price is below ceiling. Now our retail prices are calculated on this star price below ceiling; but the wholesaler, perfectly legal, charges us the full ceiling price. A couple of weeks ago the same thing occurred on meats. We were quoted the wholesale price at 37½ cents while the correct wholesale ceiling price was 40 cents. Again our ceiling price was calculated on 37½ cents but the wholesaler charged us 40 cents. The result was we were gypped 2½ cents a pound and we are forced to take it on the chin.

Here is an envelope just as it came from the Office of Price Administration in Baltimore. Over 2,000 of our members are in Baltimore and the Office of Price Administration sends me some extra ceiling prices to give to our members if they haven’t secured the ceiling prices for the week. Now mind, here is what the Office of Price Administration sends me to hand to the grocers of Baltimore City effective February 28 to March 6 in the entire State of Maryland except Baltimore City. Had I given that to the retailer in Baltimore City and he had followed these prices and overcharged, due to the mistake of the Office of Price Administration, he would have been summoned before the panel board and forced to pay a fine, or as they call it, a settlement of the Administrator’s claim.

For over a year live ducks and dressed ducks have been quoted at the same retail selling price because somebody in the Office of Price Administration in Washington states that is the historical method of selling ducks. Senator Radcliffe, when a boy, used to have to kill and dress ducks and he has told us it is a terrible job.

Ducks have to be hand-picked. The best operators cannot pick more than 5 ducks an hour. I make this statement on information received from the Smith Poultry Co., one of the largest in Baltimore. The pay of a poultry picker is 85 cents an hour. That adds 17 cents to the cost of each duck. The head and feet, feathers, and entrails of the duck account for 10 percent of the weight of the duck. Now take a 3-pound duck at 39 cents, we pay 17 cents for picking it, 11½ cents less and we face an extra charge of 28½ cents per duck and still some
bright eyes in the Office of Price Administration says that that's the way it must be done, for that's the historical method of selling ducks. Gentlemen, if that is the historical method, we grocers never studied history.

Over in Baltimore on East Chase Street is a little grocery store, it's what we call a mamma and papa store, run by a grocer and his wife. He makes a living, but nothing more. He applied for a bail-out on sugar and the figures showed that he was 300 pounds short of his original allotment of sugar.

We were assured by officials of the Office of Price Administration in the presence of Senator Wherry and of Dewey Anderson, Secretary of the Senate Small Business Committee and representatives of the Federal Trades Commission on January 24 that these bail-out applications would not be used in prosecuting the grocer and that the enforcement division would not even see the application. Yet, relying on the promise of the Office of Price Administration, this grocer made application and was forbidden to handle sugar for the duration, had to post a sign to that effect in his window and has virtually been put out of business. If that was good for one grocer it should be good for all, and yet the Atlantic & Pacific Tea Co. acknowledged in New York that they are 51,850,251 pounds of sugar short that they cannot account for.

An Office of Price Administration attorney, Mr. Gottesman, stated that the Office of Price Administration would not seek the customary order which would deprive the right of the Atlantic & Pacific Tea Co. to deal in sugar because it would cause undue hardship on customers of Atlantic & Pacific stores. Why are Atlantic & Pacific store customers singled out for preferred treatment?

Because of these and similar cases we ask that the Office of Price Administration be discontinued, or at least be made to conduct their affairs in an equitable and just manner and treat all, either chain or independent, alike. Here is an envelope which I received from the Baltimore office of the Office of Price Administration. Every week they are supposed to send me price lists in order that I can distribute them to any retail grocer in Baltimore City who might not have received one in the regular mail. Here is the envelope; this is what the Office of Price Administration sends me to distribute:

These prices are effective February 28 to March 6, 1946, in the entire State of Maryland, except Baltimore City.

Had I not caught that, and had I sent it out to a retail grocer, with these prices on bananas, and so on, higher in the counties than they are in the city, and he had sold them from this list, which the Office of Price Administration issued, he would have been summoned before the panel and fined—no, not fined, he would have made a "voluntary contribution" of §25 because the Office of Price Administration made a mistake.

The Office of Price Administration is the father of black markets, the creator of scarcities, and is a power-drunk group of bureaucrats.

It exists not to make prices equitable and fair, but to control the food supply of our country, for he who controls food supplies, controls the Nation. As one group of Americans to another, we ask relief from
Mr. Taylor.

STATEMENT OF TYRE TAYLOR, GENERAL COUNSEL, NATIONAL ASSOCIATION OF RETAIL GROCERS

Mr. Taylor. Mr. Chairman and gentlemen, as stated a while ago, I am here in the capacity of counsel and representative of the National Association of Retail Grocers, which is the organization that represents and speaks for the independent retail grocers of the country.

We have about 60,000 members. We have 37 State organizations and something like 460 local organizations scattered throughout the Nation.

The National Association of Retail Grocers is strongly opposed to any further extension of price control beyond June 30.

At the last meeting of our national board here in Washington on January 20-21, the following resolution was adopted:

Whereas, the emergency price control law is wartime legislation; and
Whereas, the war is over; and
Whereas, through its absorption and other mistaken price policies, the Office of Price Administration is retarding and distorting production and thereby creating additional inflation both by perpetuating and aggravating existing shortages and by depreciating quality; and
Whereas, in the case of retail food distribution, the Office of Price Administration persists, despite all pleas and protests, in the following indefensible practices:

(a) It provides no reasonable tolerance for unintentional violations;
(b) It delays the issuance of ceiling price lists, as for example on the new 1945 pack of canned goods—which forces retailers either to hold new packs or sell at 'community' ceiling prices for old pack;
(c) It delays in correcting commodity ceiling price lists when errors in calculation are made by the Office of Price Administration;
(d) It forces retailers to absorb increases in cost permitted at previous levels of production and distribution;
(e) It creates and perpetuates inequalities in the reclassification privilege. Examples of this include (1) prohibiting a retailer who conducts a charge and delivery business with clerk service from reclassification to group 1 because his gross mark-up in 1941 was not at least 25 percent; and (2) forcing the lessee of a department in a large market to operate under classification covered by sales of all departments in entire market, even though such departments are leased or owned by separate individuals or companies;
(f) It carries on a constant propaganda campaign the effect if not the intent of which is to harass and intimidate retailers and discredit them in the mind of the consuming public by urging consumers to "check retailers" and furnishing the franking privilege to consumers to send in anonymous complaints of violations;
(g) It engages in gestapo-like techniques designed to break down alleged violators and secure confessions.
(h) It persists in retaining price ceilings over non-cost-of-living items. For example, there were, as of a recent date, price ceilings on more than 700 food items, although 600 of these items represented less than 10 percent of the total food purchased by consumers;
(i) It neglects to adjust the dairy products price structure to alleviate the butter shortage;
(j) It engages in propaganda devices designed to mislead the public and perpetuate its own existence indefinitely. Such a device was the recent removal of ceiling prices on citrus fruits at the very time when these fruits are in seasonal short supply and when, normally, prices temporarily rise; and

Whereas the Office of Price Administration is largely responsible—by strangling and distorting production and by depreciating quality—for debasing the
American scale of living to a point not reached even in the depths of the great depression:

Resolved, That this association, representing and speaking for an important sector of independent small business, earnestly petition Congress for an immediate and thoroughgoing investigation of this whole situation with a view to the early and orderly termination of price and other wartime controls and in no event should price control be extended beyond June 30, 1946.

That, in brief, Mr. Chairman and ladies and gentlemen of the committee, is the position we take and the reasons why we take it. However, I should like, with your indulgence, to elaborate somewhat on certain of the statements contained in the resolution.

The fact that the war ended—except in a technical sense—some 6 months ago is, in and of itself, as we see it, sufficient warrant for questioning the propriety of continuing any wartime controls—and especially price control—in the peace. As the Wherry committee has observed:

It was scarcely within the contemplation of Congress that these [war] powers, in their present form, should extend beyond the cessation of hostilities and that administrative policies formulated thereunder should be utilized to regulate, govern, or direct a nation no longer at war.

In other words—and if I can make myself clear—there is a question of good fundamental faith and of basic public policy involved here. We were told—the country was told—repeatedly that the only reason why these controls were imposed in the first place was the emergency produced by the war; that the only justification for continuing them was the overriding necessity for winning the war as quickly as possible; and it was never once suggested—at least so far as my knowledge goes—that this type of regimentation would be desirable, or even tolerable, once the shooting war stopped. I do not think that I am departing from the truth when I say that, underlying every appeal for industry support of the wartime price control program—and industry did support that program—was the assurance, express or implied, that it would end and end promptly with the return of peace. We therefore feel that, on strictly moral and ethical grounds, American industry is entitled to call upon Congress to fulfill that commitment.

There is also a very practical reason why, now that the war is over, the Emergency Price Control Act should be reexamined with a view to its early and orderly termination. This law was, as its title indicates, designed to meet a highly abnormal situation which no longer exists. This situation was compounded, first, of necessity for maximum production of all the things needed for the successful prosecution of a global war; and, secondly, of certain peculiarities of our wartime economy, including wage stabilization and a willingness on the part of both producers and distributors to work inordinately long hours as part of their contribution to the war effort.

Under these circumstances, price control was not incompatible—or at least it was not fatally incompatible—with full production. The Government simply went into the market and paid whatever it had to pay to get the desired production, relying upon the excess-profits tax and renegotiation to prevent profiteering; while on the civilian front, the usual profit motive was supplemented by a patriotic determination to keep the wheels of essential production and distribution rolling.

Now, however, we have a very different situation.
A generous Government, driven by a desperate urgency, is no longer industry’s principal and practically insatiable customer.

All costs have gone up.

And here I should like to quote from an advertisement appearing in the March 9 issue of the Portland Oregonian. It is entitled, “Shall the OPA Price Milk off the Market as They Have Butter?”

“Now that the war is over”—four associations of milk producers say—“dairy-men do not feel obligated longer to endanger the health of themselves and their families by long hours of labor and at the same time mortgage their farms, herds, and homes in order that consumers may continue to get milk and other dairy products at less than cost.”

I have tried to make the point that on moral as well as practical grounds, Congress should take cognizance of the fact that the war is over and that, as a consequence, the existing price-control law has been rendered obsolete. Your record is replete with evidence of how, notwithstanding Mr. Bowles’ lip service to full production, the Office of Price Administration is in fact strangled and distorting production, depreciating quality, promoting hoarding, creating black markets, and thereby generating additional inflation and debasing the American scale of living. I have mentioned dairy products and the condition described as prevailing in the Portland, Oreg., area as typical of conditions generally. For example, right here in Washington the Chestnut Farms-Chevy Chase Dairy recently served the following “Emergency Butter Notice” on its retail customers:

We are faced with a desperate butter situation, and the extremely limited amount available for distribution has been drastically curtailed. Actually, we expect to be without butter completely within the very near future.

In other words, the “line has been held” on butter and an “inflationary price rise” averted. The only catch in it is that you can’t get butter except through the black market.

In the case of meat, a similar situation prevails and for reasons which differ only in detail from those underlying the butter famine.

I was interested in what Mr. Blake said on the Office of Price Administration’s attitude toward the Bankhead amendment. Their attitude toward the Barkley-Bates amendment was practically identical. They paid no attention to it for four critical months. When it did finally admit that it had “erred in its prognostications” and moved to implement the congressional directive that a prewar margin of profit be permitted on each species of meat slaughtered and distributed, the relief granted—characteristically in the form of subsidies—was too little and too late. In the meantime, many packers were forced out of business, including 21 plants in the one community of Buffalo, N. Y.

Again, as in the case of butter, the line has been mostly held, but it is only fair to add that during the period of the Office of Price Administration’s monumental exertions and in this land of traditional abundance, that inspiring melody, One Meat Ball, made the Hit Parade. And today the black market in meat is worse than it has ever been.

The reports we get from throughout the country are that the situation is deteriorating at a most alarming rate. In the southwest, for example, the regular packers are now estimated to be getting less than 1 percent of the meat that is going to the market.
So far we have talked about dairy products and meat. What about bread?

I take it that all of us support and applaud President Truman's program for the amelioration of famine conditions abroad, including the eating of dark bread to save 25,000,000 bushels of wheat. At the same time, it is instructive to recall that the reason wheat is so scarce was not a crop failure. Last year's wheat crop was the largest in history. But again bureaucracy enters the picture. Due to the Office of Price Administration ceilings which distorted the price relationships that determine how much grain goes for direct human consumption and how much to cattle, hogs, and hens, the feeding industry during the last half of 1945 consumed 145,000,000 bushels of wheat more than the normal amount fed on the farms where it is grown. In a free market some amount of this wheat—probably considerably more than will be saved by the dark bread program—would have moved to or been stored for human consumption.

I believe it was Thomas Jefferson who said, "Were we directed from Washington when to sow and when to reap, we should soon want bread."

It is a pity people cannot eat—or at least they cannot digest—a maximum price regulation, even as amended, or wear a maximum average price or use any of this bumper bureaucratic abundance to build a house with.

This may be getting slightly off bounds, but the average, thoughtful citizen is deeply puzzled, Mr. Chairman and members of the committee, by the apparent contradiction between what the Government says about controlling inflation and what it does about it.

It is generally agreed, I believe, that the greatest inflationary force operating in the country today is continued deficit financing and the enormous amount of money in circulation. Yet in this crucial field of fiscal management, the Administration apparently is still proceeding on the theory that spending additional billions of borrowed money is a sovereign remedy for every ill that conceivably might beset us.

The labor policy is, of course, likewise highly inflationary. Nevertheless, it was not until the recent steel wage and price increase had made this apparent to all that there was grudging admission that even a "bulge" had been created. Moreover, the new wage and price regulations contain innumerable provisions whereby wages may still be increased without securing Government approval and the Administration continues to press for an amendment to the Wage-Hour Law increasing the present 40-cent statutory hourly minimum to 65 cents.

Clearly these and other contemplated measures and policies—such as the foreign loans, which further increases the national debt and enable the borrowers to compete in this market for scarce goods—all but so much oil poured on the smoldering fires of inflation. Yet, if we may judge by his public pronouncements, Mr. Bowles is much less concerned about curbing these major inflational forces than he is about an inadvertent 1-cent overcharge by some harassed retail grocer—even though 10, 50, or 100 other items in the store may be selling under the ceiling. So far as we can see, this amounts to straining at a gnat and swallowing a camel.

Up to this point, I have attempted to present to you the reasons why our people feel that, on broad economic grounds and in the in-
terests of effective inflation control, it would be better to permit price control to expire than to extend it. As I say, this is the way we see it, although we recognize that on so complicated an issue—standing alone—there is room for reasonable difference of opinion.

Unfortunately, however, this question of how best to control inflation is not the only issue, or even, as we see it, the most important issue involved in the pending proposal to extend price control for another year. There are two main reasons why retail grocers and other small businessmen hate and fear the Office of Price Administration and want it abolished and I now wish to present these to the committee, respectfully, but with complete candor.

In the first place—and this is a condition for which Congress and not the Office of Price Administration is squarely responsible—we do not see why those citizens who are subject to the Emergency Price Control law should be denied recourse to the courts of the land for the adjudication and redress of their grievances. We are aware, of course, of the action of the House in passing the Dirksen amendment last year, and we were and still are grateful for that action. We regret, however, that the House did not insist on the retention of this amendment in conference. And whatever considerations of expediency might have been urged in support of such an extraordinary abrogation of the citizen's rights in time of war, certainly there can be no excuse for the continuance of this injustice, now that the war is over.

In the second place, the Office of Price Administration's enforcement policies have violated and continue to violate every decent concept of what constitutes fairness and justice.

It starts upon the assumption that the citizens—taxpayers and employers—are criminals. In support of this statement I now wish to summarize for the record two of the most revealing documents which have so far come to light.

This document, apparently prepared by one Fred Lewe, an assistant training specialist in the San Francisco region office of the Office of Price Administration and circulated among all the regional offices, contained instructions—said to be modeled closely after those used by the Federal Bureau of Investigation—on how to interview a witness and break him down. I quote, in part:

Get him (the witness) to talk about himself. *. * * He has likes, dislikes, hobbies, pet ideas *. * * When the facts in the case indicate that another person may be involved with the witness, phrase your questioning to transfer the blame *. * * Make the witness feel that he is not telling you anything that you do not already know *. * * Sometimes the factual situation is such that you can work a good "bluff" on the witness *. * * Ascertain the status and degree of friendship between the witness and third parties *. * * or any degree of animosity *. * * Play this factor up by inference to the witness' mind *. * * Point out that he is possibly being played for a sucker *. * * Each little pinpoint penetration that you make in the witness will make him want to "sing" to get even *. * * When he sings, you write the music. Play up any reason, alibi, or excuse the witness may have. The use of the double or alternate question is sometimes an effective way *. * * Play upon his sympathies in connection with his family, his standing in the community, his citizenship, his business associates, his lodge affiliations, his friends, his business, or any other factor that you are able to ascertain *. * * A set of golf clubs, mounted game heads *. * * pictures of hunting dogs, a volume of coin collections, etc., all give clues to possible subject matter to resort to in order to make your subject more receptive *. * * Filing the evidence is somewhat of a pressure technique *. * * Use a slow, deliberate, and me-
thodical summation of the facts * * * This crystallizes the witness' adverse position * * * Don't be afraid of a little silence on the part of the witness. It generally indicates that his nervous tension is building up, which is exactly what is desired. * * * If you have a particularly "hard to get at" witness and all other attempts to "coax" him have failed, it may be appropriate to "pile the evidence." * * * A second contact will have given the witness some time to "stew" mentally—

Characteristically, as soon as this document became public (through insertion in the Congressional Record of January 13 by Representative Dirksen, of Illinois), Mr. Bowles sought to disavow it, saying that while it had been prepared by an Office of Price Administration specialist and circulated among the regional offices, it was not really official.

The second document, a “directive” ordering a recent enforcement drive in the Chicago area, was inserted in the Congressional Record of February 26 by Senator Lucas, who described it as—

one of the most remarkable and far-reaching directives that has ever been handed down by any agency of Government.

This directive stated, among other things, that—

our prime purpose is to file a great number of lawsuits so that the attendant publicity will effectually strengthen future compliance.

and that Office of Price Administration attorneys—

should postpone all conferences with violators until suit is filed. Prior notice to retailers of the filing of the suit is not necessary and not recommended—

it declared, adding—

The newspapers should be advised daily of the names of the defendants and the nature of the violations.

In other words—

and I am now quoting Senator Lucas—

they tell the agents in the field that once they find a violation of the law, whether it be a willful or an innocent violation, they should not talk with the individual who has committed the violation, but should go back to the office, confer with the lawyer, immediately file the suit, and bring the individual into court without notice * * *

And remember—

said Senator Lucas—

They are dealing with a citizen who has never violated the law in his life—
I would take issue with Senator Lucas on that. I don't think there is any retail merchant in the United States now or has been within a reasonable time who has been or could get in compliance with the Office of Price Administration laws and regulations. All of them have been in violation. But at any rate, he says:

And remember, they are dealing with a citizen who has never violated the law in his life, who has over a period of many years established a reputation for honesty and fair dealing with the public.

In January alone, retailers in the eighth district (west coast paid more than $51,000 in settlement of the "Administrator's claim" provided for in an amendment passed by the Congress last year. And I might say that the Office of Price Administration enforcement policy throughout the country is that at least $25 must be collected, irrespective of whether the violation was inadvertent or accidental or intentional.
The law authorizes the Office of Price Administration, under certain circumstances, to subpena books and records and require their production at a place other than the defendant's place of business. But without any subpena or court order, the Office of Price Administration investigators go into stores and demand that they be permitted to remove books and records and keep them indefinitely. They have even demanded that merchants supply them with copies of their income-tax returns.

And right on that point I would like to comment on the Office of Price Administration observation or contention that Dun and Bradstreet shows that nobody has gone out of business. Of course, Dun and Bradstreet does not show anything but the people who go out of business due to bankruptcy or failures. It does not show the people who go out of business voluntarily.

These enforcement policies have driven thousands of our people out of business and other thousands—who are still hanging on, hoping for relief from Congress—to desperation. One highly respected merchant in Ohio, following a typical Office of Price Administration inquisition, went to the basement of his store and hung himself.

Contrast this treatment—at the hands of their Government—of the small businessmen of the Nation with the treatment accorded another and more favored group of citizens—the members of labor unions. Under the Supreme Court decision in the notorious Teamster's case, members of the unions are permitted to engage with impunity in what is—and what a minority of the Court called it—common law robbery.

Today, under the Federal law—Thurman Arnold testified before the House Judiciary Committee—there is no right in the farmer which labor is bound to respect; there is no right in the consumer which labor is bound to respect; and the independent businessman has no right which labor is bound to respect. In other words, labor's pressure on these groups is independent of any law whatever. It is entirely up to the will of the particular union.

That, I take it, adds up to special privilege with a vengeance, special privilege conferred by Government upon some citizens at the expense of other citizens for the purpose—shall we put it quite frankly?—for the purpose of buying votes.

By concentration of Government power and drafts upon the Federal Treasury—Judge Sumners said the other day in explaining why he will not seek reelection in the House—we have now a financially "busted" great piled-up mass of governmental confusion beyond human comprehension, impossible of democratic control, extravagant, wasteful, inefficient, and by its nature the instrumentality of favoritism, tyranny, oppression, and corruption.

On behalf of the independent retail grocers of the United States—and on behalf of small business generally—the National Association of Retail Grocers earnestly petitions this committee and the Congress not to perpetuate this reign of terror beyond next June 30.
Mr. Patman. Mr. Taylor, did you indicate in your statement that
you are in favor of the Price Control Act in any form at all? I was
not here at the beginning of your statement, I was called away.

Mr. Taylor. Our position that it should not be extended in any
form beyond June 30 as to prices.

Mr. Patman. You know I have a feeling—and the grocers, of
course, are practically all small independents—do any of the chains
belong to your group?

Mr. Taylor. No, sir.

Mr. Patman. None of the chains at all?

Mr. Taylor. No, sir.

Mr. Patman. It occurs to me—and I hope I am not wrong about it,
I certainly do not want to be wrong when it comes to the livelihood of
so many people—that if we were to let price control expire tonight at
midnight, tomorrow morning these small grocery men going to their
different sources of supply would find it rather difficult to buy these
supplies in competition with the mass distributors who have such
great advantage, as you know. Do you not think they would be
placed at great disadvantage, Mr. Taylor?

Mr. Taylor. Mr. Patman, I think that inevitably, when this control
is relaxed, whether it be this June 30 or next June 30, we are going
to have considerable dislocation. Some prices are going up and you
are going to have the situation to some extent which you mention.

Mr. Patman. What I mean is as long as we are not in supply. If we
had a normal supply, and the small grocery man could compete with
the big stores in price, that is one thing; but when it is a question,
as Mr. Baruch said, of the one with the longest purchases and the
greatest pull getting the supplies, if that is true, the small grocery-
man would be placed at the greatest disadvantage if he were forced
into competition with the big national chains like A & P and others
that you know about. Do you not think so?

Mr. Taylor. Well, of course, he is confronted with that now, to a
certain extent.

Mr. Patman. And you know, yourself, Mr. Taylor—I know you
have been following this thing and I have—that every morning this
local grocer gets his share. It might not be much, but he is getting
his part. These wholesalers, jobbers and distributors are giving
everyone his proportionate part. You do not hear any complaint
about that, do you?

Mr. Taylor. I think you have a perfectly valid point there, Mr.
Patman, up to a certain point. But as it is now, the retail grocer
cannot get better.

Mr. Patman. Well, of course, that is not just peculiar to him.

Mr. Taylor. In the case of meat, it is more peculiar to him because
many of the chains have their own packing plants.

Mr. Patman. Yes, but the big fellows, I think, have such a great
advantage in this thing that I think the little fellows would be just
forced out into the cold almost immediately, and a check we had made
by our Committee on Small Business disclosed some startling figures
about the little one-man shops in this war. They are making a lot of
money. We had a survey around this town, into the suburban grocery
stores, and, to our surprise, they were making from eight to fifteen
thousand dollars a year net profit? They have done pretty well, have they not?

Mr. Taylor. Well, I think that probably many of them have done all right from a profit angle. On the other hand, they have done it by themselves, and their wives and children, working themselves to death.

Mr. Patman. That is very true; they worked awfully hard.

Mr. Taylor. Seventy-two hours a week.

Mr. Patman. Yes, but at the same time they have made more money than they ever made in their lives, which I was glad to see, and I would not deny it them, at all, but at the same time, while they were putting more time into it, they were saving some expense. They did not have to have a fellow if they did not want to, because it was a seller's market, and people would come in and get what they had to sell. They had no deliveries. They did not have to have deliveries. Of course, some did, to keep up good will. But their expenses, generally, were less. Do you not agree that that is true, during the wartime, and right now, than ever before?

Mr. Taylor. I think part of that, Mr. Patman, is illusory, perhaps not so much so in the case of the retail food distributors as it is in the textile industry, which was before the committee just now. They have been unable to replace their equipment. They need to do a great deal of building, modernization, and so forth, and when they come to do that, they find their costs have advanced tremendously.

Mr. Patman. That is very true; of course, they will have to postpone that now.

Mr. Taylor. What looked like pretty good profits are not so good after all.

Mr. Patman. This statement which Congressman Dirksen put in the Congressional Record, that made me boiling mad at what the Office of Price Administration was putting out, telling people how to interrogate the witnesses. Having been a district attorney in Texas myself for 5 years, and having dealt with criminals and knowing how you should deal with them, I thought it was outrageous, and I immediately called up a person whom I knew would know something about it down there, and he told me Mr. Bowles never approved that, he was against anything like that, he would not approve it at all, and he told me that some fellow out in Los Angeles got it up on his own initiative and wrote it out and sent it to somebody else and that is how somebody got hold of it.

Do you have any proof that Mr. Bowles, himself, ever approved it, Mr. Taylor?

Mr. Taylor. No, sir; we do not. In fact, I doubt whether he did. At the same time, the fact that a thing like that could be prepared in the San Francisco regional office of the Office of Price Administration by an Office of Price Administration specialist, and that it could be circulated among all the regional offices of the country—

Mr. Patman. Was it circulated among all the regional offices of the Nation?

Mr. Taylor. Yes, sir. Mr. Bowles admitted that.

Mr. Patman. Well, after investigation, he found it had been?

Mr. Taylor. Yes.

Mr. Patman. Was it used, do you know?
Mr. Taylor. Mr. Bowles, of course, did not state in his letter to Mr. Dirksen whether it had been used. Apparently he did not know.

Mr. Patman. But, at any rate, it was not an official document of the Office of Price Administration or Mr. Bowles would have had to approve it, would he not?

Mr. Taylor. Yes, but for the fact that it was inserted in the Record, it would have gone on apparently.

Mr. Patman. I know, but inserting it in the Record, Mr. Taylor, I think was doing the Office of Price Administration a great injustice. I have a high regard for Mr. Dirksen, I have no personal feeling in the matter at all. I know he is a very fine and able Congressman. But, after he put it in the Record, I think he acted in the very best faith, and it is my understanding—and I was told by one of the Office of Price Administration officials—that Mr. Dirksen was fair enough also, as he always is, to put in Mr. Bowles' reply.

Mr. Taylor. He put in Mr. Bowles' reply and his own comment.

Mr. Patman. And Mr. Bowles said he had nothing to do with it, knew nothing about it, and stopped it as soon as it was known to him, did he not?

Mr. Taylor. That is right.

Mr. Patman. Now, in view of that, Mr. Taylor, I was told by someone connected with the grocery organization that you had reprints made of that and sent it to all the grocers in the United States; is that right?

Mr. Taylor. We are giving the widest possible circulation to that and to Mr. Bowles' reply, and to Mr. Dirksen's comments.

Mr. Patman. You are putting both of them in and sending them out?

Mr. Taylor. Yes.

Mr. Patman. But since it was not official, Mr. Taylor, I think it just adds to the confusion and disunity, and just causes a lot of trouble over something that was never intended at all.

Mr. Taylor. Mr. Patman, it seems to me—

Mr. Patman. But I am glad that you are fair enough—as you are always fair—to put Mr. Bowles' reply in.

Mr. Taylor. It seems to me a sinister circumstance that this sort of thing could have originated as high up as in an Office of Price Administration regional office, and that it could admittedly have been circulated to all the regional offices.

Mr. Patman. But it had no official standing at all, and you know people in an organization now and then will do things that they should not do. You cannot control them. Out of the millions of telephone calls a day to the Office of Price Administration offices, I am surprised that you do not have more loose talk and bad talk than you do have.

Mr. Kilburn. What did Mr. Bowles do to the man who sent it out?

Mr. Patman. I do not know, but he said it had no official connection; he knew nothing about it; he had never seen it; he deplored it.

Mr. Kilburn. I wonder if he took any official action to repudiate it?

Mr. Patman. I do not know about that.

Mr. Kilburn. Or reprehend the man or anything else.

Mr. Patman. I do not know how much it was used. It may not have been used at all. At least, Mr. Bowles tells me it was not used with his knowledge and consent, and he not only did not approve it, but he said he would be opposed to anything like that.
Mr. Taylor. That is one of the objections that we have had to the Office of Price Administration: the fact that so much of this monkey business was going on.

Mr. Patman. And I share that view, too.

Mr. Taylor. In regional district offices.

Mr. Patman. But if we pick out isolated cases and give them great publicity, when 8,000,000 different prices and commodities are involved—I have always had the feeling that they were wrong about it, and that that was adding to the confusion and causing more trouble, rather than trying to abate the trouble by going to the head and trying to iron it out.

Mr. Taylor. We have come to what we think is the head now, and we think the way to iron it out is not to extend it beyond June 30.

Mr. Patman. You favored price control during the war, did you not, Mr. Taylor?

Mr. Taylor. We supported it to the very best of our ability.

Mr. Patman. Well, the statement that you put out about this thing is a terrible statement. I do not see how any fair-minded person could think about getting any such statement as that at all. That statement was sent out, and the one that was sent to me did not have Mr. Bowles' reply in it. But I am glad to know that now you are sending Mr. Bowles' reply out in connection with it.

Mr. Taylor. Yes, sir, we are.

Mr. Patman. Thank you very kindly, sir.

That is all, Mr. Chairman.

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Taylor, on page 7 I notice you say that under the Emergency Price Control Act the citizen is denied recourse to the courts. Of course, you know there is an Emergency Court of Appeal set up.

Mr. Taylor. Yes, sir, but, Mr. Congressman, we do not think that that in any way meets the citizen's need, much less his fundamental right to have recourse to the courts.

Mr. Kunkel. Why do you not think it meets his needs?

Mr. Taylor. Well, in the first place, he has to go through this complicated business of filing a protest. Then, if that is denied, he comes to Washington, when he should be able to go into his own local district Federal court, like other citizens do on other matters. And while the argument of the Office of Price Administration that that was a necessary wartime sort of short-circuiting of the whole business might have had some validity during the war, we cannot see that it has any validity now.

Mr. Kunkel. I do not think that was the argument, necessarily. The Emergency Court of Appeal was instituted because you have some ninety-odd district and circuit courts, all of which can decide any case differently and in questions involving price, particularly, you have to have a decision which has a national application, otherwise, if the price ceiling is in effect in Washington and not in effect in Baltimore, the price would be higher in Baltimore for the goods over there. That condition, it seems to me, obtains just as strongly now as it did during the war, and as it did prior to the war, when the country was engaged in a defense program. I do not see how you can distinguish between conditions now and during the war, so far as the Emergency Court of Appeal is concerned.
Mr. Taylor. If that contention proves anything, Mr. Congressman, does it not probably prove too much? In other words, the observation you make there would be applicable in any number of other situations, where the citizen has a recourse to the courts. I will admit that some confusion did arise back under the National Recovery Act, just of the type that you have mentioned. But it always seemed to us, especially during the war, that the courts could be relied upon to take a reasonable view of this matter.

Mr. Kunkel. Do you think that the 96 courts could all have been relied upon to take the same view of every question that went to them?

Mr. Taylor. That would perhaps be too much to expect, that all of them would take the same view. On the other hand, we do not think that the thing would have degenerated into an utter mass of chaos and confusion, as the Office of Price Administration contended it would.

Mr. Kunkel. I do not see how you can handle Office of Price Administration decisions, particularly on prices, unless you have a court whose decisions have a national scope.

Mr. Taylor. As I say, what you have said, from a practical standpoint, perhaps, does have some validity to it. At the same time, when you single out these people, and deny them recourse to the courts, which, under the ordinary type of statute, they would have—take the wages-and-hours law, for example. What you say would apply equally to the wages-and-hours law, although the appeals there are restricted to the circuit courts of appeal. But that difficulty never did develop.

So I think that, basically, this contention that the citizen should not have recourse to the courts is symptomatic of the deeper, underlying bureaucratic distrust of the courts. And, as I say, while it might have been defensible in wartime, we think it is totally indefensible now.

Mr. Kunkel. This court has nothing to do with the Office of Price Administration. It is appointed by the Supreme Court Justice, and is probably a better court, in my opinion, than any court in the country. I would much rather be before it with a case than I would before the Supreme Court. I can tell you that.

Mr. Taylor. Well, when you think of a little corner retail grocer employing counsel and coming all the way to Washington and preparing all the records and information and all that sort of business, which he would have to have to go through that procedure, and red tape, you are just, in effect, denying him recourse to the courts. The fact that they have not gone to it is the best evidence of that.

Mr. Kunkel. I cannot see anything that could possibly change that law at this time. That is all, Mr. Chairman.

Mr. Folger. Mr. Hays.

Mr. Hays. No questions.

Mr. Folger. Dr. Talle.

Mr. Talle. I will pass for the moment, Mr. Chairman.

Mr. Folger. Mr. Riley.

Mr. Riley. No questions.

Mr. Folger. Mr. Kilburn.

Mr. Kilburn. On page 9 of your statement, Mr. Taylor, down at the bottom of the page, it seems to me that that directive of the
Office of Price Administration, if that is what it is, "The newspapers
should be advised daily of the names of the defendants and the na-
ture of the violations," is more outrageous even than the thing which
happened in San Francisco. Was this matter ever taken up with
Mr. Bowles by your organization?

Mr. Taylor. In fairness to the Office of Price Administration, I
should—and I should have said that. I suppose, at the time when I
made my statement—say, as soon as the matter appeared in the Con-
gressional Record, Mr. Porter, who at that time succeeded Mr. Bowles,
did go into the thing. He found that this was an official directive.
Mr. Kilburn. It was an official directive?
Mr. Taylor. It was; and it was in full force and effect, but he
very strongly disapproved of it, apparently.

Mr. Kilburn. Did he change it?
Mr. Taylor. So he wrote Senator Lucas, at any rate. I do not
know whether the thing was actually changed or not. I would rather
imagine that it was.

Mr. Kilburn. Do you know whether it has been changed yet or not?
Mr. Taylor. No, sir; I do not.
Mr. Kilburn. I cannot understand a situation like that. If Mr.
Bowles made that a directive and made it official, is there anyone who
can change it, that you know of?
Mr. Taylor. I suppose he could.
Mr. Kilburn. Anyone besides Mr. Bowles?
Mr. Taylor. I believe that one originated with the Chicago regional
office.

Mr. Gamble. Will the gentleman yield?
Mr. Kilburn. Yes.
Mr. Gamble. Mr. Bowles and Mr. Porter will both be here together,
and at the same time, and I think it is a good question that you might
store up.

Mr. Kilburn. When will they be here?
Mr. Gamble. I do not know. This week some time, I suppose.
Mr. Kilburn. In reply to the comment of Mr. Kunkel, is it not true
that most of these unfair practices that have been perpetrated by the
Office of Price Administration on small grocers are small matters, and
the fine involved is usually $25 or $50?
Mr. Taylor. That is true.

Mr. Kilburn. And, generally speaking, they just simply pay it
rather than fight it?
Mr. Taylor. Generally, it is true.
Mr. Kilburn. So it is a form of blackmail undertaken by the Gov-
ernment agency against the grocer?

Mr. Taylor. In any event, it is certainly wholly impractical for
them to bring their cases before the emergency court of appeal.

Mr. Kilburn. At one place in your statement you say 600 articles
are priced, and that 500 of them are less than 10 percent.
Mr. Taylor. Six hundred and seven.

Mr. Kilburn. And 500 of them are less than 10 percent. What, in
your opinion, would happen to the cost of living, and to inflation, if
the Office of Price Administration removed those 500 items from their
control?

Mr. Taylor. Well, it is almost mathematically demonstrable that
nothing appreciable would happen, because the 600 items only account
for 10 percent of the total goods purchased by the consumer. So that, if you assume that they went up markedly, the rise in the cost of living would still be negligible. As a matter of fact, most of them are things which do not enter into the cost of living significantly at all.

Mr. Gamble. Such as what, sir?

Mr. Taylor. Anchovy paste.

Mr. Gamble. In other words, things that not many people would purchase daily or weekly?

Mr. Taylor. That is right, sir.

Mr. Kilburn. In your first statement, where you recommend that we do not extend any price control after June 30, that is based on your experience with the grocery business. Are you connected or have you made any studies of other businesses, like the lumber business? Is that a general statement or is that just the way you feel because of your experience with the grocery business?

Mr. Taylor. I am speaking here today, Mr. Congressman, for the National Association of Retail Grocers. As a matter of fact, I do represent other organizations, which include many of these commodities which you have mentioned, and our observation is that what we have said here about the Office of Price Administration strangling and distorting production, depreciating quality, and all that sort of thing, applies practically straight across the board. It is particularly true in the case of lumber. You heard the case of textiles here just a moment ago.

Mr. Kilburn. That is all.

Mr. Folger. Mr. Thom.

Mr. Thom. Mr. Taylor, you discussed the labor policy on page 6 of your statement. I assume, of course, that you are speaking for the retail grocers. Are you against collective bargaining?

Mr. Taylor. No, sir.

Mr. Thom. Do you think that the very recent increase of 18½ percent in wages is a justified increase?

Mr. Taylor. I think, Mr. Congressman, that that increase came about under very extraordinary conditions, when you reflect back on the statement by the Department of Commerce, which was recently repudiated by Mr. Wallace, that industry could pay up to 30 percent and not increase prices.

Mr. Thom. Do you think that increase was justified?

Mr. Taylor. Do I think the 18½-percent increase was justified?

Mr. Thom. Yes.

Mr. Taylor. I do not, sir.

Mr. Thom. You are very critical of the labor policy here. I come to the conclusion, from reading it, that you are an antunion man.

Mr. Taylor. No; I believe——

Mr. Thom. I just do not understand why a wage increase is not the best thing that can happen for the retail grocers of the United States. Is it not true that most of the man’s income is spent for groceries?

Mr. Taylor. That is true, in a general sense, Congressman.

Mr. Thom. What percentage of his income is spent for retail groceries?

Mr. Taylor. I believe the Bureau of Labor Statistics says 40 percent goes for food.
Mr. Thom. All right, I just do not understand why you should be in here criticizing an increase in wages and the labor policy when it redounds to the benefit of your retail grocers.

Mr. Taylor. Well, sir, taking a short-sided view of that, that might appear strange. On the other hand, if we do have control, and de-control, and chaotic inflation in this country, and the money is worth nothing and the Government is busted, whatever short-term gain might have been registered by retail grocers as a result of that temporary condition which we think is desirable would be wiped out.

Mr. Thom. I am the son of a former grocery man, and I think good wages are the very life of the prosperity of the grocery man. And I think that is what a great many of the corner grocery men say.

Mr. Taylor. I mentioned the wage and hour law there.

Mr. Thom. You are against that, are you?

Mr. Taylor. The argument is made, and it has a great deal of plausibility, that 65 cents is not a high wage, that everybody ought to get 65 cents as a minimum. And yet two things may be said about that, sir.

In the first place, employers can pay and will pay only whatever wages result in a profit to them. That is, the amount that they can pay and will pay is based on employee productivity. And once you get the thing above the point where they will employ the lowest grades of unskilled labor, and the old and inept, and the handicapped, you are simply creating a caste of economic untouchables, because they will have to go on relief, because the Government has made it unlawful for employers to pay them anything that they can afford to pay.

Mr. Thom. Well, then, I take it you are opposed to the wage and hour amendment.

Mr. Taylor. In the second place, the proposed wage and hour amendment, and the wage-hour law, as it stands now, is not altogether a subsistence wage proposition. Its over-time proposition applies to employees who are making $2 an hour, or $3 an hour. In fact, it penalizes the employer who pays the highest wages, so far as its overtime aspects are concerned, because the higher the wage he pays, the more he is penalized on the overtime.

Mr. Thom. What is the average business of the ordinary man in your association? What is the volume per year average?

Mr. Taylor. I believe about $20,000.

Mr. Thom. A year?

Mr. Taylor. Yes.

Mr. Thom. Well, the minimum hour and wage bill does not apply to merchants who do over $5,000. So it does not affect your members.

Mr. Taylor. It does apply to any outfit that does over $5,000, or any chain, irrespective of their volume.

Mr. Thom. Well, you do not have any chains in your outfit, do you?

Mr. Taylor. Well, we have chains of 4 or 5, I suppose. I do not know.

Mr. Thom. I just wanted to know what the attitude of your organization is on the minimum wage.

Mr. Taylor. It is absolutely opposed to it, sir, for two reasons: We do not think that it should apply to this type of business, and, in the second place, we think it is highly inflationary.

Mr. Thom. That is all.

Mr. Folger. Mr. Buffett.
Mr. Buffett. Mr. Taylor, I enjoyed the vigorous tone of your statement. I am not altogether in agreement with the notion yet that we must end the Office of Price Administration on June 30, but I believe that unless there are very considerable changes made, that that would be preferable to continuing it. Now, you represent a very large group of small businesses?

Mr. Taylor. Yes, sir.

Mr. Buffett. And those businesses all did a pretty profitable volume of business during the war, did they not?

Mr. Taylor. Yes, sir.

Mr. Buffett. That, incidentally, is characteristic of the first stages of any fiat money inflation period?

Mr. Taylor. That is correct, sir.

Mr. Buffett. They had the same prosperity in France in the first period of fiat money inflation, but, then, as they got into the more difficult stages, that prosperity disappeared, and I am thinking that the signs of that second stage are already occurring in the small retail business, particularly the grocery business. I recall that 850 creameries out of 4,600 in 1941 have closed down. That is about 20 percent of the creameries of the country which have closed down. Undoubtedly a lot of those creameries supplied your grocers with butter; is that not right?

Mr. Taylor. That is correct, sir.

Mr. Buffett. I likewise have noticed that one of the big chains has purchased at least one creamery of their own, so that they can have butter, but the independent merchant does not have butter. That is a pretty powerful weapon in competition; is it not?

Mr. Taylor. It is.

Mr. Buffett. And I am also familiar with the fact that a great number of small packing houses in this country have been forced by the Office of Price Administration regulations to sell their plants to the great chain organizations, who, thereby, have meat throughout the country. Are you familiar with that situation?

Mr. Taylor. Yes, sir, that has happened.

Mr. Buffett. Incidentally, you may be interested in knowing that out in my area, one of the chains was, a few months ago, feeding as high as 60,000 head of cattle, thus eliminating the small cattle feeder and the small packing house operator and the small merchant of all those stages in the feeding of livestock, and the retailing of livestock. I also understand that a great number of canneries, both vegetable and fruit canneries, have been taken over in the last several years by large consolidated groups operating under the direction of semi-monopolies. Are you familiar with that?

Mr. Taylor. The Office of Price of Administration has definitely produced that trend, and it is a growing trend.

Mr. Buffett. In other words, as the Office of Price Administration is operating, you have a pretty powerful instrument to destroy the small merchant in the grocery business; is that not right?

Mr. Taylor. It is operating toward monopoly; that is correct.

Mr. Buffett. I have seen it operate in this fashion already; namely, that various kinds of canned goods along with meat and butter and other products are more available to the chains than they are to the independent stores. Is that not a clever way, in a period of abundance, to destroy the small independent merchant?
Mr. TAYLOR. Well, you are perhaps familiar, Mr. Congressman, with the case up here in New Jersey of this small creamery which was started by these two brothers—the Miller brothers, I believe the name was.

Mr. GAMBLE. That was up in Connecticut.

Mr. TAYLOR. That is right. I believe there were only 16 people employed by the creamery, but 250 people moved in from the unions outside, and picketed their place, and slashed the tires of the people who came there trying to get some butter or cream, and finally suggested to them that they sell out to their large competitor. The upshot of the whole business was that they went out of business, and so far as I know, are permanently out of business.

Mr. BUFFETT. Of course, that instance is duplicated all over the country. I have it in my own home town, and elsewhere in my own district. I am familiar with how it has operated in the livestock feed business, because I am in that business, and I am familiar with how it is operated to deprive independent merchants of buying canned goods, meat, butter, and other products. Now, I have been told that in Italy the Fascists used the method of regimentation and regulation to drive business into the hands of 20 or 30 great giant corporations, and then it was very easy to nationalize those corporations. Could we not be seeing the early stages of a similar process in this country, and would not the Office of Price Administration, if continued, facilitate that process?

Mr. TAYLOR. I think unquestionably a parallel process is taking place in this country, sir.

Mr. BUFFETT. And it would be fair to say that unless Congress does something about that, it is sitting idly by while small business is being destroyed.

Mr. TAYLOR. Yes, sir. Mr. Baruch told you here the other day that small business could not live under this present wage-price dispensation. And I do not think there is any doubt about the truth of that statement.

Mr. Congressman, you mentioned the meat situation. I have this very recent report from Omaha, in which you might be interested. The headline says: "Lack of meat faces Omaha, packers say."

Meat shortage days may be just around the corner for Omaha again. The harbinger is a drop in production ranging as high as 50 percent at some packing houses here. Already this is reflected in a few meat markets.

Here is the report of Armour, down 30 percent on beef production, and on the way.

Wilson, expect to feel the cattle squeeze this week: hog production off 50 percent, sheep killing stopped.

Cudahy, beef output down about 25 percent; sheep production down from 247 to 185 an hour.

Swift, if it gets any worse, we will have to stop our beef killing operations altogether.

That is explained by one of the Armour people, who says:

We can hardly buy any cattle and sheep and keep in compliance. The other packers here are in the same boat. He and other officials explained that a high percentage of the cattle coming into market now is purchased by order buyers for plants on the east and west coast. If we paid the price these buyers pay—
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continued Mr. Hinton—

we would be in violation, and, as it is, I do not know how long we can stay in business.

I was much interested, Mr. Patman, in this statement which I received this morning from your committee about this similar situation in the Southwest:

Department of Agriculture has announced that for several weeks past large packing concerns have been unable to buy sufficient quantities of beef cattle under Office of Price Administration ceilings to maintain normal operations. Reports reaching the Small Business Committee from southwest cattle markets indicate that of recent sales, approximately 1 percent of the sales went to established packers. The remainder going to new custom slaughterers, retail buyers, and black market operators.

Mr. Patman. That is right.

Mr. Buffett. Mr. Taylor, my father runs a market and is in the position, right now, of finding it very difficult to buy meat from Armour and Swift and those other packers with whom he does business, while the meat that he should be getting is going through black markets.

Mr. Taylor. It is being channeled into the black market.

Mr. Buffett. There is a natural law called the law of self-preservation that comes ahead of any legislative fiat that we create down here; is that not right?

Mr. Taylor. We used to think so, Mr. Congressman. Things are strangely out of joint in these recent years.

Mr. Buffett. Have you ever heard of any legislature successfully repealing one of the Almighty's laws?

Mr. Taylor. No, sir, I do not believe it can be done. But certainly, unless Congress does something, you are going to have a terrible situation in this country on this whole food situation.

I do not know whether this is the place to mention it or not, but I am rather in close contact with the representatives of the farmers, and, due to various causes—one of the main ones being that the boys are not going back to the farm, and another one being that the International Harvester Co. has been struck now for several months and they are not putting out anything, and there is a great shortage of farm machinery—we are facing a very desperate situation supply-wise, from the food standpoint in this country in the next year.

Mr. Buffett. And unless we deal realistically with it, when we know the situation exists, we are, in effect, encouraging the very crisis which will come later; is that right?

Mr. Taylor. Well, we will have a domestic crisis here which will be extremely serious, from our own standpoint, and we will get ourselves in a position of complete impotence to assist the rest of the world, which is also a long way from being over the hump.

Mr. Buffett. You may be interested in knowing that that aspect of this problem parallels again the experience in France, where they requisitioned the crops of farmers, when they had the same problem with black markets that we have, but despite all their regulations, the natural laws finally prevailed, and it was at considerable cost in blood and tears before those in power recognized the situation.

Mr. Taylor. We have great confidence that the Congress is going to straighten this situation out. We know that you know the facts. I felt that it was pretty much of a waste of our time for me to come
here and make this statement to you, because I dare say that I told you
nothing that you did not already know before. You are in possession
of the facts. You have every reason that could possibly be available
to the country's lawmakers to straighten out this mess and get the
country back on an even keel and headed toward conditions where
things will be running along.

Mr. Buffett. Mr. Taylor, I hope your confidence is well founded,
and I am sure that Congress has the ability. But I think Congress,
like other institutions, is inclined, like the Office of Price Administra-
tion, for example, to delay action until forced by some critical situation.
I think that critical situation is here now.

That is all, Mr. Chairman.

Mr. Folger. Do you have any questions, Mr. Brumbaugh?

Mr. Brumbaugh. No questions.

Mr. Patman. Mr. Chairman, Mr. Buffett mentioned something there
that I think is deserving of just a little consideration and thought—
more than has been given to it. He almost made the charge that we
were going into fascism.

Mr. Buffett said that over in Italy they tried to force everything into
about 20 corporations because they could control the corporations.
I got the inference that he was making the inference that if we kept
this up, we would be a fascist country. If that is the situation, I hope
that he will join in the effort that I have been making here for many
years to break up these big concerns, like the A. & P., the greatest com-
petitor to the small groceryman presented by Mr. Taylor. I think the
A. & P. has gotten so big that the ordinary independent merchant does
not have a chance in competition with them, because they admit that
in a large number of their stores they sell at a loss in order to put a
fellow out of business. And if the gentleman has that idea, I hope he
will join in that effort, because it will be in the opposite direction to
where he is apprehensive we might be going.

I certainly would not think, even if that illustration were justified,
I do not think that charge can properly be laid to Congress or the
people, or those of us who favor the Office of Price Administration's
continuance, for the reason that we look upon it only as temporary,
the administrators have demonstrated that they are so anxious to take
controls off that in a number of instances they have taken them off
too quickly. So it occurs to me that when we have people in charge
who are anxious to take off controls just as fast as possible, and Con-
gress is making it plain that it is just a temporary agency, that we
do not want to extend it any longer than they, that it should not be
presumed we are going in the direction of Fascist Italy, because that
was a permanent proposition, and I do not want anything like fascism
over here, or communism, either. Either one of them.

Mr. Taylor, about the small grocer: I just wonder if they
have studied the past on this proposition. After the other war, we
had that boom, as you know, and several hundred thousand small-
business men went broke by reason of it. They went to the stores and
they bought everything they could buy. Then, all at once we had the
bust, and they went broke.

Now, I know that you are sincere when you believe this will help
the small grocer, namely, to take off all controls. On the other
hand, I sincerely believe that it would be the greatest enemy that small
business could have, because small business is so powerless among
the business concerns of the country that they would be the first vic-
tims and it would do them a lot of harm. And I am trying to save
them from the hard experiences of the past, and I feel that keeping
controls on scarce articles is going in the direction of helping them.
I would like to call your attention to a thought-provoking sugges-
tion that I got awhile back about the wages-and-hours law, about this
65-cent minimum. This was from a small man.

Now, the stores you represent average, I believe, about $20,000 a
year; is that right?

Mr. Taylor. That is approximately right, I think.

Mr. Patman. That is what you might call a "ma and pa" store, is it not?

Mr. Taylor. No, sir; the "ma and pa" store is about $10,000.

Mr. Patman. Well, they go up as high as $15,000 or $20,000, I sus-
pect, depending on localities.

Mr. Taylor. That is possible.

Mr. Patman. I certainly want to help these people, but this man
wrote in this way: He said the big chains are his competitors, and
that if this 65 cents is required, they will have to pay it, and he would
not have to pay it, and he said that the 65 cents required to be paid
by the big chains, although not intended as a penalty on them, but
because of the fact that they would be compelled to pay it, would
place the small man, especially where he and his family did most of
the work, at a great advantage.

I am just giving you that information in order that you might
explore it. I do not know how far it might go in your particular field,
or whether or not he is entirely wrong about it. But I can see where
the small man, who does not have to hire anybody, or just one or two
people, would not be placed at as much of a disadvantage as the
concerns, absentee-owned, and depending entirely on hired labor.

Mr. Thom. Would that not also benefit the man's customers, too?

Mr. Patman. His customers would have more purchasing power
and the more purchasing power they have, the more groceries the
groceryman can sell.

Mr. Taylor. Of course, Mr. Patman, one thing that would come
into operation there immediately, insofar as this did apply to inde-
pendent service stores, is that they would go on a self-service basis.
And you would have the 65-cent minimum operating to destroy
employment.

Mr. Patman. In order to save as much on help as possible?

Mr. Taylor. Yes.

Mr. Patman. I can see that tendency, anyway, in the direction of
labor-saving devices. The higher the wages are, the more that trend
will be accentuated.

Mr. Taylor. That is correct.

Mr. Patman. There is one thing you did not make clear to me, which
I honestly would like to have you clear up. You said that the Office
of Price Administration had demonstrated their desire to remove
controls as rapidly as possible. How have they demonstrated that?

Mr. Taylor. Well, I think the administration—is what I mean—
the administration, generally, has demonstrated it.

Mr. Buffett. I did not know they tried to remove controls.

Mr. Patman. I can tell you one they made a serious mistake in
removing, and that was on lumber on February 15. They acted too
quickly and removed L-41. That threw the lumber market into consternation.

Mr. Buffett. That did not have anything to do with prices, did it?

Mr. Patman. No; it had to do with allocations. Now, rationing—that is part of control; and as evidence of the fact that somebody has acted with a lot of common sense and reason, there is only one article or commodity in the Nation today, out of the millions, that is rationed.

Mr. Buffett. I am talking about prices.

Mr. Patman. They have taken off a lot of prices. And there are a lot of them I want taken off. They have made a mighty good case before us, for them, taking off prices off a lot of things.

Mr. Buffett. That is why I wondered: Why do they not take them off?

Mr. Patman. I think the Office of Price Administration has taken off price controls from thousands of articles.

Mr. Kilburn. Things like Christmas tree standards. Look at the petroleum industry.

Mr. Patman. I think they should be taken off there, because supply has reached demand.

Mr. Buffett. It has been that way for months in many lines.

Mr. Patman. You cannot administer a law by writing language to do that.

Mr. Kilburn. The only point I make is that it is my impression from listening to these hearings that the Office of Price Administration wants to hold controls just as long as they possibly can.

Mr. Patman. Do you think Mr. Bowles, or Mr. Porter, wants to hold them? There is Mr. Porter, for instance. He is probably getting $10,000 a year. He can go out tomorrow for $75,000. Chester Bowles can, too. I do not know what Paul Porter's circumstances in life are, but Chester Bowles is a rich man. Do you think he is going to try to hold onto controls here just for the sake of trying to regiment people? I do not believe he is.

Mr. Kilburn. I am just giving you the impression I got from the testimony.

Mr. Patman. I think they are just trying to do a good job.

Mr. Kilburn. I hope that they are.

Mr. Thom. Mr. Patman, did they not take some ceilings off food products and have to restore them?

Mr. Patman. That was fresh fruits and vegetables and grapefruit and oranges.

Mr. Thom. Was there not some mention of cocoanuts this morning?

Mr. Patman. Well, cocoanuts, of course, do not amount to much. But I will admit that the number is small; but it hurt a lot of small manufacturers. The way it came to my attention was through the small manufacturers of candy—the makers of cocoanut candy. Cocoanut was the basic product. They were forced out of business overnight, because price control was taken off cocoanuts. One big concern bought up all the cocoanuts that were offered. The price went up from $51 to $252 per thousand cocoanuts, overnight, and put these little people out of business. That can happen on many other commodities. I do not know on how many, but it can happen on a lot.

Certainly, I do not want to do anything to hurt the small grocery man, but I thoroughly believe that they would be making a terrible
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mistake if they were to succeed in getting all controls taken off. I think the smaller he is, the quicker he would be hurt.

Mr. Taylor. Mr. Patman, I think, so far as the economics of this business are concerned, that our main disagreement is over whether you get full production as long as you retain these controls. We do not think that you will.

Mr. Patman. Well, I know there is a difference of opinion there. Mr. Baruch takes the opposite view, so does Mr. Kaiser. Mr. Kaiser is quite a big man, you know, and he says if all controls were taken off, he would have to lay off half of his people or more immediately, and he would be just ruined, because he would not know what price to sell, because he would not know what price he was going to have to pay for the raw materials to make the things or the wages he would have to pay. He would just be forced into confusion.

Mr. Gamble. You are not advocating a perpetual price control?

Mr. Patman. Oh, no; just when things are scarce.

Mr. Kilburn. Did not Mr. Baruch say he was against price control?

Mr. Patman. He said he was for it.

Mr. Kilburn. He said it was a poor law, but we are in it and we have to continue it.

Mr. Patman. I agree with him there. None of us wants it. But it is the situation we are faced with.

Mr. Taylor. Well, Mr. Chairman——

Mr. Patman. And we have to do the best we can with what we have.

Mr. Taylor. I am neither a prophet nor the son of a prophet, but I venture the prediction that if the Office of Price Administration—if you do extend it a year—will be back up here this time next year with a great mass of charts and statistics and very plausible arguments as to why it should be extended again.

Mr. Patman. Well, the best evidence we will have on that is that I do not look for Mr. Bowles and Mr. Porter to try to rush in here to get a law through to help themselves, or to try to get it through for their own benefit. But any time prices begin to sell 1 cent below ceiling, price control will not have any effect, anyway. They will just be taken off automatically.

Mr. Taylor. Not if some customer comes into the store and can offer to go some place where the cost is a penny more.

Mr. Patman. That is an exceptional case. I do not think that is a general rule.

Mr. Taylor. Well——

Mr. Patman. I understand that, Mr. Taylor. I am around among the people just as you are. Who enforces this Office of Price Administration law? Local people. A committee of neighbors. And ordinarily a committee of neighbors are not anxious to do something to one of their neighbors. And I was absolutely greatly disturbed about some reports coming to me about some merchants who had not been treated fairly, and I looked into it carefully, and I found out that they had been warned, repeatedly warned, and they only went after them after they had repeatedly failed to try to do the right thing.

I do not believe that is typical. I do not cite that as being an indication that there are no opposite cases. I do not doubt but what mistakes were made, and I do not doubt but what some people were treated unfairly. I am awfully sorry that they were, but even the courts
sometimes do not do exact justice. They just cannot do exact justice; and I do not think these things are the general rule, Mr. Taylor. I think they are more the exception than they are the general rule.

Mr. Taylor. I am delighted, Mr. Patman, that you brought that up, because I did not sufficiently emphasize it in my statement as I went along. What you say about the authority of the local price panel did prevail to a considerable extent up until recently, or comparatively recently.

Mr. Patman. If there has been any change in it, I would like to know about it.

Mr. Taylor. There has been a change in that, and those panels are run absolutely by the Office of the Price Administration enforcement officers of the district offices.

I have right here, for example, from the Idaho Daily Statesman, published at Boise, Idaho—this is the March 19th issue—the story of the resignation from the price panel of three of the members. The headline is: "Three of local price board quit jobs; charge dictation."

I will just read two paragraphs.

Mr. Patman. I know, Mr. Taylor; but how many boards are there—about 6,000?

Mr. Taylor. We have these reports of these people resigning from all over the country.

Mr. Patman. Well, say you have 50 out of 6,000. That would not be so many, and you will always find exceptional cases. The over-all picture is what counts.

Mr. Taylor. I charge, Mr. Patman—and I doubt if Mr. Bowles or Mr. Porter, either one, will deny it—that the price panels are now being run by the paid personnel of the Office of Price Administration enforcement.

Mr. Patman. Well, it has changed, then, from what it was.

Mr. Taylor. It has changed; and here is what this Reverend Mr. Barker, a retired minister, who was chairman of this panel, said:

For example, the Office of Price Administration told the board, in effect, that the violators were guilty when they were brought in, so it is not our job to determine guilt but rather to decide upon the settlement or the amount of the fine.

The local board has been operating on the theory that a margin of error should be allowed and that a man should not be treated like a criminal just because he has inadvertently overpriced an item for a few cents.

Mr. Patman. That is right. I agree with that.

Mr. Taylor. Here is another communication from the War Prices and Rationing Board of Morgantown, W. Va., in which they sent this notice out to the merchants:

The price panel has just received instructions from the district office on the new price control program as to handling violations. We feel it is only fair to warn you that under the Price Control Act, from now on, a settlement of no less than $25 must be made for any price violation, even if unintentional. The amount of the settlement, of course, will depend upon the type of violation.

That is a new policy.

Mr. Patman. Well, I did not know about that new policy.

Mr. Taylor. Our information is, it is being applied Nation-wide.

Mr. Folger. Thank you, Mr. Taylor.

We will adjourn until tomorrow at 10:30.

(Thereupon, at 4:30 p. m., the committee adjourned, to reconvene at 10:30 a. m., Thursday, March 28, 1946.)
The committee reconvened at 10 a.m., Hon. Brent Spence, chairman, presiding.

The Chairman. The committee will be in order.

Mr. Brooks desires to offer a statement for the record.

Mr. Chairman and gentlemen of the committee, I have a short prepared statement in reference to an amendment which I understand will be presented to the committee later on, suggesting the release of certain controls over industries, and I ask that it be printed in the record.

The Chairman. It may be printed in the record.

Mr. Brooks. Thank you very much.

STATEMENT OF HON. OVERTON BROOKS, A REPRESENTATIVE FROM THE STATE OF LOUISIANA

(The above-referred-to statement is as follows:)

Mr. Chairman and members of the House Committee on Banking and Currency, I appear before you today speaking in behalf of an amendment to the extension of OPA which, if adopted, will permit industries producing consumers' goods in excess of current requirements to be automatically relieved of OPA regulations. I think this amendment, which I understand will be presented to the committee, is a very important amendment and deserves your most careful consideration.

I have in mind two or more great industries which might be affected by such an amendment. There is, for instance, the growing of cotton. I am informed at the present time the world has 26½ million bales of carry-over cotton and that even with the additional consumption and increased sales of cotton by August 1 the carry-over will still be 24,000,000 bales of cotton. This means an excess of cotton in the world far beyond the current needs of its people.

The same thing applies to cotton within the United States. I have received figures from the Agriculture Department to the effect that the carry-over of American cotton on August 1 will be approximately 7½ million bales, which is almost a year's cotton consumption. In addition to this, the country on August 1 will have before it the new crops which, I would suppose, will exceed 10 or perhaps 12 million bales of cotton. This means an excess of cotton within the United States and, under these conditions, we can naturally assume that the law of supply and demand will work. If for any reason at a later date the surplus cotton is consumed and there should develop an actual shortage of cotton, under this proposed amendment this great commodity could be again subjected to OPA controls.

A similar situation exists in the oil industry. In this industry, production controls are regulated by the several States or by interstate contracts under the
authority of our Constitution. Oil can be naturally produced in larger or smaller quantities at the present time, depending upon the consumer demand. I have been reliably informed in my section of the Southwest, which is in the heart of the oil-producing section of the country, that surpluses of oil have been accumulating at an enormous rate. Some of our refineries have closed down and oil production has been reduced to the extent that the allowable production per well has been decreased in some areas. It is apparent that a surplus of oil exists in this country and, as a result, a large surplus of gasoline is present. Under such circumstances, it is a duty of OPA to immediately release this industry and to permit the law of supply and demand to return. This economic law will regulate the price of refined oil consumption far better than can the OPA regulate it and certainly it will be far more satisfactory to the people of this country.

The other night I was reading in a periodical, published with especial reference to economics, a list of consumers' goods which are being produced presently in excess of current demands. This list is becoming a large one and is growing daily. As an industry produces beyond the current needs, this industry should be released of regulation and allowed to resume its business as operated normally under the law of supply and demand. The incentive to develop a tremendous production for the purpose of becoming released, I assure you, will be in direct proportion to the weight of burdensome OPA regulations.

The **Chairman**. Mr. Eldridge Haynes, publisher of Modern Can Industry, may insert a statement with regard to the Office of Price Administration.

Without objection, I offer it for insertion in the record.

**STATEMENT OF ELDRIDGE HAYNES, PUBLISHER OF MODERN CAN INDUSTRY**

(The above-referred-to statement is as follows:)

**REPORT ON POLL OF MODERN INDUSTRY READERS ON THE QUESTION “SHOULD PRICE CONTROLS BE EXTENDED BEYOND JUNE 30, 1946?”**

In the February 15, 1946, issue of Modern Industry there appeared a debate in print on the question, “Should price controls be extended beyond June 30, 1946?

The case for the affirmative was presented by Geoffrey Baker, OPA Deputy Administrator, and for the negative by Dr. Lewis H. Haney, of the Graduate School of Business at New York University.

On February 26 and 27 the ballot shown below was mailed to all of the more than 50,000 U. S. A. readers of the publication.

**MODERN INDUSTRY, 347 Madison Avenue, New York 17, N. Y., February 1946.**

DEAR MI READER-VOTER: Your business, every business, will be affected by the continuance—or discontinuance—of price controls. Industry must, therefore, express without delay considered opinions to the Congress on this crucial issue.

That is why Modern Industry invited Geoffrey Baker, Deputy to Chester Bowles, and Dr. Lewis Haney, economist-columnist, to debate in print, “Should price controls be extended beyond June 30?” Baker says profits have been good under price controls—Haney says Government expenditures to maintain OPA administratively are themselves inflationary. What do you think?

We ask you to read the red-hot arguments on price control which begin on page 106 of the February 15 issue of Modern Industry. Then make your own experience, your own judgment, part of Modern Industry's report to Congress and the press by mailing us your ballot, which is detachable below. Your ballot will be kept secret; only totals will be made public.

More articles in the current issue: $170 billion nest egg in savings—what companies can do to help workers guard them (Modern Industry, p. 100); Plastics—which and when (p. 45); "Pip" Piperox, adept handler of men and machines (p. 66); all this and more too in Modern Industry for February 15, 1946.

**THE EDITORS.**

P. S.: The subscription price of Modern Industry goes up soon. Renew or extend your subscription now and save 30 percent—1 year, $3.50; 2 years, $5.50;
extend price control and stabilization acts of 1942

3 years, $7. (New rates will be 1 year, $5; 3 years, $10.) Indicate extension or renewal at bottom of ballot card attached and mail today.

**BUSINESS REPLY CARD**

First Class Permit No. 38540, Sec. 510 P. L. & R. New York, N. Y.

**MODERN INDUSTRY,**

317 Madison Avenue,

New York 17, N. Y.

**THIS IS YOUR BALLOT**

"**SHOULD PRICE CONTROL BE EXTENDED BEYOND JUNE 30?**"

Results of Modern Industry polls are released to Members of the Congress and to daily newspapers as an index of industrial opinion: Therefore make your opinion count. Please read Modern Industry's price-control debate on page 106, February 15 issue then mail the postage-free ballot on the inside to us.

**THE EDITORS MODERN INDUSTRY.**

Read the Debate in Print in the February 15 issue of Modern Industry, page 106, then vote.

**BALLOT**

"Should Price Controls Be Extended Beyond June 30?"  
Yes ☐  No ☐

**Comments:**

Please indicate title or position  
Your name will not be revealed  
(To enter or renew subscription, check here. ☐ 1 year $3.50 ☐ 2 years $5.50)

Please Detach Card Here and Mail Promptly

So that the reader of this report may appraise the character of people polled on this issue, we present the following analysis of circulation of the magazine:

**Circulation of Modern Industry, issue of May 15, 1945, by industries compared to United States census figures (1939)**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of plants with products valued at over $50,000 (United States census)</th>
<th>Number of plants reached by Modern Industry</th>
<th>Total circulation of Modern Industry in the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>2,367</td>
<td>2,091</td>
<td>4,325</td>
</tr>
<tr>
<td>Food</td>
<td>6,256</td>
<td>3,319</td>
<td>9,575</td>
</tr>
<tr>
<td>Leather</td>
<td>2,970</td>
<td>5,054</td>
<td>9,066</td>
</tr>
<tr>
<td>Machinery</td>
<td>1,139</td>
<td>679</td>
<td>1,818</td>
</tr>
<tr>
<td>Nonferrous metals</td>
<td>2,785</td>
<td>4,791</td>
<td>7,576</td>
</tr>
<tr>
<td>Paper and pulp</td>
<td>907</td>
<td>975</td>
<td>1,882</td>
</tr>
<tr>
<td>Petroleum</td>
<td>1,494</td>
<td>1,286</td>
<td>2,780</td>
</tr>
<tr>
<td>Printing</td>
<td>1,622</td>
<td>712</td>
<td>2,334</td>
</tr>
<tr>
<td>Rubber</td>
<td>259</td>
<td>706</td>
<td>965</td>
</tr>
<tr>
<td>Stone, clay and glass</td>
<td>1,054</td>
<td>1,761</td>
<td>2,815</td>
</tr>
<tr>
<td>Textiles</td>
<td>6,272</td>
<td>2,913</td>
<td>9,185</td>
</tr>
<tr>
<td>Transportation</td>
<td>326</td>
<td>1,115</td>
<td>1,441</td>
</tr>
<tr>
<td>Woodworking</td>
<td>2,208</td>
<td>1,829</td>
<td>4,037</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>999</td>
<td>2,771</td>
<td>3,770</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,316</strong></td>
<td><strong>31,773</strong></td>
<td><strong>63,089</strong></td>
</tr>
</tbody>
</table>
The United States census discloses that the above 31,346 plants account for
86.3 percent of the total production of all United States manufacturing indus-
tries. We estimate that the plants reached by Modern Industry account for
approximately 89 percent of all United States manufacturing production.

Within these 31,773 plants, Modern Industry reaches all levels of management
above the rank of foreman as shown here:

Circulation of Modern Industry, issue of May 15, 1945, by management functions

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative: Presidents, vice presidents, secretaries, treasurers, owners, partners</td>
<td>16,654</td>
<td>32.9</td>
</tr>
<tr>
<td>Production: Vice presidents in charge of manufacturing, general managers, works managers, superintendent, master mechanics, plant engineers, maintenance engineers, general foremen, etc.</td>
<td>21,862</td>
<td>43.4</td>
</tr>
<tr>
<td>Engineering, design and research: Mechanical, chemical, electrical, development, process, research engineers, etc.</td>
<td>3,540</td>
<td>7.0</td>
</tr>
<tr>
<td>Sales: Sales promotion and advertising managers, sales engineers, etc.</td>
<td>2,050</td>
<td>4.0</td>
</tr>
<tr>
<td>Purchasing: Vice presidents in charge of purchasing, purchasing agents, buyers, etc.</td>
<td>3,430</td>
<td>6.8</td>
</tr>
<tr>
<td>Other functions: Personnel directors, employment managers, office managers, chief clerks, auditors, cost and general accountants, etc.</td>
<td>1,034</td>
<td>2.0</td>
</tr>
<tr>
<td>Company: Subscription addressed to companies without designation of individual or department, company libraries</td>
<td>1,060</td>
<td>2.2</td>
</tr>
<tr>
<td>Miscellaneous: Consulting engineers, educators, schools, colleges, students, college and public libraries, Government officials, and others not directly connected with manufacturing plants</td>
<td>97</td>
<td>0.2</td>
</tr>
<tr>
<td>To be classified</td>
<td>247</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>50,419</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1 In all cases where official title was accompanied by data indicating function other than administrative— as “Vice president in charge of sales,” “Vice president in charge of manufacturing,” classification is under function indicated.

The returns: Up to Monday noon, March 25, 1946, 3,264 ballots had been received. Of these, 49 were not usable, either because they checked both “Yes” and “No” or because they crossed out both “Yes” and “No” or because they failed to check either “Yes” or “No” and wrote in their own views.

This poll, then, is based upon 3,215 usable returns, or a 6.4-percent sample.

If Mr. George Gallup or Mr. Elmer Roper (who correctly forecast the Presidential elections of 1944) had secured a 6.4-percent sample, they would have polled 6.4 percent of 48,026,170, or, 3,073,675 people. They do not disclose the size of their samples, but we doubt if they polled that many.

A 6.4-percent sample is ample if it is truly representative of the whole. An indication of this is shown on the next page.

Circulation of Modern Industry, issue of May 15, 1945, compared with number of ballots returned to publisher by zones

<table>
<thead>
<tr>
<th>Zones</th>
<th>Circulation</th>
<th>Number of ballots returned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>New England (Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island)</td>
<td>4,483</td>
<td>8.9</td>
</tr>
<tr>
<td>Mid-Atlantic (Delaware, Maryland, New Jersey, New York, Pennsylvania, Washington, D.C.)</td>
<td>16,615</td>
<td>32.9</td>
</tr>
<tr>
<td>North-Central (Illinois, Indiana, Michigan, Ohio, Wisconsin)</td>
<td>14,258</td>
<td>28.3</td>
</tr>
<tr>
<td>South (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Oklahoma, Tennessee, Texas, Virginia, West Virginia)</td>
<td>6,509</td>
<td>13.0</td>
</tr>
<tr>
<td>Midwest (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota)</td>
<td>2,566</td>
<td>5.1</td>
</tr>
<tr>
<td>Mountain and Pacific Coast (Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming)</td>
<td>5,937</td>
<td>11.8</td>
</tr>
<tr>
<td>Total</td>
<td>50,419</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The results of this poll are shown in the charts following:
Following the charts is a copy of the letter mailed to every United States Congressman and Senator which presents Modern Industry's interpretation of the results.

**SHOULD PRICE CONTROL BE EXTENDED BEYOND JUNE 30TH?**

(NUMBER OF REPLIES ...... 3215 *)

VOTES WITH SUGGESTIONS

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Favor price control, item by item, until supply approaches demand for each item</td>
<td>3.1</td>
<td>0.3</td>
</tr>
<tr>
<td>2. Favor price control on cost of living items only. Food, rent, clothing, etc.</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>3. Favor price control provided administration is improved, speeded, made more flexible</td>
<td>4.8</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>

*Not including 49 who failed to vote either yes or no.
SHOULD PRICE CONTROL BE EXTENDED BEYOND JUNE 30TH?

BY AREAS

NEW ENGLAND
NO 50.2% YES 49.8%

SOUTH
NO 43.5% YES 56.5%

MID ATLANTIC
NO 43.3% YES 56.7%

MID WEST
NO 39.6% YES 60.4%

NORTH CENTRAL
NO 50.3% YES 49.7%

MOUNTAIN & PACIFIC
NO 46.6% YES 53.4%
SHOULD PRICE CONTROL BE EXTENDED BEYOND JUNE 30TH?

BY MANAGEMENT FUNCTIONS

**ADMINISTRATION**
- NO 53.3%
- YES 46.7%

**PRODUCTION**
- NO 39.5%
- YES 60.5%

**ENGINEERING, DESIGN & RESEARCH**
- NO 36%
- YES 64%

**SALES**
- NO 38%
- YES 62%

**PURCHASING**
- NO 57.7%
- YES 42.3%

**OTHER FUNCTIONS**
- NO 25.2%
- YES 74.8%

**NO TITLE STATED**
- NO 42.2%
- YES 52.8%
DEAR SIR: The National Association of Manufacturers has testified before the House Banking and Currency Committee to the effect that industry wants price controls abolished June 30, 1946. Mr. Bernard Baruch, in his testimony before the same committee, said the NAM doesn't know what it is asking for. This disagreement throws into sharp focus the importance of Modern Industry's debate in print, entitled "Should Price Controls Be Extended Beyond June 30?" We believe that this is the only poll of management opinion yet made on this vital issue. In our February issue, Deputy OPA Administrator Geoffrey Baker urged continuation, and Dr. Lewis Haney, New York author-economist, argued for abolition. Here is how Modern Industry's readers, management representatives in 31,500 plants doing about 89 percent of America's manufacturing business, voted: Extend price controls, 53.8 percent; terminate price controls June 30, 1946, 46.2 percent.

In supplying you with these results, and with the section-by-section break-down below, Modern Industry follows its 5-year-old practice of presenting to our 50,000 management circulation, vital issues affecting industry and America, polling our readers on their opinions, and then furnishing Members of Congress, and the press, with results. Like the rest of America, industrial opinion is divided on vital issues. Rarely is there unanimity. Price control is no exception.

Here is the sectional break-down on "Should Price Controls Be Extended Beyond June 30?"

<table>
<thead>
<tr>
<th>Region</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England</td>
<td>49.8</td>
<td>50.2</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>56.7</td>
<td>43.3</td>
</tr>
<tr>
<td>North Central</td>
<td>49.7</td>
<td>50.3</td>
</tr>
<tr>
<td>South</td>
<td>56.5</td>
<td>43.5</td>
</tr>
<tr>
<td>Midwest</td>
<td>60.4</td>
<td>39.6</td>
</tr>
<tr>
<td>Mountain and Pacific</td>
<td>53.8</td>
<td>46.2</td>
</tr>
</tbody>
</table>

While a majority of management men favored extension of the OPA, many voters also voluntarily submitted suggestions for the future. Some urged quicker action by OPA on applications for price relief, and more consideration for hardship cases. Another group of industrial managers asked that general controls be continued, but removed on each product as supply approached demand for that product. A third group wanted controls only on necessities such as rent, food, and clothing.

A great many of those who voted for price-control extension, made modification suggestions like those mentioned, which means that while a majority favor the general proposition of price controls, they do not necessarily favor the present law or its administration. Likewise many of those who voted "no" added the same suggested modifications, indicating that they would be in favor of price control if these changes were made. From which it can be deduced that even a higher proportion of industrial managers than 54 percent want continued price controls under a better law and improved administration.

I am pleased to forward these results to you, and would be delighted to have your comments. If you would like to have a complete text of Dr. Haney's and Dr. Baker's arguments, just drop me a line, and I'll send them on to you.

Cordially yours,

ELDRIDGE HAYNES, Publisher.

The CHAIRMAN, Mr. Porter. This morning we have Mr. Porter, who is the new Administrator for the Office of Price Administration, and whose past record indicates that he will ably administer it. He has a record of fine administration, and I am sure we may look to him to correct many of the errors complained of here, and in the future I hope there will not be so many people here complaining of things. I do not think it could have been avoided in the operation of an agency of this magnitude.
Mr. Porter has here his report to the House. He has not been Administrator for very long, but I know that he has gained the confidence and the admiration of those who have been associated with him during the short time he has occupied that position.

Mr. Porter, have you a prepared statement?

Mr. Porter. Yes, sir, Mr. Chairman.

The Chairman. Would you like to read it without interruption and then subject yourself to interrogation?

Mr. Porter. I would prefer that, if it is agreeable to the committee.

The Chairman. I am sure the committee will accede to your request.

**STATEMENT OF PAUL PORTER, OFFICE OF PRICE ADMINISTRATION ADMINISTRATOR**

Mr. Porter. Mr. Chairman and members of the committee, the American people, through their representatives in Congress, now face one of the most critical issues of our time. Can prices and rents be maintained, during the coming year, close to their present levels while production is expanding to a point which will make price and rent controls no longer necessary? Or must we face general inflation, with its certain aftermath of deflation and depression?

There is serious danger of a severe cumulative inflation in the next 12 months or so. I do not mean just a gradual adjustment of prices to a moderately higher level. I mean a 30-, 40-, or 50-percent increase in prices on the average, with all the spiraling of prices, wages, and costs which that would entail.

If we can get safely through the next 12 months, I believe it probable that the danger of a cumulative spiral of inflation will be past. The next 6 months will be the most critical of all.

The record of testimony before this committee has made it clear that we are in danger. I will not burden the committee with accumulated evidence of the fact that the danger of severe inflation is greater now than at any time since the outbreak of the war. The testimony before your committee by various groups urging price relief of one sort or another is but one indication of the pressures that exist.

Perhaps even more important than the inflationary economic factors in our situation are the developing rivalries between business, labor, farmers, landlords, and other groups who are concerned about their relative positions in the economy. If these groups fear a substantial rise in prices, nothing can prevent a struggle for at least equal increases in money incomes for all groups. The equities in the relations among different groups are not perfect. Any group can rightfully point to some injustices and to many mistakes. We must and will do everything in our power to correct mistakes, and to remove inequities, insofar as this can be done without precipitating inflation. But any attempt at wholesale correction of inequities in the present situation will only produce the far worse inequities of inflation and collapse. We cannot afford a continuation of conflict among ourselves over a question which so critically involves our whole national well-being.

The economic and social results to our own country of inflation and resulting collapse are obvious. The economic stability of much of the rest of the world, now very precarious, is also at stake. A severe
inflation and collapse here would be reflected abroad. This might well wreck for years all constructive attempts at the sort of international economic relations which we must have as a firm support for international peace.

I want to be completely frank about this. As a matter of fact I have become increasingly concerned during the several weeks I have been at the Office of Price Administration about the number and extent of price adjustments which we have been required to make. There is justification for those actions in cotton textiles, automobiles, lumber, and certain food products. But the vigor of the claims presented by the producing groups involved clearly indicates that but for the Office of Price Administration price controls there would be a swift and, in my view, a disastrous upward sweep of prices in these and other fields.

I am convinced that we can avoid serious inflation, if we have the guts and teamwork to do it. The Congress, the different groups in the country, the Office of Price Administration, and other Government agencies have the know-how to prevent it. It can be prevented, but only if we have the tools to do it with. It can be prevented, but only by the kind of combined effort and determination on the part of Congress, the Government agencies, business, agriculture, labor, and the general public which brought us successfully through the war.

This year we have made and will be making a considerable number of price adjustments to meet the needs of the transition period. But I am convinced that we can continue to hold living costs almost as stable as we have since the hold-the-line order was issued in April 1943. At the same time, we can avoid genuine impediments to production. But we can do this only if the price-control law is extended promptly without weakening amendments—only if present subsidies are continued—only if the Second War Powers Act is extended—and only if all groups in the country give support to the price-control program.

Plainly, inflation can be prevented only if we all pull together and if we honestly face the clear need for doing a number of very specific things.

First, as to production. We must have production. The Office of Price Administration cannot assume major responsibility for getting out the goods. Reaching this goal must depend principally upon American workers, farmers, and businessmen. The Government can help—in many ways. The Civilian Production Administration, the Department of Agriculture, and the Labor Department all have substantial responsibilities to help business, labor, and agriculture to keep production rolling. The Office of Price Administration can and will help by making every effort promptly to adjust ceiling prices whenever they are an impediment to production. The Office of Price Administration can also help by maintaining stable materials prices which will provide industry with a basis for confidence about future costs. These responsibilities the Office of Price Administration assumes to the full extent of its resources.

But the primary responsibility for getting out the goods rests with management, labor, and agriculture. Unless we have production we cannot finish the job we have set ourselves. Everyone agrees on this. And while we are all agreeing that production is the first order of
business, let us not forget the remarkable record that management, labor, and agriculture have already turned in since VJ-day.

Unquestionably, there are many specific instances in which production has been held up by shortages of materials, equipment, manpower, industrial disputes or by price impediments. The over-all figures of production and employment, however, show conclusively that we are beginning to roll at nearly top speed. Employment is at the highest levels in our peacetime history. Almost 52,000,000 men are at work.

Despite the rapid rate of demobilization, unemployment is only slightly more than half the 1941 figure. According to the Federal Reserve Board, production is now above the level of any previous peacetime period and far above the 1936-39 average—in spite of our recent troubles in steel, automobiles, and electrical equipment.

Gloomy forebodings about the future of production which are often expressed when price control is under discussion are not borne out in the financial sections of our newspapers. Let me read you a few headlines which have appeared in the last 2 or 3 weeks:

"Thirty-two billion record forecast in food," "Sharp improvement in hard goods supplies anticipated by retailers," "Industry spends more than two billion on plant during first quarter," "Record resources to be used to finance national dairy products corporation expansion," "DuPont reveals expansion plans," "American air lines plans financing of eighty million," "Record 1946 outlay planned in steel," "United Fruit appropriates millions for expansion," "Brick production shows sharp rise," "Shoe production shows 5-percent increase," "Rubber consumption in January near peak," "Kerosene yield strikes new peak," "Brake shoe plans to add new plants."

These are typical of the plans and attitudes of American business.

Price control is not holding down over-all production. Little, if any, increase in total output could be expected as a result of a general rise in prices. On the contrary, the real danger facing us is that the fear of a general and cumulative increase in prices will give rise to business uncertainty, hoarding, and speculation which would hinder production and check the flow of goods to the markets. So it is vitally important that the general stability of prices be held.

But the important thing is that if we are to win the fight against inflation, we must have all-out production.

Second, as to price adjustments. To be sure of getting production the Office of Price Administration must see to it, as far as humanly possible, that individual prices are not an impediment to the production of particular firms or industries. I have already expressed my concern over the effect on the price level of the large number of price adjustments constantly being made. But within the present pricing standards, the Office of Price Administration must assume responsibility for flexible price adjustments wherever necessary to eliminate hardship and stimulate output of essential products.

Although a general price rise would be more likely to retard than to stimulate the flow of goods to the markets, selective price adjustments are being used and must be used to remove obstacles and, on the recommendation of the supply agencies, to help attract necessary manpower, materials, and equipment to the points where expanded production is most needed. These adjustments must be made promptly if they are to be effective in breaking production bottlenecks and in creating an atmosphere conducive to the settlement of industrial disputes.
The Office of Price Administration's record for speed is not all that one could wish it to have been. But in the clamor of complaints, it is important to remember the achievements the Office of Price Administration has made since VJ-day in streamlining its procedures to meet the burden placed upon its staff by this period of rapid realignment.

You are familiar with the reconversion pricing formulas; the special pricing provisions for new, small manufacturers in many parts of the consumer durable field; the incentive pricing for low-price clothing and furniture, and the so-called general rescue adjustment provision to relieve hardship for individual manufacturers in a loss position.

Let me emphasize some other pertinent facts from the testimony at the beginning of these hearings. In the 8 months between VE-day and the end of January 1946, the Office of Price Administration made 192 industry-wide discretionary increases in ceiling prices to aid production of essential commodities or to correct maladjustments or inequities that would interfere with transition. Among these were numerous increases to break bottlenecks, especially in the building-materials field, and increases to stimulate larger production of low-priced consumer goods. These 192 industry-wide increases were in addition to 170 industry-wide increases to meet the minimum requirements of law and 85 industry-wide increases to correct certain particular inequities.

In the same period many thousands of individual company adjustments were made to aid essential production, to aid transition, or to remove hardship.

Recently, following the adoption of the new wage-price policy in the middle of February, the Office of Price Administration adapted its procedures to handle quickly the large number of price cases which were anticipated.

Priority was given to industry-wide cases as the most efficient and expeditious way of handling large numbers of individual cases at once. Special handling was given to actions necessary to meet supply emergencies—both industry-wide and for individual firms. And arrangements were made for prompt action where necessary to stimulate larger output of low-priced goods. Methods were developed for quick adjustment of data already on hand to reflect current operating conditions. And simplified forms for telegraphic response were designed for use where additional data were needed.

As a means of concentrating the efforts of its limited manpower on the more important cases, the Office of Price Administration is also extending automatic, self-pricing by businesses in commodity fields where looser pricing methods will not substantially threaten general economic stability.

The results of this streamlining of operations may be illustrated by the rapid handling of adjustments in prices of basic steel and the steel processing and fabricating industries. Price increases covering the whole field of basic steel products were issued promptly after adoption of the new wage-price policy and settlement of the steel wage issue. To be specific, within 10 days, meetings were held with 23 industry advisory committees representing various branches of steel fabrication and processing and machinery industries for which steel was a heavy factor in costs.
By the third week in March, price increases had been issued for about 10 major branches of steel processing and fabrication and for miscellaneous machinery products for which steel was a large element of cost. Industry meetings and collection and analysis of data are proceeding rapidly for other steel using industries which have asked the Office of Price Administration to postpone action in their cases until they have reached wage settlements which, upon approval, can be taken into consideration along with the increase in the cost of steel.

A study has also been made recently of individual company adjustment procedures and arrangements are being made for a streamlined method of handling cases to reduce the number of reviews and other delaying factors. The result of this work is already beginning to show in some fields in speeding the handling of individual adjustments.

I have said that the Office of Price Administration must make price adjustments where needed to remove impediments to production. This is our intention and this is what we are doing. It is obvious, however, that this does not mean that the Office of Price Administration can give a price increase in every case in which it is alleged that the existing ceiling is hampering production. Nor does it mean that the Office of Price Administration can always give the amount of price increase requested. But if we are to prevent inflation by getting all-out production, the Office of Price Administration must and will act promptly to remove price impediments.

Next, as to pricing standards. The Office of Price Administration must operate on standards and by even-handed application of these standards to all. Price administration cannot be conducted on a horse-trading basis without rank discrimination and unfairness which would discredit the whole operation. Moreover, the Office of Price Administration cannot prevent inflation unless it restricts price increases to cases where they are needed and limits the amount by standards appropriate for the particular purpose. This means that unless we want to take unwarranted risks there can be no weakening of the statutory pricing standards of the law.

In discussing pricing standards and later in discussing decontrol, I shall have to register disagreement with a few—but only a few—of the conclusions of the recent reports of the Colmer committee and of the Research Staff of the Committee for Economic Development. To avoid any possible misunderstanding I want to emphasize that I consider both of these reports to be thorough, careful and thoughtful studies of the problems of price control in the transition period. We have benefited much from them.

I do not believe I need to repeat in any detail our basic pricing standards which Mr. Bowles presented to this committee not only earlier in this hearing but also in 1944 and 1945. However, there is one point applicable to all those standards which I wish to emphasize. Each standard is a cost absorption standard. That means that it sets a limit to which the Office of Price Administration may require cost absorption of any industry or on any product. In other words it sets a floor under the earnings of the industry—either overall or on the product.

In addition to the liberal pricing standards specially written into the act for the protection of agricultural and fishery commodities, cotton textiles and meat there are at least 10 ways in which Office
of Price Administration pricing standards set floors under the earnings of American business which will protect it from being squeezed between maximum prices and rising costs during the coming year.

Now, as to floors for industries and trades.

First, every industry not operating at low volume must have ceiling prices enabling it to average at least its base period rate of earnings on its present net worth.

Second, every such industry which in the base period had earnings at a depressed level must have ceiling prices enabling it to average a higher rate of earnings than it averaged in the base period.

Third, every industry operating at low volume must have ceiling prices which, when output reaches a good volume, will enable it to average at least its base period earnings.

Fourth, every industry making more than one product must have ceiling prices on each product which will enable it to cover its average total cost of making and selling that product. To this new standard—which we call our transition product standard—there are a few exceptions which are covered by a memorandum we are filing with the committee as Mr. Wolcott requested.

Fifth, any industry making an essential product in short supply because of present ceilings must be granted increases in those ceilings to the extent needed to bring out the essential supply.

Sixth, every distributive trade must have ceiling prices providing protection similar to that afforded producers.

Next, as to floors for individual sellers.

Seventh, many individual manufacturers of essential or low-end commodities in short supply can obtain adjustments in ceilings whenever needed to enable them to realize profits on those commodities.

Eighth, every manufacturer, except in a limited number of fields, can obtain price adjustments sufficient at normal volume to eliminate losses caused by his present ceilings.

Ninth, individual producers of commodities not produced in volume during the war can obtain adjustments in ceilings which will be sufficient to enable them to realize profits on those commodities when their output reaches good volume.

Tenth, individual distributors of many commodities are protected against having to absorb increases in their suppliers’ prices in any case where this would reduce their margin on the commodity below their cost of doing business.

In these 10 ways, the Office of Price Administration has gone far toward eliminating the risk of hardship from price control. True, they do not guarantee protection to every businessman on every product. Neither does competition. Moreover, there are limitations on the administrative job the Office of Price Administration can do, consistently with effective control. And an attempt to cover every conceivable situation would merely mean impeding relief to those whose need was most substantial.

Of course, the continuing prosperity of American business has done much to keep the number of hardship cases down to manageable proportions. I see no reason to expect a reversal of this trend. On the contrary, as business emerges from the recent period of dislocation and readjustment, a steady improvement in its costs and earnings position seems to me to be certain—provided we in the Office of Price
Administration can do our part in holding a reasonably stable level of prices. Given this prospect of improvement, further liberalization of pricing standards would not seem to serve the needs of the economy. On the contrary, it might well be enough to start the destructive inflationary cycle in motion.

The spokesmen for looser standards fall into two groups. Those most often heard are the advocates of cost-plus pricing. They are opposed to all cost absorption. Sometimes they voice opposition to cost absorption only when it is applied to distributors. But I cannot see how the Government could maintain one rule for manufacturers and another for distributors. Simple justice means cost absorption for everyone or for no one. That, in substance, means a choice between price control and no price control.

Those who urge cost-plus pricing usually propose that every manufacturing industry be given ceilings assuring it a prescribed margin of profit over its current costs on every product. This is sometimes accompanied, as in the case of Representative Hartley's proposed amendment, with a guaranty to each manufacturing industry and distributive trade of its customary margins and trade discounts and a further assurance to each individual seller that every future increase in his own production and distributing costs may be passed directly through to the customer, pyramided at each successive stage by the seller's customary percentage of profit.

During the war, unit percentage profit margins fell below prewar levels for a good many commodities even though unit dollar margins were often higher and, due to larger volume, aggregate dollar profits rose sharply. Under cost-plus amendments the manufacturers of all these commodities could come in at once to the Office of Price Administration for price increases despite the fact that they are now earning satisfactory profits. These increases would set off another round of increases. Price control of this sort means inflation. I would rather see an end to price control than a sham renewal.

I have said that it would be utterly unfair to require cost absorption of the manufacturer while allowing the retailer to preserve his customary percentage mark-ups. Such a difference in treatment could be justified only if retailers, like manufacturers, could not operate without these customary mark-ups. This is not the case.

The choice is seldom between prewar mark-ups and sales at a loss. Drastic changes have come about since 1939 when customary mark-ups were in effect. Department store sales volume has doubled since then and all the Office of Price Administration studies indicate that the smaller stores are doing even better.

Sales volume has continued to increase despite persistent predictions of empty shelves. High volume means that the expense of selling each unit of goods has dropped. Before the war the retailer did need a 40 cent mark-up on each dollar of sales when he had to pay out 36 of these 40 cents to run the store (National Retail Dry-goods Association figures). But today he has to pay out only 27 or 28 cents of every sales dollar, and thus his profit moves from 4 to something like 12 cents for each dollar of sales. There is, I believe, no justification for raising retail prices to preserve this mark-up and sharply increase profits per units of business on many more units, when stabilization is in danger.
Even on particular products, moreover, the Office of Price Administration's retail cost absorption standards minimize the risk that retailers will have to sell at a loss. Under our strictest rule, absorption on any particular commodity can be required only down to the trade's average cost of doing business, and, as I noted above, for a great many commodities, retailers are allowed to use their own individual expense rates as a floor where the trade's average rate is lower. In other words, for such commodities no retailer need ever sell at a loss for he is always free to increase his own ceiling to the level of his own expense rate.

The abolition of the cost absorption policy at retail alone would increase the consumers' total cost of living by something like 1.4 billion dollars on an annual basis. That money would not be shared by retailers with the manufacturers and producers of materials. That sum is simply what retailers would get from the substitution of historical percentage mark-ups for the Office of Price Administration's present standards. And this vast sum would go to the retail trades at a time when retail earnings—now undiminished by excess profits taxes—are at levels far beyond prewar dreams.

Cost absorption is the core of price control. The Office of Price Administration's standards for its administration are reasonable. They are fair to manufacturers. They are fair to retailers. Subtract cost absorption, and price control becomes officially sponsored inflation.

The second of the two groups of critics of the Office of Price Administration's standards is much more thoughtful. They have recognized the vital necessity for cost absorption at all levels, but at a few points, they feel that these standards pinch too tightly. The views of these critics are best represented by the helpful report of the Colmer committee and that of the research staff of the Committee for Economic Development which parallels much of Mr. Ralph Flanders' testimony before this committee.

They have both advocated the relaxation of the minimum product standards so as to cover average total costs. This has already been done by the adoption of the transition product standard which applies to nearly all products.

The Colmer committee has advocated special consideration for low-end products. I believe that what the Office of Price Administration is now actually doing for low-end manufacturers is substantially what the Colmer committee recommends.

Finally, they have both urged the modification of the industry earnings standard by the substitution of a more liberal base period for 1936-39. Incidentally, the Office of Price Administration itself does not use 1936-39 in cases where the earnings in those years were unrepresentative or depressed.

The Committee for Economic Development recommendation as presented by Mr. Flanders, would simply add 33 1/3 percent to the 1936-39 figures which the Office of Price Administration now uses. The Colmer committee would substitute for 1936-39 the best 3 years in 1936-40.

We cannot agree with these recommendations. Frankly we believe that they are directed to an unreal problem. But we are also convinced that they would give rise to a very real danger.
No major part of American industry either has been or will be compelled by price control to work for any substantial period of time at the 1936-39 profit level. This country has been passing through the roughest part of the postwar transition—assuming that inflation can be avoided. Although much of industry has remained at profit levels as high or higher than those prescribed by the Colmer and Committee for Economic Development reports, nevertheless, a number of industries, including some key industries, have been reduced by temporary transition cost increases, to earnings rates below their 1936-39 averages.

The Office of Price Administration is giving these industries price relief on a basis which will yield them base-period earnings on the average for the coming year. That means of course, that they can be expected to earn more than their base period profit rate in the latter part of the year. In other words, these industries, including many of the reconversion industries, should be catching up during the year with the industries whose earnings have been well above the 1936-39 floor. Consequently, there is no need now for a new pricing standard to keep the general level of industry earnings well above the 1936-39 rate after the present dislocations are behind us. As I stated, I believe the problem is an unreal one.

But, if either recommendation were adopted, the Office of Price Administration would be obliged at once to raise ceilings for all the industries which, at the present stage of the transition, happen still to have earnings which fall short of whichever profit level was selected. These price increases would not be dictated by economic necessity. Their only purpose would be to correct assumed inequities which the steady improvement in business will itself cure. But to make them at this time might well upset the balance which our economy now is rapidly regaining after having sustained an unprecedented succession of shocks in the form of drastic cut-backs, extensive reconversion, acute manpower and materials shortages, and prolonged labor-management difficulties.

This danger is not hypothetical. Let me make it concrete. The steel-producing industry has recently been granted an increase which should yield its 1936-39 earnings on the average over the coming year and considerably above that rate in the latter half of the year. If the Colmer committee amendment were to be adopted, the Office of Price Administration might have to raise steel prices all over again. That would probably mean another wave of price increases for a number of consumer-goods industries, which would themselves have higher claims as a result of the higher standards.

Instead of reaching a period of relative stability in costs and prices in the metal-using industries this summer, business would therefore have to be going through the same difficult process of readjustment which is now nearing a completion. Similar increases would be required in many other fields. In other words, Congress would have legislated a new bulge in prices.

I believe the effect of all this would be to touch off another round of wage demands and compel upward adjustments in the level of rents and farm prices to prevent inequities. Not only would it be dangerous to take the chance, but in worrying over the hypothetical inequity
which the 1936–39 profit floor might for a while cause to some Ameri-
can industries, I think we should consider the very real inequity to
those whose incomes lag behind a rising cost of living.

The Office of Price Administration has had many tough problems
in the fight against inflation. No doubt it has many still ahead of it. But
the modifications in pricing standards which thoughtful critics
propose would not help us solve those problems or win that fight. The
radical measures which the cost-plus pricers call for would constitute
unconditional surrender.

Fourth, as to subsidies. A vital part of the anti-inflation program is
the requested authorization for continuing subsidies for the coming
fiscal year. The Office of Price Administration had hoped and expected
to be substantially out of the subsidy business by the end of June. It
looked last fall as though there would be a sufficient softening of prices
so that subsidies could be gradually withdrawn without an over-all in-
crease in living costs. But the predictions went wrong. Employment
remained high. Although income fell somewhat, consumer spending
stayed up, and inflationary pressures were stronger than ever. The
world food crisis has greatly intensified the need for continued sub-
sidies.

It is clear that the price adjustments of this transition period will
have some impact on the cost of living. It is the Office of Price Ad-
ministration’s job to continue to keep this impact to a minimum. None
of us like subsidies but the simple truth is that our economy could not
stand the shock that their abrupt elimination would bring. The
resulting increase of living costs would inevitably undermine the sta-
ibility of the wage settlements which have just been reached and might
well precipitate the explosion we all fear. This is no time to play with
that kind of dynamite.

It has been suggested that Congress should write into the law a
schedule for tapering off the subsidies. I do not believe this is wise.
As Secretary Anderson told the committee, the Government pledges
itself to withdraw subsidies as rapidly as conditions permit. With
the present uncertainties in the picture, I would not dare to predict
with any assurance what the economic conditions will be in the months
ahead.

A predetermined schedule of removals established now, either by
law or administratively, might well necessitate the removal of a par-
ticular subsidy at a time when it would be disastrous. If, for example,
the tentative removal timetable of last fall had been binding, the con-
sequences to stabilization would have been irreparable. Accordingly,
I ask the committee to authorize the continuance for a year of subsidies
in the amounts recommended by the Office of Economic Stabilization.
Unless this authority is continued, I am convinced we cannot complete
the task the Nation has set itself.

Fifth, as to rent. Amendments proposing, in one form or another,
substantial increases in rent levels have been presented to the commit-
tee. The New York Metropolitan Fair Rent Committee, and other
real-estate groups, have urged that a blanket 15-percent increase in
rents be written into the statute and be made effective across the board
throughout all defense-rental areas.

The Office of Price Administration has repeatedly taken the posi-
tion that the key to the general fairness and equity of the rent regula-
tion is the net operating position of landlords today in comparison with what it was immediately prior to the war.

During the past 4 years the Office has conducted income and expense surveys in 90 different cities and has covered over 200,000 rental units.

While individual area results have varied, the most recent data show that the average net operating income for the year ending June 30, 1945, was 38 percent higher for apartment houses, and 37 percent higher for small structures than it was in 1939. There is no evidence of substantial change in the position of landlords generally since that time.

The Office of Price Administration has taken very seriously its obligation to follow the net operating position of individual areas, and it will continue to do so through regular accounting surveys. If any area falls below the 1939-40 standard of net operating income which we have set up, appropriate adjustments will be made in accordance with the existing statute. Any such change, however, should be done on an individual area basis—just as maximum rent dates were fixed on an individual area basis—and not by imposing a blanket increase on the entire Nation.

If the proposed 15-percent blanket increase in rents were permitted, average net operating income would jump to 87 percent above 1939 for apartments and to 82 percent above 1939 for small structures. This increase would immediately push the cost of living up about 4 percent. The repercussion of this on wages and prices would, I believe, soon take from the small landlord more than he could hope to gain from the rent increase.

I am surprised that there are still those who advocate the fair-return-on-fair-value type of amendment. In the days when I was Office of Price Administration Deputy Administrator for Rent, this theoretically perfect formula was repeatedly brought forward. It was as repeatedly rejected because it was perfectly obvious that, when applied to 15,000,000 dwelling units, it just could not possibly work. I can promise this committee that the enactment of any such formula now would bury rent control in an administrative morass.

The demand of the hotel industry that a blanket 10-percent increase in room rates be permitted can be dismissed with two facts from the studies of the outstanding hotel industry accounting firm: (1) Most recently published data for some 300 hotels show that net operating income is 182 percent above the 1939 level; (2) a 10-percent blanket increase in room rates would push the percentage increase to 236 percent above the 1939 base.

That rent control has not been inflexible is clearly evidenced by the fact that, since the regulations were made effective, 750,000 individual increases were granted landlords under the provision set forth in the regulation. These individual adjustments have safeguarded the individual fairness of the controls at the same time that they have maintained the general level of rents on an even keel.

On the basis of the record I believe the rent-control program should be left intact as long as the present acute housing shortage continues.

Sixth, as to enforcement: No part of the Nation's effort to retain control over the general level of prices is more important than effective enforcement of price and rent regulations. You have heard a considerable amount of testimony critical of Office of Price Adminis-
tration enforcement, and I know you have all received a number of individual complaints. Various amendments have been proposed for the stated purpose of correcting alleged abuses. I am not going into the details of either the complaints or the suggested amendments, but I would like to present my general views on the subject.

First, given the magnitude and difficulty of the job, I believe the level of performance of the Office of Price Administration enforcement staff has been remarkably high. I hope that complaints about individual cases, which, in all fairness, are often pretty one-sided, will not cause you to lose sight of the solid achievements.

Second, I recognize that there is justice in some of the criticisms. In this connection, I should like the privilege of inserting in the record the letter referred to by Representative Dirksen in his testimony here in which I discussed criticisms made by Senator Lucas on the floor of the Senate, since it states my views about enforcement in a way which I hope will be helpful to the committee.

(The above-mentioned letter is as follows:)

MARCH 4, 1946.

The Honorable SCOTT W. LUCAS,
United States Senate.

Dear Scott:

When I was told that you had spoken critically on the floor of the Senate concerning OPA enforcement program initiated by the Chicago regional office, I was very much concerned, because I was thoroughly aware of your consistent and vigorous support of price control. After reading your remarks in the Congressional Record of February 26, I was satisfied that there was much justice in your criticism.

I am anxious not only to tell you exactly where I stand so far as enforcement policy is concerned but also to see to it that our field organization throughout the country is fully informed on this policy.

Price-control legislation is nothing but words on paper unless it is firmly and energetically enforced, and so long as I am Price Administrator I propose to see that it is so enforced. This does not mean that trivial and inconsequential violations should lead to lawsuits. It is not fair to merchants who are trying their best to comply with our regulations to subject them to litigation under such circumstances, with its expense, annoyance, and adverse publicity. Moreover, it is far better in the interests of OPA to dispose of such trivial violations with a warning than to consume the time of our limited enforcement staff or of the courts with insignificant litigation.

I do not, of course, mean by this that it is never proper to bring suit on account of a small overcharge. We are primarily concerned with the retailer's course of conduct and the impact of his violations upon the consuming public. We want to catch up with, and take adequate action against, the retailer who either intentionally or because of negligence has established a pattern of violating our regulations. In a situation where, through reports of our price panels or from our own investigation, it appears that a retailer has a poor compliance record, we would bring suit even though the only violations of which we have proof were small.

This has long been our policy: but with our enforcement operation necessarily decentralized, it is always possible that some persons in the field may fail to interpret our policy instructions in the spirit in which they are issued. Decisions in enforcement matters involve questions of individual judgment, and it is not possible to couch our instructions in such terms as will eliminate the possibility of errors in judgment. I am now working out with George Moncharsh, Deputy Administrator for Enforcement, directions to the field which will reduce to a minimum the possibility of misunderstanding, and we will be constantly on the watch to correct speedily any departures from our policy that may develop.

You referred specifically to the case of Freda Schlipf. We have reviewed that case, and it is clear to us that on any construction of our policy, the handling of that case was inconsistent with it. We called this to the attention of our Chicago regional office yesterday and were advised that they had already removed the enforcement attorney who had been responsible for this case because of his deviations from our enforcement policy.
Extending Price Control and Stabilization Acts of 1942

Referring particularly to your criticism of the retail apparel enforcement program initiated by the Chicago regional office, I am sympathetic to the views you expressed. Our Chicago office was naturally and properly concerned with the widespread noncompliance of MPR 580, which a price panel survey, made last summer, had disclosed. This is one of our major retail apparel regulations; and, incidentally, a regulation under which a seller's price is readily determinable by applying his historic mark-up over cost. While the Chicago office was right in doing its utmost to secure compliance with these important regulations, I intend to make it clear to all our field offices that the methods which you criticized in this enforcement program should not be resorted to in the future.

In particular, I am concerned over the criticism of the failure to give notice before a lawsuit is filed. A person is naturally upset to learn for the first time that he has been sued by the Government through reading it in the newspaper, and this is particularly true of a person who has not intentionally violated our regulations. It has long been our policy to avoid this result by requiring, as a general rule, that litigation not be instituted until after the defendant has received reasonable notification that suit is to be brought. I am sure you will agree that there are certain exceptional circumstances where it would be unwise to require advance notice; as for example, when we have reason to believe that notification would make the service of process more difficult or where the violations have been of such a criminal or flagrant nature as to indicate that the defendant is not entitled to notification. We are now preparing directions to the field tightening up our policy in this respect so as to reduce the situations where lack of notification is permissible to a minimum.

OPA's enforcement policies must be consistent with the American people's idea of fairness and justice. I propose to make sure that they are. I know that if they are not, the public reaction might be such as to seriously jeopardize the continued success of price control, which can only succeed if the people and the Congress are firmly behind it in the future, as they have been in the past.

Sincerely yours,

Paul A. Porter, Administrator.

Mr. Porter. Third, the way to solve our enforcement problems is not by amendments, weakening our enforcement powers. The task of enforcing our regulations, tremendous as it was at the height of the war, is even more difficult now. The fight against the black market will rapidly become a very unequal struggle if our enforcement powers are cut down in order to prevent the possibility of their misuse against law-abiding businessmen.

Finally, let me make it completely clear that so long as I am Administrator I intend to see to it that our regulations are firmly and fairly enforced—and enforced with all the vigor and skill we can muster. I am not impressed by sheer statistics. It is the quality, not the quantity, of enforcement cases that counts. As a matter of both good administration and fair dealing, we must, and we shall, use our limited enforcement manpower where we believe it will do the most good in keeping the cost of living as closely as possible to legal level.

Seventh, decontrol: If the fight against inflation is to be won, the Office of Price Administration must have the confidence of American business, labor, and agriculture. There must be confidence in the integrity of the Government's word that it means to drop emergency controls just as rapidly as it is safe to do so. I should like to repeat that ceiling-price controls must and will be removed as soon as they are no longer needed to safeguard the country against the disaster of inflation. I think you are generally familiar with the Office of Price Administration's decontrol policy, so I will merely outline it and summarize the results.

Decontrol actions are guided by two basic standards. In the case of commodities that are significant in the cost of living or in business costs, ceilings are suspended when it appears that supply and demand
are in such relation that the price will not rise above the ceiling. If after a reasonable period it appears that the price will not rise above the ceiling, the commodity is exempted from price control.

In the case of any commodity not significant in the cost of living or in business costs, the Office of Price Administration suspends or exempts, even though the price may rise, when it finds:

First, that decontrol presents no substantial threat of diversion of materials, manpower, or facilities from production that is more essential to effective transition and does not impair effective price control of other commodities.

Second, that the work involved in control of the commodity is disproportionate to the effectiveness of control or to the contribution to stabilization.

In the case of trivial items decontrol takes the form of outright exemption. For others, the initial action is suspension.

Since last summer, when decontrol actions under this policy were begun, the Office of Price Administration has suspended ceilings on or exempted several hundred product categories, including many thousands of items estimated to have annual sales of at least $6,000,000,000.

Only a few of these decontrol actions have affected commodities significant in the cost of living or of doing business. Most of the important commodities have remained under control because it was the Office of Price Administration's judgment that their prices would have risen substantially if they had been decontrolled. Where the Office of Price Administration has suspended ceilings on the judgment that prices would not rise, this has generally proved to be correct. This was true in the case of white potatoes, domestic wines, ingot and pig aluminum, and ingot magnesium and aircraft. In a very few cases, such as citrus fruits, the Office of Price Administration's judgment was incorrect. A few such mistakes are inevitable, but the Office of Price Administration must go ahead on its best appraisal, to achieve its objective of decontrolling just as soon as the probabilities indicate that the price will not rise.

The list of decontrol actions for commodities not significant in living costs or business costs is already long, and the Office of Price Administration is adding to it every week. To date, the main commodity fields affected include a wide variety of professional, scientific, and industrial instruments; all musical instruments, including pianos; most jewelry; most sporting goods; most toys; firearms and ammunition; certain narrow fabrics; incandescent light bulbs; and a great number of trivial or luxury food and consumer goods items. In the case of these commodities the Office of Price Administration has made no systematic attempt to discover price movements after decontrol. Most of those for which there is information have shown some increases.

Recently, it has become possible to embark on a more extensive program of decontrol with respect to commodities not significant in living costs or business costs. Very soon, ceilings will be suspended on several large blocks of industrial equipment and a great number of relatively unimportant consumer durable items. Similar decontrol actions will follow in the coming months.

In the present highly inflationary situation, this program unquestionably involves some risk, for in many cases prices of these commodi-
ties will rise. The Office of Price Administration consumer advisory and labor advisory groups have strongly opposed parts of this program. It is my belief, however, that it is the wisest policy. There are two reasons for this:

First, the problem of diversion of manpower, materials, or facilities from commodities essential to transition is beginning to disappear with the easing of the manpower situation and the imminent improvement in the materials situation.

Second, the increasing work load involved in transition price adjustments and cases arising under the new wage-price policy make it imperative for the Office of Price Administration to concentrate its resources where they will count most. This cannot be done if a substantial part of the Office of Price Administration's efforts are dissipated in administering controls over thousands of relatively unimportant items.

If it should appear, however, that in the effort to concentrate its resources on price control of the more important commodities the Office of Price Administration releases from control items which rise precipitately and cause consumer hardship, we will reinstate controls. We must not permit our decontrol program, as rational as I believe it is, to create the kind of inflationary psychology that we seek to avoid. I believe that this policy can be made to work effectively if producers know we mean business and consumers understand that we are concentrating our efforts on products that really count.

You have received several proposals for amendment on the subject of decontrol. Most of these seem to have one thing in common. They are intended to require removal of price ceilings before shortages disappear; in other words, when prices would still rise sharply.

The Colmer committee, for example, proposes that ceilings must be removed as soon as the acute demands for a commodity have been satisfied. Thus the amendment would require removal of the ceiling on a commodity before the shortage was eliminated—before the supply had become large enough to fill all the demands at the ceiling prices. Plainly, every time a ceiling was lifted the price would go up. Hence, decontrol of the important commodities would always result in increases in the cost of living or in business costs.

The Colmer committee proposal would seem to require the removal of most food ceilings immediately for, aside from a few commodities, the acute demands are surely more than satisfied by present food supplies. If this were done, food prices would, of course, go up considerably. What would then happen to the wage situation and to general stability?

I cannot believe that the Congress wishes to lose the fight against inflation by requiring the Office of Price Administration to default in the last round. In the critical period in which a severe spiral will develop if adequate controls are not maintained, it seems only prudent to keep ceilings on the important commodities until the market situation is such that their prices will not rise.

The notion that there should be some mechanical test to bring about decontrol with the minimum of reliance upon administrative judgment is very appealing. I, myself, wish fervently that decontrol could be worked by pushing buttons. The difficulty, however, is that decontrol just is not that kind of a problem. It is a judgment problem, and the important thing is to get judgment directed to the right issues.
The Colmer committee recommendation signally fails to do this. It charges the Director of War Mobilization and Reconversion with the impossible task of sitting down with each of our 600 industry advisory committees and drafting formulas in terms of yards, sheets, shirts, or tons, which would automatically tell under what future circumstances the demand for its products would no longer be acute. The standard of acuteness is significant only in terms of price behavior. But the formula rules out any consideration of probable price reactions.

This in effect would be a commission to plant a great many uncontrollable time bombs under our system of price control. After the Director had done his conscientious best to guess how many pajamas and alarm clocks and bed springs in the warehouses and store shelves would blunt the edge of the American housewife's shopping drive, the Director and I could sit back uneasily to await whatever might happen to prices when, one after another, the bombs began to go off.

The act does not need amendment in order to have a decontrol policy with the proper objective of removing price ceilings as quickly as is consistent with maintenance of general economic stability. I pledge that the Office of Price Administration will do just that. With the present outlook on the manpower and materials situation, I believe we can safely complete our program of decontrol action for most all commodities not important in living costs or business costs by the end of this year. We would act immediately instead of spreading decontrol of these commodities over a period of months but for the fact that, if we were to remove ceilings from all of them at once, the cumulative effect on the price level and the country's psychology might be serious.

I think it likely that by the latter part of 1946 and increasingly after the turn of the year ceilings can be lifted from more and more of the important commodities without price increases, as shortages disappear, as operating conditions and costs settle down, and as the country recovers from its present case of inflation jitters. When those conditions come into being, it will also be safe to remove ceilings in those cases, if any, where prices will rise moderately even though supply is large enough to meet the full demand. To lift ceilings in such cases in the present critical situation would be dangerous.

Let me explain this. There will have to be a considerable number of price increases this spring and summer. In some cases they will be needed to keep ceilings generally fair and equitable. In others they will help solve supply shortages or carry through the transition adjustments from the wartime price structure to the peacetime structure. Other price increases will result from decontrol actions in commodities not important in living costs or business costs. Although all these price increases will not in the aggregate be enough in themselves to upset general economic stability, the public and the business community may not all realize this. Many may jump to the conclusion that these increases mark the beginning of a general upward movement of all prices.

If, on top of all these increases, some new decontrol standard compels us to allow price increases on a lot of basic commodities which are important in business costs or living costs, businessmen and consumers could scarcely escape the conviction that inflation was really under way.
If they ever come to believe this, nothing can stop them from spending a large part of their enormous liquid assets for protection or for speculation. If that happens, the game is up.

But if the Office of Price Administration is to merit the confidence of business, labor, and agriculture it must continue to get out of price control as fast as it safely can. And that confidence is essential to our success as a Nation in completing our task.

In conclusion, as I indicated at the beginning of this statement, I am convinced that we now face a critically important decision. In fact it may well prove to be a turning point in the history, not only of our domestic affairs but in our relations with the rest of the world.

The danger of inflation is present, immediate, and serious. Speculation is fully apparent in the stock market, the real-estate market, the cotton exchanges, and in the prices of farm lands. Inflation in these markets is unchecked by effective price controls. They serve as a thermometer of the rising temperature of price pressures.

More and more frequently businessmen and landlords are writing escalator clauses into their contracts and leases. This is their hedge against the chance that price and rent controls will collapse. It is a far more important indication of business attitudes about what would happen to prices, if controls were removed, than the recent crop of advertisements predicting an end to our troubles if price controls were eliminated.

Not only are businessmen writing escalator clauses into their contracts but they are increasingly tempted to withhold their products in anticipation of higher prices. The growth of this practice—which would flourish if price raising amendments were adopted—would be fatal to our all-out production effort.

Farmers are casting an uneasy eye at the gains in wage rates recently made—even though these gains do not fully offset the drop in take-home pay which occurred at the end of the war. Workers and consumers generally are worried about their cost of living. People in all walks of life are awaiting the decision of Congress—a decision which will affect the economic well-being of every one of us.

In the last few weeks, I have devoted myself entirely to the study of Office of Price Administration policies and procedures. I am aware that price and rent regulations at times make life difficult for farmers and businessmen. I am aware that such regulations are complex, often clumsy, and sometimes fall harder on one firm, industry, or group than on another.

But against this we must weigh the larger problem. The Government has a responsibility to all the people to see that a precipitous rise in prices does not rob them of savings and destroy the bright prospects for profitable production, good wages, and good farm income we see before us today.

I believe Office of Price Administration policies as now operating are generally fair. I am fully confident that, under these very policies, we shall see an outpouring of goods for civilians which five short years ago was beyond our most optimistic dreams. I believe that production will come fast. We will not see it at once, for inventories are low, pipe lines are only beginning to fill, and incomes are very close to the peak of the wartime years. But, as each month goes by, more and more industries will show figures to dwarf prewar production.
Until that happens, we must hold back the tide of inflation by these temporary controls—undesirable and difficult as they may be.

It is a hard job. It cannot be done with complete equity for all. It cannot be done without criticism and indeed without some bitterness. But I believe that, in the interests of all Americans, it must be done.

If we are careless or if we lack the courage of our convictions and understanding, we can very easily cast aside our economic future into a wasteland of business failure, farm foreclosure, unemployment, poverty, bitter dissension among groups, intense social unrest, and international insecurity.

But if, on the contrary, all of us squarely face the need for all-out production, for prompt price adjustments wherever necessary, for firm administration of present price and rent standards, for the continuation of the subsidy program, for fair and vigorous enforcement of price and rent regulations, for business confidence in the integrity of the Office of Price Administration's decontrol program and for prompt extension of the laws upon which stabilization depends—this country can, during the coming year, lay a stable foundation upon which free private enterprise can build the greatest period of domestic prosperity and international prestige we, as a people, have ever enjoyed.

That, Mr. Chairman, completes my statement.

The Chairman. Mr. Porter, we have heard, for the last 2 or 3 weeks, many complaints and many arguments which were not addressed to the over-all purpose of price control, but to the great number of orders and regulations and their involvement and great length, and the little petty persecutions and annoyances of people who were subjected to those regulations. They often claimed that there were unintentional violations, trivial violations, because of which people were fined, and rather than go to distant courts and plead, they paid the fines.

I was wondering if there could be some simplification of that administration. You might tell us something about the enforcement.

Mr. Porter. Mr. Chairman, I think that this letter which I have asked to be inserted in the record, which I addressed to Senator Lucas—and to which I referred in my statement—states, in general, the views that I have on that matter. I think perhaps if I could just cite that, it would be more responsive to your question than an extemporaneous reply.

In that communication I stated to Senator Lucas that—

I do not, of course, mean, by a policy of firm and effective enforcement, that it is never proper to bring suit on the amount of the small overcharge. We are primarily concerned with the retailer's course of conduct and the impact of his violations upon the consuming public. We want to catch up and take adequate action against the retailer who either unintentionally or because of negligence has established a pattern of violating our regulations.

In addition, where, through reports of our price panels, or from our own investigation, it appears that the retailer has a poor compliance record, we would bring suit even though the violations on which we have proof are small.

That is, if we had a long record of poor compliance.

However, this does not mean that trivial and inconsequential violations should lead to lawsuits. We are trying our best to get merchants to comply with our regulations.

Moreover, it is to the far better interest of the Office of Price Administration to dispose of such trivial violations with a warning than to consume the time of our limited enforcement staff or of the course with insignificant litigation.
So I am in complete agreement with what I understand to be the chairman's position, that on insignificant, unwillful violations of a nonrepetitive character, certainly the Office should not waste its resources in going after that type of violation.

But where there is a long record of poor compliance, even though he asserts that it is nonwillful, I think we have an obligation to the consuming public to take whatever steps our sanctions permit.

The Chairman. I think the man who violates a regulation of that kind is in a little different position from a man who violates a law that is on the statute books. Everyone is presumed to know the law, but certainly they cannot be presumed to know the various Office of Price Administration regulations.

Mr. Porter. I have found that out, Mr. Chairman.

The Chairman. It seems to me that where a man's reputation is good, and where it may be an unintentional violation, he ought to be treated with some leniency.

Mr. Porter. That is the policy of the Office, and I am sure that those who have been in charge of the enforcement program throughout the history of the Office of Price Administration are in agreement with that policy. But mistakes are bound to occur, as you will recognize.

The Chairman. Do you think there can be any definite policy written into the law with reference to decontrol that will not impair the usefulness and the continued operation of price control?

Mr. Porter. Well, of course, Mr. Chairman, if it were possible to put into legislative form the policies to which I undertook to give expression here today, we, in the agency have no quarrel with that. But, as I undertook to emphasize, if you take a mathematical standard, or if you take some relationship between supply and demand, the Colmer committee, or the CED reports. I think we are in trouble, and quite naturally, it is an old bureaucratic custom to say that we would prefer to do it administratively, but I do think that we are making very salutary progress in the field of decontrol, and the only thing that I fear about the rapidity with which we are moving is the fact that this decontrol may be mistaken for an attitude of "Well, the Office is turning loose," which we do not intend at all, but to follow the standards of directive 68, and, of course, it is my position that we do not think an amendment is necessary. We think we are doing everything that is reasonable and proper in the field.

The Chairman. When supply comes into balance with demand, the ceilings will automatically become ineffective, will they not?

Mr. Porter. Yes, sir.
Mr. Brown. If you have some standards to do it, why do you object to us putting them in this bill? There must be some standards. Why do you object to us putting standards in here and calling upon some other agency to certify that those standards have been met? I cannot understand your philosophy.

Mr. Porter. Well, Mr. Brown, perhaps I did not make myself clear. What I intended to say was: If there is an amendment on decontrol, the points that I would want to avoid, obviously, would be those that would give us a fixed mathematical standard, and the directive we have, certainly no one could have any right to object to Congress writing into the statute the policies that we are now undertaking to follow.

Mr. Brown. I understand. You want to write general policy. That is the trouble now. On the whole, I think you have done a pretty good job. The very fact that you want to do all of these things yourselves, I think, indicates you are asking for the wrong thing. If we can write an intelligent decontrol amendment in here for decontrol, I think you ought to be glad to have it. I do not believe this bill has a chance of going through without some amendments.

Mr. Porter. I want the record to show, Mr. Brown, that I certainly would not take exception to the statement that you made.

Mr. Brown. I do not see how you could, if you want equity and justice to the people.

The Chairman. Mr. Wolcott.

Mr. Wolcott. Mr. Porter, you have not had too much trouble with administering the provision of the law which provides that no maximum price shall be put on any agricultural commodity which reflects less than parity to the producer?

Mr. Porter. Do you mean, Mr. Wolcott, as to the determination of what that price is, or as to the effect of it on the stabilization?

Mr. Wolcott. Both. Both as to the determination of the price and the effect of it.

Mr. Porter. Well, certainly it is a mathematical computation, with a lot of tradition and legislative and administrative history back of the determination of what is the parity price.

Mr. Wolcott. You have been working under that formula now since the Price Control Act was enacted.

Mr. Porter. That is correct.

Mr. Wolcott. And it has worked reasonably satisfactorily, has it not?

Mr. Porter. I would say "Yes."

Mr. Wolcott. I presume, from your statement, that you believe that production and more production is the answer to all of our economic ills?

Mr. Porter. I do not think it is the only one. I think it is perhaps the most important one at this juncture.

Mr. Wolcott. Well, surely, it would answer our pricing and subsidy problems if we got the maximum and adequate amount of production, would it not?

Mr. Porter. Provided it was done on the basis of stable prices.

Mr. Wolcott. Well, if we meet the demand, or if we brought into balance supply and demand, then, of course, we recognize that there
would be no longer any necessity for price control or subsidies or anything else. I think we can agree on that. Everybody else has.

Mr. Porter. Well, I would like to take a look at the situation 6 months from now, when this production gets going and see——

Mr. Wolcott. Well, now, wait a minute, Mr. Porter. If you do not believe that, do you believe in perpetuating price control?

Mr. Porter. No, sir; I do not.

Mr. Wolcott. Well, is not the answer, then, to decontrol, adequate production, to make unnecessary maximum prices? If you are operating in a competitive field, and competition is the best price control, is it not, as was said this last week, I think, in the Saturday Evening Post editorial, the best control on the price of a Ford car is the price of a Chevrolet car, and vice versa? You do not contend that after supply has met demand that there is going to be the necessity for continuing price controls?

Mr. Porter. No, sir; if we can agree on what the demand is, which I think we probably could.

Mr. Wolcott. So, getting back to my original question, then, production is the answer to all of our dilemmas?

Mr. Porter. I think production will make it possible to terminate price control.

Mr. Wolcott. So your interest, and our interest—the country’s interest—is to get full production just as rapidly as we can?

Mr. Porter. That is right.

Mr. Wolcott. You believe, I presume, from your statement, in the profit motive of getting production, too, do you not?

Mr. Porter. Absolutely.

Mr. Wolcott. If you have been able to apply the agricultural formula which we have set up, why can you not apply a similar formula to all production? The production of all commodities? In other words, why can you not work under a general policy that no maximum price shall be set on any commodity which does not reflect to the producer of that commodity his cost production plus a reasonable profit?

Mr. Porter. I think that one answer, Mr. Wolcott, is probably that, even with the parity standard in agriculture, that is a minimum standard, as you know, and for supply reasons we have gone away beyond it in a number of agricultural commodities.

Now, getting to the question of a formula, I think that to apply it across the board, to the many hundreds of thousands of items that you might take into a general formula, you would find yourself in trouble with particular items that are important in the cost of living.

Now——

Mr. Wolcott. Wait a minute. If that item is important in the cost of living, then, it is more necessary that we get production of that particular item than any other, is it not?

Mr. Porter. But production at a reasonable price.

Mr. Wolcott. And you cannot expect the producer of that particular commodity, which is so essential, if we are going to balance our economy, to produce at a loss, where you do not get production.

Mr. Porter. I think probably it comes down to the question of when is it safe to decontrol.

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Mr. Wolcott. Well, your policy, as I understand it, is that when it is safe you are going to take the controls off.

Mr. Porter. Precisely; and we are going to take some chances in doing it.

Mr. Wolcott. And you surely could have no objection to Congress writing the formulas for you, could you?

Mr. Porter. I would like to take a long look at the formula. If it put us into a mathematical strait-jacket, I think that we might be in great difficulty.

Mr. Wolcott. In the industries which are reconverting, those industries have to come to you separately to get a price on their commodities?

Mr. Porter. That is correct. But I am going to cite an illustration in the apparel field. I would assume that a case could be made that there is adequate supply of raw cotton. If, under this formula there might be certain grades of staples that are short, but under this formula, if it went in for automatic decontrol, I think we would run into trouble at this time in our apparel field.

Mr. Wolcott. I have to answer a quorum call at this time, Mr. Chairman.

The Chairman. You may resume your interrogation when you return.

Mr. Patman.

Mr. Patman. Have you given consideration to the question of putting commercial rents under the Office of Price Administration law, Mr. Porter?

Mr. Porter. Mr. Patman, that came up in October of 1943, when I was with the Office of Price Administration, and I appeared before the Senate committee, when Justice Byrnes first became Director of Economic Stabilization and proposed such an amendment. It was passed by the House, as you will remember, and was not passed by the Senate.

Since that time it is my information that the pressures have been even stronger. I have not had an opportunity yet to examine the current situation, and perhaps Mr. Carson, Deputy Administrator in charge of rents, could give you some information.

Mr. Patman. I would like him to answer that question.

Mr. Carson. The subject was also considered in December 1943, when the bill was introduced by Senator Taft, in 1944. We have always taken the position, at least the Office of Price Administration has, that we felt that commercial rents should be included under our authority. At the present time the rent section of the act is limited to residential rents.

We are continuing to get complaints which are coming in through our area offices, and on a number of occasions, I talked with chain-store operators and others who are finding the situation quite pressing. There have also been reported to us increasing difficulties with respect to commercial rents.

Mr. Patman. And you think there are more reasons for putting commercial rents under control now than before?

Mr. Porter. I think the same reasons exist.

Mr. Patman. What kind of formula would you use? What data would you use? Would you say the same rents as 1941, 1939, 1942, or what date would you use?
Mr. Porter. When Senator Wagner's bill was considered before the Senate Banking and Currency Committee, Mr. Field and I and some others worked on the proposed type of legislation, which did not embody the same type of freeze technique as was used in residential rents. At that time I believe we had in mind the freeze date of something around October 1944.

Mr. Field. I think the date was November 1944.

Mr. Carson. And we had in mind, too, as an important phase of the operation, giving recognition to the fact that there is a very wide variety of types of instances, where we would have to consider the renewal of lease, long-term leases, as they became due.

Mr. Patman. When did the House pass this provision in the Office of Price Administration law permitting commercial rents to be included?

Mr. Porter. October 1942.

Mr. Patman. Since the House has already passed it, I do not think we should initiate it here this time, because the House has indicated a willingness to include commercial rents, but I think the Senate should give consideration to it. I have a feeling that if the Senate were to include it we would accept it over here.

Mr. Porter. Mr. Patman, knowing your great and keen concern and interest in what is happening to small business, I know that it is becomingly increasingly a problem which is driving a number of small enterprises, retail establishments, service establishments, right out of business.

Mr. Patman. That is the information we have.

Mr. Porter. Because those rents are not under control.

And, further, I think this is a factor that must be taken into consideration during this expanding period of civilian production, when you have your limitation on noncommercial construction and channeling of supplies into veterans' housing, there is no way for the market itself to take care of this demand.

Mr. Patman. That is right. The existing houses become increasingly important and expensive, of course.

Mr. Porter. I am glad you brought it to our attention. Personally, I would be glad to recommend to the Senate an amendment to include commercial rents.

Mr. Patman. I expect to present it to the committee in executive session, and then, of course, it is possible the committee will take the attitude that we have already passed it once and that we should wait for the Senate. But if they want to pass it this time, it would be all right with me.

Now, on the question of supply equaling demand, I think that is going to be the subject of the main fight on the Office of Price Administration. I think there will be a great many amendments, but that is probably the amendment that is meeting with more approval. Of course, every person who is against the Office of Price Administration will be for any amendment. But there are a lot of people who are conscientiously and sincerely for the Office of Price Administration who would like to see some kind of a formula written into the law. It occurs to me that we do not need any formula, although I would be perfectly willing to vote for one, if I should see it would not do injustice to the Office of Price Administration and not be inconsistent
with the purposes of the act. But it occurs to me that the best formula is, since you are placing ceiling prices, top prices, and not floor prices, that the best formula in the world would be to watch these prices, and when they begin to sell 1 cent under, then price control would no longer apply. I do not know of any better formula than that, do you?

Mr. Porter. I would like for Mr. Baker or Mr. Bulkley—Mr. Bulkley has been appointed Assistant Deputy Administrator in charge of decontrol, and I might say parenthetically that for whatever assurance this is worth, the 3 weeks in which I have been at the Office of Price Administration I can give you the solemn promise that I do not want to make a career out of price control.

Mr. Patman. I do not think anyone insists that you do want to make a career out of it, Mr. Porter. I know it is the labor of love, and that you are doing a patriotic duty, and trying to help your country during the crisis. I think people generally recognize that this is the type of service you are rendering.

Did you say Mr. Bulkley is giving some consideration to decontrol?

Mr. Bulkley. Well, sir, before these hearings we did a great deal of work in order to try to draft a workable formula which could be written into the legislation, and after a good many night hours on it we really gave up. I do not think, honestly, that it is possible to draft an amendment to the act which is really workable. I do not think that the decontrol problem is really one of the approaches to it, and within the last 10 days to 2 weeks we have gone at the problem from a different angle than we had heretofore. The result of that has been quite an extensive reexamination of the various commodities that we have under control, with a view to taking a first, initial step on a program to get rid of enough controls to permit ourselves to do a really good job on the commodities which we are retaining, and the first fruits of that examination will come out in a week or 10 days from today in a public hearing. I do not like to comment too specifically on what we are doing because of the problem of inventories, and slowing up of shipments. But we do look for substantial increases in some of the insignificant items.

Mr. Patman. In other words, you are trying to decontrol, under present policies, as rapidly as possible?

Mr. Porter. I would like to respond specifically, Mr. Patman, to your question, and likewise to emphasize that because of the emphasis we are putting here on decontrol, and we recognize that we are in a transition period, where rational decontrol policies are essential, but I do not want the impression given to consumers, or to business people, that there is going to be wholesale, widespread, relaxation. That is not our purpose at all. We want to concentrate on things that will maintain the kind of wage stability and the relationships, in the economy, which will make for tighter and more effective price control.

But, on the question of the test, as to when an item gets below ceiling, that, as a matter of fact, is a test that we are applying administratively, and in our directive 68, we point out, and I assume that this is what you have in mind, that—
The Price Administrator is authorized to suspend price control with respect to any commodity upon such terms and conditions 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.

That is from the Director of Economic Stabilization to the Office of Price Administration.

That is the first test.

Mr. Patman. I would like to ask you specifically about an item. What about gasoline? It is selling below its ceiling price.

Mr. Porter. Well, there, of course, it is my information that there are intense pressures on other petroleum products, and I would assume that, applying this standard, if we can separate it from the other petroleum products, that it would be eligible for consideration under our existing standards.

But, then, under the suspension, we have this further provision, that—

if, after such suspension, prices for the commodity rise above the level of the present existing ceilings, the suspension shall be terminated and such ceilings reinstated.

If, after a reasonable period of suspension, prices of the commodity do not rise or threaten to rise, and the Price Administrator is satisfied they will not do so, he may exempt the commodity from price control.

The Chairman. Will you yield to me?

Mr. Patman. Yes, sir.

The Chairman. At the last marketing season, Mr. Porter, burley tobacco did not reach the ceiling price. What would be your attitude in regard to continuing ceilings on it?

Mr. Porter. Well, I understand that the representatives of the tobacco industries told this committee that if we took ceilings off, the prices would rise. You say they did not hit the ceiling last year?

The Chairman. Of course, the people who appeared here did not represent the grower.

Mr. Porter. That is right.

The Chairman. I do not know whether they wanted it to rise.

Mr. Porter. I am told that they never buy the crop; they take it.

The Chairman. There are about four purchasers who usually make the price.

Mr. Porter. Yes.

The Chairman. Last year it did not rise to the ceiling. Of course, they wanted all controls taken off.

Mr. Porter. Some grades went above the ceiling.

The Chairman. They wanted controls to be taken off tobacco.

Mr. Porter. Well, of course, that ceiling that was set on tobacco, Mr. Spence, was what is known as a target ceiling, and that it should go no higher. It was above parity, as I recall, and I think that on burley the prices were from 42 cents. Did not the crop bring an average above 42 cents last year?

The Chairman. I do not think it did. It had been very high at the commencement of the season and then took a drop. But the ceiling has been the same for several seasons. It was by grades, and I do not think it reached the ceiling last year. However, I do not know what their attitude is with regard to that.
Mr. Porter. I would have to check into that specifically. On agricultural products, of course, there is the special requirement of the statute, as far as Office of Price Administration pricing is concerned.

The Chairman. Mr. Patman.

Mr. Patman. I notice you gave some answers to the criticisms and suggestions of the Colmer Committee in your statement, and also those of the Committee for Economic Development. But I fail to see any answers to the National Association of Manufacturers criticisms. I wonder why you did not prepare an answer for them.

Mr. Porter. We have an answer, Mr. Patman. Mr. Potter and his associates have prepared it, and we will file it after lunch.

Mr. Patman. You want to have someone else present that?

Mr. Porter. If the committee desires.

Mr. Patman. It is all right with me. I just wondered why you did not cover it.

Mr. Porter. We would prefer to file it with the committee. We think it is a complete answer.

Miss Sumner. Did you say you were going to file it and not give it here, so we will not have a chance to cross-examine you?

Mr. Porter. Whatever the committee desires, Miss Sumner.

Miss Sumner. Mr. Chairman, I think we should be permitted to question them on it.

Mr. Patman. Why, certainly, we ought to be permitted to cross-examine.

But I understand that Mr. Potter is the man to present that, and I presume he would be the one we should cross-examine.

Mr. Porter. That is right; it is a joint presentation.

Mr. Patman. But you prefer to present it this afternoon?

Mr. Porter. Yes.

Mr. Patman. That is all right. I will not ask you any other questions about it at this time.

That is all, Mr. Chairman.

The Chairman. Miss Sumner.

Miss Sumner. Mr. Porter, I notice that you remarked that you seemed prepared to meet your fate. You said you did not care to make a career out of price control. Of course, you know that nobody over there had a chance to make a career out of price control.

Mr. Porter. Yes; there has been a remarkable turn-over.

Miss Sumner. On this question of the formula for ending Office of Price Administration control when supply equals demand, it seems to me that that formula offers the business interests of the country, including their customers, a very illusory hope. I mean that the Office of Price Administration itself has in its power to prevent supply equaling demand, at all times. You agree with that, do you not?

Mr. Porter. I think that anyone who misused the power to that extent should promptly be removed. I doubt if the power, under any rational administration, would be used in that connection. And I do not think the statute permits the application of pricing standards that are not "generally fair and equitable." So I doubt if we have the power to hamper production.

Miss Sumner. Well, then, do you intend to remove the people who have been in charge of lumber, bricks, soil pipe, clay products, win-
dows, and all the other strategic materials for housing which, during
the past year, have been decreased in supply due to low prices?

Mr. Porter. I think that the price has not been the principal fac-
tor, as I understand, for those products.

Miss Sumner. Have you read the testimony of the witnesses repre-
senting those industries, making those products?

Mr. Porter. I have seen some of it, yes.

Miss Sumner. Do you contend that they were not right in their
contention that their ceilings prevented them from producing those
products?

Mr. Porter. I disagree with most of them, yes. In the adjustments
that have been made in many of the lumber products we, at the Office
of Price Administration, followed the recommendations of the supply
agencies, the Civilian Production Administration, and the Wyatt
agency, in our reconversion-pricing policy on lumber and these build-
ing-material products.

Miss Sumner. I mean comparatively recently, since this thing
all blew up.

Mr. Porter. That is right.

Miss Sumner. Well, according to Time—did you read that article
about your administration in the last issue of the magazine Time?

Mr. Porter. Frankly, I have not had the opportunity.

Miss Sumner. I suggest that you should read that and make a
statement in reply to it, because it says that while the bill was under
consideration, this present Office of Price Administration bill, was
under consideration before this committee, and since you have been
in charge of the Administration, the charges that you have deliber-
ately granted price increases to most of the complainants with the
exception of cotton, and you were thinking of taking care of them,
too.

Mr. Porter. Well, I can assure you that any adjustments, Miss
Sumner, that have been made since I have been there, and I think
before, have been done in accordance with established standards and
requirements of law, and for no other purpose.

Miss Sumner. Well, now, by established standards, do you mean
the standards that the Office of Price Administration has been fol-
lowing in the past year? What do you mean? If you mean the
standards that they have been following in the past year, up to the
last 2 months, we have only a hope that we will have increasing short-
ages in various materials and foods and the rest of it.

Mr. Porter. We are not following the standards that were used
during the war period.

Miss Sumner. I am not talking about the war period, understand.
I am talking about since the victory in Europe. The whole record
during the past year has been one of halting reconversion.

Mr. Porter. I do not agree with that.

Miss Sumner. You know, of course, that these various industries
have been in here testifying through their representatives that that
is a fact, do you not?

Mr. Porter. I do not know of any industry that would not like to
get—there may be a few, but they certainly have not come to my
attention—would not like to get a price increase. But, as I stated
in my statement—and I think Mr. Bowles made this statement at
the opening of the hearings—there have been 36 price increases made in the building-materials field in the past 6 months.

Miss Sumner. Yes; but the industry itself contends, and it could easily be so, that the price increases, as a rule, are too little and too late. Say, the man asks for a 10-cent increase on an item. You can give him 5 cents, and it will make no difference in his production if it is not enough to get him started. You appreciate that, of course.

Mr. Porter. I think the production figures will indicate that we are getting production. There are other factors in lumber particularly of labor shortages, weather, and other limiting conditions, but it is the policy of the Office of Price Administration, consistent with our requirements on stabilization, to remove, in the building and materials field, every obstacle to production, and we are doing just that.

Miss Sumner. You do agree, do you not, that in this question of supply equaling demand, that you can lower the demand, for instance, and by demand, I mean demand of the ready and willing and able buyer, the man with the money in his hand?

Mr. Porter. We can lower the demand by raising the price; is that what you mean?

Miss Sumner. Yes, you can lower the demand by raising the price and increasing the supply. You can increase the demand by lowering the price, decreasing the supply, or increasing the supply of money. You agree with that?

Mr. Porter. We do not print money over in the Office of Price Administration.

Miss Sumner. No; you do not, but that is the point. Regardless of what you do over in the Office of Price Administration, when these billions of Bretton Woods money and lend-lease money, and United Nations Relief and Rehabilitation Administration money, and the additional billions that this Congress is appropriating, when that comes in, regardless of what you do, if it is too much, if it covers more than the supply, you cannot stop the inflation and you cannot stop the price increases, can you?

Mr. Porter. I think we can, yes. I think we can halt inflation, and I agree that fiscal policy is a very important aspect of it, and I am hoping that there will be the trend toward a balanced budget, a stable fiscal policy, appropriate tax policy, which will make our job that much easier and get us out of it quicker.

Miss Sumner. There cannot be much of a trend when that money for the Export-Import Bank has already been appropriated, the same with Bretton Woods, the same with United Nations Relief and Rehabilitation Administration, and the others are in the offing. How can that be a trend?

Mr. Porter. That is a tax question that should properly be addressed to the Secretary of the Treasury.

Miss Sumner. It is also an Office of Price Administration question. When you talk about keeping prices down, in the face of all that money coming in, you are talking about something that you cannot do, if enough money comes in.

Mr. Porter. It was done pretty well during the war, I think, Miss Sumner, and we had the hugest deficit financing in history at that time.

Miss Sumner. Wait a minute. You are talking about war produc-
tion. In war production, you did not have the Office of Price Administration on war production, and the amount of production was not limited in any way. Money was no object. And we went out and bought materials all over the world.

Mr. Porter. Oh, no, no; they were bought on all basic materials, the Office of Price Administration had firm controls on basic materials, going into war production. As to finished products, renegotiation, of course, was the answer there, but——

Miss Sumner. You had no control over any of the parts of any type that went into the airplanes, for instance, did you?

Mr. Porter. Mr. Baker can tell you about that, I am sure he can.

Miss Sumner. You better be careful of what you say, because I know where I can get copies of those letters of Mr. Patterson.

Mr. Baker. In general, Miss Sumner, we controlled all standard components or parts. Wherever there were special or secret designs produced to Army or Navy specification, those were not controlled by this office. The basic materials and the standard components were controlled.

Miss Sumner. Is it not a fact that you gave Steel whatever they asked?

Mr. Patman. That is not true at all. No increase at all.

Mr. Baker. No, Miss Sumner. There was no increase in the basic steel prices since 1941 to date.

Miss Sumner. You are not answering my question. Did you refuse to give them any price that they asked? Did they make any request for an increase which you refused?

Mr. Baker. Yes.

Miss Sumner. On what date, during the war?

Mr. Baker. I do not recall, Miss Sumner. I will have to look it up and let you know. I think there will be several.

Miss Sumner. And I would like to know the amounts.

Mr. Baker. We will get the information for you.

Miss Sumner. Mr. Porter, the average industrialist to whom one talks, the makers of household appliances of various kinds, like washing machines and things of that sort, says that he has, if he manufactured during the war, an increased plant capacity, provided he can get the money to hire the labor and go into production, and that shortly after he gets into production, it is truly remarkable what increased volume will do and that the price of his product will decrease, for the consumer, providing he can get over that initial hump, which he says the Office of Price Administration’s reconversion formula prevents him getting over because he cannot pay the increased cost. Do you disagree with the theory that in places where there is increased plant capacity, and an increased amount of production during the war, that they could not decrease the costs and, therefore, decrease the price to the consumer within a short time, providing they got over the original hump where at first there they will not be in such large volume?

Mr. Porter. Certainly mass production will reduce costs. There is no argument about that.

Miss Sumner. Well, what is your answer to these men, when they come in and show you, as they showed your predecessor, accounts, by reliable accountants, known accountants, from Chicago and elsewhere,
showing that their estimated projected costs for this year are less than their ceiling price, and that the Government will have to subsidize their operations, if they continue, and you know what I mean by subsidizing, through tax refunds; what is your answer to them, that you will not give them the price increases necessary to cover that increase and take them over the hump so they can get into volume production?

Mr. Porter. If you had price control which took into account these bulge costs, you would have no price control. It has always been industry practice—as a matter of fact, it might be illegal if we would undertake it—to price on the basis of these bulge costs, because industry historically, as I understand their practice, have never taken their early initial high cost as the consumer's price, even in the beginning stages. So we are just, in effect, following out a historic policy. I imagine the first Ford automobile, the first model, must have cost hundreds of thousands of dollars. Well, naturally, that is an extreme case.

Miss Sumner. Well, that is just the opposite of the policy the Office of Price Administration is following, in these numerous articles cited by various witnesses, notably including Mr. Seidel, who brought in lawnmowers, heaters, electric irons, and various little gadgets, in which the Office of Price Administration had given the new producer an extremely high price as compared with the old man, whom the Office of Price Administration was not permitting to go ahead.

Mr. Porter. Well, are we pricing too high or too low? I have never been able to understand. On one product you say the price is too high and on the established manufacturer it is too low.

Miss Sumner. I am just asking you why do you take the position that the man who, for instance, wants to start in with a washing machine, which he produced before the war, and who, if he were permitted to take his bulge cost that he wants to take, to his price ceiling, why you say "no," he cannot do it, and you say to me, because historically a new man never takes his bulge costs when he is going into production, and yet I cite the case of the lawnmowers and all these gadgets newly in production where you do allow them high prices. Why do you not allow this old manufacturer to do the same thing?

Mr. Porter. I would like Mr. Baker to comment on that.

Mr. Baker. Miss Sumner, it is true that when we price a new consumer durable-goods item, under the in-line pricing, so-called, we price it in line with a competitor. In the case of prices which have been frozen, they are frozen at various levels, for old manufacturers. It is quite possible that in many cases prices set for new manufacturers will be found to be higher than some prices of old manufacturers. They will also be found to be lower than prices of some others. In other words, we set a price which we hope, and try to make as near as possible, about the average or prices for a comparable item. That will inevitably mean that where prices for old manufacturers have been frozen at various levels, which they were at, say, in March 1942, you can always dig up a manufacturer who has a lower price than a new manufacturer.

With respect to Mr. Seidel's material, we have spent many hours of time checking the inevitable new lists of items which Mr. Seidel brings before us every time we knock down the list that he gave us the last time.
Miss Sumner. I do not think, as far as I am concerned, you need to pursue that further. I get your point. I do not know why Mr. Seidel, especially, finds any others because what he has brought satisfies me. The reason I bring it up and everybody brings it up is that it cannot be, from your point of view, against inflation to have those high prices, and what we are complaining of is that you do not let these established men, who could give, if they got the chance to go into volume, production at the low prices, that you do not let them go ahead. What we are trying to say is that you are not doing it on account of inflation, or you would do it with these other people. Nobody is complaining about those little gadgets, because if we got the other good things they would not be bought.

Mr. Porter. With respect to reconversion manufacturers, to which I think you are directing yourself at the moment, with respect to those persons who are coming in individually on reconversion products, they get the same treatment as those who were coming in on an industry-wide basis. With respect to new manufacturers, they cannot show a 1941 base period because they do not have any, therefore, we have to give them a price. We, therefore, give them a price, which, in our opinion, is in line with the prices of other manufacturers. It is not true that the prices of new manufacturers are high prices. It is equally true that in the course of in-line pricing, which is a very minor part of our total operation, we may well establish prices occasionally, perhaps often, which are higher than they should have been, and we will equally establish prices which often are lower than they should have been. They are priced in line with competitive products. And we will find all kinds of slight variations or large variations. The general level of prices for new manufacturers is not high.

In a recent Senate committee—

Miss Sumner. I am not going to quarrel with what you do about the manufacturer. I am just trying to find out your reasons for not letting the old ones in. That is as far as I am concerned with that. If you are insisting that that is what is going to be done, then, it has been brought out here that there is no hope for these old manufacturers of appliances to get into production, if that is to be the continued policy of this reconversion formula. You have no intention, then, of repealing it, I take it.

Mr. Porter. I think, Miss Sumner, that the data will clearly establish that established manufacturers, where there are stable labor conditions, are really going to town under the reconversion formula. I think we are going to have goods flowing out of our ears here within a very, very short time.

Miss Sumner. But those who have not stable labor conditions—

Mr. Porter. Those that are on strike, I meant.

Miss Sumner. They cannot walk in and pay their labor an increased price, they cannot go over to a new source to get material at an increased price, because your reconversion formula forbids it, and, as to those, we must anticipate that if the Office of Price Administration is extended under Mr. Porter, as under Mr. Bowles, that there will not be reconversion under that present policy.

Mr. Porter. I think we have got reconversion.

Miss Sumner. In a big way.

Mr. Porter. It is really on the way.
Miss Sumner. From your point of view, we have reconversion?

Mr. Porter. Yes; I think we are going to have it.

Miss Sumner. If you feel that, then, from the point of view of those of us who know all these manufacturers who are not being reconverted, then, we have no hope. That is all we can do about it, I suppose.

One thing that worries me is the way the Administration constantly looks at Europe and says, "Because there is inflation there, there must be inflation here." Well, Europe has not the capacity, the demonstrated capacity that the United States has, and it occurs to me that if you are going to put any formula for decontrol into this law—and, personally, I am opposed to extending it on any terms, on its demonstrated record—it seems to me that the formula should be one that industry should be removed from price control where they have the capacity to produce and sufficiency within a few months. In that case it would permit them to get over the bulge costs, to get the decreased prices, and we could have something to hope for. On that point, let me ask you: do you have very many industries important to the cost of living who took longer than 6 months to convert to war production?

Mr. Porter. That took longer than 6 months to convert to war production?

Miss Sumner. Yes.

Mr. Porter. Well, I am not—I would say that the automobile industry—yes; it took 6 months to get war production really rolling.

Miss Sumner. There were scarcely any industries which took longer than 6 months; is that not right?

Mr. Porter. Well, frankly, I do not know. It is my general impression that the volume of war production did not really get rolling in the pre-Pearl Harbor area, when we started lend-lease, and the defense program, and, of course, peak production was not hit until sometime in late 1942.

Miss Sumner. Do you not further agree that whereas reconversion took 6 months, it should take less for a factory to go back to its old product, because there it has its machinery all ready, it already has its know-how, whereas in the case of many of our household appliances which went into war production, or in the case of the automobile industry, I believe, they simply offered them a picture, and said, "Make dies," and "Make forms," so that there was considerable time expended in getting engineers, fixing up forms and deciding what kind of a product they were going to make. So, in fact, it should be much shorter if the barriers to production were removed. Do you agree with that statement? Of course, you will not agree that the Office of Price Administration restricts production, I assume?

Mr. Porter. I definitely would not.

Miss Sumner. But you will agree that it would take shorter time if there were no restrictions; will you not?

Mr. Porter. Well, I am not an industrial management expert. I do not know what is required in shifting a particular industry back to its prewar product.

Miss Sumner. In the case of industries—and surely you know some that are not rolling at present—and I would like to name several aside from brick plants and the rights of them that have been mentioned here in public, but I do not like to bring names out. When people
come to my office and tell me their troubles, as a rule they ask me not to name their names; in fact, some of them have been told not to dare talk to their Congressman. You know that; do you not?

Mr. Porter. I have never met one.

Miss Sumner. Well, I bring it up because you have an honest-looking face, and I hope you will look into that, because I think there has been some coercion over there. In fact, I have had people whom I know are honest tell me that.

On page 2 you referred to the 1941 figure of unemployment. What was that figure?

Mr. Porter. The unemployment in 1941? My recollection is it was about 8,000,000.

Miss Sumner. So that as of today you have 4,000,000 unemployed?

Mr. Porter. About 3,000,000 is the labor estimated in March. On this production in February, the data we have is that production was 56 percent, all production 56 percent above the 1936-39 average. So I think that reconversion is under way.

Miss Sumner. What is that?

Mr. Porter. Production in February was 56 percent above the 1936-39 average.

Miss Sumner. Well, now, wait a minute. What do you do when you make up a figure like that?

Mr. Porter. Mr. Potter handed that one to me.

Mr. Porter. I will be glad to answer that. I got the figures from the Federal Reserve Board Index of Production. And it was 56 percent above, for all production; eliminating military use today it is 40 percent above. That is 1935-39 average production.

Miss Sumner. Forty percent above production?

Mr. Potter. Yes.

Miss Sumner. Does that include farm products?

Mr. Potter. That includes everything. No; that is the manufacturing. I beg your pardon. That is the manufacturing production.

Miss Sumner. You have just lumped together all the items that are produced, do you?

Mr. Potter. We do not do it. The Federal Reserve Board, for years, has kept an index of physical volume of production, not dollars, but physical volume. This is the Federal Reserve Board Index of Physical Volume of Production.

Miss Sumner. Is it in items?

Mr. Potter. It is in total physical volume production.

Miss Sumner. Well, I mean how do you express it? You say so many tons?

Mr. Potter. They say that the total production of 1935-39 is 100. The index today is at this rate.

Miss Sumner. Well, now, what do they do; count items of automobiles, or items of bushels of corn, or what? That seems to me the important thing.

Mr. Potter. This is in units of production. They have the reports from the leading industrial companies, and so forth, of the country, who make these estimates, and who have done so for a great many years.

Mr. Smith. Will you yield?

Miss Sumner. Yes.
Mr. Smith. Mr. Potter, I would like to call your attention to the fact that those statistics written by the Federal Reserve Board do not involve only physical production but dollar volume as well.

Mr. Potter. I have checked that, sir. I am sorry to disagree with you. I have checked it very carefully. If there is any question, I suggest you call the Federal Reserve Board who print them.

Mr. Baker. The actual calculation is in units of dollar value as to the base period. The purpose of that is to avoid giving an artificial increase to the figures, which would result, if we used the dollar value now, against the dollar value of the base period. Thus it measures, through that method, the actual unit increase, from the base period.

Mr. Smith. But the dollars are taken into consideration?

Mr. Baker. No, sir; the dollars are taken into consideration in the base period, and the calculation of increase is in terms of base period unit prices.

The Chairman. We are going to call the committee in order. I suggest that Miss Sumner continue.

Miss Sumner. I thought it was permitted, because Mr. Patman yielded to you.

The Chairman. If you are going into a matter of great length, I think you had better continue.

Miss Sumner. Yes; I will.

Let us take the matter of earrings. This town is full of earrings. You cannot get a spring suit. The secretaries over here are complaining they cannot get any kind of a decent suit for their money, but the town is full of earrings. Earrings would amount to a big item, it seems to me, where we are not getting washing machines.

Mr. Porter. I have no statistics on earrings.

Miss Sumner. But that would be the vaguest kind of thing. I do not see how it proves anything unless you know more about the statistics. Before we leave page 1, Mr. Porter, I hope you will realize—of course, you do not know me, but I can assure you, for what my word is worth, that I know that some of these people who are pressing you—you say here:

The vigor of the claims presented by the producing groups involved clearly indicates that but for the Office of Price Administration price controls there would be a swift and, in my view, a disastrous upward sweep of prices in these and other directions.

In my district, for instance, there are a number of factories which have had Office of Price Administration troubles. Stocking producers, farmers, and everybody. It is not the high prices they want; it is the income they are interested in. There you laugh. The room is filled with Office of Price Administration people, and it does seem funny that you would laugh. The price does not necessarily determine your income, it is the spread between what you pay out and what you get for your product. And you can have a very cheap product and have a very high spread and that is what these people are interested in. They feel the reason they are pressing their claims down here so vigorously is not to gouge the public with high prices, but to keep their businesses alive, and they can do that by getting some kind of a spread there.
Mr. Porter. That is precisely what our standards require. We guarantee them earnings, which is something that competition never did.

Miss Sumner. But you do not allow them the initial high price which would enable them to get into volume production, and probably give the lowest prices this country has ever seen, because the capacity is so much larger. After all, we did increase our capacity during the war, did we not?

Mr. Porter. Oh, indeed.

Miss Sumner. About how much?

Mr. Porter. Why, I suppose, if we measure it in terms of national product, that it doubled.

Miss Sumner. The automobile industry, in 1942, according to the Securities and Exchange records, in Chicago they had doubled their plant capacity. Well, we ought to be getting automobiles at much less price at that rate, when they go into volume production.

Mr. Porter. I think we are going to.

Miss Sumner. Much less than prewar. So, comparably with other issues, I do not see why you take the position that they cannot have this bulge cost which, during the reconversion to peace, could not take as much as 6 months, and, in the meantime, just let people stop a little bit. After all, they have been buying at unprecedented levels through the war, and if they see in sight in 6 months a chance to get really cheap goods, is that not a better Government policy?

Mr. Porter. I do not think we could discard our policy of eliminating bulge costs as a consideration in setting price ceilings. I think that is the point on which we disagree, and I think that under these standards, production is really rolling. There is just no question about it. And if you would legislate the bulge costs, or that they be considered in the standards, I think we might just as well repeal the act.

Miss Sumner. Now, as to the headlines you mentioned on page 3 of your statement. For instance "Brick production shows sharp rise." Well, I have seen headlines to that effect, too. But before those headlines started coming, it was the case where the Office of Price Administration sat back for almost a year, keeping frozen the ceilings, which drove out 185 brick plants, so that about 400 were producing at less than capacity at the time of the Patman bill hearings here before this committee. So I do not see that that proves anything except that if you would increase your prices somewhat, for those who complain, that we would get production. Now, what did you intend to prove by that?

Mr. Porter. We have given a number of brick increases. Do you want to get into the subject of brick?

Miss Sumner. No; I was wondering how you thought it proved anything, except what we have been contending, that if you would grant some of these people a few increases we would have an increase in production.

Mr. Porter. Well, I would like for Mr. Baker to tell you the number of increases we have given the brick people.

Miss Sumner. I think those are in.

Mr. Porter. Yes; I think it is in the record.
Miss Sumner. I am all for it. I am in favor of you giving increases in order to get production. I am glad you did. I hope you give all that are necessary.

Mr. Porter. Some were given during the war.

Miss Sumner. Well, they apparently did not give enough, because, according to the testimony, there are 185 brick plants out of production, and four or five hundred not working at capacity, that is, according to Mr. Small's testimony on the Patman bill.

Mr. Porter. There are 113 now closed, and it seasonal, and they are seasonal plants which always shut down during the winter, and they are expected to open about the 1st of April.

This leaves a maximum of 83 plants closed for all reasons other than seasonability. Lack of equipment, shortage of manpower, and price complaints are listed in that order as the possible factors.

Miss Sumner. And you are still opposed to giving the 83 a chance to go ahead?

Mr. Porter. If we have to give them—Mr. Baker advised me that we have no requests from many of them.

Mr. Baker. We stand ready, Miss Sumner, to give any increases on our individual-adjustment provisions for essential supply to any brick plant which has applied. We have in our office no application from brick plant which has not been answered. In every case of those applications, where an increase of supply of brick was indicated, and where hardship was indicated, we have granted adjustments. We have a long history of those. We would be very glad to file it with the committee, going back to 1943.

Miss Sumner. As far as I am concerned, you need not encumber the record, because we have that on the Patman bill.

Mr. Baker. The shortage of manpower is responsible in all these low-paid industries for lack of production.

Miss Sumner. They testified here and they were not given the chance to testify all they wanted to, they testified if they had a price increase, they could hire more labor, and with 4,000,000 unemployed, they ought to be able to get a few.

Mr. Baker. We gave an increase of $2 for the purpose of first allowing about a dollar of wage increases to get more labor and another dollar for extra profit incentive. As firms began paying at least 10 cents an hour additional for labor, they reported substantial increase in labor forces. Those that did not—and many did not—were not able to report that. There is ample room within the $2 increase given a long time ago to provide for all wage increases that are required in this very low-paid industry.

Miss Sumner. On page 4 of your statement, Mr. Porter you say in the middle of the page:

Recently following adoption of the new wage-price policy in the middle of February, the Office of Price Administration adapted its procedures to handle quickly the large number of price cases which were anticipated.

Did you then take the opposite view of Mr. Wallace, that price increases would be necessary if wage increases were granted?

Mr. Porter. Mr. Henry Wallace?

Miss Sumner. Yes.

Mr. Porter. I did not know that he had said that.
Miss Sumner. That was my understanding from the newspapers. Did he not say that?

Mr. Smith. Yes.

Miss Sumner. Well, did you take that point of view from the first, that price increases would be necessary if wage increases were granted?

Mr. Porter. Well, in some lines; yes. In other lines, there is a possibility of absorption. It is pretty hard to generalize about that, from my point of view.

Miss Sumner. In the course of your statement, you make two interesting remarks: One, that the Office of Price Administration has the know-how of handling certain situations, and others with respect to wage increases. You recall, do you not, that when we first had the Office of Price Administration law—that is, the first stabilization law—that at that time wages were not covered by it and held down.

Mr. Porter. That is correct.

Miss Sumner. And you will recall also that there was considerable increase in the price line, and you will recall also, I presume, that Mr. Roosevelt made a speech in the fall, just before this final act was adopted, criticizing Congress for passing that law omitting wages, which, of course, was an administration bill when it was first submitted to us. In the face of that, how do you account for your policy now, the administration policy of increasing wages and still assuring the people that you are not going to have a price increase?

Mr. Porter. Well, the new wage-price policy provides, under the conditions set forth, that with an approved wage increase, the Office of Price Administration must move promptly to give price relief, if they meet the tests and the standards which we apply. And the Wage Stabilization Board will not approve wage increases except those that are permitted under their standards. I think Mr. Bowles is going to be up here this afternoon, and you will probably get more information from him as to the nature and extent of his experience during the past several years under this policy.

Miss Sumner. On page 5 you refer to the fact that there can be no weakening of the statutory pricing standards of the law. Is it not a fact that that provision about wages is a specific provision of the second price-control law under which you are now operating?

Mr. Porter. I do not think so.

Miss Sumner. In other words, was it not a violation of that law to start this wave of wage increases through the country?

Mr. Porter. I do not think it was. Mr. Field can give you the provisions of the act of October 2. I believe that is what you are referring to, the Stabilization Act, that applies.

Miss Sumner. Yes.

Mr. Porter. The Stabilization Act did not freeze wages. The hold-the-line order of January 1943 did—May of 1943, rather.

Mr. Field. The Stabilization Act provided, Miss Sumner, that the President should, by issuing general orders, stabilize wages, prices, and salaries, so far as possible, at the level of 1942. It went on to provide that the President—

may thereafter make adjustments with respect to wages, prices, and salaries to the extent that he finds necessary to aid in the effective prosecution of the war and/or to correct gross inequities.

And that has been construed to mean also to aid in effective transition from war to peace.
Miss Sumner. You say that was not a frozen formula that he had there? That it was completely discretionary?
Mr. Field. He was directed to issue the first general order. That was mandatory.
Miss Sumner. Was that order not based on 15 percent within that level?
Mr. Field. The order was based upon levels existing September 15, 1942, by which time there had been an increase, as reflected in the Little Steel formula.
Miss Sumner. And what do you say you define “prosecution of the war” as meaning?
Mr. Field. Well, in all of these war statutes, with an abundant line of case authority and administrative instruction, the words “aid and effective prosecution of the war,” have been construed as meaning “in getting out of war,” as well as getting into it.
Miss Sumner. We get out of the war by winning it, do we not?
Mr. Porter. Unhappily, it is not as simple as that.
Miss Sumner. Well, the words say “prosecution of the war,” and you twist it around to say “prosecution of the peace.”
Mr. Porter. The Congress renewed, for example, the Second War Powers Act.
Miss Sumner. Well, it renewed it, but——
Mr. Porter. I beg your pardon?
Miss Sumner. It renewed it, but then——
Mr. Porter. And used the very words, in renewing it, to which I have reference here, even though that renewal was some months after the end of the war.
Miss Sumner. I did not give that War Powers Act any study, because I noticed it was unanimously reported, and there was no chance to do anything about it. But do you mean that where it says that anything you do is in prosecution of the war, that the Government and the courts are construing that as prosecution of the peace?
Mr. Porter. If I am wrong in that, we could not have made those discretionary increases in brick prices, Miss Sumner.
Miss Sumner. Well, personally, I think the Office of Price Administration is completely unconstitutional, in peace. I do not think you have an right to go in and confiscate people's property, just so that somebody else will get a cheaper article for his consumption. I will agree with you on that.
Mr. Porter. I do not think there is complete agreement between us.
Miss Sumner. I do not, either.
On page 7, Mr. Porter, where you refer to Mr. Hartley's formula, although I have not seen his latest amendment, I am interested in your remark:
This is sometimes accompanied, as in the case of Representative Hartley's proposed amendment, with a guaranty to each manufacturing industry and distribute trade.
Is it your understanding that the Hartley amendment asked the Government to appropriate any money to cover the profits of the manufacturing industry, that it is a guaranty to keep them profitable?
Mr. Porter. It is just directed toward the pricing standards, which we guarantee, if they could manufacture the product and sell it. There is no Federal appropriation involved.
Miss Sumner. Well, how do you figure that you have a guaranty, just because you let a man price his goods? It is not a guaranty when nobody wants to buy it.

Mr. Porter. These days, I think everybody wants to buy whatever they can get their hands on. So it is, in effect, a guaranty.

Miss Sumner. Well, I just wonder now. Is that just a thought you have, a notion you have? What do you base that on? I mean historically, when people know that today's prices, compared to what they get for their money, are awfully high—for instance this suit I am wearing, I cannot remember what it cost me, but I think it cost me something like $80 and ordinarily I would not pay $25 for it. In fact, I would not buy it, period.

Mr. Porter. It looks to me as though it is worth it.

Miss Sumner. Well, it is not. So if I knew that this man, whatever his name was, Besse, with his woolen mills, who was in here, testifying that he would not be able to produce topcoats because of Office of Price Administration regulations, if I knew that you were going to jerk the controls off Mr. Besse, and Mrs. Reed, who was here, you do not think I would go out and buy a coat, you do not think all these stenographers in this building would be buying these expensive—and they are really expensive for what you get for your money, they wear out in no time—articles? We would stop buying tomorrow. I do not see why you take this attitude that they are such willing buyers to buy all these things, and it is an absolute guaranty. If we knew that we were going to get production within the next 3 months, we would not buy at all. What gives you that feeling? Is it just that you know the Office of Price Administration is going to continue, and, therefore, you know people are going to go in and buy before things get even worse than they are? That is why we are buying, you know.

Mr. Porter. Well, I think you probably would have paid considerably more for that suit if it had not been for the Office of Price Administration.

Miss Sumner. Except that I knew the Office of Price Administration was going to be continued, I would not buy at all. I am just afraid you are going to be able to perpetuate the Office of Price Administration and I will get a still worse one next year.

Mr. Porter. I hope not.

Miss Sumner. Would you care to comment on that?

Mr. Porter. I do not know that I understand the question. It is something about your suit. I hope you get one cheaper than that, and of a better quality.

Miss Sumner. Except for the exceptions you have mentioned, you were quite satisfied with the Colmer committee report, were you not?

Mr. Porter. Well, I would not want to give any blanket endorsement. I think it is a very thoughtful report, and there is a lot of good, hard thinking in it. But, on the specific things that I commented on, namely, the changing of the base period, and their policy on decontrol, we do take exception.

Miss Sumner. On this question of higher landlord's income, on page 11 of your statement, you denounce the idea of a 15-percent increase for landlords. What is the difference between your point of view, as a planned economist, what is the difference between giv-
ing 15-percent increase to landlords, who are not getting their increased costs, what is the difference between that and giving to wage earners in the Congress of Industrial Organizations their 15 percent?

Mr. Porter. I think one group needs it. The other one does not.

Miss Sumner. Well, now, wait a minute. I have also in my files, and there has been testimony here, from Representatives saying that people who have all their property in rental property, maybe a little extra house—and we who live in rural communities and know our neighbors’ affairs, know that many people when they have a little savings put them into a little house and rent it—and the increased costs due to these various increases in other things have put them in a position where they are very poor. The other night, after I was in a forum on the housing bill, I had letters from various parts of the country—California, Louisiana, and so on—people whose stationery was not elegant, and gave the appearance of very poor people; one woman said she had a son in Japan, and she was not able to support herself, and she just had this one little house, so she did not know how she was going to get along with her house in New Orleans, and various letters of that kind. I do not see how you defend that.

Mr. Porter. I do not think a 15-percent increase across the board is going to relieve the widow in Louisiana who is renting a house—what price was she renting for?

Miss Sumner. I do not recall.

Mr. Porter. I assume $30 or $40 or $50 a month. A 15-percent is not going to do her very much good, as far as her living costs are concerned.

Miss Sumner. Well, a woman of that caliber would make $5 go a lot further than you think. You might spend it in 1 day but——

Mr. Porter. I have been known to.

Miss Sumner. Well, you do not argue, do you, that it is more inflationary to give the landlords 15 percent increase than it is to give the Congress of Industrial Organizations members a 15-percent increase?

Mr. Porter. I do not think the two things are comparable, Miss Sumner. As a matter of fact, the surveys that I have indicated here, covering some 200,000 rental-dwelling units, indicate that landlords’ actual operating costs have not gone up during the war. They are not spending the money for repairs, redecorating, their service has deteriorated, and their net operating position, according to this data, is much more favorable—38 percent, I believe, is the figure above the prewar period. So, undoubtedly there are individual cases of inequity and hardship, and I think that the Office of Price Administration, under its adjustment provisions and rent regulation, has moved very speedily and very swiftly in some cases to remedy those hardships, if they can qualify it, under the adjustment provisions.

There have been some 750,000 rent adjustments made during the effective period of rent regulation.

Miss Sumner. Does that include the downward adjustments?

Mr. Porter. I would assume those were all upward adjustments. Those are landlords’ petitions for increase.

Miss Sumner. In the case of labor, as Mr. Henderson used to explain it, you have labor at the farm where they work on the material, you have labor in the handlers’ charges, you have labor at the
extend price control and stabilization acts of 1942

Mr. Porter. Well, I think that depends on a number of factors. This consideration is a matter of equity, I think it has been brought out before this committee time and again, that the wage adjustments, in many instances, do not compensate for the take-home pay that wage earners were earning during the war. So that as far as your total wage bill is concerned, I have not seen any figures on it, but I would assume that in manufacturing industries, the total wage bill, or the rate of earnings, or the total earnings per worker, is less than it was on VJ-day.

Miss Sumner. Of course, I am against continuing the Office of Price Administration, but I am sure the public would be very much interested to know that your attitude on this question is going to be the same as that of your predecessor, as indicated by your remarks. Now, during the past year, all these things have happened, which surprised some of us—at least they surprised me. I did not know, for instance, that there was not reconversion. Nowadays when a man from home comes in and I say, “How is reconversion?” He says, “What reconversion?” I did not know, and I presume others here did not know, until we had the Patman bill, that all these strategic materials that are so necessary not only for homes but for all of our production were being kept out of production by the Office of Price Administration. For that reason I shall offer an amendment, if I can get any support for it, for a 3-month review, and if I cannot get any support for that, I will offer it for a 6-month review, whatever I can get.

Do you care to make any further statement at this time on such an amendment?

Mr. Porter. A review or renewal?

Miss Sumner. To have it come up for renewal, just like this.

Mr. Porter. Every 3 months?

Miss Sumner. Yes, sir.

Mr. Porter. I would be forced to say that I would oppose such an amendment with whatever vigor I could muster. I am hoping that this will be the last renewal hearing.

Miss Sumner. Then, there is another amendment which I expect to offer. During the hearings on the Patman bill, one witness—I do not remember his name now—one of the men having to do with real estate, made the startling statement to me that if people were really sincere about giving veterans homes that they would repeal the Office of Price Administration regulation which prevents getting possession of a house for 3 to 6 months. So I assume that you, due to the fact that you have not removed that regulation, are for it, and so I intend to offer an amendment to the effect that anybody who wants to rent or sell a house to a veteran for his own occupancy or use, is permitted to do it, any regulations or law to the contrary notwithstanding. I am glad to have you defend your position at this time if you care to do so, on that amendment.

Mr. Porter. Well, I am advised by Mr. Carson that our regulations permit the area rent director to waive the 3- to 6-month period, which varies by area. The area rent director, in the sale of tenanted premises
to a veteran for his own use and occupancy can waive that waiting period.

Miss Sumner. Have you any objection to the Congress passing a law forcing him to do so, so that he will?

Mr. Porter. I think it ought to be a matter of administrative discretion.

Miss Sumner. Why?

Mr. Porter. It is a question of whom you are going to evict. Maybe there is some crippled, gray-haired widow of a veteran of the last war who would be evicted by putting in one from this war, and I do not think that it ought to be made an automatic mandatory requirement. I think it is a matter where you have got to weigh the equities and use discretion.

Miss Sumner. I think I would just about as soon have the discretion in the hands of the landlord as some Office of Price Administration controlman. I had one letter from New York making the charge—and I suggest you look into it, and I will give you names if you want to—from a man in the armed services—I would not give you his name, but I will be glad to give you the name of the man—that one of your men in rent control in New York was a known Communist. I would not care to have anybody like that having the say-so of whether that regulation should be removed or applied.

Mr. Porter. I think we have a very fine body of rent directors because I was responsible for the selection of a number of them.

Miss Sumner. In New York City? Of course, New York is not my State, but, after all, we are interested in the entire country. You are familiar with the rent-control body in New York?

Mr. Porter. I have had no recent contact with it, Miss Sumner. I do not know the existing personnel.

Miss Sumner. Well, I have not checked back on this, except it came on stationery of the armed services. I will be glad to give you that name. You would adopt the policy of discharging somebody, regardless of how much you liked him, if he were a known Communist, would you not?

Mr. Porter. If I thought that anyone was attempting to overthrow the United States Government by force and violence, I would apply the standards of the personnel requirements that Congress has laid down for that purpose and which is provided for in the oath of office.

Miss Sumner. I do not know why anybody would bother to overthrow the United States Government by force and violence when it is so much easier to do it in a simpler way.

Mr. Patman. Mr. Monroney, I would like to go now, or would you like to wait until 2 o'clock?

Mr. Monroney. Whatever the wishes of the committee, Mr. Bowles is scheduled to appear this afternoon, I believe, is he not?

Mr. Patman. I do not know.

Mr. Porter. I understood Mr. Bowles was.

Mr. Monroney. Would you rather finish up with the committee members this morning so you could be relieved to go back this afternoon?

Mr. Porter. I would just as soon go on now.

Mr. Monroney. I want to compliment you on this splendid statement, Mr. Porter, and also on the injection of the speed element into
the adjustment that has become apparent in the Office of Price Administration's operations in the last 3 weeks.

I think the time element in reconversion is very important, and I believe that you have recognized that in an effort to reach an early decision on these matters that are before the Office of Price Administration. Do you have any statistics or figures on the time?

Mr. Porter. We do not, Mr. Monroney. I have asked for those. Since the new wage-price policy has been in effect on a regional basis, where we are trying to push many of these individual adjustment items out into the regions—and Mr. Baker can correct me on these figures, because I am just relying on my recollection—but our regional administrator at Boston, the New England area, was in Washington this week and he advised me that since the wage-price policy became effective, there has been, at his office, 380 applications for the application of the wage-price policy to particular industries or individuals. Out of that group, something like 70 percent had been acted upon favorably, some 15 percent had been held for more information, and another 15 percent had been rejected. I think that is rather significant evidence, and I want to get those figures from the various regions, as to the mobility with which they are administering this policy.

Mr. Monroney. I think that one of the things which most of the critics of the Office of Price Administration who believe in price control would like most to see would be the expeditious handling of these adjustments in order to get this volume of production, to which you have dedicated the policy of the Office of Price Administration toward getting.

This Federal Reserve Board's report for February, indicated what percent, did you say?

Mr. Porter. Fifty-six percent above 1935-39 average.

Mr. Monroney. Fifty-six percent above?

Mr. Porter. Yes.

Mr. Monroney. That would tend to make the oft-repeated cries of grave and disastrous shortages in every line throughout the country appear to be somewhat of a phony, would it not?

Mr. Porter. The physical production is certainly there, but no one, I do not believe, can measure really what the force of this accumulated demand of 4 or 5 years is.

Mr. Monroney. I am just talking about supply.

Mr. Porter. The supply is certainly rolling.

Mr. Monroney. That after all is the only thing that can be charged against the Office of Price Administration if it is stifling supply. Then it is guilty; but if the supply is 56 percent above normal prewar years, it certainly looks to me as though the Office of Price Administration has not fallen on its face in doing the job.

Giving to supply and demand, these mathematical formulas that will be offered as a decontrol amendment, any amendment of that nature, should, if it is an amendment to the Price Control Act, or inflation control, imply some liaison on contract or determination to be made by the people who are charged with the administration of inflation controls, do you not think so?

Mr. Porter. I would certainly think so. We, of course, are in a position to evaluate price pressures, and after all, this is the question:

If you are going to decontrol, what all of us want to have happen
is that there will be still stability in the price level, and I would
certainly think that the Office of Price Administration would be in
a better position than any other agency to exercise judgment on the
extent and intensity of those pressures.

Mr. Monroney. In other words, the law of supply and demand is
a general law, and the 10,000 different lines of commodities or more
that you handle are not in airtight, watertight, hermetically sealed
compartments?

Mr. Porter. That is correct.

Mr. Monroney. Any amendment to decontrol should, then, you
think, bear some relation to the general purposes of the inflation
control, Price Control Act, to make it workable, to give you the tools
to prevent inflation?

Mr. Porter. Yes.

Mr. Monroney. We have had a great deal of testimony about the
cost-plus profit per item. As I understand it, that would still leave
the badly needed commodities, of which we might be in terribly short
supply, at their same relative disadvantage in the production line?

Mr. Porter. That is correct. It would have the threat of diversion
from the items that we have given supply adjustments to, back to
those which might be in a more favorable position by the application
of a cost-plus standard.

Mr. Monroney. And under the present policy and the provisions
of the Stabilization Act, you are allowed to grant incentive pricing
for articles in short supply?

Mr. Porter. That is correct.

Mr. Monroney. And you are doing that?

Mr. Porter. We are doing it. Some people will say we are doing
it on too wide a scale. But when an agency such as Civilian Produc-
tion Administration, or the Housing Authority, certifies that it is
their belief that it will take this additional discretionary increase to
get the supply, we view it very sympathetically, and I think that on
the specific recommendations that Civilian Production Administration
has made in building materials, or the bottleneck committee has made,
we have approved every one of them.

Mr. Monroney. Incidentally, western pine came in for about an
hour or an hour and a half worth of attention before the committee.
Can you give the committee any idea about how much their price has
been increased from their prewar price?

Mr. Porter. If you would add the latest increase, I would ask
Mr. Holder to give those figures on western pine increases, including
this last one.

Mr. Holder. The average realization of western pine, Mr. Mon-
roney, in 1939 was, as I recall it, about $22 per thousand feet. We
are adding to that, in an action to be taken next week, about another
$4.60. That would mean price has increased from $22 to nearly $41
since 1939.

Mr. Monroney. That is a little bit short of a hundred percent
increase on western pine?

Mr. Holder. Probably around 90 percent, sir.

Mr. Porter. I think we have gotten western pine into the situation
where it cannot be said that price is the factor that is withholding
production. They are having difficulties on labor, weather, and per-
haps equipment and materials. I do not believe, as I have reviewed the situation with Mr. Holder and the people in the building-materials branch, I am convinced from the case they made, that adding another dollar, or $2, would not bring out any more lumber.

Mr. MONONEY. You do reach a point, in pricing, where no matter how much above that price you go, it does not stimulate production?

Mr. PORTER. Yes, even if you would decontrol it, they probably then would come in and say that we have to do something about manpower, about equipment, and even about the weather, if we could.

Mr. MONONEY. I notice the United States Chamber of Commerce came out with a recommendation for ending the Office of Price Administration of the 15th of October, I believe. It might have been October 1. What is your view on that recommendation?

Mr. PORTER. Well, of course, it is the position of the agency that we should have an extension for a year. I think that Mr. Bowles has testified before this committee that it is his view that we could well be out, by taking some chances, with the exception of rent control and maybe some building-material items, by June 30, 1947.

My personal view is that these next 6 or 7 months are awfully important, and if we can get people quieted down and over these inflation jitters and all of them back to work, as most of them are, then I think it would really be the duty of this committee and Congress to review what the economic environment is at that time and determine what the policy should be well in advance, if we get a year's extension well in advance of June 30, 1947. Because there are going to be some very difficult problems of liquidation and demobilization of the agency if this is the last year, and I take the position that it is a matter of congressional policy, and of the condition, and not a date on the calendar.

Mr. MONONEY. But rather than the October discontinuance, it occurs to me that we had better kill it as of June because the supply will dry up, and you will have no merchandise to sell in the stores between June 30 and October, so we will merely add inflationary pressures by withholding rather than ever get down——

Mr. PORTER. I think there would be a real danger of stagnation and paralysis in your whole production and distribution system if they knew that 3 months from now—and that is going to be, under this decontrol policy, one of the most difficult tasks that the Office of Price Administration is going to have, namely, to gradually get out of this situation, where circumstances permit it, in such a way as not to cause this withholding bee and hoarding bee and speculative and manipulative practices.

Mr. MONONEY. Well, their proposal would bring up steam of inflationary pressures because of withholding in short merchandise, to where inflation then would be absolutely insured. It would be not a guess, but it would be a positive result of that extension.

Mr. PORTER. I think that is tantamount to letting the act expire or repealing it.

Mr. MONONEY. And it would probably be better to let the act expire rather than go ahead with an October extension?

Mr. PORTER. Well it would certainly be my recommendation, if the Congress did just extend it to October 15, I do not see how we could live with it.

Mr. MONONEY. Well, I hope nobody in Congress is taking that recommendation very seriously. But I just wanted to get your views
on it. If the Congress writes in many strait-jacketing amendments, new pricing formulas, new decontrol formulas, into the Office of Price Administration Act, which will force rescaling, readjustment, realinement of prices, is it your opinion that business will gain or lose?

Mr. Porter. I think they will lose immeasurably, because then we will have the added uncertainty, and you can see, or have the feeling that there is beginning to be a kind of settling down, and if we can get this act passed promptly, without amendments that would cause all the industries that are now stabilized to come back and say, “Well, let us take another look at our situation” that you would have a threat of that same uncertainty and paralysis that any imminent price changes always create.

Mr. Monroney. Business has learned to live under these rules, and if he would be better off than to have to get acquainted with a new set of rules and pricing formulas, appeals and things of that nature, the withholding of goods while waiting for a new price under a new 1936–39 profit standard, and so on?

Mr. Porter. I think that is very definitely true and an important point.

Mr. Monroney. I think that business would be the greater loser for any great modification here in the last two lines of the game which would suddenly change all the rules, and they would have to learn to live under them, and the administrative forces would have to learn how to live under them and administrate them.

Mr. Porter. I do not have any doubt of that.

Mr. Monroney. That is all.

Mr. Patman. The Chairman suggested we adjourn until 2 o'clock.

Mr. Smith. Will Mr. Porter be back?

Mr. Patman. I presume so, although I cannot say definitely.

Mr. Brown. I think we can continue until quarter after 1.

Mr. Smith. Mr. Porter, does the Office of Price Administration deal with inflation or the effects of inflation?

Mr. Porter. Well, I think sometimes it is pretty hard, Mr. Smith, to distinguish between cause and effect. I heard your discussion, and I have read the record, of your colloquy with other witnesses on that question. Frankly, my own personal feeling is that it is a sort of a study in semantics. Whether it is to prevent inflation or whether we are dealing with inflation or the effects of inflation, I do not know.

You can have it either way. I construe the act to keep prices from going up and to achieve economic stability in our system.

Mr. Smith. Do you mean perverted semantics?

Mr. Porter. No; I think it is a question of words, as to whether it is cause or effect. I have never been able to distinguish.

Mr. Smith. What is inflation?

Mr. Porter. Well, I have seen a number of definitions of it. The one that probably appeals to me most is an oversupply of effective demand for a limited supply of goods and services.

Mr. Smith. In terms of what is that oversupply of demand?

Mr. Porter. I see you are leading me into the physical policy, but it is usually measured in terms of money.

Mr. Smith. What is the amount of inflation we have at the present time?
Mr. Porter. The figures have been used that we have a $145,000,-
000,000 of hot dollars overhanging this market. Therefore, we have
to devise controls that would keep people from violent upheavals
in the price system.

Mr. Smith. The figure given by Mr. Eccles is well over $145,000,-
000,000.

Mr. Porter. $145,000,000,000, I meant, of liquid assets. That is the
increase in assets.

Mr. Smith. Total liquid assets are considerably more than that,
nearly $250,000,000,000, taking into consideration the $48,000,000,000
of potential war-savings bonds.

Mr. Porter. That is right.

Mr. Smith. Would you tell the committee how that compares with
the situation following the other war?

Mr. Porter. I do not have those figures for the other war. I could
try to get that for you, Dr. Smith, and furnish it for the record. You
probably have it yourself. I would take your figures on it.

Mr. Smith. The question in my mind is how much goods do you
have to produce to bring supply in balance with demand.

Mr. Porter. Well, I assume that there is a limitation on what
people use, and that the pressure should be forever increasing, higher
standards of living, and perhaps, in addition to the economics of the
situation, or the psychological factor of inflation, which I sometimes
think is equally important, I would not say that there is a precise
mathematical relationship between the total liquid assets of $225,-
000,000,000, or whatever they may be—it is a question of what people
are going to do with it.

Mr. Smith. In terms of what do you measure demand?

Mr. Porter. I do not know that I would have a yardstick for it.
I would say when prices begin to get stable, people are fairly well
satisfied, and they are not going up or that there is no imminent
threat of violent price increases, that you can take a look at a partic-
ular situation and say production or supply is in fairly effective bal-
ance with demand.

Mr. Smith. Is not demand measured in terms of available money?
The demand for goods and commodities and the various things that you
own, stocks and bonds, if you own such?

Mr. Porter. That is a very limited demand, of course.

Mr. Smith. Well, I know, but is not a man's demand limited by
the amount of money that he has available to spend?

Mr. Porter. No; I do not think so. I know that very wealthy
people probably have not a much greater demand for cost-of-living
items than I do or you do. They cannot wear but one suit of clothes
at a time, and so on.

Mr. Smith. But their demand for stocks, bonds, real estate, or other
valuables—we have to take into consideration all of these things and not
only the cost of living—and I asked a simple question, in terms of what
do you measure demand?

Mr. Porter. I would say that one way to measure demand would
be what people are going to do with the resources they have to make
demand effective.
Mr. Smith. What is causing this pressure against prices? You say that production is up 40 percent above the level of 1935-40 average?

Mr. Porter. Yes, sir.

Mr. Smith. Why this extreme pressure forcing prices up?

Mr. Porter. I think it is due to a conjury of factors, such as the accumulated savings of the war period, and I cannot look at this program, Mr. Smith, in terms of these mathematical concepts, or wholly in terms of economic abstractions. I think that perhaps one of the most important considerations is that price control gives protection to the people who need it, and that is people of limited or fixed incomes, and if you just relaxed it completely, that those were the ones that I think it is the duty of the Federal Government to have policy to protect them against the consequences of this accumulated demand.

Mr. Smith. Let us dismiss, then, the question of economics and mechanical formulas, and view the thing from the standpoint of history and experience. Would you place any confidence in experience?

Mr. Porter. Well, I am not—yes; indeed. I think experience teaches us a lot of lessons, but I think that sometimes history does not repeat itself.

Mr. Smith. Especially if we do not want it to.

* Mr. Porter. I certainly do not want the history to repeat itself as to what followed after the last war.

Mr. Smith. You point to the last war. What amount of inflation did we actually have? What was the inflation after the last war? I do not want the price rise. I do not want to know the amount of the inflation in the terms of prices, following the other war, because price rises and inflation may not be related to each other at all. You can have, in other words, a rise in the price of wheat, where you have had a short crop. But you do not consider that inflation. So inflation is not necessarily related to prices. Let us go back into history when there was inflation and see if your proposition really holds. In the second decade, in France, in the Eighteenth Century, under John Law, in the last decade of the eighteenth century, in France the inflation that prevailed during colonial days, the inflation that prevailed in Germany and Austria, and all the other inflations following World War I, do you know of a single inflation in all history that would substantiate your position that it is possible for the Office of Price Administration to actually control prices in the sense of limiting their amount?

Mr. Porter. The Office of Price Administration is just 4 years old. Various controls, obviously, have been tried. But I think because historically it has never been done, is not to say that we cannot get through this situation without having the consequences that you and I both know would result from a complete cycle of wage and price changes in the economy.

Mr. Smith. Have you ever read the Edict of Diocletian?

Mr. Porter. If I have, I have forgotten it. I may have been forced to at some time.

Mr. Smith. I think every person connected with the Office of Price Administration ought to read the Edict of Diocletian.
Mr. Smith. I have a concern in my district, the Fairfield Engineering Co. They build conveying machinery.

Mr. Porter. Conveying machinery?

Mr. Smith. Yes. They say [reading]:

Here enclosed you will find a copy of a letter written by our president to Chairman Spence of the Banking and Currency Committee concerning this subject. The price increase which we submitted upon which we are compelled to sell at the price of October 1, 1941, in the fiscal year ending June 1, 1945, the total sales of our products in this line represented 54 percent of our total sales in fiscal year in question. In other words, the Office of Price Administration expects us to do 54 percent of our total business and in some unexplained manner make enough profit on the remaining 46 percent of our business.

Now, I know that you cannot comment on that proposition without going into it, Mr. Porter.

Mr. Porter. I will be glad to go into it.

Mr. Smith. I realize that. But we just have these. I do not want to take up the committee's time. I could read letter after letter of situations of this kind, in my district. It is a pretty hard thing for me, as you can understand, to go back home and face these people and say that I was unable to do anything for them.

Mr. Porter. I think that Mr. Baker could comment more specifically on that. Without the factual situation, it is a little difficult to comment. But I do think that the standards and the devices, as I have said, which the Office of Price Administration has are designed, generally, to take care of almost every situation. Now, if they do not, and the equities are such, I think we ought to consider methods of individual rescue provisions.

Mr. Smith. You can see the position this puts a Congressman in.

Mr. Porter. Oh, yes.

Mr. Smith. You make the statement that industry is about to expand. And, as I believe you put it, automobiles and airplanes will be coming out of our ears. What makes you say that?

Mr. Porter. I confidently believe, Mr. Smith, that the miraculous production job that was done during the war can be, with the full mobilization of all of our resources, accomplished in peacetime, and that we could have an immeasurably higher standard of living, making more things, with more people busy, more people at work, and greater productive activities. I think the war has taught us a great many things that we can do. Increased labor efficiency, new products. And if we can get through this period, as I say, I am looking for an era of prosperity at a plateau that we have never dreamed of before.

Mr. Smith. Then, we had a politically planned production during the war. Is that what you are advocating for peacetime?

Mr. Porter. No; I think that the economic forces can substitute a free play of the market for the directions and controls that were necessarily used during wartime.

Mr. Smith. We have a demonstration, Mr. Porter, already, of an attempt to put into effect the war formula in the matter of producing houses.

Mr. Porter. That is right, and I think it is perfectly justified and is necessary.
Mr. Smith. All right. Then, if we can use the war production procedures for houses, and if that is justifiable for houses—why can we not apply it to all these other things?

Mr. Porter. Then, we would have a different kind of system, if you perpetuated this thing over a long period of time. I think the housing program is as much of a war program as the draft law was, in my judgment, at least. And I think it was Mr. Will Davis who made the observation that the dinner is really not over until the dishes are washed. That is part of our responsibility in the effective prosecution of the war.

Mr. Smith. You mean price control?

Mr. Porter. To provide houses for returning veterans at reasonable cost.

Mr. Smith. All right. Then, if it is true for houses, why not for shoes? Why not for hats, cabbages, and everything else? If the principle is right for one product, is it not right for all products?

Mr. Porter. That is a matter that I have given not too much consideration to, for the reason that I am hoping we can get back to a free economy as quickly as conditions warrant it. I would not want to apply that kind of a directive to cabbages unless the people of this country were starving, and I think that is the type of calamity and emergency that Congress would take notice of.

Mr. Smith. Mr. Porter, were you not a member of the Agricultural Department when they set up the politically planned agricultural program, and did you not participate in that?

Mr. Porter. I was at the Department of Agriculture when I first came to Washington in 1933; yes.

Mr. Smith. How long were you with it?

Mr. Porter. From 1933 until 1937.

Mr. Smith. Was it not during that period that agriculture came under political control, and eventuated in politically planned farming?

Mr. Porter. With the specific approval and direction of the Congress of the United States, yes. That was congressional policy at that time, to take care of a surplus problem, because there was widespread distress, as you know.

Mr. Smith. But it has remained in existence. Planned agriculture is still with us.

Mr. Porter. Not to the same degree at all.

Mr. Smith. In what respect has it been mitigated?

Mr. Porter. Farmers are given targets, goals, production goals, there is no compulsion, no restraint. And they have produced abundantly during the war and agricultural production now is even at higher levels.

Mr. Smith. You say there is no compulsion, no restraint? I happen to have hanging over my head, a wheat penalty, for raising more wheat than this Congress told me I could raise. Do you mean to say that I am not laboring under restraint?

Mr. Porter. Well, you had a good yield, I take it, or there is the question of allotments and efforts to direct production. I am not familiar with the details of the existing wheat program. I did not
know that there were, except for these production goals, any allotments on wheat production.

Mr. SMITH. Well, now, Mr. Porter, you realize: That as a farmer, I cannot get any lime unless I sign up for this program.

Mr. PORTER. I would prefer that you talk to Secretary Anderson about his program. I would not want to comment on the Department of Agriculture's programs.

Mr. SMITH. You are here telling this committee of Congress that the Office of Price Administration should be continued on what ground?

Mr. PORTER. Well, I have undertaken to make the case for that in my statement. I do not know that there is much I could add to that.

Mr. SMITH. We are going toward more and more Government control every day, instead of less Government control.

Mr. PORTER. I would rather have these Government controls, which I do not think have interfered with the essential liberties of everybody, except perhaps in some rare and extreme cases—I would rather have a continuation of some of this discipline which a democratic society, in the manner established, has imposed upon itself, than the consequences of no control.

Mr. SMITH. Then, you believe in a disciplined society?

Mr. PORTER. If there is a period of emergency that requires it.

Mr. SMITH. If there is a period of emergency. In other words, after all, it is the disciplining of society, whether it is an emergency or whether it is not an emergency. Is that the way America became great? By being disciplined by its system of government?

Mr. PORTER. Well, I think that our system of government contributed a lot to what America has done in the past, and I hope will continue to contribute to what it will do in the future.

Mr. SMITH. And our system of government, up to about 1914, was a wonderful system. It contributed by keeping its hands off business, and industry. But do you mean to say that the Federal Government is today contributing to the industry of this country with three and a half million people on the Federal pay roll? Cite me an instance in history to prove your position. You have got a gigantic bureaucracy in Russia. You had one in Germany. You had one in Austria. You had one in Italy.

Mr. PORTER. I think we are different kinds of people, and have a different kind of system. And I have absolutely no fear that this Congress or the people of the United States will permit any type of governmental system that is not in complete harmony with our basic and essential freedoms, and I think that the greatest threat to a real change in the system is to have a boom, bust and a collapse, and then we would have something that is different from anything we have ever known.

Mr. SMITH. Of course, you are not guaranteeing anything like that with the Office of Price Administration price control?

Mr. PORTER. We are doing our best with it.

Mr. SMITH. I know, but you cannot guarantee it. What you are saying, in effect, is this, Mr. Porter: That the cholera bacillus, will affect the European and Asiatic people differently than the American
people. In other words, if it gets into our blood, we are not going to have the Asiatic cholera. So long as it gets into the blood of Asians and Europeans, they are going to have cholera.

Mr. Porter. I cannot accept the analogy of Office of Price Administration cholera.

Mr. Smith. You said that we are different people. That we, are not subject to the same effects, from the same causes as other peoples. That is all.

The Chairman. The committee will now adjourn to reconvene at 2:30.

(Whereupon, at 1:10 p. m., the committee adjourned, to reconvene at 2:30 p. m.)

AFTERNOON SESSION

The Chairman. The committee will be in order.

Mr. Folger, do you have any questions of Mr. Porter?

Mr. Folger. Yes, Mr. Chairman.

Mr. Porter, I believe you subscribe to the view, as a general proposition, that production is the great answer to the decontrolling of price ceilings on commodities?

Mr. Porter. Yes, sir.

Mr. Folger. I notice that in your first paragraph of your statement, under the subject of decontrol, you say;

I should like to repeat, that ceiling price controls must and will be removed as soon as they are no longer needed to safeguard the country against the disaster of inflation.

That is a statement upon which you steadfastly stand?

Mr. Porter. Yes, sir.

Mr. Folger. I am a little disturbed about this observation:

If after a reasonable period, it appears that the price will not rise above the ceiling, the commodity is exempted from price control.

To my mind that would be a rather dangerous policy, because your price controls would vary so much as to the margin of profit that might be permitted that that would not be a good criterion to go by. Had you thought of that?

Mr. Porter. Well I think, Mr. Folger, that we were dealing with two separate situations. One, under the directive under which we are now operating, which calls for immediate and outright exemption. Then there is a second one on suspension, which I would assume would be the doubtful cases, and if, under suspension, it were to appear that there was no drastic fluctuation in price, I do not imagine that the agency would be too much concerned about minor and insubstantial fluctuations. But, under the exemption standards, the only purpose would be to test our own judgment—or one of the principal purposes, at least—to test our own judgment as to whether it was safe to decontrol.

Mr. Folger. You made reference to the statements, or findings, if they might be regarded as such, of the Colmer committee. That committee would require removal of the ceilings as a commodity, before
the shortage was eliminated, and before the supply had become large enough to fill all the demands. Plainly every time the ceiling was lifted, every time, the price would go up. The fact that the Colmer committee uses the words, "Acute demand," do you not imagine that the thought of the committee in that connection was, that as long as there are price ceilings and controls, under authority of the Office of Price Administration, that there is necessarily some hindrance to and hampering of, full production, and therefore, that might be relieved by decontrolling these items when they are no longer in acute demand?

Mr. Porter. Yes, sir; I think I understand that perhaps the conception of the word "acute" was perhaps to take care of marginal producers, who perhaps could not produce profitably under existing ceilings, which were generally fair and equitable to the vast majority of producers. So therefore, it seems to me that it becomes a question of judgment, of weighing whether or not the public interest is better served by permitting a rather steep price rise, and getting that last small percentage of production, or maintaining stability until production and demand can come into balance.

We take the view, of course, that stability, weighed against a relatively insignificant percentage of production, is the alternative to be desired.

Mr. Folger. Now, Mr. Porter, going to the history of this legislation, we read in the first Emergency Price Control Act these words:

It is hereby declared to be in the interest of the national defense and security and necessary to the effective prosecution of the war, and the purposes of this act are to stabilize prices and to prevent speculative, unwarranted, and abnormal increases in prices—and so forth.
That is a recognition and also a declaration, I think, that this law was intended as an emergency measure only.

Mr. Porter. Precisely.

Mr. Folger. I do not subscribe to the statement or accusation that there are men in the Office of Price Administration who would be so unmindful of the economic good of the world, that they would try to perpetuate the Office of Price Administration to provide themselves with jobs. I do not believe that that position is well taken. But I have been a little afraid that in our thinking, as we travel along, and sometimes see what we conceive to be the beneficial results of price control—and we acknowledge that it has had beneficial effects and results—that we might become so enamored of that that we would forget that the law in the beginning, was just to run for a year, and the next year, with a view all the time of engendering in the minds of even those who are immediately responsible for the operation of the Office of Price Administration, that it was a pretty good thing, and forget the larger consideration that they themselves should help us, the committee and the Congress, to arrive at a point where we could decontrol and get back to private enterprise, freely competitive.

Mr. Porter. I subscribe to that statement a hundred percent Mr. Folger, and I think that the actions of the Office of Price Administra-
tion, should, at least I hope they will, impress the committee that, for example, we have appointed Mr. Buckley, whose special job and duty it is to appraise specifications on the decontrol front. I conceive it to be the duty of the agency to come to this committee periodically, and give you, as best we can, our appraisal of the facts, and then it is a congressional determination as to what the policy should be. I believe strongly in that principle.

Mr. Folger. That is all.

The Chairman. Mr. Kunkel.

Mr. Kunkel. Mr. Porter, you are asking for the extension of the present Office of Price Administration law exactly as it is?

Mr. Porter. Yes, sir; we have no amendments to propose, with the possible exemption of commercial rents, which were discussed here this morning.

Mr. Kunkel. Except for commercial rents then you feel that past history has proven that the present Office of Price Administration law is completely adequate, if carried out as now administered?

Mr. Porter. We think that the standards which Congress has laid down give the agency sufficient flexibility to go through this transition period without any damage to the economy.

Mr. Kunkel. And that it has proven sufficient in the past?

Mr. Porter. Yes, sir.

Mr. Kunkel. And that any errors that have been made are administrative in nature, rather than based on defects in the legislation itself?

Mr. Porter. I think that would be my view; yes, sir.

Mr. Kunkel. And you have only one amendment that you are going to suggest to the present act, and that is on commercial rents?

Mr. Porter. As was developed here this morning. That is correct.

Mr. Kunkel. Do you feel that the Bankhead-Brown amendment, as it is usually called, or the Bowles-Field amendment, as I sometimes call it, should be retained?

Mr. Porter. I would prefer to have, if you accuse Mr. Field of certain paternalistic interest in the amendment, him comment on it.

Mr. Kunkel. Well, what do you think? Do you want that in the act or out of it?

Mr. Porter. I think it is something that we can live with. We have.

Mr. Kunkel. You are perfectly satisfied to have that retained?

Mr. Porter. We have no proposal for changing it.

Mr. Kunkel. Do you want to have it remain as it is in the act, that is the Bankhead-Brown amendment? You are perfectly satisfied?

Mr. Porter. That is right.

Mr. Kunkel. You do not wish to have any further powers given to control wages, other than are in existing statutes?

Mr. Porter. I would prefer that Mr. Bowles comment on that, because that is his particular field, and he will be available for the committee to conclude the hearings.

Mr. Kunkel. And do you consider that the War Powers Act, in the form in which it passed the House, is completely adequate?
Mr. Porter. As I understand it, it would give the various agencies of Government, who have the functions of allocation, and the supply agencies, the tools they feel they would need to do the job.

Mr. KunkeI. Do you feel that priority and allocation powers previously available, which I understand are practically the same in the extension, if not exactly the same, are completely adequate to do the job as far as allocations and priorities are concerned?

Mr. Porter. I must confess that I have not had the opportunity to make a completely detailed study of the existing provisions of the statutes to which you refer. I have just assumed, because there have been no proposals advanced for changes, that they are adequate.

Mr. KunkeI. Well, you said in your statement, only if the Second War Powers Act is extended.

Mr. Porter. That is correct, and what I had in mind there was the question of allocation, of the powers that it gives to the executive in dealing with the emergency, that they would be adequate.

Mr. KunkeI. Mr. Porter, your theory is that any modifications, administrative modifications in price, should be made gradually so as not to establish an inflation psychology. Is that correct?

Mr. Porter. I am not sure that I understand the question.

Mr. KunkeI. I forget who was asking you the question, but you stated you did not want to make any sudden jumps or decontrol too suddenly.

Mr. Porter. You are talking about decontrol rather than price adjustments?

Mr. KunkeI. Both.

Mr. Porter. As far as decontrol price adjustments are concerned, I conceive it to be the duty of the agency to make them whenever our standards require doing so. Under decontrol a different question is presented, in which you have to consider whether a sudden or abrupt decontrol of a vast number of items would create the kind of uncertainty and upheaval that would cause consequences that I think we all agree would be undesirable.

Mr. KunkeI. Would not the same consequences, in general, flow from a very sudden and far-reaching raising of price ceilings on a very considerable number of commodities? Is not the only difference there a question of degree rather than anything else?

Mr. Porter. Yes; probably; but I think the standards of the Office are such that I know of no field that is under control where these same adjustments may be required by our standards that would result in widespread and abrupt and steep increases. There would be adjustments here and there, quite a vast number, but they would not be of the violent nature that would precipitate an inflationary psychology or bring dislocation of your price structure.

Mr. KunkeI. Well, when you raised the price on steel, it had pretty far-reaching repercussions; is that not correct?

Mr. Porter. That is undeniably correct.

Mr. KunkeI. Far-reaching enough, in my opinion, to engender a general feeling that prices were going up.
Mr. PORTER. Well, under the new wage-price policy that developed from the steel situation, there is still a wide area where stability can be maintained, and that is important.

Mr. KUNKEL. Mr. Porter, under this new wage-price policy—I asked Mr. Brownlee this question not long ago when he was up here—do you think you can make your adjustments there sufficiently rapid to encourage production without being overburdened by an impossible administrative job? In other words, everybody is going to be coming in to you, I should guess, in the next 30 or 60 or 90 days, with requests for adjustments based on the wage increase and the steel price rise.

Mr. PORTER. Well, we have no present statistics that I am aware of on the volume of applications or requests that have come in. We have taken very definite steps, and I think that the record indicates that the steel and fabricating price adjustments were made with commendable speed and progress. Perhaps Mr. Baker would want to add something to what his views are as to the volume and the work load that will result from this new policy.

Mr. BAKER. I would say, Mr. Congressman, that industry actions are going as fast as can be, considering that many wage patterns have not yet been set. We are trying to handle most of these increases by industry-wide actions rather than individual adjustment, at first, wherever we can do so without hardship.

That saves work load and makes us able to work faster. In addition, we have put out a provision which permits an automatic pass-through of the steel increase for machinery manufacturers whose product contains more than 40 percent of steel as an interim adjustment on materials to save them from hardship.

We are also putting out, for minor industries, where we do not want to delay the industry by surveys, an automatic adjustment provision, which will be in place of our ordinary industry adjustment, and which will permit a person to calculate an increased price, based on his increased costs, file it with the Office, and use it after review of it after 60 days.

Mr. KUNKEL. That is weighed in mind. What is worrying me, is there going to be too much slowness and uncertainty so that we will not get production, and is there going to be so much work falling on the Office of Price Administration in a short length of time that they will not be able to get them out quickly? But you are directing your energies mainly at quick solutions and quick answers, whether they are unfavorable or favorable—

Mr. BAKER. Quick, and a little rough, in the sense of being approximate.

Mr. KUNKEL. Well, I know you have to do that, but I think it is extremely important to have speed if we are going to get into production to as large a degree as possible.

Mr. PORTER, this morning you gave what I think is an excellent definition of inflation, as far as demand is concerned. Is this a correct restatement of your statement: "People use the resources they have to make their demands effective"?

Mr. PORTER. Yes; I think that is the way I undertook to state it.
Mr. KUNKEL. Yes; well, that brings up one of my pet theories, and that is that if you emphasize that side of it, so as to try to get voluntary restraint of demand insofar as it can be done, that that would help solve your problem and also distribute the buying power of the country over a longer period of time, which would even out the economic cycle and be advantageous to everyone. Are you planning to make any efforts along that line, as a matter of policy? I asked Secretary Vinson the same question in connection with E bonds of the Treasury.

Mr. PORTER. Well, as you know, in the past, the agency has had great cooperation from various institutions in the advertising field, on the savings campaign, and I would assume that wherever it was appropriate we would go forward with that.

Mr. KUNKEL. I think that is one of the sides that the Office of Price Administration has not sufficiently emphasized, and that it is just as important in some ways as the others, because once you have this buying power, once you have people beginning to make their demands effective, as you put it, neither price control nor anything else is going to restrain it.

Therefore I think we have got to emphasize that in any campaign we conduct, as well as advertising for people to look at ceiling prices, and things of that kind.

That is all, thank you, Mr. Chairman.

The CHAIRMAN. Mr. Hays.

Mr. HAYS. Mr. Porter, I am sorry I did not get to hear all of your statement this morning. I thought your principal statement was excellent, and I am sure the committee members appreciate it. I did want to ask you one or two things about particular commodities.

Under the decontrol program, there would be some instances in which perhaps the situation would arise, other than one attributable to increase in production, where decontrol would be justified. For example, with used cars—obviously the new supply of used cars is very small. Do you have anything specific to say about that, considering the difficulty of enforcement, for example?

Mr. PORTER. I could just make a general observation, Mr. Hays, on that point. We do not have a timetable except on certain rather obvious items. As far as used cars are concerned, I have no idea what the demand for new cars is going to be. I would assume that for the next 3 or 4 or 5 years there will be a terrific demand for all the cars that the manufacturers can produce; and from what information I have had about the automobile situation, I would foresee no relaxation of controls during the life of this extension on used cars. I may be wrong about that, and somebody on the staff might correct me, but that is my general impression.

Mr. HAYS. If any of the other staff members have a comment on that point, I think this would be the place to have it.

Mr. PORTER. Mr. Baker tells me he agrees with that statement. That statement is correct, namely, that I agree with that statement.

Mr. BAKER. I am true that the demand for new automobiles will far exceed supply until 1948, at least. To the extent that that unbalance will continue, used cars will continue to be in strong demand.
As we move into next year we will be getting used current cars—that is, used 1946 cars—and therefore there will be a supply of used cars and presumably a need for controlling them. At some point, which we cannot settle definitely, but which would appear to be at or after 1947, we would expect that the used-car market would drop sharply; and I would expect that to the extent that there is receiver pressure now, we would in another 6 to 9 months begin to see somewhat less pressure. I would also expect to see cars remain fairly firm at ceiling.

Mr. HAYS. Thank you. You do recognize, I am sure, Mr. Porter, that there is considerable black-market operations in that particular field; and if there is hope of correcting it through better enforcement methods, I think every effort ought to be made in that direction, because it is having a bad effect from a moral standpoint in our section of the country, and the answer may be better enforcement. I do not know.

Mr. PORTER. Yes.

Mr. HAYS. Then the dairy situation. Again I think it is more of a matter of emphasis on speed in determining the increased costs for the dairy industry. The small farmer has been abandoning the field, and he has very effective arguments to make in relation to increased costs, and I am referring to it strictly for that purpose, to say that all efforts ought to be made to make decisions where that condition develops.

Mr. PORTER. We hope to have a revision of our dairy and fluid-milk program within the week or 10 days, that will be designed to take care of just the factors which you have enumerated.

Mr. HAYS. Thank you, sir. The only other comment I have is with reference to the Maximum Average Price Regulation. I wonder if you could enlighten us as to the provision, administratively?

Mr. PORTER. I would like to make, if I might, a general statement about maximum average price, about the supplementary order 108, which is commonly known as MAP, which was issued, as you know, on April 19, 1945, and which became effective June 1, 1945.

This order was a part of a broad Government program devised to meet a serious inflationary situation in the field of clothing; and if I might, I would like to review just briefly the basis of that order.

In early 1944, the cost of living, which had been held relatively stable for about a year, began to rise again. The main cause for this increase was the continued sharp rise in clothing prices, while prices of food and other products remained stable. Thus between May 1943, the date of the original hold-the-line-order, and May 1944, the overall cost of living remained unchanged, but clothing costs went up 7.5 percent. During the remainder of 1944, the cost of living rose by 1.5 percent, while apparel prices were up again 3.9 percent.

In fact, the continuing rise in clothing prices threatened a further increase in the cost of living and constituted, at that time, the gravest danger to the stabilization program.

The principal reason for higher clothing prices was the disappearance of low-priced merchandise from the market. Manufacturers shifted from lower priced to higher priced line. Fabric was diverted
from its customary channels to the production of higher priced goods either by the same manufacturer or other fabric was diverted from essential garments to less essential luxury items. This situation—and it steadily became worse—compelled the launching of a broad interagency program designed to halt and reverse these. Such a program was called for and approved by Mr. Vinson, then Director of the Office of Economic Stabilization.

Accordingly, the War Production Board instituted a broad priority assistance program for manufacturers of low- and medium-priced clothing through conservation orders.

These orders attempted to channel low-priced fabrics to producers of low-priced garments. The Office of Price Administration in turn issued supplementary order 108, which is maximum average price, which limited the average prices at which manufacturers could sell their garments.

The chief clothing groups not under maximum average price are work clothing, work gloves, women's full-fashioned hosiery, and men's heavy outwear. Supplementary order 108 as issued last April requires manufacturers to sell their garments at an average price no higher than their 1943 average price for each of several hundred categories of clothing.

While this has been the basic formula embodied in maximum average price, the Office of Price Administration has always been ready to make all reasonable adjustments necessitated by changing economic conditions. The greatest difficulty in administering maximum average price has stemmed from the fact that up to very recently the amount of fabric available to clothing manufacturers has been at the lowest level since the thirties.

Along with the fabric shortage there has been a disproportionate decline in the supply of low-cost materials. Thus, last fall this Office found it necessary to issue Special Order No. 3. This amendment to maximum average price recognized the changed conditions in fabric supply by establishing exemption prices; that is, the lowest maximum average price at which any producer is required to operate.

These are set at levels at which production can be carried on. In addition, tolerances are provided to allow for increased costs of production. Several other amendments to maximum average price have been made since this time.

Now, an example of them will show conclusively that the Office of Price Administration has taken every step possible to make maximum average price more workable without destroying its fundamental purpose.

Naturally, a regulation as broad in scope as maximum average price is bound to come in for a good deal of criticism. Maximum average price embraces 424 categories of apparel, produced by some 12,000 manufacturers, with a sales volume in the neighborhood—an annual sales volume in the neighborhood—of $6,000,000,000.

The Office of Price Administration readily concedes that some of the criticism against maximum average price is quite justified. We have made mistakes, and we have been slow to act in some cases. But
other serious accusations have been made which the Office of Price Administration cannot admit.

It has been charged, for example, that garment manufacturers cannot operate under this regulation. To determine how valid this contention was, the Office of Price Administration made an extensive analysis of the operations under maximum average price for the third quarter of 1945. We found that 9 out of every 10 manufacturers could produce at or below their maximum average prices. Only 1 out of 10 manufacturers incurred a surcharge; that is, exceeded his maximum average price.

In terms of dollars the picture is still more impressive. The amount of surcharges incurred was less than one-half of 1 percent of the total dollar volume of business transactions in the categories affected. Moreover, between 50 and 60 percent of all manufacturers under maximum average price showed credits; that is, they produced at average prices below their maximum average price.

Clearly these are not the results of an unworkable regulation. Now, we have not had an opportunity to make an extensive analysis for the fourth quarter operations but we are confident that the pattern will be the same or about the same as that of the third.

There have been a handful of trouble spots—notably in the case of men's shirts. The Office of Price Administration has, however, made adjustments in maximum average price to take care of these difficulties, and will continue to do so, as the need arises. Recently, there have been some assertions, primarily on the part of retailers, that maximum average price has curtailed production. But this charge cannot stand up against the facts. On the contrary, data collected by the Civilian Production Administration, and the Bureau of Census, show increased production of such important items as men's shirts, men's suits, undershirts, and union suits, since last summer when maximum average price became effective.

We have in addition some up-to-date figures on employment in the garment industry. Between November and December of 1945, this industry gained 2,000 workers; between December and January, 10,000; and between January and February, 25,000. A total increase of 37,000 workers, or 5 percent, in a 3-month period.

Surely employment would not be increasing if, as has been alleged, maximum average price is holding back production.

Now, one point not generally realized must be made clear. The chief bottleneck to increase production of clothing is the shortage of material. We do not think it is prices. In the last half of 1945, the amount of cotton, wool, and rayon fabric for consumers' needs, was over 25 percent less than what we had on the average in 1939, a year when 8,000,000 people were out of work.

Maximum average price or no maximum average price, we cannot make garments unless we have cloth. I am glad to say, however, that textile production in recent months has shown encouraging increases, which in turn have been reflected in greater activity in the apparel industry.

The Office of Price Administration appreciates fully the complaints of retailers, that they are not receiving enough merchandise,
and that shelves and counters are bare. The Office of Price Administration recognizes that retailer stock in terms of physical units, are at their lowest point in several years. This situation is due, in our opinion, not to maximum average price, or any other price regulation, but to the extraordinary demands for apparel items, which we are experiencing at the present time. The rapid demobilization of our armed services has created for some articles of clothing, like shirts and suits, a demand on the part of servicemen alone. Just the demobilized servicemen, a demand which is equal to a whole year's production of some prewar years.

Add to this the almost frenzied buying on the part of civilians who snap up scarce merchandise as soon as it becomes available, and it is understandable why retail counters these days are sometimes empty.

But if the question is raised, how much benefit has maximum average price been? I would say emphatically that it has been of enormous benefit in holding down what we believe would have been a truly explosive clothing situation. We have not realized our original hope of rolling prices back, but we have very definitely kept prices from rising much more than they would have done, if maximum average price had not been in effect. We have done this during a period when the total supply of fabrics available for clothing, has been at the lowest level since depression years, while the consumer demand has been at an all-time peak.

We have accomplished this despite the fact that the Office of Price Administration has been granting higher prices on cotton clothing fabrics, under the requirements of law. We think it is significant that between September and December of 1945, the first period we have had to evaluate the effects of maximum average price, the cost of clothing rose by less than 1 percent—that is the smallest September to December change since 1942.

For some items, such as rayon dresses and underwear, which had been showing considerable increases, the price rise was exactly zero. Now this small increase in the clothing index is a tribute to the effectiveness of the clothing program, for as I have said it occurred at a time when supplies were low and inflationary pressures were at a long-time high.

To give up maximum average price at the present time would have only one result in our judgment; we would have more $85 suits, more $7 shirts, more $12 sport shirts, and more $17 cotton dresses. This is not idle speculation. It is what has happened and what must take place as long as demand outstrips supply, and manufacturers are free to move up to the higher-priced lines, but by continuing a common sense, flexible administration, and by profiting, from the experience we have gained in the last several months, we can help make the clothing problem, we think, a thing of the past.

Mr. Hays. Thank you, sir.

Mr. Crawford. Mr. Chairman, may I ask Mr. Porter for a copy of that statement if he has one available?

Mr. Porter. Yes, sir. This is the only copy I have.
Mr. Hays. Do you remember when we had the extension up before, Mr. Porter, that then the argument was over the highest price line, and there was a comparable order that went with it from the War Production Board. Do you remember that now?

Mr. Porter. I was not there then. I think I know in general what you are referring to, however.

Mr. Hays. Well, do you remember what the comparable allocation orders are that are now in effect?

Mr. Porter. Well, there is M 328-B, M 325, 388, are those the ones you are referring to?

Mr. Hays. Yes.

Mr. Porter. Those are still in effect. No; 328-B is the only one in effect now.

Mr. Hays. I was just wondering what hope there is for the allocation device relieving that situation. Some merchants complain that while they could get along, some retailers could get along under the maximum average price, that the goods are not available to help them carry on under that policy.

Mr. Porter. You mean some converters or manufacturers, not retailers. Maximum average price does not apply to the retailer.

Mr. Hays. That is right, but I mean because of maximum average price.

Mr. Porter. Yes; I think that that is a justifiable criticism, and we do have now, particularly in cotton textiles, worked out what I think is a fine working relationship with the Civilian Production Administration, whereby through priorities, efforts and strengthened efforts are going to be made to permit the manufacturer to get his low-priced fabrics. That program was announced, in the cotton textile field, about 2 weeks ago.

Mr. Hays. And of course, this would be ineffective if the War Powers Act were not continued?

Mr. Porter. We would have no power of allocation, and maximum average price would lose one of the things that is necessary to make it work.

Mr. Hays. That is all.

The Chairman. Mr. Talle.

Mr. Talle. Mr. Porter, you are familiar with the statement that has been made here so often, that you will decontrol when supply catches up with demand?

Mr. Porter. Yes.

Mr. Talle. Just what do you have in mind as demand in that case?

Mr. Porter. I think, as I have said here this morning, that effective demand is a rather difficult thing to measure. We at the Office of Price Administration feel that to us, a historical base to measure demand might likewise be illusory, because no one knows particularly what the demand is. We know that there has been an accumulated demand. I think, for my own purpose, that perhaps the most effective way of measuring it is to make a judgment as to what will happen price wise, and if it appears that there is going to be no abrupt or sudden upsurge in price, I think that the forces of the market have
Mr. Talle. Mr. Porter. If you take what you mentioned a moment ago, as a historical basis, then you define demand as the quantity bought at that time?

Mr. Porter. Yes; if you take the historical base, either the quantity bought or the quantity produced, on the supply side. But if you were measuring demand, I assume you would take the quantity bought, making allowance for inventories, and carry-overs.

Mr. Talle. Those two definitions are wide apart, because something that happened in the past, the quantity bought, is one thing, but the number of units that buyers stand ready to take, at a price or series of prices now, is something entirely different.

Mr. Porter. I would agree with that.

Mr. Talle. I know there has been confusion in this discussion. Those two definitions have been bandied around. I am wondering if your economists are studying the demand side of the problem.

Mr. Porter. Very definitely. You see, we have also, from the standpoint of your other supply agencies, particularly at the present retail levels—we know pretty well what the demand is there, and when you get bottlenecks and tight spots, we hear about it pretty quickly, from the standpoint of the supply agencies.

Mr. Talle. You can see my point there: This time when you will decontrol may be a phantom altogether, unless you pay attention to demand.

Mr. Porter. I think that the record of the last few weeks—as a matter of fact, I have been under rather severe criticism from certain groups, who feel that we are taking too many risks, on this question of decontrol—but if I understand what is in your mind, that you could probably make out the same sort of case a year from now as we are making now—I do not believe that to be true, and even if it were true, it still gets back to where it is a congressional responsibility, after getting all the information that the agencies of Government can bring forward, to make that determination, and it is my hope—and I lay great emphasis on the psychological aspects of this thing—that we will have full-scale production on a much-expanded basis and it will be safe to say “All right, we are gradually getting out.”

Mr. Talle. In a free market, demand and supply come into balance at a price. Now, of course, the Office of Price Administration, under present conditions, fixes that price, and demand and supply will behave in whatever way they can on the basis of the price you fix?

Mr. Porter. Yes, as I said a moment ago, or as I said in my opening statement, I think that it is a question of alternatives, and in the absence of some mechanism like the Office of Price Administration, which you could describe, and I would agree, as an artificial kind of mechanism, you would have, perhaps, supply and demand in balance, but the price you would pay for that, I think, would be very dear indeed.

Mr. Talle. To expand your supply, you propose to use subsidies. Is that right?
Mr. Porter. Subsidies and price increases. Subsidies in certain fields with which you are familiar.

Mr. Talle. And you would pay the subsidies to the producers who are less efficient—not necessarily because they are not able men, but less efficient under the conditions, the high-cost producers?

Mr. Porter. I do not believe, with the exception of the stripper wells up to date—copper, lead, and zinc, and the proposed housing subsidy, that the rest of them are paid across the board irrespective of the cost to the individual producer. Meat, dairy, and flour are paid to everybody alike.

Mr. Talle. Do you contemplate bringing new producers into the picture, new producers who might be even more high cost than some we have now?

Mr. Porter. I certainly think that in the building-material field, that is the purpose, and it is the objective. Certainly a number of prices that we have fixed in lumber, for example, have that purpose in mind.

Mr. Talle. Would you take time to explain what you have in mind on page 2 of your statement? The second paragraph there, it is near the end of the paragraph. You refer there to “present subsidies.” Will you expand on that a little bit?

Mr. Porter. Yes. I think I dealt with that at greater length when I talked about subsidies, but I would put it this way: That the existing food subsidies, if they are taken off immediately, would result in an 8-percent rise in the food index, which is equivalent to about 4 percent in the cost-of-living index. It is the view of stabilization authorities that subsidies and price control are synonymous. Without subsidies we have all the dangers of inflation that we have been talking about so much, and it is our policy to ask Congress for the existing subsidies and no more, in order to maintain food prices at or near existing levels.

Mr. Talle. You do not contemplate any new ones?

Mr. Porter. I think that the only one that Congress has before it which is not in the Office of Price Administration field is the premium plan on building materials.

Mr. Talle. And you do not contemplate any new consumer subsidies?

Mr. Porter. No, sir.

Mr. Talle. Have you considered this, that you set up an inflationary spiral when you borrow money, and you pay subsidies, and that these bonds and so on get into the banks, and manufacture credit, and you get a spiral rise, and they go even higher than an increase in price would bring?

Mr. Porter. I think I got into that with Dr. Smith here a little bit, as to whether you can have an inflation in money and at the same time avoid inflation in prices. We think it can be done.

Mr. Talle. Well, I must disagree with you. But we will let it pass.

Mr. Porter. As long as it is not spent, it does not press against the price level.
Mr. Talle. Do you believe you can guard against the influence of vested interests, when you pay subsidies to certain producers, and they become accustomed to getting those, will they not say, "The Government asked us to do this, they paid us to do it, now for goodness sakes do not take away our staff of life."

Mr. Porter. Well, those who are now receiving subsidies, of those, I have not noticed any great enthusiasm on their part for their continuance.

Mr. Talle. I would like to ask you why?

Mr. Porter. They would rather get into the price level, of course.

Mr. Talle. They would rather have their income in the market?

Mr. Porter. That is right.

Mr. Talle. I think probably the Office of Price Administration is teaching people something. In the past people have been guided by price in buying merchandise. But when I consider the awfully bad quality we get at a high price now, perhaps people will learn a little about purchasing. How much inflation do you think is hidden or not clearly apparent to the eye in bad quality merchandise?

Mr. Porter. Of course, I do not want to raise an old issue that has been decided by Congress again and again, but I think that if we had had, at the outset of price control, standardization and grade labeling, that this quality deterioration would have been held certainly to the minimum, and it would have been much less than it is now. But Congress determined that——

Mr. Talle. Do you not think that maximum average price brought it about, in good part?

Mr. Porter. Possibly it was a contributing factor; yes. To what extent, I do not think anybody knows.

Mr. Talle. That is what the manufacturers tell me. Lastly, I want to know how, when, and where I can get a white shirt.

Mr. Porter. So do I. I am hoping that this textile program we have, in which there are incentive payments for shirting, sheeting, and so on, that will bring that on the market quickly. I would like Mr. Levittes to give you some statistics on that.

Mr. Levittes. The fact of the matter is that shirt production is constantly increasing. We are currently producing about twice as many shirts as we produced a year ago.

Mr. Talle. Are these mostly sport shirts?

Mr. Levittes. No; we are talking about shirts, dress shirts, not sport shirts. For example, last May, the total production per month on shirts was 256,000 dozen. We are currently producing 455,000 dozen. That is nowhere near the quantity that was produced in 1939. The monthly production rate in 1939 approximated 600,000 dozen. As Mr. Porter just stated, we are hopeful that with this incentive pricing on shirting fabrics which we issued 2 weeks ago, we are going to get more fabrics from which to make shirts. That was really the cause for the lack of production of shirts in quantity.

Mr. Talle. Are some of them going into the black market?

Mr. Levittes. Well, I think this black-market picture is being overplayed. There is no doubt in anyone's mind that a certain quantity
of goods, in times of receiver shortages, does find its way into the black
market, but against the total production, I have always wanted to
believe, and I still believe and will continue to believe, that the major
portion of American industry, and American citizenship, is honest and
decent, and do not participate in black-market operations. So, when
you measure the black-market total transactions against the over-all
value of a given product, I think it is a very minute quantity.

Mr. Talle. Would you say that about meat and lumber?

Mr. Levittes. Unfortunately, I am not qualified to speak about
meat or lumber. It does not come under my direction.

Mr. Porter. I think he was talking about apparel principally.

Mr. Levittes. That is right.

Mr. Talle. That is all, Mr. Chairman.

The CHAIRMAN. Mrs. Woodhouse.

Mrs. Woodhouse. If you were to take ceilings off all commodities
where shortages persist, that would affect the cost of living, would
it not?

Mr. Porter. Of course it would depend, Mrs. Woodhouse, upon
what interpretation you gave acute shortage in my statement. I
said that under what I think would be a reasonable administrative
interpretation, that we would be required to take ceilings off of prac-
tically all food items immediately.

Mrs. Woodhouse. And that, of course, would have an influence on
the cost of living, accordingly?

Mr. Porter. Undoubtedly.

Mrs. Woodhouse. And that in turn would increase the pressures,
and would it not also have effect on the cost of living?

Mr. Porter. No question about our foreign commitments. It is
going to be difficult enough to carry out our commitments of 225,000,-
000 bushels of wheat in the next 6 months because of the intense
demand for wheat and cereals here.

Mrs. Woodhouse. I saw a newspaper article stating it was difficult
to get wheat because of the hope the price would be increased. So,
it seems to me if ceilings were removed the difficulty would be very
much increased?

Mr. Porter. Yes.

Mrs. Woodhouse. I was interested in your discussion this morning
of reconversion. Apparently every commodity that is sold in the
department store comes under price ceilings, does it not, or a very
large proportion?

Mr. Porter. Yes.

Mrs. Woodhouse. So, is that not rather prima facie evidence that
if they are selling more and more they must be getting those goods
somewhere?

Mr. Porter. I think it is the complete answer.

Mrs. Woodhouse. In that connection, I wonder if you would care
to comment on the statements that have been coming to many of us
from the National Retail Dry Goods Association? They seem to
indicate that they are having a very difficult time. Yet, I notice
that quite a number of New York department stores were putting
in anti-inflation displays this last week.
Mr. Porter. That is right, and some of the Washington stores have likewise been participating in the anti-inflation campaign. Specifically on this National Dry Goods Association exhibit, and their testimony here, Mr. Ailes of our office has gone into certain specific items, and if it is agreeable I would like him to comment on the results of his analysis.

Mrs. Woodhouse. I would be very glad to hear from Mr. Ailes.

Mr. Ailes. We have not been able to find out much, Mrs. Woodhouse, about the recent one. You probably saw a copy of the booklet about the earlier one in which I think there were 18 cases we examined; in 17 of them the fact did not bear out the contentions there made.

We have been primarily interested in finding whether the pricings for old sellers are keeping them out of production, and in those cases, as those who saw the booklet will remember, the old sellers were either in production or out for some other reason.

Now, on the new one, we did check on some of the items, and as near as I could find out from a cursory examination of it, the statement just cannot be supported that our price regulations are responsible for holding any of those people up.

For instance, I remember that General Electric heater, about which there was a great deal of discussion, which was compared with a heater made by the Jamaica Electric Co. at a much higher price.

We found that the General Electric Co. had made some 105,000 of those heaters at a price which was 8 percent lower than the price which was shown in the exhibit, before they went on strike. There is a price application in now, in which they want that price raised. It is an application made under an adjustment provision which has been on the books for a long, long time, so it is not any recent change in our rules that has made that possible.

Mr. Levittes reminds me that that is something like three times their total heater production prewar. The other bowl-type one, they made some 90,000 of that also.

On the irons, right down the list, each manufacturer was either in production, or, I think it is safe to say, they were all in production to the extent that materials were available. One of them was not producing the particular iron in the exhibit, but was producing another one, and if he got the adjustment he got on the first one, it would be the same price as the other, and it was better.

As far as the new sellers were concerned, peculiarly enough, everyone of them had been given prices which were below their reported costs on those items. So I do not think it is correct to say, as was suggested this morning, that we have been honoring bulge-cost producers and not older ones. A pretty fair case could be made in most instances that there were comparable items for small manufacturers of the type these people were, with prices of the old manufacturers.

The apparel items we cannot check because they are not identified. Manufacturer A and manufacturer B as was the case in the first exhibit. However, you can tell pretty well, on a lot of those, that the new sellers are either in violation—for the most part—new sellers in many of these fields cannot get the highest-price-line limitations which are higher than the exemption levels. For instance, there is the case
of a $72-a-dozen slip, I think it is, and the exemption level is somewhere around $18 or $20--$13.50 a dozen. Exemption level means that that is the highest-price-line limitation that anybody has, and in the case of a new seller with no previous experience at all, that is where he comes in. So that to the extent that we are able to look into that, it is our belief that the new exhibit offers little more than the old one did, that National Dry Goods Association has insisted from the beginning that Congress should take that information on faith, but when we get in and examine the cases, the statements made with respect to production, by old sellers, they are just not borne out.

Mrs. Woodhouse. There is really no evidence of holding up production?

Mr. Porter. Not that we find; no.

Mrs. Woodhouse. I do not know that it would help you, but I noticed the other day a statement to the effect that one of the things that made it difficult to get men's suits was that such a large yardage of men's suitings was going to the making of women's suitings this spring, and if you follow the ads, I think you will see that there is something in that. That probably goes back to the fact that—

Mr. Porter. I think that is his case.

Mrs. Woodhouse. Thank you.

The Chairman. Mr. Kilburn.

Mr. Kilburn. Mr. Porter, we had a witness here who testified of a directive to the Office of Price Administration that the prime purpose was to file a great many lawsuits, that the Office of Price Administration should postpone all conferences which should be violated, and so forth, not necessary, not recommended, and so forth, newspapers should be advised daily of the names of defendants and nature of the violation.

Is that an Office of Price Administration directive?

Mr. Porter. Mr. Field can probably answer that.

Mr. Field. I think, Mr. Kilburn, that that is what was referred to here by Congressman Dirksen, and on the floor of the Senate by Senator Lucas.

Mr. Kilburn. I was not clear whether it was an official directive. Is it still in force?

Mr. Field. It is not. What it was, was this: It was a document emanating from the Chicago regional office some months ago, for a particular drive.

Mr. Kilburn. I do not want to belabor it. I just want to know if it is an official directive.

Mr. Porter. It has been repudiated.

Mr. Kilburn. All right. Now, one thing that is not clear to me, Mr. Porter, is how you are ever going to decontrol. If I understand your theory correctly, your theory is that when production is enough that the price will gradually come away from the ceiling price, that then you will decontrol; is that right?

Mr. Porter. Not necessarily. If the standards under which we operate—say, specifically, that if they will not rise above, and by that we mean a substantial rise—naturally any inconsequential fluctuation would not be the cause for maintaining control where it appeared
that there was no necessity for it—and section 1 of the directive of the Office of Economic Stabilization, under which we operate, says:

The Price Administrator is authorized to suspend control whenever, in his judgment, such action will not result in an increase in prices above the general level of existing prices for the commodity or product.

Then, if after such suspension, within a reasonable time, prices have remained stable, it becomes exempt. And, of course, there is the second part of the directive which goes into items that are inconsequential in the cost of living or where the amount of work involved in controlling, or establishing, a price outweighs the results we get from the offer. We will not go into that, of course.

Mr. Kilburn. Even if you have plentiful supply, and your price was on the proper level, and you decontrolled, it would at first go up?

Mr. Porter. That is correct. But again, we measure the standards by the profitability, and I think if it went up sufficiently to where there was great rewards to the producer, then the old American system of competition would soon come in and tend to bring it down.

Mr. Kilburn. For instance, I asked one of these lumber dealers when they were before us what he thought would happen to the price of lumber if the Office of Price Administration were discontinued.

Mr. Porter. He said "I think it will go down 25 percent and then gradually fall back to 15 percent of the present level." That is his opinion, of course.

Mr. Kilburn. Another question I wanted to ask you was this: The petroleum people testified that we have more petroleum on hand than ever before in the history of the country. Why cannot that be decontrolled? I am not interested, understand. I have not enough to do with it.

Mr. Porter. Well, while it is true that crude oil is in plentiful supply—and, of course, there are regulations of the State commissions on the allowable production which is permitted to flow into the pipe lines—yet it is the situation that certain of the middle distillates, and the bunker oil, are in short supply. And likewise kerosene. Now, in order to protect the users and the consumers, we have to maintain some control of crude. It is my personal opinion that it will be decontrolled some time within the next few months, when this balance is restored where we will not have to worry about the anomalies and disparities in the product situation.

Mr. Kilburn. My point is that I do not think the wisest man in the world is going to take 8,000,000 items, with all the interlocking effects, and get them all in perfect balance. If you wait for that, to decontrol——

Mr. Porter. We are not going to try to do that. It is the general level.

Mr. Kilburn. Even the law of supply and demand is complicated.

Mr. Porter. That is right.

Mr. Kilburn. I think Mr. Baruch, for instance, said that he looked, 6 months from now, for quite a few controls to be taken off. I hope that is true, but here we have petroleum, with the biggest supply we have ever had—that has not been decontrolled.

Mr. Porter. Well, nobody uses crude oil. No consumer.

Mr. Kilburn. I know, but I think you have a large supply.
Mr. Porter. That is right. If it was in relationship, as far as the product was concerned, it would be eligible for decontrol immediately, I think.

Mr. Baker. The very fact that we have a large supply of gasoline at the moment, in itself makes a short supply of other items since there is no storage capacity and the refineries cannot produce these combination or joint items. By 2 or 3 months that balance should become better, particularly as the Navy requirements for bunker oil become less. They are very high at this time.

Mr. Kilburn. I am not specially interested in petroleum, except that we always say when supply reaches demand we are going to decontrol. There is an item that is in supply and yet has not been decontrolled. I do not think anybody could make the nicest adjustments between every product before they are decontrolled. Is it your opinion, Mr. Porter, that there will be many items decontrolled in the course of the 6 to 9 months?

Mr. Porter. As I have indicated this morning, the criticism that we are getting from consuming groups, and others, is that maybe we are moving too fast. We decontrolled musical instruments. You probably heard of the Baptist church in South Dakota that had a pipe organ, and the price went up $600 when price control went off. But we have a schedule of decontrol that I think is going to move as fast as it is safe to do it.

Mr. Tallie. Did they buy it at the new price?

Mr. Porter. Yes; but I assume they were under a contract, were they not? It was brought to my attention yesterday that there was some complaint about it. I do not know all of the facts.

Mr. Monroney. That was testified to before the committee by the American Association of University Women.

Mr. Porter. Yes.

Mr. Tallie. It is not clear to me whether the seller asked more or whether he asked more and the buyer bought it and paid for it.

Mr. Porter. No. As I understand it, there was a contract at a fixed price, under the ceiling on musical instruments, which I assume was under the general freeze. Then, I assume that the contract had, as many do, escalator provisions in it. The American Association of Purchasing Agents have told me that recently more and more of their purchase contracts contain escalator clauses. As price control goes off, the item will go up by a predetermined amount. Whether that was the nature of this contract or not, I do not know. I do not want to belabor the South Dakota pipe organ—

Mr. Tallie. I am not yet sure whether delivery was made and the organ was paid for.

Mr. Porter. I assume that it was, if it was under a contract.

Mr. Kilburn. Do you think if this act is extended another year that it will have to be extended after that?

Mr. Porter. I would not like to be misunderstood as saying that I know what is going to happen a year from now. I would rather say—I think Mr. Bowles made the observation that, with the exception of rent control and building materials, that he definitely felt that the Office of Price Administration would be out of business after this next extension. I hope that is true. I say that it is a congressional determination, after considering all of the facts and circumstances. I hope it is possible.
Mr. Kilburn. Well, your policy is to decontrol as you go along?
Mr. Porter. Precisely.
Mr. Kilburn. So that the impact, if it is discontinued a year from this June, will not be as great?
Mr. Porter. That is precisely it, and we will have—and I think this is relevant to this discussion—in our presentation, assuming that the Office of Price Administration's life is extended, to the Appropriations Committee, we take very definitely into account the fact that we are going down on a graduated scale until June 30, 1947.
Mr. Kilburn. Thank you very much.
The Chairman. Mr. Riley.
Mr. Riley. Mr. Porter, I remember that some years ago I worked for you. I quit my business and went into the rent-control business. I must say that that relationship was very pleasant, except with the people whose rent I attempted to control.
Mr. Porter, there are some things that I am a little hazy about. I am sure that we want to arrive at the truth, all of us, as nearly as we can, from the information at hand. Will you tell me, if you please, sir, where you get most of your information? Do you get it from other departments of Government, like the Department of Commerce, Department of Agriculture, or do you make your own investigations? Just how do you get the information which you have?
Mr. Porter. From a wide variety of sources. Naturally, the price branches get a lot of original information, information that is filed by industries, information that we go out and get on our own initiative. I think you know that in the field of rents, rent surveys are made under a cooperative arrangement with the Bureau of Labor Statistics. At least, they were. I assume that still continues.
Our Research Division gets reports from other Government agencies, and we just get all the information we can from every source that is reliable and some that are not reliable.
Mr. Riley. It is possible, then, that some of it is a sort of hypothesis; is that right?
Mr. Porter. Well, I think, Mr. Riley, that there are generally recognized authentic sources of economic information, and techniques which have been in operation for years and years, which people accept. If you have some specific situation that I can tie it down to, perhaps I would understand more clearly what is in your mind.
Mr. Riley. Well, a gentleman just testified awhile ago in the matter of shirts. He said more shirts are being made than there were a year or two ago—which I have no doubt is correct. But the question in my mind is as to whether the same quality shirts are being made by the old-line manufacturers. Certainly, I have not been able to find any, and the prices on those that I do find are considerably more than I have been accustomed to paying. I am just wondering where this information came from.
Mr. Porter. I will ask Mr. Levittes here to give you the source of his information on the shirts.
Mr. Levittes. The production figures are taken from the Civilian Production Administration, which is constantly getting reports from manufacturers, both old and new, as to the quantity in which they produce. The point that you are making, if I understand it correctly, is whether the old-line manufacturers are increasing their production in the same ratio as the figures indicate.
Mr. Riley. That is right.
Mr. Levittes. I might say specifically that Manhattan Shirt Co., which is a standard in this country, their production rose from 7,000 dozen in the month of May to 24,000 dozen in November, and 28,000 dozen in December.
Mr. Riley. How does that compare with their prewar production?
Mr. Levittes. It is still slightly below prewar production, but it is constantly going up, and, as I stated before, the only reason that we are not up to peak production in shirts—they have the manpower, they have the productive capacity, but the only limitation is quantity of textile that is available to them.
Mr. Riley. Are those shirts coming on the market pretty well?
Mr. Levittes. Yes; they are currently going on the market. We had some slight difficulty, as Mr. Porter pointed out, with maximum average price as it applied to shirts, and we cured that situation about 2 weeks ago, and, to our knowledge, there is not a single manufacturer who is holding shirts.
Mr. Riley. I am glad to know that.
Now, you brought out the matter of maximum average price. Are you still adhering, Mr. Porter, pretty closely to the maximum average price, namely, that you have to produce the same proportion of low-priced goods as you did in the prewar period?
Mr. Porter. 1943 is the base period, plus certain adjustments, which I do not fully understand.
Mr. Levittes. I will be glad to answer that.
Mr. Riley. All right.
Mr. Levittes. I would like to say to the committee that I am not a bureaucrat. I happen to be a dress manufacturer, myself, and subject to maximum average price the same as the other 12,000 manufacturers that we mentioned. I came down to the Office of Price Administration a year and a half ago, primarily on this clothing program. I inherited a great many other problems, far afield from clothing itself.
Now, my own business is still operating under maximum average price, and I think the greatest misfortune is that few people who speak a great deal about and complain about maximum average price really understand what the order intends to do, how it operates, what its results are. The fact of the matter is that manufacturing industries affected by the order, by and large, do not very loudly complain about the difficulties under maximum average price. The complaints are all coming from retail sources, and I know that Congressmen are flooded with telegrams and letters from all over the country, for one reason or another, complaining that their difficulty in obtaining goods is primarily due to maximum average price. Nothing of the sort is true. There is no basis in fact for that. No one is holding up any goods. There is not a yard of goods lying idly by that is not produced into a garment.
Demand is exceptionally high. Production is fair—solely limited by the amount of textile goods available to these producing industries.
Now, maximum average price started out requiring production on an average limited to a 1943 base period. We found pretty soon that we could not live under so strict a requirement, and we started modifications.
We moved up exemption levels, and we said that—

Anybody whose average price in the base period was below this exemption level may now move up as though this exemption level were his own average price in the base period.

Mr. Riley. You mean you gave him an increase—

Mr. Levittes. We gave him an increased average price against his own experience. Now, to the people who produced merchandise priced above this minimum average price, they received tolerances ranging anywhere from 5 percent to 30 percent, depending on the industry. Those tolerances were determined on the basis of the ability of raw material, from which these industries were required to meet their maximum average prices.

Mr. Riley. Just what do you mean by “tolerance”?

Mr. Levittes. Let me try to give you an example. Let us take a shirt manufacturer who produced on an average shirts at $20 a dozen, in the base period. We said that—

for purposes of this order, you will be in compliance if you manufacture shirts at an average price of $22 currently.

That is 10-percent tolerance on his own base period $20 experience.

Mr. Riley. That is the same thing as lifting the maximum average price, almost, is it not? We have had some testimony here that they have been able to get medium-priced goods or high-priced goods, but they have not been able to ship them because they could not get low-priced goods; consequently, those goods are withheld and they are not available to the public.

Mr. Levittes. Is that a general complaint in all industries, or what industry are you referring to?

Mr. Riley. I think it has been pretty general.

Mr. Levittes. Well, I do not believe it is pretty general.

Mr. Riley. It is certainly true in women’s dresses and men’s socks——

Mr. Levittes. No; it is not quite true in women’s dresses.

Mr. Riley. All I have got to go by is the testimony we have received here.

Mr. Levittes. If I remember correctly—at least, I was told; I did not read the transcript of hearings—Mrs. Reed appeared here and gave a rather lucid and extensive explanation of her operations under maximum average price. Now, Mrs. Reed I have known intimately for quite a few years. She is a very capable businesswoman. She runs a large operation. She happens to be a member of the very same national organization of which I happen to be a director.

I do not question her integrity, but she certainly did not know the facts and presented a lot of information to the committee that is misleading. I am positive it was not intended to be used as such.

For example, she said that new manufacturers have an edge under maximum average price in that they can come in and get a higher price than the old established people. Well, nothing of the sort is true. New people who come in to operate under maximum average price cannot get price lines as good as Mrs. Reed has, or had historically. Mrs. Reed has, in discussions with me, at the office, told me that she has and is experiencing difficulty in this last quarter in ob-
taining low-priced merchandise. She may be in difficulty to balance out, on an average, on the merchandise.

Mr. Porter told you a moment ago that insofar as cotton merchandise is concerned—and that is her problem—we are trying to work more closely with the Civilian Production Administration, in trying to get them to channel, to people in that predicament, more of the lower-priced goods in order that they may be able to average out.

Mr. Riley. Has any thought been given to the higher incomes that people have, and that there is a higher demand for better goods than there was a few years ago?

Mr. Levittes. Definitely. The mere fact that we have taken—

Mr. Riley. How do you adjust that in your maximum average price?

Mr. Levittes. I will be glad to explain that.

Mr. Riley. All right.

Mr. Levittes. The mere fact that you have a 1943 base period instead of some prewar base period, plus the adjustment in the form of exemption levels and tolerances in itself reflects, on an average, a higher price structure than existed prewar, by a long, long shot.

For example, in women’s rayon dresses: 81 percent of the production in the industry in 1942 was at and below $4.75 wholesale. Today—or not today—but in the first quarter of 1945, the $4.75 price line accounted for only 35 percent of the total production. So that there is an adjustment within the structure of maximum average price to reflect an increase in demand for slightly higher priced goods or considerably higher priced goods.

Mr. Riley. I have one more question on that point. Where the raw material, whatever it might be, rayon, cotton, or whatever it is, costs more to produce on account of the increased overhead costs, and so forth, what adjustment is made to the manufacturer on that?

Mr. Levittes. There again your exemption level technique, and your percentage tolerance allowance more than covers—

Mr. Riley. I know, but your tolerance would not help you any, if your raw material cost you more.

Mr. Levittes. Well, the only raw material increased costs of any consequence were in the cotton-textile structure because of the requirements of law. As a matter of fact, in your rayon and wool field, there have been no increases in the cost of material.

Mr. Riley. I still would like to know, if you can tell me—and I am sincere in trying to get at the bottom of this—would that not have a tendency, unless the adjustment were made for those raw materials, to cause this lack of cotton material?

Mr. Levittes. Let me try to give you an actual illustration of how we administer it to reflect increased costs of material.

For example, when maximum average price was first issued, in women’s cotton dresses, we set an exemption level of $15.75 per dozen, which is considerably high, by the way—it is measured against prewar production and selling prices.

Then, there is a continued disappearance of low-end cotton goods, and the Civilian Production Administration told us that the only goods available to house-dress manufacturers would be a rayon-mixed cloth, rayon mixed with cotton cloth, at a considerably higher price. We changed the exemption level from $15.75 a dozen to $22.50 a dozen. That is the exemption level today, under the maximum aver-
age price order. So that it is a living instrument. It is not something that is frozen. We treat with it every day, watch the conditions, and make the necessary adjustments and changes as we go along.

Mr. Porter. And this particular change was to reflect the increased material costs. I think that was your question, Mr. Riley.

Mr. Riley. Yes. What information do you have on the testimony that was given here that some manufacturers were buying mills in order to get a source of supply of raw materials?

Mr. Levittes. We have gone into that subject extensively before the Senate Small Business Committee. It is a development which is taking place currently. It is an integration development which starts at the gray-goods mill going into the converting business, the converter going into the garment business, the garment manufacturer going all the way back and buying a mill, converting his own goods and producing the end item. That is something outside of price control. And the agency certainly has no power to limit that type of operation. It is something that I believe Congress, however, or at least some committees in Congress, are conscious of.

I was before the House Judiciary Committee several weeks ago, and that question arose. That has nothing to do with the Office of Price Administration. There is nothing we can do to stop it. We are certainly not encouraging it. It is creating havoc in the normal channels of distribution.

Mr. Riley. We have information which has been brought to the attention of the committee, that your pricing policy is, to some extent, responsible for that.

Mr. Levittes. Well, I certainly cannot see how or why our pricing policy should be responsible for it.

Mr. Porter. It is just a desire to get additional materials.

Mr. Levittes. It is a desire to get additional mark-up or additional sources of supply when old sources of supply dry up.

Mr. Riley. I agree to that part of it. I can see that. But if the manufacturer does not feel he can make a profit by marketing the goods through the proper sources, then, the man who makes the finished garment comes in and buys the mill and takes it all the way, and he has a very good profit out of the whole operation.

Mr. Levittes. Well, the fact of the matter is that you are assuming that industry, at one level or another, from the gray goods to the finished garment, is operating under a loss position, or under a hardship. Well, that is certainly not the case.

Mr. Riley. There must be, somewhere in there.

Mr. Porter. I think probably, Mr. Riley, this would respond to your question on this aspect of the profit. These are the figures that I have been told are for the record. In 1939 cotton-textile mills earned $35,000,000. That was their net operating income. In 1944 it was $250,000,000.

Mr. Riley. That was all goods. Principally war goods, I believe you will find.

Mr. Porter. Yes; but even now we have given them incentive increases on the 17 primary constructions, which will even add to their prewar profits. I do not know what the figures will turn out to be, but it would be my guess that the operating year 1946 will be one of the banner years for the cotton-textile mill business.
Mr. Riley. I certainly hope so. The impression is that during the war, when they were making goods for war production—

Mr. Porter. They had no selling cost.

Mr. Riley. That is right.

Mr. Porter. I do not think they have much selling cost now. They probably have a waiting line of customers.

Mr. Riley. But when you go back to your peacetime production, you want to go back to your regular trade policies, because this thing is not going to last all along. Consequently, they have to have sufficient return to enable them to go ahead in the way they had been accustomed to doing. When that way is destroyed, or alleged to have been destroyed, whichever you choose to say, then they have to shift to other methods of doing business in order to make up that loss situation.

Mr. Porter. It would be my guess that very few cotton-textile mills today are operating in a loss position. I think maybe some of them are in a relative position, and can make more on certain types of construction, the high-cost materials, than they can on the low-end materials, where the margins have historically been lower, but as a part of our textile program to get the shirts and work cloths on the market, we gave, for these constructions, total cost, plus a profit margin, plus 5 percent. It was extremely generous. It adds $250,000,000 to the textile mills’ operating income. So I would say that if they were in the high-end and high-cost business, they would make more. I would be surprised, indeed, to find, except in extreme cases, that the cotton-textile mills are not in a very fine position today.

Mr. Riley. When did that order go into effect?

Mr. Porter. About 2 weeks ago. March 11 was the effective date.

Mr. Riley. Very recently.

Mr. Porter. Yes.

Mr. Riley. Thank you very much.

The Chairman. Mr. Buffett.

Mr. Buffett. Mr. Porter, you are in charge of the most gigantic attempt at economic regimentation in the history of the world. Are you an economist by profession?

Mr. Porter. No, sir.

Mr. Buffett. What is the scope of your training and practical experience in production and marketing and distribution in the American enterprise system?

Mr. Porter. I have been in government, which is not a production marketing or distribution enterprise. I have practiced law. I have operated small newspapers. I have had no experience—I have met pay rolls, and I have failed to meet them.

Mr. Buffett. In an economy where prices are fixed, wages are fixed, many materials are allocated, and profits are fixed, how many vital elements of a free-enterprise system remain in operation?

Mr. Porter. Well, I should say that Congress is one of the most important aspects of the free-enterprise system that is left. Representative government is left. There are many choices that individuals in business can make, and do make, and I still emphasize that, except for a few extreme cases, I do not believe that price control has interfered with what I choose to call the essential civil liberties of the individual.
Mr. Buffett. You think that if I have a business where a Government agency fixes the price I can sell at, where I can buy, what profit I can make, what I pay my workers, I still have a free enterprise?

Mr. Porter. We do not fix the profits, we just put the floor under them and guarantee that you get the profit. You can make all the profits you can, based on the materials available to you, and the selling job which you do.

Mr. Buffett. Well, when you fix those prices, according to this edict that came out a while back, or whatever you call it, directive, where you take the 1936-39 average, you have fixed a profit figure that it is pretty hard for them to get away from, have you not?

Mr. Porter. No; I do not think so. I think it depends on a lot of variables in the formula. You will have increased volume; you will have the opportunity to decrease costs; you will have the opportunity to become more efficient. There are a whole lot of things that can be done under the profit incentive which is still operating very, very strongly in this economy today, which does not put an absolute ceiling on your profits.

Mr. Buffett. I think it was testified here by one of the cotton manufacturers that they were allocated so much profit, and no matter how much yardage they turned out. If they turned out twice as much yardage, their profit came down to half of what it was before.

Mr. Porter. I know of no such regulation that I am familiar with, and my associates say that there is no such animal.

Mr. Buffett. Should the Office of Price Administration attempt to force an average producer to manufacture and sell any product at a price that will not return him a fair profit?

Mr. Porter. Any product?

Mr. Buffett. Yes, sir.

Mr. Porter. Whether he is a single-line or a multiple-line producer?

Mr. Buffett. That is right, any line. Do they attempt to force any man to produce anything on which he cannot make a fair and reasonable profit?

Mr. Porter. Well, I think that when you have any system of price regulation, and you take the market as you find it, you will have certain items that are produced below total cost. That has been historically true in our economy. Many manufacturers manufacture loss leaders, and many distributors distribute certain items at a loss, and, as I understand the situation, the Office of Price Administration has taken that situation as it found it, but, if it is a single-line manufacturer, and he relies upon that for his increment, on one item, then the Office of Price Administration, or any regulation, does not require him to manufacture at a loss.

Mr. Buffett. I get from your answer that you think that there are cases where the Office of Price Administration has forced a producer to sell something at a loss?

Mr. Porter. Some single item, yes.

Mr. Buffett. When you do that, do you not arbitrarily destroy the incentive to make or merchandise that product legally?

Mr. Porter. Well, the manufacturer has the choice of the selection of his production pattern. We do not require him to manufacture anything. We just fix the price, and say, “You may manufacture it,” if he chooses to go into other lines and that becomes a supply problem,
it is the responsibility of another agency, and if it is important enough, that agency, Civilian Production Administration, may require him to produce, but there the Civilian Production Administration has taken pretty much the attitude that they would not invoke production orders on any item that was below total cost. I believe I am correct on that.

Mr. Buffett. You must have the hope of something more than total cost, do you not, to make a person produce in a free enterprise system?

Mr. Porter. I know of no production order that requires any item or any category, at or below total cost. There may be some, but I am not familiar with it. I doubt if there are any. The example I gave a moment ago—many of these broad cotton categories were historically produced at or near factory costs.

Mr. Buffett. Let me see if I have it straight. Did you not say that there are no items that you know of in the Office of Price Administration pricing schedules where a manufacturer is asked to sell something at less than his cost?

Mr. Porter. Where there is a production order from Civilian Production Administration requiring him to do it. I know of no such instance.

Mr. Buffett. If he produces something which is a by-product or something else, and you issue a price below his cost—

Mr. Porter. Where it is a joint product that historically has been sold below cost, we take that as we find it and say that is your price.

Mr. Buffett. Then you remove every incentive for him to sell that product legally.

Mr. Porter. Except the desire to stay in business and utilize that profit and make a profit as he has always done from another item.

Mr. Buffett. As he has always done. Those items have shifted around. That is where free enterprise comes in, I think.

Mr. Baker. We would cover his total cost on the joint profit, the whole thing taken together. The industry's average total cost on the joint product.

Mr. Buffett. That does not work out very satisfactorily in some cases if the information coming to me is correct. I had a letter yesterday from the Johns-Manville Co. They are the largest manufacturers of building materials in the world, if I understand correctly, and they have had to stop production on asbestos-cement roofing shingles, de luxe flex board, asbestos board, insulated board sheathing, and various asphalt roofing, and floor tile items. Now, if you are out to build houses, how do you explain that situation?

Mr. Porter. If Wilson Wyatt's organization and the Civilian Production Administration tell us that this historic price pattern that we have taken as we found it and are enforcing, for supply reasons, is causing a loss of needed building materials, we remove swiftly the regulation.

Mr. Buffett. Somebody has not moved very swiftly in this instance, because they have been losing money in those situations for many months, and it is inconceivable—

Mr. Porter. Well, they have been probably losing for many years now.

Mr. Buffett. It is inconceivable to me that they have not called that to the attention of the proper agency in Washington.

Mr. Porter. So far as I know——
Mr. Baker. In order to get some standard for the amount of price increase needed for these supply items, the Civilian Production Administration, and Office of War Mobilization and Reconversion, and the Office of Economic Stabilization, and the Office of Price Administration have a bottleneck committee. That committee makes the determination, as to whether there is a supply needing price action, and how much. That bottleneck committee, then, makes the recommendation. We have not always given the full amount of the bottleneck committee recommended price, but we have always given some price increase. In any case where the Director of Economic Stabilization felt that he still should get it against our will, he would direct us to do so. So that there is no case where, in my opinion, an appropriate price increase for supply purposes for the building material or any other program cannot be either voluntarily given by the Office of Price Administration or given by them under compulsion from the Office of Economic Stabilization.

Mr. Buffet. I am not too sure that I can follow the explanation too well except that I do know that they are not producing these products. They are the largest people in that business in the world, and certainly their production is a very important item.

Mr. Baker. Are these roofing questions?

Mr. Buffet. I read the list. Roofing, insulating board sheet, flex board, and some roofing items; yes, sir.

Mr. Baker. Mr. Gordon Wright, head of our building materials and construction division, has some information on those particular products.

Mr. Wright. This refers to the asbestos siding industry particularly, and was brought to our attention about 4 weeks ago by a representative of that group, Mr. Pitman. Mr. Pitman has presented a report made by accountants, which is about 6 months old, and is a report not made in accordance with the information which the Office of Price Administration is required to operate on. We have asked Mr. Pitman to give us this information for the year 1945, at which time we will take very prompt and quick action to settle that case.

Mr. Buffet. Of course, as a practical matter, if it presented you with 6-month-old information and it showed that prices should be higher, there is every reason in the world to believe that those figures would be at least that much today if not higher.

Mr. Porter. Higher volume might modify it some.

Mr. Buffet. Some, but certainly there are other factors that have entered into it in the meantime that would have brought about higher costs.

Mr. Porter. That is what we want to find out.

Mr. Buffet. In the meantime when are we going to get the building materials?

Mr. Porter. We cannot act without the information.

Mr. Buffet. You have power over about 8,000,000 prices. What percent of this total have had upward changes in their total cost elements, would you guess?

Mr. Porter. I do not know of any way in the world that that question could be answered, and I sometimes wonder where the figure 8,000,000 came from.
Mr. Buffett. It is used pretty generally by the Office of Price Administration.

Mr. Porter. That has become established as part of the lore, but I have never seen the basis for it.

Mr. Buffett. Do you think that there are many of those prices that have not had upward adjustments in their cost factors since 1941?

Mr. Porter. There must be many, many items— Mr. Buffett. Percentage-wise, I am saying; 10 percent, 15 percent, 50 percent?

Mr. Porter. I just do not know. I would not try to guess, sir.

Mr. Buffett. Now, let me ask you something else. What percentage of prices in the aggregate has the Office of Price Administration adjusted, would you think?

Mr. Porter. We do not know that, either.

Mr. Buffett. The reason I ask is this: General Electric Co., a few weeks ago, gave a wage increase to all their employees. I am told that they make 200,000 products—I do not know whether it is 55,000 or 200,000 products—but I am likewise told that on 200,000 products, it would take six-hundred-thousand-odd volumes of the average size of a fiction novel just to prepare the price applications on increases to meet that problem. Now, how do you handle a situation of that kind?

Mr. Porter. I turn that one over to Mr. Baker.

Mr. Baker. What we do, Mr. Buffett, is take the industry. For instance, they are a part of the refrigerator industry, washing-machine industry, wire and cable industry, machinery industry. We are putting through industry actions, for instance, at this time as a result of the wage increases which General Electric and other companies have given, and, therefore, a few actions will take care of all of the products which amount to anything for the General Electric Co.

In addition to that, we are taking some of the smaller groups of products, and I am sorry that I cannot name them to you at the moment, because the list is being made up, and working this automatic adjustment provision which I mentioned earlier for those, simply to avoid just the kind of thing you have described, and which I would agree with you would be utterly impossible to handle.

In other words, by using industry actions, by kinds or groups of commodities, we avoid, first, dealing with each product, and, second, dealing with each company.

Mr. Buffett. Then, what would you claim would be your probable date for getting all those prices adjusted that should be adjusted in a situation of that kind?

Mr. Baker. In the first place, we have to have wage patterns established. Let us assume that they have all been established. It seems to me that in the case of the groups of products, let us say, practically all of the groups of products sold by General Electric would probably take us from 30 days to 6 weeks to accomplish the whole job.

Mr. Buffett. Chrysler Corp. told us that they had price applications since 1945. No action has been had yet.

Mr. Baker. Price has been issued, but it had not been issued at the time they spoke to you. Mr. Holder, head of our industrial division, is here and can answer any questions about earlier applications if you would like to have them answered.

Mr. Buffett. I am not well informed enough about their problems to discuss them in detail.
Mr. Baker. During the war, there were numerous individual applications from automobile manufacturers for the production of small quantities of cars and trucks. Those were handled from time to time on an individual basis. The current prices for new cars are all handled by individual orders, but all automobile companies for which we have figures have had issued orders giving them new prices.

Mr. Buffett. Mr. Porter, if it comes about that the Office of Price Administration pricing procedures seriously discourage full production, then the Office of Price Administration will be the real cause of bringing about the economic crisis that they are assigned to prevent; is that not correct?

Mr. Porter. Well, the Office of Price Administration will get blamed whatever happens. I would subscribe to that.

Mr. Buffett. No; I think that you will have enough commentators on the radio to put the blame on the Republican minority.

Mr. Porter. As long as the output of dollars continues to exceed production, the inflationary pressures are becoming greater and not smaller; is that not correct?

Mr. Porter. The potential pressures are, yes.

Mr. Buffett. And that is still continuing?

Mr. Porter. Yes; but, as I say, you can still have an inflation in dollars, in the money supply, and not an inflation in prices.

Mr. Buffett. Do you know where that has ever worked out that way in peacetime?

Mr. Porter. It is happening here right now.

Mr. Buffett. We are in the middle of the operation now. I have seen these price-fixing schemes tried, and I have studied a lot of them. Those that have been brought to my attention have always resulted in disaster. I am wondering if you know of any, such as in France, or Germany, or these other places, where they have had peacetime price control, where they have been able to solve the very suggestion you make. That is, on the pattern we are following, we are either going to have inflation or ruthless regimentation. Some of the late signs make me think we are moving toward ruthless regimentation. We do not want that.

Mr. Porter. I hope those are not the only alternatives and I do not believe they are.

Mr. Buffett. Well, have you studied the Brookings Institution reports on this decisive problem?

Mr. Porter. I think probably Mr. Wallace could comment on the Brookings report. I have seen some of them but I do not know which ones you are specifically referring to.

Mr. Wallace. I believe the view expressed there, Mr. Buffett, is a very simple one. The quantity of money and the quantity of goods automatically determines the price level. That leaves out of account a very important factor of what people want to do with their money. There have been very large wartime savings, of course. That is what they referred to as a large inflation of the money supply. But that need not have an effect on the present price level. I do not believe anyone knows what the people are going to do with those savings, unless they are afraid that all prices are going up. As they would be if prices started to go up a lot in the next few months, before we have the goods rolling out, and so on. If that happens, I think there
is no doubt about what they would do with their savings to protect themselves, both business and individual consumers.

Mr. Buffett. Where else can those savings go except to be taken up by taxes, or repudiated or absorbed by higher prices? Every year our new production creates its own purchasing power, does it not?

Mr. Wallace. That is correct, in general, yes.

Mr. Buffett. Then, where will those savings go?

Mr. Wallace. In the aggregate they can be held as savings. Individuals would spend some, other individuals would save more, so that in the aggregate there was no effect on actual prices.

I do not say that will happen. I do not know. I do not think anyone knows.

Mr. Buffett. What you are saying is: if that would happen, then, this inflationary pressure will remain unchanged forevermore, except for a little minor adjustment, and we would have to have an Office of Price Administration forevermore?

Mr. Wallace. No, I do not think that is true, sir.

Mr. Buffett. How else could the inflationary pressures be disposed of?

Mr. Wallace. I think the inflationary pressure is very much greater now than it will be 6, 9, or 12 months from now, because inflationary pressure is only in part a matter of the potential amount of spendable funds which people have. It is also in part a psychological matter. And until people see the goods are really there, and that the stores are filled up, until businessmen see the parts and supplies and materials they want are available and that the pipe lines are filled up, they are worried about whether there is going to be anything there to spend their incomes on or such portions of their savings, if any, that they want to spend.

Mr. Buffett. Of course, you left out this factor: that as long as you continue deficit financing, the number of dollars not matched by production is constantly increasing, is it not?

Mr. Wallace. Correct.

Mr. Buffett. And that inflationary force is not staying stable but getting larger.

I want to ask just one more question to clear up a matter of fact here. I am told that in October 1941, the price of western pine was $31.60, and not $22 plus. What is the factual truth?

Mr. Porter. The statement this morning was that in 1939 the price of western pine averaged $22. It rose, by the industry's own admission, last week, to an average price, I believe, of $36 for the year 1945. The increase that is now being made will bring it to about $41 within the next week or 10 days.

Mr. Buffett. Well, the increase, though, from October 1941, which I think is the base point which is generally used, to $36 plus is what—20 percent? That is entirely different from the figure of a hundred percent in the period.

Mr. Porter. If I might explain that, Mr. Buffett, in the lumber industry, generally, prices rose very rapidly between 1939 and 1941. I think that was the result of several things, but perhaps more than anything else, the result of a tremendous increase in demand, the Army construction program, and the defense program, beginning in 1940. Consequently, the prices on lumber generally, in the late fall
of 1941 were already at pretty high and inflated levels. The increase, however, for all lumber, since the fall of 1941, has been close to 25 percent.

The western pine people will point out to you that they have had but one price increase up until the present time. They may not point out that they have gained tremendously from an increase in sales realization. That comes about in this way: Western pine, as I understand it, has never been in a position to take full advantage of the grading and specification differentials that there have been in their price tables. That has been the case as the result of the depression. During the war, however, they have had every opportunity and every incentive to grade their lumber to its highest quality and to sell it at the whole price for that quality. As a result, you will find that the average sales realization, producing mills, has gone up far more in 1941—and that is the thing that counts, of course—than the stated increase in prices, under the published pricing tables.

Mr. Buffett. You do not think any of the producers are holding back timber because they feel that as long as we continue deficit financing the value of our currency is deteriorating and they figure that actual property is better than the deteriorating currency?

Mr. Porter. I think there has been, Mr. Buffett, and this is based merely on gossip—I have no positive knowledge of this—I think there has been some tendency on the part of some producers to set to one side part of their better timber stands. I think that would happen at any time, however, because timber supplies do not replenish themselves overnight. Now, I would say, however, that the tendency has probably been aggravated in recent months by the expectations of price increases, and perhaps some uncertainty in their minds as to the continuance of price control.

Mr. Buffett. Would you not do that yourself if you felt that the money was deteriorating?

Mr. Porter. I think that would be true, sir, in a period of rapidly rising prices, money itself loses value rapidly.

Mr. Buffett. Whether the prices were rising or not, if the money were deteriorating because it was being issued away beyond the amount of production, you would still know that that price rise was coming, would you not?

Mr. Porter. That is beyond my field, Mr. Buffett.

Mr. Buffett. I see.

Now, Mr. Porter, I will not burden you with any more questions on this, except I do want to comment on subsidies. You mentioned in your statement that subsidies had to be kept because if they were taken off that would cause a price increase.

Mr. Porter. Yes, sir; I think that would be a question of time.

Mr. Buffett. When we raised our prices last fall, on steel, and so on, there was a 15-percent wage raise.

Mr. Porter. Fifteen-percent raise in hourly rates.

Mr. Buffett. In base pay.

Mr. Porter. Yes.

Mr. Buffett. The food subsidy, according to the New York Times, amounts to about 3 percent of the over-all cost of living. Can there be a better time to remove subsidies than a time like that, when wages are going up? I do not think there is any debate about those figures,
Mr. Baker, it is 8 percent of the food bill, which is 40 percent of the cost of living, and so it is 3 percent of the over-all cost of living. I think that is generally agreed on.

Mr. Baker. Yes; I just wanted to check.

Mr. Buffett. Farmers see wage rates going up 15 percent, and yet they are asked to sell food to consumers at less than cost, when the consumers have so much money in their pockets that we have to keep the Price Control Act to keep them from spending too much. The farmers cannot add those things together and come out with an intelligent answer.

Mr. Baker. Of course, I do not think, as far as farm income is concerned, that, based upon historical relationships, agriculture generally is in an extraordinarily favorable position, I say, based on historical relationships. Now, whether it should be better than that is a matter than I am not prepared to discuss. However, as I said, I think it is a question of timing, when you get these subsidies off, and, if, as I believe, to have an 8-percent increase in food bills now, would set off another round of wage increases, you would have no need for price control or stabilization, because you could not achieve either.

Mr. Buffett. Well, Mr. Porter, a good many merchants have come in here, and I think some of them may have overstated their case. But last June 4, when Mr. Bowles came in he said, "We must in no event stand in the way of production." I think he made the all-time high in overstatement, because I think even you have agreed that there have been cases where the Office of Price Administration has stood in the way of production.

Mr. Porter. When you look at total production, I think those cases are relatively insignificant.

Mr. Buffett. That production is an illusory thing. We are producing a lot of junk merchandise, costume jewelry, and things that people buy because they cannot get the things they need. In that event production figures do not mean much, do they?

Mr. Porter. I think that on basic items, food production, durable goods, that is still on a unit basis, away above prewar.

Mr. Buffett. Well, we are running into a lot of trouble on butter and milk.

Mr. Porter. Because of the demand.

Mr. Buffett. And other things.

Mr. Porter. Because of the demand. We are consuming more than we ever have.

Mr. Buffett. Of course, that is the trouble with all this business of saying we are going to have demand and supply meet each other, when by fixing price we introduce an artificial element into both demand and supply, so we will never know what the real figure is.

Mr. Porter. That is right, and again it is a question of alternatives.

The CHAIRMAN. Mr. Crawford.

Mr. Crawford. Will you refer to page 6 of your statement, Mr. Porter? I am going to give you a specific and actual case, so that you can apply it to one or the other of those points, for the benefit of the committee. I have before me here the financial record of a manufacturer of men's blue denim and other overalls, boys' overalls, work pants, and men's and boys' dungarees. It shows the lot numbers
manufactured for price of March 1942, the applicable percentages which are to be applied under this order that is about to come out, ceiling under the new method, total present cost, present ceiling price, and the losses the company will suffer as a result of that ruling. It has to do with the proposal to increase the 1942 prices, in some cases, to 120 percent, in some 125 percent, and in some 128 percent. Do you know now to which order I refer?

Mr. Porter. I would have to refer that question to Mr. Levittes.

Mr. Crawford. All right. Now, my question is this—two questions: First, under which of Mr. Porter's proposals, with respect to floors for individual sellers, would this case come?

Mr. Levittes. In the first place, Mr. Crawford, that adjustment that you are speaking about, which we are about to issue, as a result of conferences with the industry advisory committee last week, which will bring about a general increase of roughly 17 to 20 percent, as you have quoted—

Mr. Crawford. Just a minute. You may find that I am very technical on some of these questions and answers, because we can make such sweeping statements which, when carefully analyzed, mean absolutely nothing. I may be breaking into your answer from time to time to get clear in my mind what you mean.

Mr. Levittes. That is perfectly all right.

Mr. Crawford. You say an increase of what?

Mr. Levittes. Seventeen to twenty percent over the current selling prices.

Mr. Crawford. That is an increase of 17 to 20 percent over current selling price for the manufacturer who is selling the goods?

Mr. Levittes. That is correct.

Mr. Crawford. What are you going to do with a situation where, under the present scheme of things, he is making a slight profit per dozen, say, of 29 cents per dozen, on a dozen of overalls, or a dozen pairs of work pants, and a new ruling throws him into losses up to $1.77 per dozen? What do you mean by an increase of 17½ percent per selling price?

Mr. Levittes. How could that happen?

Mr. Crawford. I have the figures here to show you how it has happened, and that is what I am going to give you.

Mr. Levittes. If you will permit me, you say this manufacturer is currently making 29 cents a dozen. Now, he is getting an increase in price. How could he possibly lose money?

Mr. Crawford. I am asking you that question.

Mr. Levittes. I cannot answer the question. It just does not make sense to me.

Mr. Crawford. All right. Put these lot numbers down. I will give them to you. You men are the ones who have to explain your own performance. I am not going to explain it for you.

On lot No. S-568, the March 1942, price was $12.50 on work pants.

Your applicable percentage is 125 percent; is it not?

Mr. Levittes. It was.

Mr. Crawford. The applicable percentage is 25 percent over 1942.

Mr. Levittes. That is right.

Mr. Crawford. The ceiling under the new method is $15.63?

Mr. Levittes. Right.
Mr. Crawford. Total present cost is $16.77. His loss will be $1.14 per dozen.

Mr. Levittes. May I ask one question?

Mr. Crawford. Yes, sir.

Mr. Levittes. What is his current rate of production compared to 1939, say?

Mr. Crawford. I do not know what his current rate of production is.

Mr. Levittes. Assuming that this manufacturer is only operating at 10 percent of capacity, and that, therefore, his cost is $16.77——

Mr. Crawford. All right, we will take that up. You testified, both you and Mr. Porter, that he cannot get the goods to manufacture with. Now, I am going to take you over into the manufacturer of the goods and let him say what you are doing to him on price ceilings which prevents his manufacturing these goods because you have presented your case in such a way which shows that these goods are not forthcoming because the yardage is not available because of maximum average price. I know you have denied the testimony of the witnesses. Who are we to believe—the men who run the Office of Price Administration or the men who run their businesses? You do not have to answer that question, but I want it in the record.

Mr. Levittes. Mr. Crawford, there is no maximum average price applicable to the production of cotton textiles going into work clothing or any other textile.

Mr. Crawford. When did you remove that?

Mr. Levittes. It never was in effect.

Mr. Crawford. What about wool?

Mr. Levittes. It is still in effect there.

Mr. Crawford. Still in effect?

Mr. Levittes. We are talking about work clothing.

Mr. Crawford. But your maximum average price does apply on woolens?

Mr. Levittes. Yes, sir.

Mr. Crawford. Are the woolen manufacturers short on yardage?

Mr. Levittes. No, sir.

Mr. Crawford. None of them are short?

Mr. Levittes. Well, the point is that they have an increasing production. They are producing more goods currently, or at least they are expected to produce more goods.

Mr. Crawford. As compared with what?

Mr. Levittes. As compared to 1929.

Mr. Crawford. Well, why should they not produce more as compared to 1929?

Mr. Levittes. They should. Who is stopping them from producing? We want more goods produced.

Mr. Crawford. So you do have a maximum average price on woolen yardage?

Mr. Levittes. Yes, sir.

Mr. Crawford. And you have——

Mr. Levittes. Not on yardage, on prices.

Mr. Crawford. Pardon?

Mr. Levittes. On the average price, not on yardage.

Mr. Crawford. Well, that is on yardage, is it not?

Mr. Levittes. No, sir.
Mr. Crawford. You are talking about maximum average price at the wool mill.
Mr. Crawford. I am talking about maximum average price on the fellow who produces and sells the yardage.
Mr. Levittes. Correct. But there is no limitation—
Mr. Crawford. You have no maximum average price on that?
Mr. Levittes. There is no limitation on the yardage that he produces. There is a limitation on the average price.
Mr. Crawford. Sure; that is what the maximum average price is.
The maximum average price has to do with the average price.
Mr. Levittes. Right.
Mr. Crawford. And it does apply to woolen yardage?
Mr. Levittes. Woolen prices, not to yardage.
Mr. Crawford. Well, suppose I am shipping yards—does it not apply to my yardage?
Mr. Levittes. No; it depends on your total sale price.
Mr. Crawford. Well, the price covers yardage, does it not?
Mr. Levittes. I cannot agree with you on that.
Mr. Crawford. Well, of course, if I am shipping hogs, hogs are involved; if I am shipping yardage, nothing else is involved?
Mr. Levittes. You are shipping a thousand yards of goods at $2 a yard; you are shipping—
Mr. Crawford. I will go into all of that. I have the story here. Let us go back to the cotton manufacturer. Now, in lot No. 565 your March 1942 price is $13 a dozen. Your applicable percentage is likewise 125 percent. Your ceiling under the new method, $16.25. Your total present cost, $18.02 per dozen. The loss, $1.77 per dozen under that lot number. Do you expect that man to produce goods under that kind of a proposition?
Mr. Levittes. No, absolutely not. He could not possibly do it.
Mr. Crawford. Which of these proposals, Mr. Porter has referred to, will give him his relief?
Mr. Levittes. In the first place, I do not believe that these high costs are based on normal production. Secondly, if they are based on normal production, he can qualify under one of the clauses Mr. Porter read for an adjustment under our order SO 133, which guarantees him total cost.
Mr. Crawford. That would come under which heading, under your individual seller's program?
Mr. Porter. The general rescue provision, No. 8.
Mr. Crawford. (reading):

_Every manufacturer, except in a limited number of fields, can obtain price adjustments sufficient at normal volume to eliminate losses caused by his present ceiling._

I notice how technically that is worded, “adjustments sufficient at normal volume.” Let us go to the cotton goods. He cannot get the cotton goods. Therefore, he cannot get his adjustments because he is not at normal volume, as your question there indicated. What are you going to do with him? Close him up for the time being?
Mr. Levittes. No, sir.
Mr. Crawford. Force him to operate at a loss?
Mr. Levittes. No. I think Mr. Porter indicated that the Civilian Production Administration and the Office of Price Administration
have worked out a joint program to get more production of these basic work clothing factories, and to channel that goods to producers in order to give them volume operation.

Mr. Crawford. Let me pin it down categorically. In a case of this kind, will you provide a provision to give manufacturers relief, if they still show a loss on some items they are making?

Mr. Levittes. On an item by item basis?

Mr. Crawford. In a case such as I gave you.

Mr. Levittes. Mr. Porter covered that point several times.

Mr. Crawford. I heard him cover it, but I am trying to tie something down here to which we can anchor ourselves and get away from some of these generalities. Here is a man who makes 25 different lot numbers. Men's overalls, boys' overalls, men's and boys' dungarees, and men's and boys' work pants. You have testified the yardage is short. Therefore, he cannot perform on a normal basis. You bring out a ruling which makes him operate to the extent that he can operate at a loss, unless you provide for individual adjustment and relief. Do you propose to give that type of firm relief? If not, where do you get the goods from?

Mr. Levittes. I just indicated a moment ago, Mr. Crawford, that we do intend to get the goods, through the recent price actions on the part of the Office of Price Administration and the L-99 allocation and loom freeze order on the part of the Civilian Production Administration.

Mr. Crawford. But here you are about to issue a ruling which operates against a man who is now manufacturing this low-end goods, for the consumers, and you have failed to answer directly whether or not you are going to put a provision in that to give him relief, where he shows a loss on some of the items that they make. Now, if you do not give him relief, how do you expect him to make the goods?

Mr. Levittes. He will make the goods once he gets quantity production.

Mr. Crawford. Oh, in the meantime he can go bust, financially?

Mr. Levittes. No; he will not.

Mr. Crawford. You expect him, then, to operate at a loss, in the meantime.

Mr. Levittes. If he is below normal volume operations, there is nothing that we can do.

Mr. Crawford. I mean because of a shortage of goods or otherwise; is that right?

Mr. Levittes. Sure.

Mr. Crawford. Well, I guess that is the death sentence for him. There is the difficulty you run up against on the maximum average price, and some of these other——

Mr. Porter. The maximum average price is not applicable here.

Mr. Crawford. I say maximum average price and other individual rulings, because you say to a manufacturer that if he is to operate, he must operate at a loss. Well, that certainly does not put overalls on the counters. Or low-priced goods on the counters, either. It serves notice on the people of this country, "You can operate at a loss until you get out of the difficulty." Am I right or wrong in that statement?

Mr. Levittes. I could not agree with your statement.

Mr. Crawford. Then, you make your statement for the purpose of the record, and I will shut up.
Mr. Levittes. The point is this: the work-clothing industry has been experiencing difficulty in obtaining fabrics and the Government has taken steps to assure that they do get a reasonable supply of fabrics. The industry, as a whole, is not operating under a loss. This given manufacturer may be making a great many other items on which he is making a profit. He may or may not be in a loss position. If he is in an over-all loss position, he can qualify for individual relief.

Mr. Crawford. But if he is in an over-all profit position, he cannot qualify for relief?

Mr. Levittes. That is correct.

Mr. Porter. Of course, in a free market, Mr. Crawford, where there is short supply of goods, I think he would be faced with the same situation, and I look upon the situation you have described merely as a temporary matter, and if our program is reasonably effective, channeling this low-cost goods into the fabricators, he will get immediate relief.

Mr. Crawford. For the purpose of the record, I am going to read this into the record: “Lot S 533, 29 cents per dozen profit. On lots S 567, 563, 100, 108, 503, 505, 407, 420, in every instance the loss has run from 19 cents per dozen up to $1.91 per dozen.

Another is S 510, profit 91 cents; S 552, 88 cents; S 503-B, $1.61; S 490-B, $1.49; S 88-V, 28-V, and 29-V, MB, and B, losses $1.42, $1.05, $1.59; S 188-M, 30 cents loss; S 128-B, 61 cents loss. That is all of his lot numbers. You can draw your own conclusions as to how much money he is going to lose.

Mr. Monroney. For the purpose of the record, as those figures go in, do you not think we should have something in there on the percentage of his normal production?

Mr. Crawford. I am not going to ask this gentleman to file his operating statement and balance sheets with this committee, and I am going to object if you make the request.

Mr. Monroney. I mean, you are trying to make a point of loss. There is not a business in the country that would not show loss on 10 or 20 percent of its normal production; I do not care what its price ceilings.

Mr. Crawford. I am trying to find out the net effect of a new order that is about to be issued in the face of extending the Office of Price Administration.

Mr. Monroney. Then you ought to put in the percentage of his normal production on which he is basing those figures to make them mean anything.

Mr. Buffett. What difference does that make if that is all he can get?

Mr. Monroney. It makes a big difference. If you are operating at 10 percent of your capacity, there is no business in the world that can show a profit, regardless of the price ceiling.

Mr. Crawford. Mr. Brown has suggested that we take up the Climax Hosiery case of Georgia, where only hosiery is involved, and which is referred to on page 20 of the current issue of the Saturday Evening Post.
Mr. Levittes, will you tell us about the Climax Hosiery Co., so that we will have that officially in the record?

Mr. Levittes. I will be glad to give you all the information that I have on it.

Mr. Seidel, in testifying before this committee 2 weeks ago, made the statement that Climax Hosiery Co. has repeatedly applied to the Office of Price Administration for price relief and was denied. That on several occasions he has seen some high officials in the Office of Price Administration, and one of them, by name Mr. Boner—which went into the record—deliberately told him or specifically told him that another world war would have to break out before he could get any adjustment.

Subsequent to Mr. Seidel's testimony, Mr. Dudley, Jr.—I believe Mr. Brown knows him, he comes from his district—

Mr. Brown. Mr. Dudley is one of the finest characters there is in Georgia.

Mr. Levittes. He is. I will vouch for that, too. He was in to see me last week, and I asked him specifically: "Mr. Dudley, have you ever applied in Washington for a price relief for your hosiery, and has anybody in Washington told you that the third world war would have to break out before you would get price relief?"

Mr. Dudley said to me, "I was never in Washington on this question. My father was in Washington. Whether or not he has contacted Mr. Boner on this, I do not know."

I said, "Will you please do me a personal favor and drop me a note as soon as you get back telling me just what has happened?"

As late as yesterday we did not have any communication. We telephoned. Mr. Ailes spoke with Mr. Dudley, Jr., again. Mr. Dudley, Sr., was not available. And they promised to telegraph the information. Until this minute we have not received it. In the meantime, I called Mr. Boner in. Mr. Boner denies completely having any memory of anybody from Climax Hosiery ever approaching him for an adjustment on Climax Hosiery.

Mr. Brown. May I interject there?

Mr. Levittes. Yes; Mr. Brown.

Mr. Brown. I can give you a little news on that. It was told to me that Mr. Boner said he never held any conference with him. However, when Mr. Dudley came up here I called Mr. Ernest Smith and requested him to take Mr. Dudley to the right man. He took him to Boner's office where they conferred with Boner and a young lady. Mr. Dudley did not want to hurt or injure anybody. He called me over long distance a day or so ago and asked me to verify the name of the man with whom he conferred and I told him that it was Mr. Boner and also the young lady, because Mr. Smith gave me those facts. In the meantime Mr. Boner said he never heard of Dudley. Mr. Dudley did not want to get him in trouble. That is the whole truth about it.

Mr. Levittes. I have a memorandum written by Mr. Boner to me explaining the remarks attributed to him at the congressional committee hearings. I would like to enter it in the record. He completely denies ever having had any communication with anyone from Climax Hosiery.
Memorandum.

To: Mr. Zenas Potter, Director, Office of Congressional Information.

From: J. Russell Boner, head, Knitwear and Hosiery Section, Apparel Price Branch, Consumer Goods Price Division.

Subject: Remarks attributed to me at a congressional committee hearing.

This is with reference to your report of March 15 saying that I am credited in testimony at a House Banking and Currency Committee hearing of March 13 with chiding representatives of the Climax Hosiery Mills for taking a problem to the Senate Small Business Committee and with telling them there would be a Third World War before they would receive a price increase.

Of the hundreds of conferences I have had with business representatives, I must say that I have no recollection at all of a conference with anyone with regard to the Climax Hosiery Mills. Since recourse to congressional committees by businesses affected by OPA regulations is such a common practice, accepted and not unexpected by OPA personnel, it seems highly unlikely that I would gratuitously express any view as to the propriety of anyone's taking his case to such a committee if he so chose.

I cannot see what occasion I might have had for making the remark about the Third World War which is attributed to me. Applications of the type I am told Climax has made are not processed in my section but are generally handled through our district offices and an Adjustment Section in the National Office. Therefore, the Climax case would not be presented to me for action and I would merely have been giving information as to procedure, knowing that I would not handle their case. For this reason, I certainly would not have been expressing an intention to delay action on the application.

If there had been any sharp difference or heated discussion connected with such a conference, I should probably remember the meeting, since such conflicts are so exceptional as to be memorable. As I say, I have no recollection of this purported conference at all, and I cannot remember making on any occasion remarks even resembling those attributed to me.

Indeed, the report of this alleged episode seems so fantastic and I am so completely lacking in remembrance of it that I think it not out of place to suggest that a meeting between these men and me be arranged to make certain that I am the one with whom they talked.

Mr. Brown. I would like to reply to that—that you have Mr. Ernest Smith, attorney, down there, who is the man I called, and he said he stayed in the office—was there when Mr. Boner talked to Mr. Dudley. Mr. Boner was the man he talked to. Mr. Ernest Smith is one of your best men in your whole department.

Mr. Levittes. We will be glad to check in on that.

Mr. Brown. You do not have to check, as far as I am concerned, or as far as this committee is concerned. Do you not agree with me that Mr. Ernest Smith is one of the finest men you have down there?

Mr. Levittes. I vouch for him; definitely.

Mr. Brown. He is one of the finest characters I have known.

Mr. Levittes. Undoubtedly.

Mr. Brown. I am not jumping on Boner or anybody else; I am just trying to give you the facts.

Mr. Levittes. I might add, in conclusion, on the Climax question, that Climax was always eligible—

Mr. Brown. I certainly did not know that.

Mr. Levittes. I merely want to explain it for the purposes of the record, since Mr. Crawford raised the question. Climax was always qualified to apply for an adjustment under our special order 133. He has never availed himself of that opportunity. We contacted the Atlanta regional office, and they have no record of such application. Mr. Dudley, Jr., confirmed that—that they never availed themselves of
that regulation, or that special order, to get relief. I told Mr. Dudley that we are currently about to issue an order granting them relief, to compensate them for increasing costs of material and labor, and he was more than happy with it; and he asked: "How soon will that order come out?" and I told him 3 weeks. This was last week. He went home quite happy.

Mr. Brown. I am glad to hear they are happy; but I just want to say now, you cannot consider the testimony of Boner, because he denies the whole thing—denies that he knows Dudley and that he has ever seen Dudley; and there you must take what Dudley says and what Mr. Smith says. But he disqualified himself as a witness as to what he said or didn't say.

Mr. Levittes. I am still waiting and hoping to get some information from Mr. Dudley, Sr., as to whom he did see, and then I would like to confront Mr. Boner with that information.

Mr. Brown. I want to thank you very much, if you have given Mr. Dudley relief. He deserves it, and I want to congratulate you, because there is not a better man anywhere.

Mr. Crawford. I was anxious to get into the record, Mr. Levittes, the facts as to whether or not the Climax Hosiery manufacturing and shipping was interfered with. In other words, we had the presentation here as to the quality of their stuff, and their historical background with respect to serving the public, and so on, as the record will show. So then it did develop that it was necessary for you to grant him relief with respect to the costs of labor and material?

Mr. Levittes. Correct.

Mr. Crawford. That, then, will bring his goods back on the market?

Mr. Levittes. Correct.

Mr. Crawford. That is what we are primarily interested in—is to get goods on the market; goods of high quality and reasonably low cost.

I want to go to another specific case now, which I think has reference to Mr. Porter's direct testimony—I have authority to use this in a public way—the Ranney Refrigerator Co., of Greenville, Mich. They have sent me a historical record of their case. They produced refrigerators. It appears that this was officially opened October 22, 1945. He made application personally to the Office of Price Administration to permit them to price their refrigerators according to the foregoing formula, and the formula is set forth there.

He then comes on down and cites also telephone conversations, visits here in Washington, some 10 or 15 of them; and it sets forth details with respect to the Office of Price Administration audit of that concern up until a few days ago, March 7; although the audit had been completed some time ago, although the company had arranged its bank credits and acquired more or less of the stocks, had the plant ready to go, with material on hand, no decision has been forthcoming from the Office of Price Administration.

You may not have that case directly before you; you may not have it in mind. But here is where we go through October, November, December, January, February, and practically all of March—6 months, with audits completed, recommendations made, based on information taken from the audit. What causes delays of that kind?

Mr. Levittes. I am not acquainted with the case, Mr. Crawford.
Mr. Porter. Mr. Crawford, these individual adjustments that we have talked about here in my testimony would not necessarily be applicable to the reconversion industry such as that. I am not, obviously, familiar with such details as that. I do know there have been certain cost increases in the refrigerator industry. There was a meeting last week with the industry advisory committee in which they submitted additional data, and I am hopeful that that pricing will be out very shortly. Perhaps Mr. Baker will want to supplement that.

Mr. Baker. Mr. Crawford, if you care to pass that pending further questions of yours, Mr. Johnson has stepped out of the room for a moment. He is Assistant Director of the Division. I think he can be helpful to you if you care to go for the moment to some other case.

Mr. Crawford. All right. I will take up another case. The Lobdel Emory case, of Alma, Mich., wherein since January 22, as I recall the date, they have been trying to contact someone in the Office of Price Administration who would even discuss their case. And I referred to the Office of Price Administration the other day, and I am bringing it out here so as to get something definite in the record. Now, we appreciate the difficulty you have in holding highly qualified personnel. Is there any delay in the Office of Price Administration where—for instance, Mr. A, who is a top level executive there, is about to leave; these cases are delayed from week to week because he is about to leave and does not want to get involved in the case, and because the new man moving in has not yet arrived? What information can you give us on that?

Mr. Porter. I do not have any specific information on that, Mr. Crawford. I do say that the question of personnel is, naturally, a very difficult one, and a great many of the top people in the Office of Price Administration are here, and in the program, at personal sacrifice to themselves, and would very well like to get back to their peace-time jobs; but if there has been any case where they have followed the natural temptation to shove this aside until their successor comes in, I do not know of it. Mr. Baker, who is more familiar with the operations than I am, might care to comment on that.

Mr. Baker. I think that may very well happen, Mr. Crawford, and that it should not happen and it is regrettable. One of our biggest jobs there is to try to get faster action down in the shop, to avoid asking for more information just because it saves handling a job at the start. There are many such troubles through the shop. We are trying to improve those situations. They do exist, and we will appreciate your continuing to call them to Mr. Porter's and my personal attention. They should not occur.

Mr. Crawford. Let me read a copy of the telegram which you received on this case—and I do this because I think it is necessary for us who are public servants to check each other. There is no personal animosity in it whatsoever. I am a public servant. You are a public servant. And we either make slaves out of the people or they make slaves out of us. So far as I am concerned, I am willing for them to make a slave out of me. I do not want them to be my slave. When I am tired of being a slave, I will get out of public office. So I hold no brief for any man with respect to the sacrifices he makes in public
office. If he does not want to stay in public office, let him get out. I will never use that as an excuse myself.

Here is the telegram that went out. It is dated—

ALMA, MICH., March 26.


Mr. ERNEST H. HILLMAN,
Price Executive, Houseware and Accessories,
Office of Price Administration, Washington 25, D. C.:

Up to the present time we have received no word with reference to subject. Have tried for 2 weeks to contact you and Mr. Small unsuccessfully. Long-distance operator reports continually that you are in conference and cannot be reached. This case has been in your hands since January 11, 1946.

A while ago I said "January 22." It is January 11.

Unless we have action, it will be necessary for us to discontinue operations, which, in turn, will close down several bicycle manufacturers. Am attempting to reach you by long distance again tomorrow, March 27, 1946. If unsuccessful, will come to Washington. This matter is most urgent, important to ourselves and bicycle industry.

LORDEL MANUFACTURING CO.,
CLARENCE J. BOLTON,
Vice President.

Mr. Porter. I would like to have the opportunity, Mr. Crawford, to check into that and to insert a statement in the record.

Mr. Crawford. Yes, sir. Because if there is any way of Congress and the Office of Price Administration working together to avoid such delays, we ought to do it. And I have stated here publicly that I am in favor of giving you the appropriations if the appropriations will do it.

Now, we may have hold of something that we simply cannot handle in this country. I am afraid that is what the actual situation is.

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

Mr. Crawford. Yes.

Mr. Brown. I did not know anything about this article in that magazine at the time I spoke. I suppose some fellow wrote it up from here when the Grant Co. testified. I do not think Mr. Dudley ever talked to me but once or twice. I tried to find somebody to help him because he was being done an injustice.

Mr. Crawford. Another specific case submitted to the committee here has to do with the Niagara Machinery Co, Machine & Tools Works of Buffalo, N. Y., and the Reliance Hydraulic Press, Inc., Chrysler Building, 405 Lexington Avenue, New York City.

I bring this up because we sit here, having listened to the public, and then we listen to you gentlemen, and you deny what the public has said to us. Here is the Niagara Machinery Co. booklet, regular catalog, which shows their series A machines. Here are the photo- static copies of letters from the Reliance people, quoting the prices on their machines.

Here is a schedule of the Niagara people showing at what price they must sell their machines, under your rules and regulations, and how much they lose on each machine. They show here that on their series A presses, the A–3½, that the total direct material, labor, and factory expense is $800 per machine; and, adding the administrative, selling, and other expenses, it brings the total cost per unit to $919 per machine, and the net price at which they can sell, $891, or a loss of $28
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per machine. I understand that they have applied to the Office of Price Administration for relief of 10 percent, price relief, which has been denied.

Now, the Reliance people, from their letter dated October 18, 1945, show that this is a new operation of theirs. And the similar machine, which they put on the market, as quoted here in their correspondence, sells for $3,150, I believe it is. Which means that the consumer customer must pay $3,150; standard high-speed punch press, that is. The Niagara price is $990. The consumer has to pay the difference in the price for a similar machine. What is there in your plans to correct situations like that?

Mr. Porter. I think, Mr. Crawford, that that will probably be corrected very quickly, maybe by next week, but I would like Mr. Holder, who has checked into this specific matter, I understand, to respond specifically to that situation.

Mr. Holder. Mr. Crawford, I have been trying to identify the situation you have described with one that we encountered in the testimony of the Machinery Institute. Is it the same case, do you know, sir?

Mr. Crawford. So far as I know, it is.

Mr. Holder. I have here a report from the head of our Machine Tool Section, comparing a Reliance press with a Niagara press, on detailed specifications. And the report that has been given to me indicates a great deal of difference between them. I might make one or two principal points.

The Reliance press is of fabricated steel frame construction. That is considerably more expensive than the Niagara press, which has a solid cast-iron frame.

The second major point of difference is that the Reliance press has a hydraulically operated cone-type clutch. The Niagara press is entirely mechanically operated.

A third major point of difference—the Reliance press is designed to operate at about 160 strokes per minute. That is a high-speed press, Mr. Crawford. The Niagara press, by contrast, is designed to operate not at 160 strokes per minute but at 85 strokes per minute.

The two cases, in our judgment, on technical grounds, are not comparable.

I understand, however, as you say, that the Reliance product is a new product. Consequently, the pricing there has to be based on the best judgment of in-line pricing that we can make. We have already asked the Reliance Co. to give us information about their costs, just as soon as they accumulate anything. My note here indicates that they have asked for further time before filing those cost figures.

Mr. Crawford. Now, let me ask you this question: I do not know whether you have ever operated a machine or handled a factory.

Mr. Holder. I have, Mr. Crawford.

Mr. Crawford. You are not in position to testify as to the practical use of one machine as against the other, are you?

Mr. Holder. I am not a technical expert, Mr. Crawford. But I came from industry and I have operated this type of machine.

Mr. Crawford. In your judgment, is there justification for the difference of, roughly, $2,000 in those two machines? I am going to tell you this now before you answer that. I am going to come back at you in debate on the floor with the technical side of this from the
men who operate them. I want to be fair with you. You have presented the dissimilarity of structure and all, and we are discussing now the cost of machinery, and if you want to let the record stand as it is, it is all right with me.

Mr. Holder. I will answer your question in this way, Mr. Crawford: I presume technical experts differ as much as laymen differ. The judgment of our people, in whom we have a good deal of confidence, is to the effect that the difference between the two presses is very marked. We had thought that those differences justified the differences in price, but since the question has come up we are checking it on an actual cost basis just as quickly as we can, sir.

Mr. Crawford. Well, I think that is a fair statement. You feel there is a very wide difference, then.

Now, Mr. Porter, I want to go back to the maximum average price for a moment because I believe that we may have some difficulty on this proposition on the floor of the House. I have listened to your statement very carefully, and I have been going over it again since you made it. When the maximum average price was first proposed, did Mr. Bowles release a statement to the effect that its purpose was to prohibit up-grading in textiles and garments, roll-back prices, and increase the supply of low-end clothing?

Mr. Porter. I would have to ask Mr. Levittes that.

Mr. Levittes. I believe that is substantially correct, Mr. Crawford.

Mr. Crawford. Mr. Porter testified awhile ago that so far you have not been able to roll back prices.

Mr. Porter. That is right.

Mr. Crawford. Have you increased the supply of low-end clothing?

Mr. Levittes. Mr. Crawford, if I remember correctly, you are giving the essential part of a joint statement which was issued by the then War Production Board, and the Office of Price Administration, that this Government program, which was launched back in January 1945, was intended to do two things: One was to reduce the general level of clothing prices, through the technique of maximum average price, by requiring production in all price lines; and the other was through the efforts of Civilian Production Administration to get low-price clothing produced in greater quantities.

Mr. Crawford. Yes, sir; I think that was the statement. Has the maximum average price resulted in increasing the supply of low-end clothing?

Mr. Levittes. Over-all, in the general level, it has accomplished its purpose, if not getting back to the level that we shot for originally, at least, it stopped the continuous increase as was brought out by Mr. Porter this morning in his statement, or this afternoon, rather.

Mr. Crawford. Have you any yardstick in the way of actual production statistics which you could give us to support that statement?

Mr. Levittes. We do not have any production statistics. The Civilian Production Administration has production statistics.

Mr. Porter. But we could judge on the basis of price.

Mr. Levittes. Well, you brought that out clearly in the record.

Mr. Crawford. Since the maximum average price went into effect, has the trade been demanding higher quality goods, with increased buying power, in a period of scarcity, or have they been demanding a lower-quality goods?
Mr. Levittes. The consuming public?

Mr. Crawford. Yes.

Mr. Levittes. I would say it is a safe assumption to conclude that there has been an increasing demand for slightly higher-quality clothing.

Mr. Crawford. You might say for two reasons: One, because they have more money to spend; two, in a period of scarcity, they thought it was a better investment to buy higher-quality goods.

Mr. Levittes. Well, the fact nonetheless remains that there is still a terrific demand for low-end clothing.

Mr. Crawford. Yes.

Mr. Levittes. There is still a segment of the population that cannot afford to buy high-priced clothing.

Mr. Crawford. I agree with you on that, and I did not mean to depreciate the fact that that demand is prevalent. Now, I perhaps should not say this, but I do not think this committee has too clear an understanding of how the maximum average price operates.

Mr. Levittes. I am apt to agree with you.

Mr. Crawford. Let us see if we cannot clear that up a little. The maximum average price directive, though differing in detail in the various garment and fabric industries regulated, nevertheless operates on the same basic principles; would you agree with that?

Mr. Levittes. Would you mind repeating that, please, Mr. Crawford.

Mr. Crawford. Let us go on. A manufacturer of fabrics or garments is required by his maximum average price 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?

Mr. Levittes. Well, that is not quite true. It does not require him to produce the same amount of dollars and/or units. All that it says is that, of the units that you produce, divided into the dollar sales, that average price may not exceed a base-period price plus whatever adjustments have been made in the form of tolerances or exemptions.

Mr. Crawford. You confirmed what I said. You get the record and read it. That is what I said.

Mr. Levittes. All right.

Mr. Crawford. Now, if he is delivering yardage, that is his units; is it not?

Mr. Levittes. Yes.

Mr. Crawford. And the units are divided into the total dollars invoiced; is that right?

Mr. Levittes. Correct.

Mr. Crawford. So, therefore, he is dealing with yardage; is he not?

Mr. Levittes. Correct.

Mr. Crawford. I thought so awhile ago when I was interrogating you.

Now, does the base period depend upon the commodity regulated?

Mr. Levittes. I beg your pardon?

Mr. Crawford. Does the base period depend upon the commodity regulated?

Mr. Levittes. Yes.
Mr. Crawford. All right. He can ship units that sell above and below this base-period average price?

Mr. Levittes. Correct.

Mr. Crawford. But the average of all shipments must be no higher, under maximum average price?

Mr. Levittes. Correct.

Mr. Crawford. 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, does he not?

Mr. Levittes. Correct.

Mr. Crawford. Now, the surcharge is the amount of the difference between the two, multiplied by the number of units shipped during the current quarter?

Mr. Levittes. Correct.

Mr. Crawford. If this surcharge is not offset by sufficient shipments, and the price is 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?

Mr. Levittes. That is correct.

Mr. Crawford. He immediately goes, then, on what you term a make-up basis; does he not?

Mr. Levittes. Correct.

Mr. Crawford. And, therefore, he 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?

Mr. Levittes. Correct.

Mr. Crawford. His failure to make up the surcharge, under the law, is a criminal offense, is it not?

Mr. Levittes. No; I do not believe it is a criminal offense.

Mr. Crawford. What kind of an offense would you call it?

Mr. Levittes. I think there is a monetary offense involved, under the penalty of the regulations. Maybe I had better have a lawyer state it. I am not a lawyer.

Mr. Crawford. I would like to clear that point up.

Mr. Ailes. Mr. Crawford, there are two different make-up operations, and the manufacturers either go under 7-A or 7-B. The one you read is the first one. There is no penalty on it whatsoever for failing to make up the surcharge. He is never in violation under that technique which you read. The limitation is that he still has to sell at or below his maximum average price on everything.

Under the other device he can elect to go on a monthly make-up operation, and his maximum average price is reduced by the amount of the surcharge. He operates then on a period at a reduced maximum average price which automatically makes it up. In the event he uses that device, and incurs a surcharge during that period, then, he is guilty of a price violation, and the sanctions for price violations do apply.

Mr. Crawford. What are those penalties?

Mr. Ailes. Treble damages, injunction, in some instances criminal prosecution.

Mr. Crawford. Well, that is the point I was trying to make.

Mr. Ailes. Yes, but, understand, the point is that that is only if he elects to make up, under that technique, which is 7-B, in the order.
Of course, criminal prosecution depends on proof of willful failure to comply, and certain things that are probably a little difficult under the maximum average price type of regulation. So far as I know, there are not any cases where we have undertaken to prosecute anybody under that.

Mr. Crawford. Now, if a woolen manufacturer of yardage goods has a maximum average price, say of $2.39, as illustrated here, on those two fabrics—one is a $2.92 fabric and one is a $1.90 fabric—and he is playing for a squeeze, would he not likely reduce his production of this higher-priced goods?

Mr. Levittes. Would he not do what?

Mr. Crawford. Reduce his production of the higher-priced article.

Mr. Levittes. Yes; he would probably reduce the production of that and increase the production of the lower-priced goods.

Mr. Crawford. So then that tends to crowd this heavy material, or overcoating yardage, we will call it, out of the market?

Mr. Levittes. That is purely a choice on his part, Mr. Crawford.

Mr. Crawford. Sure; it is a choice on his part.

Mr. Levittes. Let me give you a reason why I say that. Because, under the order, he had the privilege of categorizing the items that he produces, and have a separate maximum average price for his lightweight fabric, and a separate maximum average price for his heavy goods. He chose not to do that in order to have a means of producing more lightweight goods. It was purely a matter of his choice, not compulsion under the order.

Mr. Crawford. Let us take up that proposition, then: When the war was on, and 10 or 12 million men were in the service, certain mills were producing for war use to Government specifications, and then, in 1942 and 1943, they were performing for civilian consumption. Now, during that period was the demand from the trade more for lightweight goods, by reason of so many men being in the service, or was the demand from the trade in this commodity more in the way of heavyweight materials?

Mr. Levittes. The demand was present for both, light and heavy.

Mr. Crawford. Which was the greater?

Mr. Levittes. Well, I would say that there were more people ready to buy lightweight fabrics because there were more women present than men.

Mr. Crawford. Exactly. So then a man's performance, a manufacturer's performance, during this base period, we will call it, was, we will say, more in the lightweight field than in the heavy-weight field?

Mr. Levittes. Right.

Mr. Crawford. Would that not have a material bearing on the choice he makes under the maximum average price?

Mr. Levittes. Not necessarily, because he still could have chosen a separate maximum average price for the lightweight goods, in continuous production on that average, and then choose another average price for his heavy-weight goods, and operate that.

Mr. Crawford. Well, if the demand was primarily, we will say—primarily, not overwhelmingly—for lightweight goods, would not that determine his decision?

Mr. Levittes. I do not follow the question.
Mr. Crawford. You see, he can exercise his option, as you said.
Mr. Levittes. Yes.
Mr. Crawford. Now, he had a demand primarily for lightweight stuff.
Mr. Levittes. Yes.
Mr. Crawford. So, then, it seems to me, under the maximum average price, he would just economically and necessarily choose a lightweight formula.
Mr. Levittes. He probably would, yes, for his own purposes.
Mr. Crawford. Yes. Now, what I am trying to develop here—and I think the case is clear—is that through the operation of the maximum average price, we are developing a situation where the heavier material is crowded out of the market, which means to say at a subsequent date we are going to thus produce another emergency, by reason of the absence of a heavy-weight yardage, and, therefore, not being available to the manufacturing trade.
Mr. Levittes. Mr. Crawford, are you aware of a recent amendment that we issued in wool maximum average price, S-0110, exempting from maximum average price heavy-weight goods of 13 ounces and over, up to and below $3 a yard? so as not to interfere with the production of men's suiting, for example? We exempted the increase of production against 1944. Now, we understand further that, as far as overcoatings are concerned, the industry represented to us that a similar situation is developing.
Mr. Crawford. Yes, sir.
Mr. Levittes. And we have committed ourselves to the industry that similar action will be taken on overcoatings.
Mr. Crawford. I did not know this commitment. That is exactly why I developed this case.
Mr. Levittes. I am glad to tell you about it now.
Mr. Crawford. Here we have overcoating of $4.25 a yard; here $3.50 a yard; here it is $4.10 a yard; here it is at $3.17 a yard. So your planned change then will accommodate the situation in such a manner as to bring forth more of this yardage, to which I have referred?
Mr. Levittes. Of the heavier-weight woolens, suitable for overcoatings, 23 ounces and over.
Mr. Crawford. That is to avoid the forthcoming shortage that would otherwise materialize?
Mr. Levittes. Right.
Mr. Crawford. Going on a little further with this maximum average price proposition. Under the general results, what are the general results of the maximum average price? At the very outset, the textile and apparel industries, regulated by the maximum average price directive, unanimously opposed the order, did they not?
Mr. Levittes. When it was first promulgated, definitely, for the reason that we were talking to them in terms of 1942, then changed to 1943, without any modification in terms of tolerances and exemption level.
Mr. Crawford. Yes, sir.
Mr. Levittes. There was no operation from the industry that I know of for maximum average price as it operates today, except individual problems that arise here and there.
Mr. Crawford. Now, going to Mr. Porter's statement on garment maximum average price, as he points out there, you have discovered
that the maximum average price as originally conceived was too inflexible, and that it was impractical, and, therefore, you have issued certain corrective orders. Mr. Porter says here:

We found that 9 out of every 10 manufacturers could produce at or below their maximum average prices.

You have not done anything at any time which said to a man he could not produce, have you?

Mr. Levittes. I beg your pardon?

Mr. Crawford. You have not said to anybody he could not produce?

Mr. Levittes. I believe Mr. Porter meant the shipments. The reports under maximum average price indicate that merchandise was shipped.

Mr. Crawford. That is the reason I am bringing this up. I said I was going to be technical on it. We are dealing with a shipping proposition, not with a producing proposition. You say:

We found 9 out of 10 manufacturers could produce at or below their maximum average price.

I do not think you tell us anything when you say it that way. It might have been that you meant they could ship.

Mr. Levittes. That is correct.

Mr. Crawford. Then you also say, in terms of dollars, the picture is still more impressive. The amount of surcharges incurred were less than one-half of 1 percent of the total dollar volume of business transacted in the categories affected.

Moreover between 50 and 60 percent of all manufacturers show credits, that is produced at an average price below their maximum average prices.

Do you mean there they produced at an average price or shipped at an average price.

Then, you say,

There have been a handful of trouble spots notably in the case of men's shirts. The Office of Price Administration has, however, made adjustments in maximum average price to take care of these difficulties and will continue to do so as the need arises.

That was your recent order with respect to shirts?

Mr. Levittes. Correct.

Mr. Crawford. Under the maximum average price operation, did there not occur many situations where manufacturers had in their warehouses goods which they could not ship without violating the maximum average price?

Mr. Levittes. If there were such cases, we did not know about it, except in the case of shirts.

Mr. Crawford. I was going to ask you why did you make your change on shirts if you did not know that?

Mr. Levittes. That is what I am saying. Shirts, shorts, and pajamas. We knew we had a problem there.

Mr. Crawford. Now, you do not have any problem, then, with respect to woolen yardage, as a result of the maximum average price? Do you mean to say that to us?

Mr. Levittes. I would say that is probably true, with the exception of the problem that arose with men's suitings, and there were men's overcoatings, and we have treated with one and intend to treat with the other.
Mr. Crawford. I see. Why is there so much delay in dealing with those propositions? In other words, why do you not, as managers of our economy, look far enough ahead to prevent and alleviate this thing before it develops into such a serious case, such as with shirts? Nearly everybody in the country is short of shirts.

Mr. Levittes. It is a long story, and I do not know whether you would want to go into that. In the case of shirts, it was not a question that we did not know the problem would arise; it was a question of the industry not cooperating with us and guiding us and giving us information to properly set exemption levels and tolerances. It was the one and only industry out of 36 industries advisory committees that I personally met with, that did not guide us in setting these exemption levels. And they were not properly set as a result of that. The industry has admitted it to us.

Mr. Crawford. Well, then, you do give us your unqualified commitment that you are going to do something about this maximum average price trouble just as fast as you can?

Mr. Levittes. We always do.

Mr. Crawford. When the Office of Price Administration was up for consideration before, did we not advocate that the maximum average price be abolished?

Mr. Levittes. I beg your pardon?

Mr. Crawford. Did not the two committees of Congress indicate a couple of years ago that the maximum average price directives be abolished?

Mr. Levittes. Not to my knowledge. I do remember there was an amendment offered on the floor which was not adopted. There was no recommendation.

Mr. Crawford. If we abolish the maximum average price, will that in any way directly affect price ceilings as such?

Mr. Levittes. Definitely. Not price ceilings but the average level of prices. Definitely affect it adversely and terrifically.

Mr. Crawford. The prices at which they ship their goods?

Mr. Levittes. The average price of merchandise that a given industry ships.

Mr. Crawford. But we can do away with the maximum average price directive, and you will still have full authority to maintain your price ceilings on any and all things shipped, will you not?

Mr. Levittes. That is quite true, but we have lived under that for a period of 32 months and during those 32 consecutive months clothing continued to rise in price, until we issued the maximum average price regulation. In other words, let me put it more simply: If a commodity has an average price today in the country of $2 with maximum average price, remove maximum average price and you are bound to get an average price of anywhere from $2.50 to $3 for that commodity. In that sense, you do get an increase in price, in the level of prices, even though you are going to get $2.50 or $3 items produced exclusively. But you are going to force the consumer to pay $3 instead of $2.

Mr. Crawford. Do you take the position that the maximum average price directive has increased the supply of low-end goods?

Mr. Levittes. Maximum average price has nothing to do with the increased supply of low-end goods, except insofar as maximum average price produces a lower average in the industry. But when you
speak of low-end goods as such, maximum average price does not func-
tion to produce or get at production of these low-end items. The
Civilian Production Administration, through its order 328-B, is
attempting to get that done.

Mr. Crawford. Well, the trade has come here and testified that the
maximum average price interferes with production, and apparently
you do not take the position that it has increased production.

Mr. Levittes. We deny that maximum average price interferes with
production.

Mr. Crawford. I know you do.

Mr. Levittes. We never claimed that maximum average price has a
function to increase production of low-end goods.

Mr. Crawford. You do not claim that?

Mr. Levittes. No, sir.

Mr. Crawford. Well, you testified a few minutes ago, either you or
Mr. Porter, that one of the primary objectives in this original release
was to the effect that it would prohibit upgrading, roll back the price,
and increase the supply of low-end clothing.

Mr. Levittes. If you will recall, Mr. Crawford, I pointed out that
you are quoting from a joint press release issued by the then War
Production Board and the Office of Price Administration.

Mr. Crawford. Yes.

Mr. Levittes. Their function was to get more low-priced goods pro-
duced.

Mr. Crawford. Yes.

Mr. Levittes. Our function was to stabilize or reduce the general
level of prices, and if we cannot reduce it, at least let us hold it where
it is.

Mr. Crawford. But I repeat that the trade, the man who produces,
and upon whom we must depend for production, testifies here that the
maximum average price interferes with production. Apparently you
deny any responsibility with respect to getting more production.

Mr. Levittes. Mr. Crawford, I produce under maximum average
price. My own business is operating under maximum average price.
We are living with it.

Mr. Crawford. What is your business?

Mr. Levittes. We manufacture dresses.

Mr. Crawford. What kind?

Mr. Levittes. Dresses selling at $3.75 and $4.75 in the low-end field
and I have a third interest in another business which produces $8.75,
$9.75, and $10.75 dresses.

Mr. Crawford. Do you produce and sell in a narrow price range?

Mr. Levittes. No; we have two prices in one operation, and three
price ranges in another operation.

Mr. Crawford. Five altogether?

Mr. Levittes. Yes.

Mr. Crawford. That is what I call a rather narrow field.

Mr. Levittes. No; not in the dress industry. Mr. Crawford, the
dress industry, by and large, operates on either a single price line, or,
at the most, two or three.

Mr. Crawford. Is it not a fact that M-388 and M-328-B have the
absolute effect of channeling goods to a factory such as yours?
Mr. Levittes. We get some priority assistance in the low-end field. There are two different plants, two different businesses, two different entities. In the low-end field, we get some priority assistance. We have not been too successful, the same as everybody else, in getting those priorities placed.

In the upper-price field—and that volume of business is three times that of the lower—we cannot qualify under 328-B, because it is above the cut-off price; $5.75 is the cut-off price.

Mr. Crawford. Have not these exemptions to which you have referred taken a greater and greater volume of your production out from under the maximum average price?

Mr. Levittes. There are no exemptions involved in dresses. The exemption level of dresses is $3.50 apiece.

Mr. Crawford. Well, you have been referring here to some relief orders issued. That is what I am referring to.

Mr. Levittes. You are talking about wool maximum average price.

Mr. Crawford. No; I am talking about your maximum average price, on dresses.

Mr. Levittes. On our maximum average price, the only relief that we got was 10 percent tolerance on the base period average. That is, as far as my own business is concerned.

Mr. Crawford. There have been no exemptions issued whatsoever?

Mr. Levittes. None whatsoever.

Mr. Crawford. As related to your particular type of dress manufacture?

Mr. Levittes. No, sir.

Mr. Crawford. We understand all that.

Mr. Levittes. It depends on other factors that enter into it.

Mr. Crawford. We understand all that. She goes on to quote:

Under the maximum average price regulation I am not permitted to sell as many $6.95 or $14.95 dresses as I could produce, because I cannot obtain sufficient material for $2.95 to $4.95 dresses to average out against the $6.95 to $14.95 dresses. Is that a reasonable statement?

Mr. Levittes. That is a reasonable statement, except for one qualification. I think it ought to be mentioned. I think you will find in the dress industry that the price of a yard of goods, in and of itself, does not determine the selling price of the garment. In other words, material is interchangeable between price lines. A man may buy a piece of goods for 50 cents a yard and produce a $3.75 dress, and another man may buy that 50-cent goods and produce a $6.75 dress with it.

Mr. Crawford. We understand all that.

Mr. Levittes. We understand all that. She goes on to quote:

Under the maximum-average-price regulation I am not permitted to sell as many $6.95 to $14.95 dresses as I could produce because I cannot obtain sufficient material for $2.95 to $4.95 dresses to average out against the $6.95 to $14.95 dresses. This regulation then curtails my production of $6.95 to $14.95 dresses, even though its supposed purpose was to increase their supply. And I maintain that a dress that a woman can wear at any time in the daytime, which
costs from $6.95 to $14.95 is a low-priced dress. The same type and quality of material that I cannot manufacture into the dresses of this price range is sold in $19.95 and $29.95 dresses, and even in those selling as high as $49.95, with the Office of Price Administration's blessing.

Mr. Levittes. That is probably true but that is not because of the Office of Price Administration. That was true traditionally for the last 30 years, when the garment industry became a mass producing industry, that you had the same fabric enter into items at varying prices, running everywhere from $6.75 and the same fabric might be used in a $22.50 dress. That is quite true. That is a pattern that existed prewar. We had nothing to do with it.

Mr. Crawford. Then what she states could very well be the situation in her factory?

Mr. Levittes. Yes; I believe it could be.

Mr. Crawford. Then, I take it from your testimony that the Office of Price Administration is absolutely silently opposed as to a change in the law, which would force discontinuance of the maximum-average-price directive?

Mr. Levittes. Definitely.

Mr. Crawford. I think there will be an amendment offered on that. I do not know what the House will do about it. Now, we had some very fine people come up here to present this case. Here are two gloves made with the same leather and canvas, long cuff and short cuff. One of the firms testified that they are being sued for $300,000, as a result of their having sold this glove, the long-cuff glove, for 50 cents per dozen more than the short-cuff glove. Are you prepared to give us any information on that?

Mr. Porter. Yes; I think Mr. Field made an investigation of that, Mr. Crawford. I would like to have him comment on it.

Mr. Field. Mr. Crawford, the work-glove cases about which there was testimony here, were cases which arose under the general-maximum-price regulation, which as you know, was the basic freeze regulation. What happened was this: In the latter part of the month of March, the industry generally set about raising its prices. Most of the manufacturers in the industry put out price lists increasing their prices sometime in March. Some others were somewhat later than March, and their position is not material to the discussion here.

The result was that sales were made in the month of March on certain of the types and styles of glove, at the higher price. On certain other types of gloves there were no sales made at all but they had the benefit under the regulation of their highest offering price, which was the price in the new price list. On others, there were no sales, except at the lower price—that is there were no sales at the prices fixed under the new price list, and under the regulation, it was the highest price charged for any March delivery that governed.

Any general freeze regulation of that type necessarily, taking the prices as it finds them, achieves some results which give a distorted price picture. That was true in this case. It was true in a good many other cases.

Mr. Crawford. Mr. Field, you are familiar with this case, now, are you?

Mr. Field. In a general way; yes.
Mr. Crawford. And the way they sincerely tried to follow the rules and regulations?

Mr. Field. Well, I think——

Mr. Crawford. And in interpreting the rules and regulations.

Mr. Field. They construed the regulations as permitting them to apply the differentials from their basic glove as reflected in the new price list.

Mr. Crawford. Did any employee of the Office of Price Administration participate with them in that construction of the regulation?

Mr. Field. It was testified here, as I understand it, that a Mr. Elliot, who was at that time in the work-glove section, did some investigation of them. I have, of course, no personal knowledge of the matter and for the purposes of the discussion I may assume that that is so, although I understand there may be some doubt about it. But I am not challenging it.

Mr. Crawford. We have gone into it——

Mr. Field. I may say in that connection, it was a somewhat surprising affidavit, because nothing was more fundamental in our own interpretation of the general maximum pricing regulation right straight through, than that the result which the courts have now held to be required by the regulations was the proper one. It was not, in our view, even a doubtful question of interpretation, until, I should say, in fairness, various courts ruled the other way, as a matter of construction, and hence we may say that there was room for doubts and the competent courts so held.

However, insofar as the question is a question of the correct interpretation of our regulation, it is perfectly clear, as the court decisions now stand, including the Supreme Court of the United States, which denied certiorari in one of these glove cases, that the construction of the regulation for which we had always contended is correct.

Mr. Crawford. Would you have any objection to our putting into the law an amendment to correct that situation and removing this penalty from those people?

Mr. Field. You mean——

Mr. Crawford. Let the Congress assume the responsibility and take it out of your hands?

Mr. Field. If you mean the amendment that the work-glove people offered, I may say that I think it would be an extraordinarily bad precedent in Government, and so far as I know, it would be the first time the Congress of the United States had ever decided that together which was a violation of the law or regulation when it was done was to be bailed out retroactively by a congressional act thereafter. I suggest that, if Congress did do that in that case, that Congress would have a great deal of business from other people who would like to have the same kind of thing done for them.

Mr. Crawford. Have the courts held that this was an intentional violation?

Mr. Field. They have not. In fact, I do not believe that it is suggested by the Office of Price Administration that the violation was a willful one. So far as I know, we do not have any information or any belief that it was intentional.

Mr. Crawford. Well, then you would be opposed, would you, to Congress amending this act so as to do away with this difficulty?
Mr. Field. Well, Mr. Crawford, let us look at the structure of the act as Congress first wrote it, and second, amended it in 1944. When Congress wrote the act the treble-damage provision was a mandatory one. There was no question of anything less than treble. The only way that that was kept from the outset from being a very onerous thing was by our own use of administrative discretion and settling in appropriate cases for lower amounts.

Congress in 1944, quite properly, and I think with very desirable results from the point of view of the agency as well as the public, took care of that situation by the amendment introduced first in the Senate by Senator Chandler. That amendment provides that, if the violation was in good faith, and if practicable precautions were taken to avoid the violation, that the measure of damages shall be only the amount of the overcharge. It seems to me that, as amended, it is a perfectly reasonable thing; that the man who has got more money for selling something than he was entitled to under the regulation, should be put back in the situation that he would have been in had he charged the proper amount.

Mr. Crawford. Which is treble damages?

Mr. Field. No; wait a minute, and single damages, so-called, are actually merely the restoration of the amount that he should never have had in the first place. If you knock that out, or if you give back by congressional action, as you are suggesting through this amendment, the amount of the overcharges, you are in effect not merely retroactively taking away the consequences of the violation but you are in effect retroactively amending the regulation by saying that these people should have, in the first place, got a higher price than they did get, and that action would, it seems to me, be most unfair to the people who, in the first place, charged only what the regulation permitted.

Mr. Wolcott. Will you yield?

Mr. Crawford. Yes.

Mr. Wolcott. Mr. Field, do you not think it is common sense that the glove manufacturers should have a historically higher price for that larger cuff than the narrow cuff?

Mr. Field. I certainly do.

Mr. Wolcott. Well, if you think that the Congress does not think that an injustice was done in this case, you are mistaken, and if we do feel an injustice was done in this case, then it is our job regardless of your attitude, to take steps to correct an injustice. Now you say that we would be taking this action, and at the same instance say that the price of this wider-cuffed glove should be 50 cents a dozen more than that of the narrow-cuffed glove. Why have you not said that to remove that injustice?

Mr. Field. We did, long, long, ago.

Mr. Wolcott. Then what are these suits about, $300,000? These suits are based upon the mandatory provisions of the old act, and even after last year when we changed that you did not amend your declaration in that respect in keeping with the clear intent of Congress.

Mr. Field. Well, now, may I answer those points separately, Mr. Wolcott? In the first place, so far as the present price of gloves, Maximum Price Regulation 506, which prescribes dollar-and-cent prices for gloves, reflect the differentials customary——
Mr. Wolcott. Well, let us not get technical about it. The question is that these fellows were delivering this glove here under an old contract, this wide-cuff glove, in 1941. They quoted a new price on this, with the historical mark-up over this narrow-cuff glove, and the only question in that case, of any moment, the question turned on whether they could charge the quoted price or the actual selling price.

And they have an affidavit that the chief of your own glove division, told them that they could charge the quoted price. They operated for a year, under the verbal assurance that they had from the chief of the glove division that they could charge that quoted price. Then you slapped this suit on them for $300,000, and I understand that two courts held that you did the wrong thing until the Supreme Court held, technically, that you are technically right. But there are a lot of cases like that, now, that result in injustices, although you may be technically right, and we have a public obligation here to see that injustices are not done, just as we have an obligation to see that the laws are enforced.

Mr. Field. You made one or two other points, Mr. Wolcott, which I would like to answer, if I may.

I believe you said that the suit was brought before the act was changed and was brought for treble damages, and that we did not change our pleadings, and went ahead for the suit for treble damages. Did I correctly understand you to say that? The act, the Chandler defense, is an affirmative defense, to be pleaded and proved by the defendants. We have, as I understand it, in one of the cases, entered into a stipulation with respect to the good faith of violation.

As I understand it further, we do not contest, nor do we propose to contest, the fact that the violation is within good faith.

Mr. Wolcott. It seems to me the proper thing for you to have done, you virtually stipulated that an injustice had been done, was to have given them a price retroactive on this long-cuff glove to offset your damages. That was the only equitable thing that I could see could be done in this case.

Mr. Field. I did not say that we stipulated that an injustice had been done. I said that we had stipulated that the violation was in good faith. Certainly, the whole structure of the act as written by Congress contemplates that where there is a violation in good faith that the amount of the overcharge should be paid.

Mr. Wolcott. Even when you recognize and stipulate that they were not guilty of bad faith, that they acted in good faith, the court—you are going to allow a judgment to stand for triple damages on the justification that triple damage is punitive, of course.

Mr. Field. Not at all. All we are seeking in the case is the same amount of the overcharge, Mr. Wolcott. That is my point. They have pleaded, and from my present understanding of the case, I do not question but that they can prove, that the Chandler defense was satisfied. I have not the full knowledge of the details of it. Certainly my understanding is that it is a case where we are simply seeking to get the amount of the overcharge.

Mr. Wolcott. It just seemed to me in that case that there was just a certain amount of stubbornness on the part of somebody in the Office of Price Administration to save somebody's face and just tell these little fellows down here that, "By heavens, we control this situation,
and we are going to prove to you that we are going to continue to con-
trol it.” It is the most outrageous case that has been presented to this
committee and surely is not conducive to the support which Mr. Porter
says must be given to the Office of Price Administration enforcement
by business in general, if we are going to make a success of this.

Now, I fought your battles.

Mr. FIELD. I appreciate that.

Mr. WOLCOTT. For a good many years down here. I just cannot
justify things like that, and you cannot attempt to justify cases of that
nature.

Mr. FIELD. May I say simply this, Mr. Wolcott: There are certainly
aspects of this case which are extremely unfortunate, if true——

Mr. WOLCOTT. I think if they are, that the Office of Price Adminis-
tration should take the initiative to correct it and to give faith and
confidence in Office of Price Administration, if for nothing else.

The psychological effect of at least one case coming out to which the
Office of Price Administration could point to with pride that, “We are
in the business of enforcing prices, but we are not in the business of
clamping down unnecessarily on business to put them out of business.”

Five hundred thousand dollars capitalized and three hundred thousand
dollars judgment would put them out of business. And it is admitted
they did not do anything willful.

Mr. FIELD. It does seem to me, Mr. Wolcott, that what you are say-
ing goes to the treble aspect, goes to the fact that you still appear to be
taking the position that we are after three times the amount of the
overcharge. But actually all that we are after is, the amount of money
that, under the regulations, they should not have had in the first place,
to wit; single damages.

Mr. FOLGER. Mr. Wolcott, or Mr. Crawford, will you yield?

Mr. CRAWFORD. I yield.

Mr. FOLGER. Mr. Field, and I would like for Mr. Crawford or Mr.
Wolcott to correct me if I am in error, my recollection is that the
testimony of one or more of the men who were involved in these
glove cases, was to the effect that the price of these gloves—and I can-
not keep in mind the differential between the long-cuff glove and the
short-cuff glove, and that is not material to this—that prior to March
there was a given price on these gloves.

Mr. FIELD. That prior to March what?

Mr. FOLGER. Prior to March 1942. Mr. Crawford tells me——

Mr. WOLCOTT. Not a ceiling price, a trade price.

Mr. FOLGER. A published price.

Mr. FIELD. Yes.

Mr. FOLGER. Now, in March, they were given by the Office of Price
Administration a ceiling price, either the 1st or 15th of March.

Mr. FIELD. No. The first time that price control came in was ef-
fective 11th of May 1942, the general maximum price regulation came
into play. That price regulation stated that the highest price that
could be charged for the commodities covered by—it was almost the
highest price which they themselves have charged in March for the
particular article, of the deliveries in March for the particular item.

Mr. FOLGER. My understanding of the statement of one or more of
them was that it would have been all right for them to have gone ahead
under the March 11, if that is the date, ceiling price order and there-
after to have sold their goods at that price, fixed, but for the fact that
they had sold goods prior to that, and commitments that they had to
fill, to be honorable men, so they went ahead and sold them and de-
ivered them under sales already made at a lesser price and that there-
fore they had violated the price order.

Mr. Field. When all these transactions took place, Mr. Folger,
there was no price control on the commodity. What they did in March
was not and could not have been under any circumstances a violation.
Their complaint is that because the only deliveries of certain styles
of gloves, which they made in March, were at the lower price, whereas
they had generally increased their prices, but had merely not sold
those particular models in March—

Mr. Wolcott. Mr. Folger’s position is that they were actually de-
ivered at the low price in fulfillment of contracts entered into before
the order was out.

Mr. Field. I think that is true.

Mr. Folger. If that had not been, if they had disregarded their
commitments and their contracts and not delivered those goods, they
would not have been in violation of this regulation. I was just think-
ing they were doing what men ought to do to fill their contracts.

Mr. Field. Certainly.

Mr. Folger. I cannot say or understand why they should then be
sued or penalized for doing that, although technically it may have
been—

Mr. Field. They were not penalized for doing that, or sued for do-
ing that. The actions or conduct which happened in March, was the
thing which under the regulation set their prices, effective in May
when price control came in. Now, one of the troubles, if you will, was
this over-all freeze type of price control, which was born in a very
serious emergency, with prices going up and drastic action necessary,
one of the consequences of it, dramatically evidenced in this case but
present in a great many cases, is that people who had not quite gotten
around to raise their prices did not have the benefit of the kind of
price they wanted.

Mr. Folger. Was it not essentially the objection that the Office of
Price Administration made that you delivered these goods at the old
prices, which were not the prices that were fixed in March, therefore
all the sales that you made, at the market determined prices, after you
had made your deliveries, are in violation of the regulations, because
you delivered goods in March and maybe April, I do not know, the
1st of April, somewhere, that you had sold at your prices prior to the
fixing of any prices, and therefore you are in violation of this regu-
lation.

Mr. Field. Our regulation, which may or may not have been the
wisest way to do it—it was thought at the time that it was—it might
have been better, but I still think the method chosen was the best in
the light of all the circumstances—the method simply was that your
deliveries in the month of March govern your prices. We might have
said something else. We might have said contracts of March. There
were various reasons why that might have been desirable, others why
it might not have.

Mr. Folger. Do I understand that you mean that the deliveries of
goods under formal contracts and commitments which they were
honor bound and possibly legally bound to do brought about the violation?

Mr. Field. The thing that, it fixed their price. It was their failure to sell at that price, but at a higher price.

Mr. Folger. They did not sell, Mr. Field. They just delivered what they had already sold?

Mr. Field. I am making myself very unfair, I am afraid. The only violations that are being discussed are violations for sales after the month of May, when the regulation became effective.

Mr. Folger. I understand.

Mr. Field. And the reason for the violation was a charge in excess of the price charged for March deliveries. If they had charged a higher price in March, they would have had a right to charge a higher price later. They did on many of their models. They failed to on others. And you did get a somewhat distorted result of a difference in the differential as between the various models because of the way the freeze hit it. And it was inevitable that a freeze type of regulation should create a good many of those somewhat whimsical results, and since March of 1942, or since the general maximum price regulation came out in May, there have been a vast number of commodities—with, indeed—have been pulled out of the general maximum price regulation, and a price regulation tailored to the particular needs and circumstances of the industry. But in rough-cut method base the only available way at the moment, you could not have done anything more than an across-the-board sweep of some sorts. The time that was picked was that your March deliveries governed.

These people did not comply with it in that they charged a higher price than their March deliveries on these items. It is perfectly true that their price would have been higher if they had sold at their price list price than it would have been if they had sold at a lower price because of previous commitments. Throughout our economy there are a good many people who had lower prices than they liked, and have probably lower prices than they deserved, because of the fact that they did not get around effectively to raising their prices before the freeze period was over.

The man who sold on the 1st of April at a higher price, or who delivered on the 1st of April at a higher price, suffered by reason of the fact that March was the month. All kinds of results like that, and some of them worked unfairness. But the point which I think is very important to make is that you cannot allow self-help to straighten out those distortions if the regulation was violated. These people went ahead and took the higher price, and we say, even though they did it in the utmost of good faith, that until the regulations changed permitting the higher price, the change should not by reason of that self-help have the benefit of a higher price than people who stuck to the regulation.

That is true whether it is in good faith or bad faith.

Mr. Crawford. Now, the district court held there was no violation of the law. That the Good Luck Glove Co. in good faith tried to comply with the law. This judgment was affirmed by the circuit court of appeals. Is that not correct?

Mr. Field. Well, the district court held that they succeeded in complying with the law. That there was no violation.
Mr. Crawford. That they succeeded in complying with the law?
Mr. Field. Yes; so far as the question of law is concerned.

Mr. Crawford, there were two district courts which held that this was not a violation. The circuit court of appeals, in one circuit, agreed, and then by reason of the Supreme Court of the United States decision in another case, that was reversed, and the reversal of terms upheld in the Supreme Court.

Mr. Crawford. It seems to me that there is another point on this. I am now talking from the standpoint of the legislator’s mind. In May 1944, under Revised Maximum Price Regulation 508, you set a price of $1.50 per dozen on these gloves, which are involved in this suit, for having been sold at $1.25 price, or $1.35 price, and the Office of Price Administration price ceiling as of today is $1.55. So moving on down the hall of time, the Office of Price Administration issues rules and regulations permitting these gloves to sell at a higher price than the price at which these people billed these and on which they are being sued for the $300,000?

Mr. Field. That is right.

Mr. Crawford. As has been pointed out here, I think this is a case where Congress has to act.

Mr. Field. May I speak on that for a moment, Mr. Crawford?
Mr. Crawford. Yes, sir.

Mr. Field. Are you suggesting that whenever the Office of Price Administration raises a price, that that action should legalize every sale before that time, at a price below that?

Mr. Crawford. No, sir. I am suggesting that in a case of great controversy, which comes about under some of these rules and regulations, and where a company acts in good faith, with no intent to violate, and an employee of the Office of Price Administration becomes a party to that action, that we have no right to go into the courts and close the industries of this country.

That is my only contention in this matter. I would scrap a man on that just as long as I am able to talk.

Mr. Field. Well, your statement raises several issues.

Mr. Crawford. I know it does.

Mr. Field. I mean there are several different points. If you are suggesting that there should not be any recovery, where a sale was at a price later legalized by the Office of Price Administration, as I understood you to say a moment ago, I would say that any such legislation as that, particularly in a time when there are rising costs and price increases coming along fairly frequently, would be an open invitation for anybody and everybody to gamble on being given a higher price in time so that he would not suffer from the consequences of a violation.

Mr. Crawford. I said in the case of a highly controversial regulation, where an employee of the Office of Price Administration where respondent participants in the interpretation of the regulation, and where there was no intent on the part of the victim to violate, that we have no moral right to proceed against him and put him out of business.

Because if we cannot depend upon what our public servants say, then why should people have confidence in the Government?
Mr. Field. We have provided from the very beginning, unlike many Government agencies, that anyone seeking an interpretation of a regulation may ask for and get one in writing, by which the agency is completely bound. This was an oral interpretation, allegedly given, and erroneous, and it is more or less comparable, it seems to me, to when you go to the post office and get some assistance on your income tax, and the man makes a mistake. The Government servant charged with helping you make out your tax makes a mistake, and you pay a less tax as a result of that mistake than you should. It seems to me that it would be absurd to say that because of that, when that mistake is caught, you should not be compelled to pay your proper tax.

I agree with you that under those circumstances the man should not pay treble damages or suffer anything more than the actual amount of the overcharge, which he got, that he should not have had, and whether he got it from erroneous advice or not. That seems to me only reasonable.

Mr. Crawford. Let me ask you another question on the glove situation. There are two pieces of cloth identical, out of the same yardage. If those cloths are put down that way, and the gloves are stamped out for processing, one price, if that piece of cloth is turned over this way, and stamped out, another price. Why do you do that?

Mr. Field. I do not do it.

Mr. Crawford. Is there anybody here who can answer that?

Mr. Field. Maybe Mr. Levittes can answer that.

Mr. Levittes. I do not know, Mr. Crawford, if that is a fact. I will be glad to check into it and let you know.

Mr. Crawford. These glove men testified it is a fact.

Mr. Levittes. I will be glad to check into it.

Mr. Crawford. That is the reason they left these here. They wanted me to ask you that question. Identical cloths all the way through, except they are turned in the opposite direction. In other words, the gift you

Mr. Levittes. Mr. Crawford, may I have those two pieces of material so that I can intelligently answer the question you want to ask?

Mr. Crawford. In one case you get the nap outside and in another case you get the nap inside out.

Mr. Levittes. As a result of that, you get two different prices; is that the idea?

Mr. Crawford. Yes, sir; under Office of Price Administration regulations.

Mr. Levittes. Mr. Ailes suggests that I ask you whether you know whether the price originally was the same or varied in the base period Mr. Field was discussing.

Mr. Crawford. The Good Luck Glove people left the impression with me—I am giving my own definition now—that this situation prevails at the present time.

Mr. Field. May I say this, Mr. Crawford? The general framework of that regulation was to reflect the customary price differentials, customary before price control, of the various styles and categories of gloves. I am no glove man. I hasten to say. Whether that is stupid or whether it is wise or where it is the fact or not the fact, I do not know. To the best of my knowledge there has been no protest of the regulation under that question and as far as I know of any other.
Mr. Crawford. I hope you will clear it up before this bill reaches the floor, because if I am convinced that what they told me is the truth, I am going to raise a kick about it.

Mr. Levittes. May I have those samples of the material, Mr. Crawford?

Mr. Crawford. If you will bring them back to me.

Mr. Levittes. I promise to bring them back.

Mr. Crawford. Now, in the Friday, March 27, 1946, issue of PM we have this heading, "Porter seen holding up 150 million oil grab." Was an announcement made in advance that an increase of 10 cents per barrel on oil would be granted about the 29th of March?

Mr. Porter. I think it was announced on or about April 1. The announcement was made about then. The regulation has not been made effective.

Mr. Crawford. The regulation has not been made effective?

Mr. Porter. No.

Mr. Crawford. When you go out and give advance notices to our people that something is going to happen; then we do not carry through on it—I am only interested in this from the standpoint of keeping faith with the public. Do you want to tell us why that is being held up?

Mr. Porter. I have not had time to examine, Mr. Crawford, the regulation or the statement of consideration, personally. I do not know where that story came from, I have not seen it.

Mr. Crawford. I will give you a copy of it. [Hands copies to Mr. Porter.]

I understand the regulation has been written up but it has not been approved.

Mr. Porter. It has not been signed; that is correct.

Mr. Crawford. I want to touch on the oil situation just a little. Can you tell us whether or not there is any shortage of fuel oil, Diesel engine fuel oil?

Mr. Porter. I am told by the Navy and by the War Shipping Administration that on bunker oil there is a very real shortage.

Mr. Crawford. That is what I understand.

Mr. Porter. Yes, sir. We just increased the price 21 cents a barrel on oil to get production of those medium and low distillates.

Mr. Crawford. When did that happen?

Mr. Porter. About 2½ weeks ago.

Mr. Crawford. So then that will bring about a readjustment in the production of our low-grade oils, as related to your gasoline?

Mr. Porter. That is the purpose of it; yes, sir. It is about a 25 percent increase in price and we hope to——

Mr. Crawford. Does this increase in price of fuel oil bring the fuel oil on a parity with coal? I think before that increase, it was more profitable to burn fuel oil than coal. What has your increase done with respect to that?

Mr. Porter. I am told by our fuel division people that it brings them up very close together, and that the old parity, the old relationships, would be approximate.

Mr. Crawford. Otherwise, you would have a greater consumption of fuel oil. That would follow, if coal was on a parity with it?

Mr. Porter. That is correct.
Mr. Crawford. So far as you know, will this increase in price to which you referred bring about a correction of the difficulty that the Navy refers to?

Mr. Porter. I would like to have Mr. Baker comment on that.

Mr. Baker. There is one question: The Navy, on the coast, has not so far been able to get from coast sources all they need. They are now applying further inland to refineries which will be able to furnish them with adequate quantities, so that we believe that they are taken care of by extending their purchases further inland from the coast.

Mr. Crawford. A while ago, I raised that Ranney Refrigerator case and I think the refrigerator man was out at the time. Mr. Johnson, can you give me any information on that case?

Mr. Johnson. I can give you the general story on it, Mr. Crawford. The Ranney Co. was a manufacturer of refrigerators, and came in the office last fall—I think in October—in order to obtain an in-line price on a refrigerator it was planning to produce.

Mr. Crawford. What do you mean they were new manufacturers of refrigerators?

Mr. Johnson. They were new sellers of refrigerators.

Mr. Crawford. On their paper here, on their letter head, Ranney Refrigerator Co., three generations of better refrigeration. How far back do they have to go?

Mr. Johnson. I am sorry sir, the company is an old manufacturer of refrigerators, but I believe that the company previously marketed under another brand name. They had no base period price on the refrigerator which continued in effect as of the present time.

Mr. Crawford. But here was a production which was to be sold to another firm to market under their name, was it not?

Mr. Johnson. Yes, sir.

Mr. Crawford. Now, go ahead with your story.

Mr. Johnson. Well, they came in the office—I think in October—in order to obtain an in-line price on their new refrigerators. When they came in they were requested to supply some additional data on the specifications of the refrigerator, which they complied with, I think, in about 10 days or 2 weeks. Within a week of that time they were informed as to the in-line price, which the Office would grant them on the basis of the information as submitted. They were not satisfied with that price, and requested the Office to withhold any action until they could supply additional information.

This they did on several occasions, as they changed the specifications of the refrigerator, and I believe it was some 3 months later that they actually obtained their prices on the new refrigerator.

Mr. Crawford. Has the price been granted?

Mr. Johnson. Yes, sir; I believe it was done sometime ago. During that time, I might add—

Mr. Crawford. At what time did you make your audit? Do you remember when you made your audit?

Mr. Johnson. I believe it was in December.

Mr. Crawford. How long after the audit before you made the price?

Mr. Johnson. I would say about 3 weeks.

Mr. Crawford. Well what happened to that price? Was it a price they could proceed to manufacture under, or are they still holding up production?
Mr. Johnson. So far as I know they are proceeding under that price. During the time that the price was under discussion they were not actually prepared to market refrigerators. They were not producing them. I believe it is only in the last month or so that they are actually producing refrigerators. At the present time, I understand, they have informed us that they plan to distribute their refrigerators through several private brand manufacturers, and have indicated that they are coming in for prices on those private brands. But as yet we have no application.

Mr. Crawford. Well was not the original application for a private brand production?

Mr. Johnson. That is correct, sir.

Mr. Crawford. What did you mean when you just said you had not received an application for a private brand?

Mr. Johnson. They are planning to sell their refrigerators to other private brand manufacturers. That is my understanding of the present position. They do now have prices on the refrigerator, which they requested prices on last fall.

Mr. Crawford. But will those prices which you have granted them permit them to proceed with production? That is the important thing.

Mr. Johnson. I believe they have proceeded with production.

Mr. Crawford. That is what I am trying to establish. You do not know about that?

Mr. Johnson. I do not know. My information is that they have started shipping refrigerators about a month ago.

Mr. Porter. We can find that out specifically and furnish it for the record Mr. Crawford, because my last report from them was under date of March 7 at which time the general manager was in the office, and he handed me this complete file, with those notes and the statement as to how he had complied, and still no result. That was March 7. What has happened since then is the point.

Mr. Johnson. I will be glad to get for you the exact dates of their application and the date when their prices were granted.

Mr. Crawford. All right, because what we want out there in that part of the country is to get these things into production. According to Mr. Bowles' statement production is about the only thing which is going to answer this question.

Mr. Bowles, in his statement before the committee—and the matter was referred to by Mr. Porter a while ago, where you referred to farm income and farm wages being quite high from the standpoint of historical relation. That was about the substance of your statement, was it not, Mr. Porter?

Mr. Porter. What I intended to say was that the total income from foreign production and relationship to the total national income, is in a very favorable relationship, judged by historical ratios.

Mr. Crawford. Let me ask you this question: Under our planned economy, as we are proceeding in the United States, with respect to your price ceilings on farm commodities, do you feel that a man who produces, productive labor on the farm should have, through price ceilings set by the Office of Price Administration, a lesser return than the man who does productive work in a factory?
Mr. Porter. Well, as a matter of justice, I would like to see the incomes of all low-income groups raised to the highest possible level consistent with a sound and stable economic society.

Mr. Crawford. Well, that is as a matter of justice. I say as a matter under a planned economy. Do you feel that the man who produces production labor on the farm should, under price ceilings, be paid less than the man who does productive labor in the factory?

Mr. Porter. I do not agree to your first premise, Mr. Crawford, that we have a planned economy. We are taking these relationships as we found them.

Mr. Crawford. Oh, as we found them, they were all wet and all wrong and unfair. We know that.

Mr. Porter. That is correct, and I am thoroughly in sympathy with the efforts of Congress to raise farm income and returns to agricultural producers.

Mr. Crawford. Do you want to make a further statement on that?

Mr. Porter. No.

Mr. Crawford. Mr. Bowles took the position that it was not unfair or unreasonable to let your industrial prices and wages go up and freeze it as a bulge, and insist that the farmer be content and satisfied and go along on what he now receives.

Mr. Porter. Well, I think you have to get it down to an individual basis there, and we know that income from farm production, in January, was 2 percent above, with seasonal adjustments, January a year ago.

I doubt if the real income of wage earners, measured from the standpoint of their pay envelop, is 2 percent above December a year ago.

Mr. Crawford. You refer to the pay envelop. I suppose you mean take-home pay?

Mr. Porter. Yes.

Mr. Crawford. How do you define the take-home pay of a farmer?

Mr. Porter. Well, I think that perhaps one thing is his, many of the benefits that he gets on the farm that are not available to urban consumers. He raises much of his own food.

Mr. Crawford. And in raising that, he has to perform as killing stoop labor as the man who works in the factory?

Mr. Porter. That is correct.

Mr. Crawford. I am willing to charge that to him as a part of his take-home pay, but after he does that, on what grounds can we, as planned economists, manipulating his affairs, say to the farmer, "You shall be satisfied with 30 or 40 cents per hour, but in the maximum wage-and-hour law, that man shall receive 65 cents minimum, or 75 cents minimum, and under collective bargaining he shall have a minimum of $1 or $1.25."

Mr. Porter. I do not think that in this program as I undertook to point out in my opening statement that we can take care of all the real—and I assume this is a real one—or fancied inequities that exist in our economic system. If we attempt to bring one group up into some kind of parity relationship with others, why then I think that you will have a destructive blow to stabilization.

Mr. Crawford. It would be political suicide to go too far in the direction of raising that farm cost, would it not?
Mr. Porter. I have not thought of this thing in political terms.

Mr. Crawford. That is fine, we will leave it there. Mr. Porter, you referred to the textile profits. Was that before taxes and before renegotiation or after taxes and renegotiation?

Mr. Porter. I think it was before taxes, but after renegotiation.

Mr. Crawford. Before taxes and after renegotiation?

Mr. Porter. Yes, sir.

Mr. Crawford. That is all, Mr. Chairman.

Mr. Porter. There is possibly some contract still to be renegotiated. I am not sure of that.

Mr. Crawford. In other words, we do not know what the profits of the textile industry are?

Mr. Porter. No; but we can say that they are substantially above, many times above 1939.

Mr. Crawford. I thought all this had been designed so that there would not be any war profits of excessive amounts. So you admit that the war profits were higher than in any peacetime period?

Mr. Porter. Oh, yes; there is no question that their profits were higher than at a peacetime period. How much of that was taken back in taxes, is another question.

Mr. Crawford. Thank you very much.

Mr. Folger. Mr. Porter, I believe that is all.

The committee will recess until tomorrow at 10 o'clock.

Mr. Crawford. Mr. Chairman, may I make a request? The other day there was a request submitted to include in the record a statement on citrus by Representative John Phillips, of California. I do not think the record was entirely clear, and may I ask unanimous consent that there be in the record a statement on the citrus situation with respect to the Office of Price Administration control or decontrol, which Mr. Phillips will prepare for the record?

Mr. Folger. I remember that. I believe it is in the record.

Mr. Porter. We expected back in the morning, Mr. Folger?

Mr. Folger. I understand Mr. Bowles and probably another man will be back in the morning. I believe you had better come back.

Mr. Porter. Very well.

Mr. Field. Mr. Crawford asked a question sometime ago about the right of subpena of national banks, and I would like permission to put in the record an answer to that, if I may.

Mr. Folger. Permission is granted.

(The above-mentioned document is as follows:)

Administrator's Statement Regarding Subpena of Bank Records

In the course of the hearings, Mr. Crawford raised a question pertaining to the subpena of bank records with particular reference to the Shawano Bank case. The following is a memorandum from Mr. Richard H. Field, general counsel, which discusses this problem.

Memorandum
Re Shawano Bank case.

I. Bank records are not immune to subpena by reason of any claimed confidentiality or privilege

It is being suggested that a confidential relationship exists between a bank and its depositors, and, therefore, that a bank is privileged from complying with a subpena requiring it to disclose information or records relating to a depositor's account. However, the law is otherwise.
The relationship between bank and depositor may be fiduciary in nature, but not necessarily privileged. It has not been protected under the common-law rule against disclosure of confidential communications. At common law, this privilege exists only in the relationship of a person to his pastor, physician, attorney, or spouse. These relationships were protected on broad grounds of public interest. But, on the same grounds of public interest, other relationships are not so protected, where their disclosure is necessary to vindicate such interest. The following statement on the subject, taken from an annotation in 109 A. L. R. 1450, expresses the general trend of authority, and is supported by numerous cases:

"It is clearly the general rule that a banker or broker may not refuse to answer questions or to produce letters or documents relating to transactions between himself and a customer, where the testimony as to such transactions is material to the issues involved in the pending proceeding, on the ground that communications between him and his customers are confidential and privileged."

This doctrine has been applied in the case of stockbrokers (McMann v. S. E. C., 57 F. (2d) 3777, cert. denied by Supreme Court), and of bankers (I. C. C. v. Harriman, 157 Fed. 432).

The pertinent statutory provision relating to disclosure of records by a national bank is contained in the National Banking Act (12 U. S. C. A., sec. 484; Rev. Stat. 5240). This section provides in part as follows:

"No bank shall be subject to any visitorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized."

But the exemption contained in this very section covers cases in which Congress has vested investigatory powers in an administrative agency. The Price Administrator has been "authorized by law" and "directed by Congress" (sec. 202 of the Price Control Act) to exercise visitorial powers. The courts have so interpreted the exemption in the cases of Guthrie v. Harkness (199 U. S. 148) and N. L. R. B. v. Northern Trust Co. (148 F. (2d) 24 (7 cir. 1945, cert. denied)).

In Bowles v. Shueyano Nat'l Bank (151 F. (2d) 749 (cert denied)), the bank claimed that the above-quoted portion of the National Banking Act relieved it from the necessity of complying with a subpena served upon it by the Price Administrator. The court upheld the subpena, saying:

"The order here involved falls within all these three statutory exceptions. The Administrator, ex necessitate, needs investigatory powers both to promulgate rational orders and regulations, and to apprehend violations thereof. He cannot intelligently make charges without knowing facts to substantiate them * * *

"The statute granting him powers, is inclusive and all-embracing when it comes to investigation.

* * * * * *

"Appellee's right to issue this subpena duces tecum and his right to compliance with its terms, are clear * * *.

It is also worthy of note that the general investigatory powers of administrative agencies has recently been upheld in sweeping terms by the Supreme Court, in Oklahoma Press Pub. Co. v. Walling, decided February 11, 1946.

II. NOTICE TO PRINCIPAL IS NOT REQUIRED IN SERVICE OF A SUBPENA ON A THIRD PERSON

We know of no rule of law that requires notice to the depositor when a subpena is served upon his bank. Should the bank question the subpena, then a court order of enforcement must be obtained pursuant to section 202 (e) of the Price Control Act. This section provides adequate protection both to the bank and the depositor; for an application for the order is addressed to the court's discretion, and should the court deem notice to the depositor essential, it may provide for such notice.

Once the person seeks the protection of the court under that section, further proceedings are within the sole province of the court. The rules of litigation then come into play, and thereafter the participants are subject to the court, its rules, and its procedure in the acquisition of evidence. As in many other matters, therefore, the court will no doubt decide how to protect the rights of all parties concerned.

Second, a subpena addressed to a third party without notice to the principal involved is a practice which has long been established in the law. An example is a garnishee order served on an employer where an employee's salary is at-
tached or a third party order issued to a bank requiring it to turn over moneys on deposit by a person against whom a judgment has been obtained. Under State statutes these proceedings are conducted without notice to the person involved. In the following cases subpenas duces tecum served on third persons without notice to the principal were upheld: Fuller v. U. S. (31 F. (2d) 747); Re 14 E. 17th Street, Borough of Manhattan (65 F. (2d) 280); Ex parte Fuller (292 U. S. 91).

The decision of the circuit court of appeals, 7th circuit, in the case of Brown v. Baer, which involved the issuance of subpenas to third persons, was fully discussed on the floor of the House in June 1944. As a result of that decision Congress added section 202 (i) to the EPCA, which provides that—

"Any person subpened under this section shall have the right to make a record of his testimony and to be represented by counsel."

It is evident that Congress did not desire to deprive the Administrator of his power to issue subpenas to third persons.

There is nothing new or novel in the decision of the Shawano Bank. Only last month the Supreme Court upheld a similar procedure involving the Fair Labor Standards Act. It must be remembered that the court which is asked to enforce an administrative subpena has ample power to restrict the scope of the subpena and to protect the rights of all parties involved. It must further be remembered that the Administrator does not initiate such a proceeding unless he possesses information which gives him reasonable ground to believe a serious violation has occurred. The situation resolves itself into one of broad public interest as against the inconvenience to an individual. It is not the intention of the Price Administrator needlessly to issue subpenas or to conduct "fishing" expeditions, but he should not be hamstrung when he seeks to uncover large black-market operations and to protect the public rights committed to his care. To allow at this time the claim of confidentiality (which has never been successfully raised against other agencies, such as Internal Revenue, Wage and Hours, Federal Trade Commission, and the like) would be equivalent to subordinating the public good to individual interest. It would confer immunity upon wrongdoers merely because they deposit their gains in a bank.

Any enactment requiring notice will make it extremely difficult, if not impossible, to determine what the limits of the requirement would be. Should the Administrator make an industry-wide survey, for example, and ask for records of certain companies, then any customers of or sellers to such companies may claim the right to be notified because their transactions may be involved. It is obvious that there would never be any effective method of determining who should be given notice or when it should be given.

III. EXAMPLES OF OTHER ADMINISTRATIVE AGENCIES AND DEPARTMENTS WHICH HAVE AUTHORITY TO SUBPENA WITNESSES AND DOCUMENTS

Department of Labor, Division of Public Contracts,
Veterans' Administration,
Federal Communications Commission,
United States Maritime Commission,
Federal Alcohol Administration,
Federal Trade Commission,
Department of Agriculture,
Railroad Retirement Board,
Department of Commerce,
Department of Labor, Wage and Hour Division,
National Labor Relations Board,
Social Security Board,
Civil Aeronautics Administration,
Department of Interior, General Land Office,
Board of Tax Appeals,
Interstate Commerce Commission,
Federal Power Commission,
United States Employees' Compensation Commission,
Tariff Commission,
Department of Interior, Bituminous Coal Division,
Securities and Exchange Commission,
Bureau of Internal Revenue.
Appendix K of the Final Report of the Attorney General’s Committee on Administrative Procedure (S. Doc. No. 8, 77th Cong., 1st sess.) contains a complete discussion on the issuance of subpoenas and the various agencies which have statutory authority to issue subpoenas (pp. 414-435).

Mr. Folger. The committee stands in recess until tomorrow at 10 o’clock.

(Thereupon, the committee adjourned to reconvene on Saturday, March 30, 1946, at 10 a. m.)
The committee reconvened at 10 a.m., Brent Spence (chairman) presiding.

Mr. Bowles is the first witness this morning.

Mr. Bowles, Mr. Chairman, I understand Mr. Porter had just a word or two he wanted to say.

The Chairman. All right, Mr. Porter.

STATEMENT OF PAUL PORTER—Resumed

Mr. Porter, Mr. Chairman, there are a few odds and ends here that I think we would like to clean up.

Request has been made by members of the committee for additional data and I would like to file with the clerk a statement on the product standards, which Mr. Wolcott had requested, and if it is agreeable, I would like to incorporate that in the record.

(The above-mentioned statement follows:)

OFFICE OF PRICE ADMINISTRATION,

Hon. BRENT SPENCE,
Chairman, House Banking and Currency Committee,
Washington, D. C.

Dear Mr. Spence: I enclose a memorandum describing OPA’s transition product standard which was requested by Mr. Wolcott when we mentioned this standard in our presentation to the committee a few weeks ago. I request that this memorandum be placed in the record.

Sincerely,

PAUL A. PORTER, Administrator.

THE TRANSITION PRODUCT STANDARD

During the war OPA used two standards in deciding the extent to which increases in ceiling prices were needed for particular products produced by a multiline manufacturing industry, when the over-all profits of the industry from all operations exceeded its earnings in a representative peacetime base period. The first of these was the product standard representing OPA’s minimum legal obligation. According to it, OPA is required to raise the ceiling prices of any product if the ceiling does not cover out-of-pocket cost for the industry generally. As a practical matter this minimum standard was usually applied by using the measure of average manufacturing cost. The second standard was the supply standard which authorizes price increases in the case of products found to be both essential and in short supply, whenever a price increase is needed.
to bring out additional supply. Under this supply standard price increases were often made sufficient to cover the total cost of all but the very high-cost producers, thereby assuring substantial profits on the commodity for most producers. Both the minimum product standard and the supply standard are, of course, still in use by OPA.

The needs of the transition period have led to the development of a third product standard in-between the minimum product standard and the supply standard. The supply standard is used on a finding of shortage of a particular essential product. The minimum product standard is the minimum required for general fairness and equity. The process of transition from the wartime structure of production and prices to the peacetime structure requires a standard in-between the other two which will facilitate production of goods throughout the economy in a normal peacetime pattern without special determination of degrees of essentiality. This need was recognized in general terms in title III of Executive Order 9599 which provides for correction of price maladjustments that would interfere with effective transition. It has thus been implemented by OPA's transition product standard.

Where the new standard applies, the ceiling price or prices of a particular product produced by a multiline manufacturing industry will be raised to the extent necessary to return to the industry on the average the total costs of making and selling that product. This transition product standard will be used in all cases where heretofore the minimum product standard would have been used with the probable exception of a few special cases noted below. Consideration of the facts of concrete cases falling within one or more of these exceptions may, of course, lead to the conclusion in some cases that the transition product standard should be applied, instead of the minimum product standard. It should be added, moreover, that the aggregate number of actions which might be embraced by these exceptions would be small, both in an absolute sense and in relation to the actions brought under the transition product standard and the supply standard.

One exception involves cases where use of the total cost standard would be harmful either to effective transition or to stabilization. An adjustment on this standard might occasionally have the effect of diverting scarce materials or facilities from more essential products or from lower priced items of the same or a similar product. Or it might create a maladjustment between the price of the commodity and prices of related commodities which could be removed only by making otherwise unnecessary increases in other prices or by withdrawing the adjustment on this commodity. (Maladjustment, as used here, does not refer to vertical price relations—i.e., the relations between the price of raw materials or parts and the things made from them. In other words, the transition product standard would be used even if the resulting increase in the cost of materials or parts required an increase in prices of some products made from them.)

Another exception involves cases where a total-cost adjustment is not needed either because the product typically sold for less than total cost under normal peacetime conditions or because it is jointly produced with one or more other commodities under conditions such that all of them have to be produced in approximately the same volume. In the latter instance the transition product standard would, however, be properly applicable to the group of joint products as a whole.

We think an exception may also exist where a product is of small importance in the total operations of a multiline industry and any singleline producers of the product are not in hardship or are protected by individual adjustments.

Finally, the transition product standard will not, of course, be applied to products which are still under interim pricing on the reconversion formula or other interim formula.

Where the transition product standard is used in cases of abnormally low volume operations the overhead cost of normal operations is used rather than the current abnormal overhead.

In arriving at total costs for application of the standard, additions to or deductions from current costs will be made only where cost changes within a few months are clearly indicated and a reasonable estimate of their amount can be made.

Further, there was a request when Mr. Brownlee was here testifying on subsidies for a further statement, and a break-down of those subsidies. I would like to file that for the record.
In testifying before the committee recently, I made a statement that the ex-
penditure for food subsidiaries in the fiscal year 1946 would total about $1,750,-
000,000. I further stated that the effect of these subsidies at the consumer
level would be savings of some 2½ billion dollars. To be more specific, I should
have stated that such savings would have accrued to consumers if these com-
modities all reached consumer channels. Actually some $330,000,000 of this
subsidy money was spent on food commodities later purchased by the Govern-
ment. Of course, this money tends to wash out in that subsidy money paid out by
the Government is then returned to it in terms of lower prices for goods it
purchases. Thus we need only examine the remaining $1,420,000,000 spent on
 commodities reaching consumer channels to determine if there are further
savings of about one-half billion dollars by the time these commodities are pur-
chased by the housewife.

The following explanation gives the typical savings that are achieved by food
subsidies. The differential subsidy paid to nonprocessing slaughterers amounts
to 40 cents per hundredweight and costs about $13,000,000 per year. If this sub-
sidy were to be discontinued, this group would have to be protected by a general
price increase which would, in effect, increase all beef prices by 40 cents per
 live hundredweight since beef is flat priced. This general price increase would
then apply to some 18,000,000,000 pounds of beef instead of a little over 3,000,-
000,000. Thus the cost at the packer level would be about $72,000,000 instead
of the $33,000,000 which is spent. The $72,000,000, after applying distributor
mark-ups, becomes about $86,000,000 at retail. Thus, in this case an original
cost of $33,000,000 creates a saving of $96,000,000. Hence, the additional savings
for this subsidy is $86,000,000 less $13,000,000 or $73,000,000.

The remaining meat subsidies during the fiscal year 1946 amounted to ex-
penditures of about $707,000,000 of which about $540,000,000 applies to civilian
sales. When we remember that the major part of these subsidies were applied
to rolling back meat prices by 10 percent in 1943, we can see how the consumer
is saving not only by the payment at the processor level, but by the percentage
mark-up which retailers apply to their costs. Thus, the $540,000,000 at whole-
sale becomes about $720,000,000 at retail, creating an additional saving of about
$180,000,000.

A further illustrative example is that of wheat-flour subsidy payments. The
payment of $210,000,000 during fiscal 1946 for this program affects such con-
sumer products as bread, family flour, macaroni, and soda crackers. In the
case of bread, the subsidy payments at the present rates amount to about one-
half cent per pound. Because bread sells at retail in terms of full cents, it
would probably be necessary to increase bread prices by a full cent per loaf.
Thus, we can see that the savings brought on by subsidies can exceed by far
the original payment to processors or producers.

The following table gives a rough estimate of the total savings on civilian
sales due to subsidies paid during the fiscal year 1946:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Total subsidy payment</th>
<th>Civilian portion of subsidy</th>
<th>Gross direct civilian savings</th>
<th>Difference or net civilian saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>$720,000,000</td>
<td>$553,000,000</td>
<td>$816,000,000</td>
<td>$263,000,000</td>
</tr>
<tr>
<td>Butter</td>
<td>21,000,000</td>
<td>15,000,000</td>
<td>17,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Wheat flour</td>
<td>210,000,000</td>
<td>175,000,000</td>
<td>230,000,000</td>
<td>55,000,000</td>
</tr>
<tr>
<td>Dairy products</td>
<td>497,000,000</td>
<td>420,000,000</td>
<td>517,000,000</td>
<td>97,000,000</td>
</tr>
<tr>
<td>Noncrop programs</td>
<td>69,000,000</td>
<td>55,000,000</td>
<td>75,000,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Crop programs</td>
<td>234,000,000</td>
<td>200,000,000</td>
<td>275,000,000</td>
<td>75,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,751,000,000</td>
<td>1,418,000,000</td>
<td>1,530,000,000</td>
<td>512,000,000</td>
</tr>
</tbody>
</table>

Of course, there is no definitive assurance that precisely these effects would be
the result if subsidies were removed. Each program would have to be examined
carefully for effects on related and dependent industries. Thus, in some cases,
it would be possible to reduce the price effect on consumers when a subsidy is re-
moved. However, in other cases, such as a subsidy affecting one of a group of related commodities which for other reasons should be priced in a fixed relationship, we might have retail effects which are greater than presently calculated.

As was indicated in my testimony, the main effect of removal of subsidies, besides an immediate increase in the cost of living, are the indirect effects which tend to further push the inflationary spiral.

In addition, I made reference, in the discussion on enforcement yesterday, to the communication that I had addressed to Senator Lucas, setting forth in some detail my own views on enforcement policies, and I would like to file that for the record.

(Inserted in hearings March 29, 1946.)

The Chairman. That may be done.

Mr. Porter. Also I would like to observe, Mr. Chairman, that during the 4 weeks of testimony I hear there have been a number of charges and allegations made about the operations of the Office of Price Administration which we have not answered specifically, although we have been available for question by the members of the committee on specific matters. I do not want the record to indicate that because we have not responded to any particular situation that we necessarily acquiesce that the conclusions that have been drawn by the witnesses opposing the extension of price control are correct, and I would like the privilege, if it is agreeable, Mr. Chairman, to file, for the record, before the record is closed, statements on a few subsequent matters, or subsequently file statements on a few matters which have not been touched upon here.

The Chairman. With reference to specific cases?

Mr. Porter. Yes, and I do not know that we can cover them all, but we will undertake to cover the important ones.

The Chairman. Without objection, that may be done.

(The documents heretofore referred to are as follows:)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

Washington 25, D. C., April 2, 1946.

Mr. BRENT SPENCE,
Chairman, Committee on Banking and Currency,
New House Office Building, Washington, D. C.

DEAR MR. SPENCE: At the suggestion of the Office of Price Administration, we are enclosing a brief statement concerning the Federal Reserve Board's Index of Industrial Production. This statement has been written to answer the questions which we understand have been raised in committee hearings concerning the nature and significance of the index. If there are any points which have not been dealt with, please feel free to call upon us for further explanation.

Sincerely yours,

WOODLIEF THOMAS,
Director, Division of Research and Statistics.

FEDERAL RESERVE INDEX OF INDUSTRIAL PRODUCTION

NATURE AND SIGNIFICANCE OF INDEX

(1) The index measures changes in the physical volume of production at factories and mines. It is not affected by changes in prices.

(2) As a measure of production in factories and mines the index covers somewhat over one-fourth of all production of goods and services in the economy. The index, moreover, has much more significance in indicating the course of production generally than this figure would suggest because a large part of the remaining three-fourths consists of closely related productive activities—transportation and distribution of the products of factories and mines, the further processing of these products, as in construction, and the production of raw
materials, other than minerals, used in industry. At the same time, productive activities outside of manufacturing and mining do fluctuate in somewhat different fashion from production in these lines and therefore an index of industrial production should be supplemented by other measures, as far as they are available. And it should be remembered that in a period like the present an unusually large portion of total productive activity is concentrated in the early stages of production: output of materials and parts rather than of finished products and of industrial equipment rather than of consumers' goods. This explains to some extent why supplies of goods and services are not yet freely available to all consumers; and another part of the explanation lies in the exceptionally heavy consumer demand which is only partly satisfied by the current large volume of retail sales.

(5) The index shows that production at factories and mines was at 154 percent of the 1935 to 1939 average in February, with an increase to about 169 indicated for March. Entirely independent measures show that production levels in other parts of the economy are substantially higher than those prevailing in the 1935 to 1939 period. On the railroads, for example, the number of ton-miles of revenue freight hauled in February this year was about 90 percent above the average for this month in the years 1935 to 1939. In agriculture production this year probably will be between 25 and 30 percent higher than in the years 1935 to 1939.

(4) The Board's index is compiled from about 100 individual series, which represent production of all important products of factories and mines. More than half of these series are based exclusively on such physical units as tons of steel, pairs of shoes, and barrels of flour, using available monthly data. The remainder are based in large part on physical volume data available less frequently than monthly and in those instances data on changes in the number of man-hours worked are used to indicate current monthly changes.

(5) The individual series are combined in such a way as to reflect the contribution of each industry to total industrial production. Pairs of shoes cannot be added directly to barrels of flour but it is possible to combine figures measuring their output by converting each set of data into a common unit, using for each industry an unchanging conversion factor which represents the value added by manufacture during 1937. This method is designed to give each series its proper importance in the total index and in this way to make possible the measurement of changes in the physical volume of total industrial production.

(6) The index measures changes in total, not per capita, industrial production, and no allowance is made in the index for any long-time trend.

(7) Allowances are made in the index to take account of differences in the number of working days in different months; and in the seasonally adjusted index quoted above allowance is made for usual seasonal influences. The March index without seasonal adjustment will be about 166, with the average for the years 1935 to 1939 again taken as equal to 100.

ANSWERS TO CRITICISMS OF INDEX

At the hearings it has been suggested that the index measures changes in value rather than in physical volume. This criticism reflects a misunderstanding of the nature of the index and is answered in (4) and (5) above. While figures of value added by manufacture in 1937 are used to convert the series into a common unit and to weight each one according to its relative importance, these conversion factors remain unchanged. Thus current changes in prices do not enter into compilation of the index.

It has also been argued that the index represents only one-fourth of total production. This point has been discussed in (2) above. The most frequent criticism has been that the index is based on man-hours worked, which may not accurately represent changes in output. Actually, man-hours are used in less than half the series. Moreover, they are used for the most part only to show monthly fluctuations around levels established from physical volume data, which often are not available monthly but can be obtained quarterly or annually. This use of man-hour data makes it possible to include monthly measures for some important industries whose output otherwise would not be represented. It is preferable to include the most accurate measures available rather than to omit entirely many important industries.

Another criticism is that the index does not reflect accurately changes in output of finished products. The index should not be expected to fluctuate precisely
with final output of finished products because it includes production of materials and parts as well as finished products. Recently output of materials and parts has expanded to levels higher than those reached by output of finished products. This is one reason why the volume of goods available at retail, while larger than before the war, has not shown as much increase over prewar levels as production has. Another reason is that a larger portion of industrial output than usual has consisted of producers equipment. Shortages of goods at retail also reflect exceptionally heavy demand on the part of consumers who are taking the increasing volume of goods as soon as they become available in order to satisfy accumulated needs as well as current needs.

STATEMENT OF THE ADMINISTRATOR WITH RESPECT TO THE POWERS OF THE ADMINISTRATOR TO REGULATE TRANSACTIONS IN FUTURES IN THE VARIOUS COMMODITY MARKETS

During the course of the testimony of Mr. Tom Linder, commissioner of agriculture for the State of Georgia, on March 20, 1946, there was some discussion regarding the authority of the Administrator to regulate margin requirements. Below is a memorandum from Mr. Richard H. Field, general counsel, Office of Price Administration, setting forth the powers of the Administrator in this matter.

THE AUTHORITY OF THE OPA ADMINISTRATOR UNDER SECTIONS 2 (D) AND 2 (E) OF THE EMERGENCY PRICE CONTROL ACT, AS AMENDED

1. The basic authority of the Administrator to regulate margin requirements with regard to any commodity which is the object of a futures market is derived from section 2 (d) of the Emergency Price Control Act. That section provides as follows:

"Whenever in the judgment of the Administrator such action is necessary or proper in order to effectuate the purposes of this act, he may, by regulation or order, regulate or prohibit speculative or manipulative practices (including practices relating to changes in form or quality) or hoarding, in connection with any commodity, and speculative or manipulative practices or renting or leasing practices (including practices relating to recovery of the possession) in connection with any defense-area housing accommodations, which in his judgment are equivalent to or are likely to result in price or rent increases, as the case may be, inconsistent with the purposes of this act."

It is, of course, clear that it was not the intention of Congress in enacting section 2 (d) to eliminate all speculative transactions, but to authorize the Price Administrator to interfere with their normal course only where such intervention "is necessary or proper in order to effectuate the purposes of the act." In other words, the Administrator's power to control margins of contracts in futures should not be used beyond the extent necessary to prevent a general inflationary price increase in the underlying commodity. It would, therefore, seem inadvisable for the Administrator, as a matter of policy, to impose margin requirements at a level which might abruptly end all speculative activity, even though section 2 (d) may furnish the necessary legal basis for such drastic action. It is, of course, a well-known fact that futures transactions in many basic commodities are not necessarily of a speculative nature, but are frequently entered into as a measure of protection against speculative fluctuations on the market (so-called hedging).

On the other hand, if it is considered that the price trend for all commodities which are currently traded in the futures market is necessarily reflected and anticipated in the price developments at the futures exchange, it follows immediately that uncontrolled speculative transactions in futures would lead to a corresponding increase in the price of the commodity itself. It is the very purpose of section 2 (d) of the act to prevent all price increases which are not founded on actual economic necessity but which are only the result of speculative transactions in futures. An order by the Administrator requesting a margin increase on all futures transactions other than those entered into for hedging and security purposes, therefore, will clearly be within the broad authority of the Administrator under section 2 (d) of the act, and would be necessary in order to carry out the purposes thereof.

Nor is the Administrator's authority to issue such regulation affected by the consideration that the majority of the transactions to which the regulation
would apply may involve transactions in futures to be executed after the termination of the present act. It is, of course, true that contracts involving futures are now entered into which contemplate delivery far beyond July 1, 1946. But it must be recalled that section 302 (a) in its definition of the term "sale" includes "contracts" and it is the contract in futures rather than the actual delivery of the commodity (which in almost all cases is never contemplated by the parties in any event) which will be the object of the Administrator's order.

2. There is nothing in section 2 (e) of the Emergency Price Control Act which would negate the Administrator's powers to require increased margins on all futures transactions. Section 2 (e) of the act reads as follows:

"Nothing in this section-(that is, sec. 2 as a whole) shall be construed * * * to authorize the Administrator to prohibit trading in any agricultural commodity for future delivery if such trading is subject to the provisions of the Commodity Exchange Act, as amended."

The commodities subject to the Commodity Exchange Act are enumerated in section 2 of the act. They include wheat, cotton, rice, corn, and many other commodities. There can be no doubt, however, that this section does not restrict the Administrator's power to require increased margins even with regard to commodities subject to the Commodity Exchange Act. A regulation of margin requirements would in no way constitute a prohibition of futures trading within the meaning of the limitation quoted above. It should be noted that in section 2 (d) of the EPCA a clear distinction is made between regulating a practice and prohibiting it. This indicates that the imposition of regulatory controls short of any outright prohibition would not run afoul of the limitation in 2 (e).

This construction is fully confirmed by the legislative history of the limitation upon the Administrator's power in connection with futures trading. This provision came into the act by way of an amendment offered during the debate on the original price-control bill by Senator Butler. It was adopted with the full concurrence of Senator Brown speaking as manager of the bill in the Senate. The only discussion of the amendment was contained in Senator Butler's explanatory remarks prior to the uncontested adoption of the amendment. Senator Butler said:

"Mr. President, section 2 of the bill gives the Price Administrator rather large and far-reaching powers over speculative and manipulative practices in commodity markets. It should be remembered that many of the powers granted in this section are already exercised by the Commodity Exchange Administration, which has built up a staff and acquired a wealth of experience in the handling of the problems arising from these market practices. I assume that the Administrator, in issuing regulations under this section, will consult the Commodity Exchange Administration and draw on its technical knowledge so that such regulations will not involve conflict by the two agencies, and will permit control of the markets to proceed smoothly.

"I have proposed an amendment which will limit the Administrator's power to some slight extent. It would simply prevent the Administrator from prohibiting futures trading. It will be observed that the amendment limits the power of the Administrator only very slightly. The amendment is simply designed to make sure that our marketing machinery is kept in working order, even though it may be on a restricted basis, so that it can take up where it left off and resume full operations after the war.

"I wish especially to call attention to the fact that the amendment does not interfere with any ceilings the Price Administrator may set, nor does it take away the power of the Price Administrator to set ceilings or to make such other regulations of market practices as he finds necessary. In other words, all futures trading, supervised by the Commodity Exchange Administration, must of necessity be subject to the maximum prices published by the Administrator."

ADMINISTRATOR'S COMMENTS ON STATEMENTS OF S. BECHHOLD, PRESIDENT, AND W. J. ROTHROCK, SECRETARY, SOUTH FLORIDA CANNERS ASSOCIATION, BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY (MARCH 15, 1946)

APRIL 1, 1946.

The South Florida Canners Association requests that OPA change the regulation covering processors of vegetables so as to increase ceiling prices for Florida canned tomatoes to higher levels, such as those applicable to products made on
the west coast. The reason given is that labor and other costs of production do not allow profitable operations at present ceiling prices.

Maximum prices for canned tomatoes are determined by individual canners, grouped by area, under a formula that takes 1941 base-period prices and adds specified cost increases since that time. Raw-material increases are based on the differences between area support prices of the Department of Agriculture and 1941 State-average farm prices. Because the resulting maximum prices must fall between named upper and lower limits, the method is known as "range pricing." This pricing method, replacing flat pricing, was adopted in 1944 with the full concurrence of the canning industry.

For tomatoes, Florida was placed in area 5 with North Carolina, South Carolina, Georgia, Alabama, Mississippi, Louisiana, Texas, and parts of Oklahoma and Arkansas for the following reasons: (1) The available data indicated that Florida base-period prices were at (or below) the levels in those States; (2) wage rates and other production costs were comparable; (3) the principal grade canned throughout area 5 is standard-grade tomatoes; (4) the Department of Agriculture named the same support prices for States in this area.

To give Florida canners price levels comparable to those in effect in area 7 would, in our opinion, clearly be inappropriate. Processors in area 7 (California, Oregon, Washington, and parts of Idaho) had substantially higher prices, wage rates, and other production costs in the base period; they have incurred higher cost increases since that time; and they pack more tomatoes of higher grade. Also, unlike Florida canners, they do not operate in the winter, except to a limited extent in southern California.

In one respect, the canning of tomatoes in Florida differs substantially from that in other parts of the country. Canners do not contract with growers, but purchase the surplus that is not used in the fresh market. This may result in higher production costs than those incurred in areas where the tomatoes used are grown for canning and thus ripen more evenly, and where there is less uncertainty of supply. However, it can be assumed any differences in costs of operations would be fully reflected in base-period prices, upon which canners base their ceilings.

Mr. Bechhold said that 1938-39 Florida tomato pack exceeded 3,000,000 cases. Our information is that between 1935 and 1941 the Florida pack ran between two hundred and five hundred and seventy-five thousand cases. Statistics from other governmental agencies support these figures. We are also informed that the largest Florida pack since 1941 was approximately 850,000 cases. The pack is so small, relatively speaking, that the National Canners Association Canned Food Pack Statistics, published each year, does not state Florida's pack separately but includes it in the class of "other States."

Mr. Bechhold also said that the tomato pack in the entire United States dropped from 41,000,000 cases in 1942 to 15,000,000 cases in 1945 "because of the Office of Price Administration." The principal reason for this reduction, however, was the scarcity of labor, especially skilled operators to sort, peel, and trim. This shortage tended to divert tomatoes to juice, puree, and other tomato products requiring less labor. In addition, unfavorable weather conditions in many tomato-packing localities reduced the size of the 1945 pack.

Mr. Bechhold further said that tomatoes are rotting in the field because OPA expects Florida canners to pack and sell at prices 30 to 50 percent below those of other canners. In fact, however, Florida prices are generally the same as in the rest of area 5; comparable ceiling prices are less than 2 percent higher in Virginia and less than 3 1/2 percent higher in Maryland, Delaware, and southern Pennsylvania. In area 7, the highest-price area, ceiling prices are less than 18 percent higher for standard No. 2 cans and less than 8 percent higher for standard No. 2 1/2 cans. These differences are substantially lower than Mr. Bechhold's estimates.

Again, Mr. Bechhold said that the actual cost per dozen cans is from $1.25 to $1.50. No details are given as to what cost was used for raw material—whether above or below the support price—nor what labor cost is represented. Mr. Bechhold referred to ceiling prices of $1.10 to $1.15 per dozen No. 2 cans standard tomatoes (the permitted price range is from $1.07 to $1.15 for No. 2 cans standard grade). He did not mention the adjustment available for basic wage rate increases, which may be as much as 4 cents per dozen. Furthermore, an increase of 6 cents per dozen No. 2 cans was granted in 1945, in the form of additional subsidy, as an incentive to the production of canned tomatoes instead of juice and
other products. Although it is true that this additional subsidy was denied Florida canners because it became applicable as of July 5, 1945, Florida canners will be eligible to receive it during the current period ending June 30, 1946.

In an endeavor to show that tomato juice cocktail enjoys a much higher ceiling price, Mr. Rothrock compared the price of a tomato product known as V-8 with the price of Florida tomatoes. But the V-8 cocktail carries a Fancy grade ceiling and, at the middle of the range, Fancy canned tomatoes in Florida would be priced at approximately the same level, after deduction of subsidy and adjustment for wage rate increase.

For tomato juice, Florida is placed in area 6, "all other States or areas." The middle-of-the-range price is $0.91 per dozen No. 2 cans standard grade without wage rate adjustment. Only one other area has a higher price, of $0.94, while three other areas have prices lower than $0.91 and one area the same price.

STATEMENT OF THE ADMINISTRATOR, WITH RESPECT TO TESTIMONY OF R. H. RAIBERT, EXECUTIVE SECRETARY OF THE KENTUCKY RETAIL FOOD DEALERS ASSOCIATION

On March 21, 1946, Mr. R. H. Raibert, executive secretary, Kentucky Retail Food Dealers Association, appeared before the House Banking and Currency Committee, and stated that "each and every grocer who testified before this committee last year was hounded and persecuted by the Office of Price Administration. Many of those grocers have been forced out of business."

It is emphatically not true that there is any OPA policy or practice to "persecute" or "hound" any witness because of his having testified before any evidence committee. Businessmen, of course, have the complete right to appear before committees to express grievances against Government agencies and make whatever recommendations and suggestions they choose. Reprisals of any nature by any OPA employee against any witness who exercised this right would not be tolerated.

With particular reference to the testimony of Mr. Raibert, it appears from the table of contents of the 1945 hearings on price-control extension that there were nine grocery representatives who were witnesses. They are:

Vincent L. Browner, Retailers Association, Des Moines, Iowa.

August F. Guckenberger, executive secretary, New York State Food Merchants Association.

Mack L. Langford, Safeway Stores, Inc.

Mrs. R. M. Kiefer, secretary, National Association of Retail Grocers, on behalf of Food Industry War Committee.

Sherman P. Lloyd, secretary-manager, Utah Retail Grocers Association.

Don W. Lyon, secretary, Oklahoma Retail Grocers Association.

Hoover N. McConkey, secretary, Ohio Retail Grocers and Meat Dealers Association.

Tyre Taylor, general counsel, National Association of Retail Grocers.

Harry W. Walker, secretary-manager, Independent Retail Food Distributors of Maryland.

With the exception of Vincent Browner all the witnesses seem to be trade-association or chain-store executives and not themselves grocers. This is confirmed by the limited search of our records that we have been able to make in the short time available.

Regarding Mr. Browner, I am informed that he operated the Browner Food Market in Des Moines, Iowa, until 6 months ago, when his store burned down. Our records do not indicate any enforcement investigations of his store or actions against him during the last year.

STATEMENT OF IVAN D. CARSON, DEPUTY ADMINISTRATOR FOR RENT, WITH RESPECT TO THE TESTIMONY OF VARIOUS WITNESSES BEFORE THE COMMITTEE

PROPOSAL

The Metropolitan Fair Rent Committee of New York and other real estate witnesses proposed an amendment requiring the Administrator to permanently remove rent control from any State adopting a State law authorizing the local authorities in the State to control residential rents.
COMMENT

The argument is that rental housing is a localized problem and that, even though State control turned out to be ineffective, or resulted in a very substantial rise in the rent level within the State, the effects would not extend beyond the borders of the State or affect the over-all stabilization picture.

While it is true that, when pressures ease, rent will become a local problem, and, eventually should be taken over by the States or municipalities where it is still needed, today it is a national problem of high priority. As the largest item in the average family budget, a drastic rent rise in one State would have repercussions on the whole stabilization front. Workers in that State would, of necessity, demand compensating wage adjustments which in turn would require price relief for their employer. These increases could not be isolated but would vitally affect our over-all economy and spread far beyond State borders. With our whole production and price structure in tenuous balance rent control is a national, not a local, problem, and uniformity of control is of great importance. New York State has impliedly recognized this in the local rent statute presently under consideration by the State legislature. This provides that it shall not go into effect unless and until Federal rent regulations are removed.

There are also a number of technical objections to an amendment as sweeping as that proposed. From 1919 to 1940 a number of rent statutes were passed by various States. Some purported to regulate only a segment of residential rents, others dealt primarily with evictions, while at least one, after passage, was declared unconstitutional under the State constitution. Would the passage of any State act purporting to regulate rents in some particular make mandatory the decontrol of all areas within the State within 30 days? Would the passage of enabling legislation authorizing municipalities within the State to enact rent ordinances carry a similar mandate? Would the passage of a manifestly un-constitutional act require removal of Federal controls? The amendment contains no clear answer to these questions, but a liberal construction would seem to require controls be removed within 30 days after a State passed any statute purporting to regulate all or a segment of residential rents regardless of its efficacy or constitutionality. The Emergency Price Control Act itself recognizes that rent and price are interrelated and a part of the national stabilization effort during the period of emergency and the amendment proposed seems entirely irreconcilable with its other provisions.

The OPA is not anxious to retain controls in any area after rent has ceased to be a national problem. Until that time comes, however, the passage of an amendment of the character of that proposed could conceivably have the gravest consequences to the effective control of prices and wages in our whole economy.

PROPOSAL

The Metropolitan Fair Rent Committee of New York and other real estate witnesses proposed an amendment exempting from rent control housing units created after October 1, 1945, by alterations, rehabilitation or new construction.
interim period rental ceilings on proposed construction were set by the OPA which gave binding advance commitments to builders on rents they would be permitted to charge on completion. Liberal allowances were made for increases in costs of construction and factors of modernity to encourage such construction. Under this program, a large number of approvals were given to rental projects in various sections of the country.

It soon became apparent, however, that the shortage of building materials was so acute that unless a builder could obtain assurance that critical items would be available no large scale building program was possible. Such materials as were being produced were to a large extent going into the more expensive type of housing or to commercial building. In view of this situation, the Civilian Production Administration on January 15, 1946, reinstated the priorities and allocation controls formerly exercised under War Production Board Order L-41 with some modifications. Under the revised program, a builder securing priorities for designated critical materials must agree to a maximum sales price of $10,000 and a maximum rental of $80 a month. The National Housing Agency, as during the war, grants the priorities and establishes the maximum rents to be charged. OPA, also in conformity with its practice during the war, accepts such determinations by the NHA as the maximum rents for such housing under the rent regulations. Only if the builder seeks to build rental housing without priorities will OPA set rental ceilings directly. The net result of the proposed amendment on newly constructed rental housing erected with priority assistance would be to prevent the OPA from enforcing the rental ceilings agreed to by the builder when he obtained his priorities from the NHA.

Since the overwhelming number of newly constructed units will be built with priority assistance and have rental ceilings regardless of the proposed amendment, the real effect of the amendment would be to remove from any control rental housing resulting from "alteration or rehabilitation." During the war period the OPA set rental ceilings on new units resulting from conversions of existing buildings even though priority assistance had been obtained in their construction. To the extent that pressures on rental housing are greater today than during the war years, the necessity for some reasonable control over the rents charged for such units is even more imperative.

The average conversion usually consists of changing a large unit (a house or an apartment) into a number of smaller ones. OPA tenants to be evicted for this purpose to maximize the use of existing housing. The amount of construction involved and the expense incident to a conversion of this character, however, varies widely. In many cases, all the construction that is involved consists of blocking off a few doors and the erection of partitions. In others, a substantial amount of work may be involved. In each case, however, under the proposed amendment, the resulting units would be entirely uncontrolled. The effects would be disastrous. Aside from the obvious discrimination against units still under control, the pressures to get out from under rent control by some nominal conversion or rearrangement of present units would be enormous. Under the OPA set rental ceilings on new units resulting from conversions of existing buildings even though priority assistance had been obtained in their construction. To the extent that pressures on rental housing are greater today than during the war years, the necessity for some reasonable control over the rents charged for such units is even more imperative.

The Metropolitan Fair Rent Committee of New York and Congressman Dirksen submitted amendments which would require the Administrator to adjust individual rents so that the rent ceiling applicable to each individual property is sufficient to produce revenue to cover all current costs of operation, administration, management, repairs, current and deferred maintenance, depreciation, vacancies, plus a “reasonable” return on the fair value of the property.

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COMMENT

The Administrator has repeatedly argued that the maximum rent date method not only satisfies the test of general fairness and equitability but is the only feasible and effective way to halt inflation in rents.

The fallacy of "fair return on fair value" lies in the misapplication of a concept which developed historically in connection with rate regulation for recognized public monopolies. It is a completely unrealistic and unworkable concept to apply in an emergency situation where national interest dictates the expeditions regulation of literally millions of rental units. The method of establishing a "fair return on fair value" for each individual property would impose a staggering administrative burden and would make inevitable intolerable delays in setting rent ceilings on a national scale.

That Congress was aware of this is evident in its repudiation of fair return on fair value to individual landlords. The Emergency Price Control Act provided clear statutory authority to stabilize rents at the level prevailing on a certain date. The rent date method establishes rents at levels which landlords and tenants had established by free bargaining in a competitive market before this market was distorted and dislocated by war pressures. Obviously Congress did not assume that all landlords were receiving the same rate of return or that each landlord was receiving a "fair" rate of return. Differences in rate of return exist in any competitive market. Some landlords may purchase their properties or borrow their capital on more favorable terms than others. Some are more efficient in the operation of their accommodations. Also certain vagaries of fortune such as shifts in tenant preference for certain types of housing may produce differential returns. The date principle recognizes and continues in effect the conditions of a free market when landlord earnings were a result of the normal workings of the rental market.

The tremendous administrative obstacles of a program based upon fair return on fair value are conclusive enough argument in themselves against such a system of control. But there are additional objections which make the problem of determining fair return on fair value well-nigh insoluble.

First, there is no satisfactory standard by which the "fair" value of individual rental units may be measured. To use market values would be inconsistent with the purposes of rent regulation because market values have become notoriously inflated by virtue of the inordinate demand for an inadequate housing supply. Tax valuations are unsatisfactory as a uniform basis for determining fair value; in some localities they are absurdly low and in others they exceed prices obtaining in the market. Original cost less depreciation must be ruled out since it is often unknown by current owners. Reproduction costs less depreciation is not a reliable measure of current value. Aside from this it would reflect recent increases in building costs many of which are of temporary character and would clearly result in inflated rents.

Second, what is a "fair" return for a rental unit? Different types of investment yield different rates of return. Even for similar types of investment rates of return vary considerably for individual properties under normal conditions.

There is the additional complication that determinations of fair return and fair value would require accurate and extensive bookkeeping records. Many landlords do not keep such records and many others who have recently acquired their rental properties do not know the facts concerning their construction and early operation.

Aside from the fact that establishing rent ceilings which would afford a fair rate of return for 15 million dwelling units is an impossible undertaking, the factors involved in determining a fair return are so varied and so conjectural and so difficult in their ascertainment that rent control based upon such a method would not be a system of control at all.

The difficulties inherent in administering a rent-control program based upon individual determinations of fair return on fair value are clearly illustrated by rent control experience after World War I. For example, in New York the courts pointed out the impossibility of establishing a standard by which a fair rental could be measured. Even with the nebulous standards adopted, the administrators of the program were hopelessly bogged down in a morass of individual determinations.

And finally the difficulties and intolerably cumbersome methods of control which the concept of fair return would involve has been recognized time and again by World War II court decisions. (See Spaeth v. Brown, ECA, Aug. 4, 1943; Wilson v. Brown, ECA, July 15, 1943; Taylor v. Brown, ECA, July 15, 1943).
In Wilson v. Brown the court concludes its decision with "* * * it was necessary to authorize the Administrator to establish rents which are 'generally fair and equitable' instead of requiring him to make individual adjustments so as to assure to each landlord a fair return on the fair market value of his property."

PROPOSAL

The National Association of Real Estate Boards proposed an amendment which would require the Administrator to adjust individual rents on application up to 10 percent if a landlord submitted figures showing his expenses had increased by that amount or more. The burden would be on the Administrator to show that the landlord's figures were incorrect, and in default of such showing the rent would be automatically increased at the end of 60 days.

COMMENT

The practical effect of such an amendment would be a virtual break-down of the adjustment procedures in area offices. It would result in a flood of petitions on an overwhelming number of the 15,000,000 housing accommodations and over 3,000,000 rooms in hotels and rooming houses now under rent control. A landlord could merely file a petition showing increases in individual cost items, with the hope that the Administrator would be unable to get around to his case. Under the proposed amendment he would automatically get a rent increase up to 10 percent within 60 days.

The National Association of Real Estate Boards did not ask for a blanket 10 or 15 percent increase in rents because they must have realized that under the standards set up by the Administrator and approved by the Emergency Court of Appeals no such increase is warranted. They have instead come fourth with a proposal which would in reality amount to the same thing but would, in addition, swamp the Administration in area offices with an impossible burden of paper work.

The amendment as presented by the National Association of Real Estate Boards is not clear as to what base the Administrator should use. It refers to the period since the maximum rent date. Obviously anyone acquainted with the operation of rental housing understands that it would be impossible to use the operating experience of 1 month, with the chance expenditures for painting and decorating, or fuel that may have been concentrated during that period, as anything like a reasonable representation of what a landlord's operating position really is. We are fully aware of the fact that even a 2-year base usually contains some lumping of major expenditures, and we would be exceedingly hesitant to use a shorter period except in unusual cases.

The main point, however, of the National Association of Real Estate Boards' proposed amendment is that it refers only to costs but does not take into consideration increases in income due to the virtual elimination of vacancy, whether it occurred in multifamily units or in single structures. In no reasonable approach to the operating cost problem would one consider cost increases without considering increases in income. There are no accounting standards under which any such proposal would hold up before any reasonable body. Obviously the Congress, when it set up a standard referred to increases or decreases in operating costs and all other factors involved in the conduct of the real estate business. For the Administrator to look only at costs and not at income is a one-sided position which we do not consider a fair and equitable approach to the problem.

As one member of the committee has already pointed out, it is difficult to see the need for this new amendment in the light of the existing hardship provision which has been in effect during the last 18 months. As a result of the hearings before the Seventy-eighth Congress on the extension of the Emergency Price Control Act, section 2 (c) of the act was amended by section 102 of the Stabilization Extension Act of 1944 to provide in part:

"Under regulations to be prescribed by the Administrator, he shall provide for the making of individual adjustments * * * in those classes of cases where substantial hardship has resulted from the maximum rent date from a substantial and unavoidable increase in property taxes or operating costs."

To comply with this mandate of Congress, section 5 (a) (12) was added to the rent regulations for housing and section 5 (a) (9) was added to the rent regulation for hotels and rooming houses. These amendments became effective
September 1, 1944, and provided that any landlord may file a petition for adjustment to increase the maximum rent on the ground that—

“substantial hardship has resulted from a substantial decrease in the net income (before interest) of the property for the current year as compared with a representative period prior to the maximum rent date, due to a substantial and unavoidable increase in property taxes or operating costs.”

The basic purpose of section 2 (c) of the Emergency Price Control Act of 1942, as amended, was to provide for individual adjustments where landlords were suffering hardship caused by rent control, that is by the established maximum rents. To determine whether an operator of rental housing suffered hardship as a result of rent control, this Office felt it was necessary to obtain the actual operating experience of property under rent control and then compare it with a period before the maximum rent date. To this end, the Administrator established certain requirements which asked the petitioning landlord to submit his figures on the actual operations of his property, during a representative period prior to the maximum rent date as well as figures showing the results of 1 year of operating under rent control. Only after an analysis of these figures, was it possible to make proper judgment on the development of substantial hardship to the operator since the maximum rent date.

In order that the period prior to the maximum rent date be representative of the landlord’s operating experience, he was asked to submit his operating experience for 3 years prior to the maximum rent date as a means of avoiding the unusual or particular circumstances that may affect any one given year. Also, such a period allowed enough operating experience to make the accruals and allocations necessary to arrive at a representative base for purposes of comparison. If an expense is incurred every 3 years, it is proper to divide the amount over the entire period and to charge one-third of the amount to each year benefited.

However, it should be made clear that this 3-year representative period was not inflexible. In some situations this Office has accepted a shorter period of operations prior to the maximum rent date if it was determined that the period was sufficiently representative of the landlord’s operations. It was determined that such a period may never be less than 1 year, which is the shortest possible operating cycle to include the variety of factors affecting rental operation.

For the same reason, the landlord is asked to show the result of 1 year of operation under rent control. By an amendment, effective March 1, 1945, the landlord may present figures on his most recent year of operations. For an area recently brought under rent control it is not required that a year since the effective date must elapse before petitions may be filed.

As a guide for the policy of this Office, we considered proposals made by representatives of the National Association of Real Estate Boards and the National Apartment Owners Association, who stated, “Obviously the proposal is to apply only to cases in which the over-all increase in costs has not been offset by increased income.” They also urged that interest be omitted from our determination.

As of January 30, 1946, this Office had granted increases on 5,500 units under this hardship provision. The Office is at the present moment proceeding to further change the procedure used under the hardship provision in order that any possible cases which seem worthy of adjustment should be able to present a petition. The current plans are for the Administrator to reduce the 3-year representative period to a 2-year representative period. At the same time, if a 1-year period shows enough data to be representative, it too will be accepted.

This forthcoming change of the regulation will go even further in taking into consideration any projected wage and tax increases. These are the two outstanding items which may possibly affect a certain group of landlords. Under a new amendment to the regulation, the petitioner under the hardship provision will be able to project a full year’s pay roll as soon as he has experienced wage or increased operating tax increases for 1 month. These changes will further help any landlords who are even approaching a hardship position. This appears to us to be the practicable method of dealing with the problem.

The key difference between our present approach and the one now proposed by the National Association of Real Estate Boards is that the burden of proof that a landlord does not get a 10-percent increase seems to fall on the Administrator. This depends upon his capacity to process a flood of petitions within 60 days. From the petitions which have been received during the period that the present hardship amendment has been in effect, we have no reason to believe that the 10-percent increase is warranted in any substantial number of cases.
We do, however, at the present moment insist upon the landlord making his case in this adjustment provision, as in all others, rather than the Administrator being put into the position of automatically allowing an increase to go into effect because no definitive conclusion can be reached on a rather scanty presentation of evidence.

We cannot approve as an administrative technique an inflationary 10-percent increase in rents which disguises itself as an individual adjustment provision.

PROPOSAL

The American Hotel association, through the chairman of its board of directors, Glenwood J. Sherrard, recommended to the committee that Congress, in the renewal of the act, specify that the maximum rents for hotel rooms be increased 10 percent.

COMMENT

On the basis of the record of hotel operations under rent control, we feel there is no justification whatever for such an inflationary increase. The earnings position of the hotel industry under rent control has been so favorable that in 1943 and 1944 earnings exceeded 10 percent on "fair value of the property." This conclusion is reached by the firm of Horwath & Horwath, recognized specialists in hotel accounting, in a summary of the operating experience of 100 hotels in 50 cities throughout the United States. The 100 hotels in their sample do about 10 percent of the Nation's hotel business, and in the opinion of the accounting firm are representative of the hotel industry generally. To quote from the accounting firm's report, "The 1944 report shows the hotel industry of this country at its peak; it may never again attain a return of 10.67 percent on investment. * * *"

Studies of trends in the hotel business by Harris, Kerr, Forster & Co., another recognized firm specializing in hotel accounting, corroborates the sound position of the hotel industry under rent control. Data for some 300 hotels in 1944 showed net operating income (before interest and depreciation) up 182 percent over 1939. Earnings in 1944 exceeded 9 percent of assessed valuation.

The healthy earnings position of the hotel industry during the war is mainly attributable to tremendous increases in occupancy. The activity of the hotel business is measured primarily by room occupancy or the proportion of available rooms occupied by paying guests. The other determinant of room income is the room rate, which has increased markedly, even with OPA ceilings, because of the greater number of higher-priced rooms used and the more guests accommodated per room. The Harris, Kerr & Forster study shows that the rate of occupancy soared from 62 percent in 1939 to over 91 percent in 1944. Average sales per occupied room climbed from $3.37 to $3.86.

While operating expenses have increased with rising business volume, income has increased much more. The result has been greatly augmented earnings. It is interesting to see how a 10-percent over-all increase in hotel room rates would affect the income position of hotel owners. Such an increase would raise the net operating income index for the 300 hotels in the Harris, Kerr, Forster study about 55 points to a level 236 percent above the 1939 base. With hotel earnings admittedly at their highest peak in many years, we can see no need for an inflationary rent increase which would increase these peak earnings to an even higher level. Current ceilings are demonstrably fair and equitable to hotel owners.

Mr. Sherrard also stated that "the generally accepted base of 1936 to 1939, used as a standard for measuring industry profits, is grossly unfair to the hotel business." Mr. Sherrard is undoubtedly confusing the 1936-39 standard used by the Price Department of OPA with the Rent Department's base period 1939-40. In evaluating the effects of rent control upon rental housing operation, the Rent Department has consistently used the 2-year period 1939-40 as a standard for comparing earnings.

The Administrator sought a reasonable formula which would relate wartime or emergency profits to what profits would have been in the absence of war. In his determination the fairest and most easily workable formula was the selection of a base period for comparison which would reflect normal peacetime operations unaffected by the distortions and dislocations of war activities. Rent ceilings would stand the test of general fairness and equitability so long as current over-all earnings equaled or exceeded earnings in the base period selected.
It was found impracticable to obtain financial operating statistics for rental housing further back than 1939. Nor could the base period selected extend beyond 1940, since by 1941 the impact of defense activities was already being felt. For this segment of the national economy, then, the Administrator took the 2-year period 1939-40 as a representative base for comparison.

For purposes of fairness the base period 1939-40 satisfies all the general requirements of a representative standard by which to measure industry performance under rent control. It represents the most recent prewar period for which income and expense figures could practically be obtained. It represents a normal rental housing market, free from the abnormalities of war pressures, and it is a sufficiently extended period to provide a fair average of normal peacetime operation.

PROPOSAL

The Metropolitan Fair Rent Committee of New York and other real-estate witnesses recommended that in the renewal of the act Congress provide for an increase of 15 percent in maximum rents now in effect in all defense-rental areas. The arguments advanced for such mandatory increase are discussed below.

COMMENT

Current rents are generally fair and equitable

Proponents of such an amendment point out that the average rents received under rent control were only 85 percent of the average for the period 1921 to 1938. This base period is too broad to be of any meaning. It includes the inflated twenties and the depressed thirties. To take an average for the entire period and assume that it represents some sort of normal is fallacious. It assumes that the period of prosperity and the period of depression were of equal length and that we were above "normal" during the inflated years by the same amount that we were below "normal" during the depressed years.

It should also be pointed out that the Bureau of Labor Statistics rent index reflects, so far as possible, the rents of identical units throughout the life of the index. As such units are now 25 years older than they were at the beginning of the base period, it could be expected that the rental value would show some decline.

A study of the rent index from 1913 to the present shows wide fluctuation in response to economic trends. It remained relatively stable during World War I, swung sharply upward until 1924, started to decline in 1926, slowly at first, then precipitously to the lowest depression year 1935. A gradual recovery then occurred until it reached a relatively stable level in 1938. From 1938 to 1941 it remained quite constant until the impact of defense activities started another upward swing in 1941. This increase was halted in 1943 by the imposition of rent control, and the index has remained quite constant since that date.

Throughout this period the only one which could be considered as approaching normalcy was 1938 to 1941. Rents have been stabilized in general at a level about 3 to 4 percent above the average for this period.

Even if we assume for the moment that the 1921-38 average does represent "normal," other factors must be considered. Under these assumptions, an examination of the vacancy picture alone will invalidate the proposed 15 percent increase. While no Nation-wide vacancy figures are available prior to 1940, it has been estimated that the vacancy rate between 1921 and 1938 averaged 10 percent. As vacancy losses under rent control have averaged less than 1 percent, this would immediately bring the gross income up from the 85 percent implied by the previous testimony to 94 percent of the 1921-38 average. Additional gains due to the elimination of rent collection difficulties and a reduction in the amount of painting and decorating necessary to attract tenants has put the landlord in a substantially better position today than during the proposed base period.

The use of a 1921-38 base period is irrelevant in the present situation. The purpose of the Price Control Act was to prevent inflation during and after World War II. To carry out this aim, Congress provided in the original act that rents should be stabilized at or about the levels prevailing on April 1, 1941, or at a level prior to the impact of defense activities. This method of freezing rents has the advantage of simplicity and relative ease of administration over any consideration of an earlier base period.
The Office of Price Administration has in general considered 1939 and 1940 as the latest period during which defense and war activities had not resulted in inflationary increases in rents. The selection of this period has been upheld by the Emergency Court of Appeals in a number of instances.

Extensive surveys by the accounting division of OPA show that in general landlords’ net operating income (before interest and depreciation) is substantially more favorable under rent control than it was during 1939-40. The most recent survey for rental housing operation in 23 cities under rent control shows that net operating income of apartment house owners was 38 percent higher during the year ending June 30, 1945, than in 1939, and that net operating income had risen 37 percent for small structures in the same period. If the 15 percent blanket increase were permitted, net operating income would jump to 87 percent above 1939 levels for apartments and to 82 percent above 1939 for small structures.

While figures on interest and depreciation charges are not available on a Nation-wide basis, several studies which have been made show that in general these costs have remained constant or actually declined. Thus the increase in net income (after interest and depreciation) has shown an even sharper gain than net operating income. For example, a study of apartment operation in San Diego showed that for 1944 net operating income was 46 percent higher than 1939 and net income (after interest and depreciation) was up 193 percent. If a 15-percent increase had been allowed, net income (after interest and depreciation) would have been 246 percent above 1939 levels. We believe it is self-evident from the above figures that general relief is unnecessary to protect the interests of landlords.

A 15-percent increase in rents would be highly inflationary because rent is the largest single item in most family budgets. A 15-percent increase would immediately raise the rent index from 103.7 to 119.3 (1939 = 100). It would also cause the cost-of-living index to jump 3 points from 128.7 to 131.9, which would give additional incentive to labor in its demands for further upward wage adjustments.

Of course, we realize that in certain individual cases a hardship is imposed by the freeze date method of fixing rents. Provision has already been made for making adjustments in such cases under the hardship amendment and other adjustment provisions of the rent regulations.

Studies will continue to determine whether any general adjustments for specific defense-rental areas may be necessary at a future date. At the present all available evidence indicates that any general adjustment blanketed over the whole country is not warranted and would be contrary to the purposes of the Emergency Price Control Act.

Costs versus expenditures

In his testimony on March 20, Mr. James C. Downs, Jr., president of the Real Estate Research Corp. in Chicago, stressed substantial increases in the costs of labor and materials used in rental housing operation as a justification for over-all increases in rent ceilings. His argument illustrated the common error of confusing material prices and wage rates which determine unit costs with actual expenditures. While it is true that prices and wage rates have risen since the beginning of defense activities, it is not true that expenditures incurred by landlords in operating their rental units have increased accordingly.

Specifically, average hourly earnings for repair and maintenance labor have increased some 45 percent over 1939. The index of prices for repair and maintenance materials is up 23 percent over 1939. And yet actual repair and maintenance expense, the dollar sums paid out by landlords, has declined. Surveys conducted by our accountants in 36 representative cities show that from 1939 to 1944 repair and maintenance expense dropped 19 percent for apartments and 23 percent for small structures. This considerable reduction in repair and maintenance expense coupled with a 3-percent drop in the real-estate tax burden has compensated for expense increases in other categories such as fuel outlays. The net result has been a marked stability in total operating expense.

The explanation of reduced repair and maintenance expense in the face of rising material prices and wage rates is simple. The unprecedented demand for housing has virtually eliminated the necessity for competitive redecorating and has cut unessential and minor services to a minimum. Thus, while the cost of performing a given job such as redecorating a dwelling unit is undoubtedly higher, many such jobs no longer need be undertaken or are undertaken less frequently and expenditures for maintenance and repair have actually fallen.
The key to the confusion in thinking about costs and actual expenditures lies in the fact that unit costs as represented by prices and wage rates are just one part of the story. The other determining factor is the physical volume of work undertaken by landlords. The resultant of these two elements, unit costs and volume of work performed, represents true expense in rental housing operation. Charts showing individual cost items only befuddle the real issue which remains: What has happened to actual expenditures? These have declined.

_The rent index and the landlord’s net income_

In his testimony on March 20, before the committee, Mr. James C. Downs, president of the Real Estate Research Corp., of Chicago, argued that the landlord has suffered an impairment of his financial position under rent control. He stressed the fact that while average rents have increased by only 4 percent from the beginning of the war in Europe, the cost of living has risen some 30 percent over the same period.

The fallacy in this argument is easily exposed. Landlords do not live on the rent index, they live on their earnings. The rent index no more represents landlord earnings than sales price represents net income to a manufacturer. Earnings represent the difference between income and total expense and are an outcome of the whole income-expense structure of rental-housing operations. And rental housing earnings have increased by far more than the 4 percent increase shown by the rent index. Landlord’s net operating income (before interest and depreciation) is 35 to 40 percent higher than in 1939.

This substantial increase in earnings is the result of larger rental income coupled with stable operating expense. Rental income collected has climbed steadily with vacancy losses virtually nonexistent. Operating expense, on the other hand, has exhibited marked stability despite rising price and wage levels. Substantial savings in outlays for repair and maintenance have been made possible by a reduction in the physical volume of work undertaken. The heavy demand for housing has eliminated such expenses as competitive redecorating and unessential services formerly necessary to attract tenants. Property tax burdens have also declined slightly. These reduced expenditures for repair and maintenance and property taxes have offset increases in other expense categories such as fuel outlays. The result has been a stability in total operating expense.

Actually landlords’ set income has increased even more than the 35–40 percent rise in net operating income. Net operating income does not include interest and depreciation charges. In the few cities in which these charges were obtainable, depreciation has remained fairly constant while interest charges have declined somewhat with amortization of mortgages. A study in one such city, for 1944 for example, shows that while net operating income under rent control was 22 percent above 1939–40 levels, net income (after interest and depreciation) increased well over 100 percent. The following table explains why percentage increases in net income exceed percentage increases in net operating income, where interest and depreciation charges are constant:

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<th>1945</th>
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<tr>
<td>Net operating income (before interest and depreciation)</td>
<td>$1,900</td>
<td>$1,400</td>
<td>A 40-percent increase.</td>
</tr>
<tr>
<td>Interest and depreciation</td>
<td>800</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>200</td>
<td>600</td>
<td>A 200-percent increase.</td>
</tr>
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</table>

It is clear, then, that comparisons between the rent index and the cost-of-living index are meaningless for purposes of studying the landlord’s financial position. While the rent index shows a rise of only 4 percent, actual earnings represented by net operating income are 35 to 40 percent above 1939 levels and are even higher if increases in net income are considered. The income gains of landlords generally have substantially exceeded rises in living costs.

_Income and expense surveys_

In his testimony on March 11, 1946, Mr. George M. Englár, president of the National Apartment Owners’ Association, attacked the general validity of the income and expense surveys which are regularly prepared by the Office of Price Administration in fulfillment of its functions under the Price Control Act. We feel that it is necessary, in the light of this criticism, to present a complete state-
ment on the character of these surveys, the manner in which they are conducted, and a review of the results of these surveys over the past 4 years.

After a maximum rent date has been established for an area, the Administrator is called upon in the act to "make adjustments for such relevant factors as he may determine and deem to be of general applicability in respect of such accommodations, including increases or decreases in property taxes and other costs." Back in 1942 the Administrator, in fulfillment of this mandate, conducted the first income and expense studies in 64 cities throughout the country. In 1943 similar surveys were conducted in 58 cities; in 1944, 29 cities; in 1945, 46 cities; and thus far in 1946, 7 cities.

The procedure in the conduct of these surveys may be described as follows: Representatives of the Accounting Department of the Office of Price Administration go into a city under rent control and approach real estate management agents, insurance companies, banks, estates, and individual owners of rental property, and seek the cooperation of the local real estate board in gathering ordinary income and expense statements from the records of these companies and individuals. The accountants take the figures from these records as they find them. They do not audit or alter the accounts. Under certain circumstances it is necessary to allocate certain items to the year in which they belong; for example, delinquent rents have to be placed in the year in which they were payable; delinquent property taxes have to be charged to the year in which they are incurred.

The work on these books is done by qualified accountants and is subject to the supervision of outstanding accountants in the real estate field. In setting up the standard form for these accountancy surveys, the advice of members of the National Association of Real Estate Boards and of the American Mortgage Bankers Association was asked, and a standard accounting form was agreed upon. This basic form was approved by the Bureau of the Budget and has remained in effect during the 4 years that these accountancy surveys have been conducted. It is important to note that these accountancy surveys are conducted independently of the Rent Department by the Accounting Department. The material is presented in formal reports to the Rent Department only after it is summarized.

The sample which is chosen in any given city depends primarily upon the number of books of individual owners and real-estate management firms available with income and expense data over a period going back to 1939. The Accounting Department makes a definite effort to align its samples with the latest available information from the census of 1940 and other sources to represent the types of structures, the various rent ranges, and the various sections in the city as closely as possible. In other words, if 40 percent, for example, of the units in a city are single-family houses; 20 percent, two-family houses; 20 percent, three- and four-family houses; and 20 percent, apartment houses, the accountants try to get a similar proportion of each classification in their sample. This is not always possible in every city surveyed, because books for single-family structures are not always available to the same extent that management records are on hand for apartment houses. Moreover, during the acute housing shortage which has prevailed since the beginning of the war in all urban areas throughout the United States, the turn-over in the ownership of single-family structures has been such that consistent records are exceedingly difficult to obtain. Each year that the accountants have gone back to a city, they have tried to secure the records on the same dwelling units which they had in their previous sample, but when these had been sold to owners and were no longer rented, or continuous records were no longer available, it was not possible to keep the same units in the sample, and it was necessary to obtain others in their place. This was the only course open to the accountants making the sample survey.

Criticism was made of the fact that during various years the list of cities sampled had differed. It was maintained that this had been done as a subterfuge of some sort. The Office has gone to different groups of cities throughout the country each year in order that, with the limited staff available, it should be able to cover as many areas as possible. As a result of changing the cities which were surveyed each year, a total of 90 different cities, covering 205,000 units, has at one time or another been studied over the past 4 years. The identical cities and identical units were not surveyed each year. In any public presentation of these surveys it was always made perfectly clear which cities were included in the survey and how many units were covered.

The impressive result, from our point of view, has been that no matter what combination of cities was used in any 1 of the 4 years since these income
and expense studies began, the general trend has been consistent. The Office of Price Administration has never maintained that the results of a survey in one year should be identical with the results of a survey for another year, since it was obvious that different groups of cities were used. Whenever an over-all presentation was made, however, the full story back to the year 1939 was reviewed in the group of cities under consideration. The Office has never issued a compilation of cities unless their number was substantial enough to present a true picture of the over-all income and expense trend at a given time. Whenever an over-all compilation was published—13 cities in January 1943, 19 cities in June 1943, 39 cities in October 1943, 25 cities in March 1944, 28 cities in June 1945, and 36 cities in February 1946—the group was always recognized to be representative of different parts of the country and of cities of different population groups. In addition to these over-all compilations, the Office of Price Administration has made individual city studies as soon as the surveys have been completed. These have been available at area offices or upon request from the national office. We have never maintained that the over-all average for 36 cities necessarily applied to any individual city.

Each individual defense area is subject to the same test approved by the Emergency Court of Appeals. This test may be simply stated: Is the net-operating income earned by landlords generally under rent control better than it was in the base period 1839-40—the 2 years immediately prior to the impact of the war? We have taken the position and have each year reaffirmed before the Congress that this is the basic standard on which we judge the fairness of the rent regulation and the rent level in a given area. As long as the net-operating income of landlords generally in a given area remains better than it was before the war, we do not feel justified, in accordance with the congressional mandate, to increase the general rent level in that area.

The case of New York City has been subject to special attention by the Office ever since rent control was instituted there in November 1943. In the latest presentation of Rental Housing Operation Under Rent Control in 36 cities, 1939-44, the Office of Price Administration clearly stated, "Because of the variety of the cities selected and the large number of buildings covered, the study can be considered as fairly representative of operating experience in defense-rental areas in the United States outside of New York City" (p. 3). This Office never maintained that the 36-city average was representative of New York City. The character of rental housing operation in New York City is basically different from the over-all picture throughout the country. The preponderance of apartment house units and the fact that New York City has the next highest rent average of any large city in the country, would make any attempt to mix data on New York with data on the rest of the country unsound. We feel, moreover, that to average data on New York City, which has a maximum rent date of March 1, 1943, with data from other large cities, which have maximum rent dates in January, April, and July 1941, and March 1, 1942, would result in a false general average. For these reasons, the Office has always published a separate presentation of income and expense in New York City. The last publication on this city was issued in January 1945. More recent data have been incorporated into the record of the New York case now before the Emergency Court of Appeals, and these data, too, are public.

Since the publication of Rental Housing Operations Under Rent Control in 36 Cities, 1939-44, the Office has received results for 23 cities through the fiscal year ending June 30, 1945. The results of this new survey show that the net operating income of landlords generally for apartment houses in these 23 cities is 38 percent above 1939, and for small structures, 37.2 percent above 1939.

While on occasion witnesses have criticized these income and expense surveys before your committee, no group has presented either to this Office or has ever published studies of a similar character to rebut or refute the general results of these surveys. In the New York case now before the Emergency Court of Appeals, the complainants themselves asserted our survey as representative of the general operating position of landlords in their city. Other Government agencies—the Department of Commerce and the National Housing Agency—have recognized these surveys as the outstanding presentation on income and expense trends in the operations of rental housing.

This is the first time in the rental housing field that a sample of anything like this size has been available to determine just what the average operator of rental housing really receives as his annual rental income and what he really expends for running operations. In all discussions of the fairness of the rent
regulation there have been attempts to befuddle the issue by the presentation of individual price increases. Presentations were made to this Office that the cost of paint has increased and that the cost of fuel has increased. Such individual price items only falsify the general picture. There remains only one way to determine the general operating position of landlords under rent control, and that is a review of their actual income and expense statements, and not the isolation of price changes in simple items.

The Office of Price Administration over the last 4 years has not altered its accountancy methods in the rental field, has not changed its sampling methods, has not changed its type of analysis or public presentation. The over-all results of these surveys for any individual city are open to any recognized group for further study. The only limitation imposed upon the publication of these surveys is the congressional prohibition about revealing data concerning the operations of any individual owner. This Office is in the process of extending these surveys to more and more cities all the time, and will continue to issue summary results at least every 6 months.

STATEMENT BY THE OFFICE OF PRICE ADMINISTRATION IN REGARD TO THE SUSPENSION OF MAXIMUM PRICES FROM CITRUS FRUIT

Beginning in the late summer and early fall, OPA was under constant and heavy pressure from citrus-trade interests to remove price ceilings from citrus fruits. They argued that there was going to be the greatest citrus crop in history, that Government procurement was being sharply curtailed, that all signs pointed toward low prices for citrus fruits after the Florida and California navel orange crops came into market in November, December, and the early months of 1946. Their contention was that ceilings should be removed now (September) in order to compensate growers during the relatively scarce season for sharply reduced prices later.

OPA declined to remove prices in September and October for substantially the same reasons that industry urged removal. It was clear that until the new large crop came into market that prices would soar and the consumer would be penalized.

In early November, however, it became apparent that the bumper crop would actually materialize, that it was moving to market and that prices were beginning to fall below ceilings. For three consecutive weeks, average prices had remained below ceilings and prospects were bright for continuance of this trend. OPA, therefore, concluded that controls could safely be removed without any serious threat to the cost of living. Since, for the first time, the standards for the removal of price control were met (sec. 1 of OSA Directive No. 38), OPA agreed that, effective November 19, ceilings should be suspended for a 60-day period, with the condition that if prices moved up substantially, ceilings would promptly be reestablished without prior notice.

It was anticipated that because of extraordinary demand for fruits just before Thanksgiving and before Christmas, there might be temporary upward price flurries, particularly in specialty oranges. However, it seemed clear that with winter citrus supplies about 7 million boxes above last year's record levels, we could expect a prompt levelling off at prices somewhat below ceilings.

Immediately after suspension (November 19, 1945) citrus prices rose spectacularly on preferred sizes and qualities. Within a short time, however, these spectacular prices receded, but the average prices continued at above preexisting ceilings. In view of this rising trend, the Office of Price Administration moved to reestablish citrus ceilings by December 10, 1945. An amendment to Maximum Price Regulation No. 426 to reestablish citrus maximum prices by December 10, 1945, was forwarded to the Secretary of Agriculture for clearance and signature. The Secretary of Agriculture before signing the recontrol amendment requested the Administrator of the Office of Economic Stabilization to hold a meeting on December 14, 1945, to allow the producers of citrus fruit an opportunity to be heard against the reestablishment of citrus ceilings.

At this meeting the growers stated that they had expected prior to decontrol to have enough citrus fruit in the markets to keep prices below preexisting ceilings all during the suspension period. The reason for the unexpected spectacular rise just previous to Thanksgiving was that car shortages for California and late-maturity of the Florida crop prevented the shipment of enough holiday fruit to keep prices stable during the period.
The producers also stated that the above-mentioned handicaps to shipments were correcting themselves, and that in their opinion citrus prices would quickly recede to below prevailing ceilings and that there was no reason for reestablishing ceilings at that time (December 14, 1945) inasmuch as greatly increased shipments forthcoming would quickly correct the situation.

After this meeting, the Office of Economic Stabilization decided not to recontrol citrus immediately; but warned that constant surveillance of market prices would be maintained, and that ceilings would be restored if prices remained above preexisting ceilings.

Citrus prices continued to rise between the date of the meeting (December 14, 1945) and the Christmas holidays. Moreover, citrus prices continued to rise after Christmas. Therefore, the Office of Economic Stabilization directed that maximum prices for citrus be reestablished. Ceilings were reestablished on January 4, 1946.

An indication of price behavior before and following suspension is provided in the attached chart figures taken from United States Department of Agriculture reports, showing daily average auction prices for oranges in 10 cities, Boston, New York, Philadelphia, Baltimore, Pittsburgh, Cleveland, Cincinnati, Detroit, Chicago, and St. Louis.

It will be noted, first, that orange prices rose substantially from the 6 weeks (October 8-November 18) average price suspension (November 19, 1945) on the first market day of decontrol November 19, 1945, and that orange prices continued at these higher levels which constituted a threat to rise above preexisting ceilings. In view of this and the unexpectedly curtailed shipments OPA moved to reestablish ceilings by December 10, 1945, as hereinbefore mentioned.

Secondly, it will be noted that orange prices began to exceed preexisting ceilings substantially, after the meeting with producers held by the Administrator of Economic Stabilization on December 14, 1945.

The substantial rise in orange prices between December 14 (Producers meeting date) and December 28th indicates that the heavy shipments and consequent lower prices predicted by the producers at Judge Collet’s meeting on December 14 did not materialize. As a matter of fact, carlot shipments of oranges as late as March 23, 1946, are lagging approximately 5,000 cars behind shipment to the same date last year.

This statement points out—
1. That the decontrol criteria of section No. 1 of directive No. 68 from the Office of Economic Stabilization was met by November 18, 1945, when OPA suspended controls on citrus fruits; viz, prices were below ceiling levels for several weeks preceding and a bumper crop was in prospect.
2. Prices rose substantially following decontrol due to unexpectedly curtailed shipments.
3. In view of the above OPA moved to reestablish controls by December 10, 1945, before the Christmas buying took place.
4. Producers promised heavier shipments and lower prices pre-Christmas and thus were instrumental in withholding the reestablishment of controls on December 10, 1945.
5. Prices increased further after December 10, and continued even after the Christmas holidays.
6. In view of this Judge Collet directed that controls be established on citrus on January 4, 1946.

| Oranges |
|-----------------|-----------------|-----------------|
|                | Florida interior | Florida Indian River | California |
| Ceiling per box | $4.56            | $4.98            | $5.36     |
| Average price before suspension (Oct. 8 to Nov. 18) | 3.65 | 4.26 | 4.42 |
| DECONTROL      |                  |                  |            |
| Monday, Nov. 19 | 65               | 4.46            | 5.03       | 131 | 5.21 |
| Tuesday, Nov. 20 | 35              | 4.14            | 4.41       | 54  | 5.54 |
| Wednesday, Nov. 21 | 33            | 3.96            | 5.41       | 1   | 4.35 |
| Friday, Nov. 23  | 57              | 4.63            | 4.43       | 51  | 5.96 |
| Monday, Nov. 26  | 71              | 4.16            | 4.72       | 92  | 5.79 |
| Tuesday, Nov. 29  | 29              | 4.19            | 4.61       | 46  | 5.73 |
| Wednesday, Nov. 29 | 37            | 4.39            | 5.01       | 56  | 5.65 |
| Thursday, Nov. 30 | 36              | 4.35            | 5.18       | 55  | 5.35 |
Oranges—Continued

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The Chairman. Mr. Bowles, you may proceed.

STATEMENT OF CHESTER BOWLES, DIRECTOR, ECONOMIC STABILIZATION

Mr. Bowles, Mr. Chairman, I have a very brief statement.

On February 18, I appeared before your committee to urge the renewal of the Price Control Act with the subsidy payments necessary to maintain food prices at approximately their present level.

At that time we had just embarked on a new wage-price policy which called for broad understanding on the part of labor, management, and farmers, and prompt and constructive action on the part of the Federal Government agencies. There was general uncertainty in the air. Several serious strikes were in progress. There was a dangerous trend toward group antagonism and self-interest.

Nothing has occurred during the past 6 weeks to shake my conviction that the renewal of the act without weakening amendments is essential if we are to avoid the danger of an inflationary blow-up—a blow-up which would jeopardize the security and future prosperity of every family in this country.

At the same time I feel that in the past 6 weeks we have made considerable progress in our efforts to strengthen the stabilization program and to maintain a reasonable balance between the economic groups which go to make up our economy.

I have been reassured by talks with various businessmen who have emphasized to me their own fears of the dangers that would develop to their entire economy if inflationary forces once take over. I have been encouraged by various polls among businessmen which indicate that a substantial majority view the continuation of price and rent control as essential to our successful reconversion from war to peace.

I have been encouraged by the speed with which the Office of Price Administration has handled a great many pricing problems which have developed out of the new wage-price program. Through the day and night efforts on the part of the staff many pricing bottlenecks have been broken. Through the announcement of the details of the new wage-price program on March 11, both business and labor
have been enabled to plan their operations with a clear understanding of where they stood.

I am reassured at the number of labor-management disputes which have been settled and the resulting sharp increase in production. All the indices indicate that production is moving steadily upward each week. Today both industrial production and employment stand at the highest points in our peacetime history.

Even after taking care of the needs of our Military Establishment, our industry production today is 45 percent higher than it was in the period before the war, that is, 1935-39. With labor and management pulling together and with more and more veterans returning to their jobs, we can, I believe, look forward to a continual upward trend in the volume of goods which will be poured out by our industries.

During this 6 weeks’ period I have developed renewed confidence that the labor groups throughout the country have a clear appreciation of their responsibility in making this program a success. Assuming that we can avoid any marked increase in the cost of living, I am confident that wages will be stabilized at approximately the patterns which have been developed since VJ-day. This fact, in itself, gives increased assurance that the program which I outlined on February 18 can, in fact, prove successful.

In several talks with farmers I have also developed added confidence in the sense of responsibility that our farmers are bringing to the solution of this difficult problem. Various farm leaders have expressed to me with great emphasis their own conviction that they, above all groups, cannot hope to win if an inflationary spiral should develop.

Finally, I have been reassured by the clear indications of public understanding of the gravity of the inflationary problems which confront us and the need for price and rent controls in the period immediately ahead. A recent Gallup poll indicated that 73 percent of the public were in favor of the continuation of the present price and rent control program. Incidentally, this poll also indicated that businessmen favored continuation 3 to 1. A survey by the National Opinion Research Center in January indicated that 83 percent were in favor. The Des Moines Register poll taken in the heart of Iowa—a State which takes even less kindly than most places to unnecessary regimentation or to Government interference—indicated 81 percent were in favor.

The task ahead of us remains great. Inflationary forces are dangerous in the extreme. New and difficult problems will confront us in the months ahead. But today, more than ever, I am convinced that with good judgment and with courage we can finish this job.

This confidence is predicated on my belief that Congress will renew the Price Control Act during the next 4 or 5 weeks without crippling amendments. Clearly, if the act is weakened, or if final congressional action is too long delayed, our task of combatting inflation may become impossible.

If we are to continue the rapid upward swing of industrial production, we need stability in costs and prices and we need to know as soon as possible exactly where matters stand. If uncertainty develops about the passage of the act or if it is generally anticipated that our legislative powers will be weakened, then production will be
sharply slowed down, and this present optimistic outlook will be reversed. At a time when above everything else we need confidence and security on which to base future plans, the country will become plagued with new fears and jitters, with inventory hoarding and widespread speculation.

There is no legislation in recent history which has been so thoroughly examined and reexamined as the Price Control Act. During the last 4 years hundreds of witnesses have appeared both in favor of this legislation and in opposition to it. In 1 year alone more than 150 amendments were offered. On no other legislation that I know of has Congress been subjected to such pressures and on no legislation has Congress stood more firm.

Believe me, the record of Congress on the passage of the original act in 1942 took courage. The fact that the act was strengthened 6 months later and that constant efforts to weaken it during the last 3 years have been resisted is a tribute to the determination of our Congress and the sound workings of our democratic system.

If, during the next few weeks, Congress again passes the Price Control Act without weakening amendments; if it passes the necessary subsidy legislation and the Second War Powers Act; if the Office of Price Administration, the Office of Civilian Production, the National Housing Administration, and the Wage Stabilization Board receive the necessary budgets, then, I am confident that we, as a nation, shall emerge from the present crisis with success and distinction.

During the next few months, under such circumstances, production, which is already high, will increase rapidly to still higher levels. The goods which we need to finally lick inflation will come pouring in in an ever-increasing torrent from our factories. The people of our country will settle down with renewed confidence in the value of their savings and insurance policies and bonds. The speculative urge which still pervades much of our economy will gradually disappear.

By June 30, 1947, with the exception of rent control and some vestige of price control in a few isolated fields, the victory of inflation will very likely be won. I am hopeful that Congress will move with the utmost speed to remove the last major uncertainty from our economic horizon.

The Chairman, Mr. Bowles, Mr. Brownlee, when he gave us a break-down on the amounts that were necessary to continue the subsidy program, I think, did not state any specific amount that was required for butter and dairy products, because he was awaiting the report of the Price committee. Have you any information on that subject?

Mr. Bowles. I think you will find, in the record, something to that effect. Mr. Brownlee put the amounts of all the subsidies in the record about 2 weeks ago.

I have the amounts here. I am, by no means, an expert on exactly each item, and Mr. Brownlee is out of town. We can furnish any additional information that you might like to have when you go into executive session, any detailed information that you would like.

Possibly, Mr. Baker has some here. I do not know.

Mr. Baker. We had thought, Mr. Chairman, that some of the items, particularly with reference to foreign purchase, the committee might prefer to consider them in executive session because of certain affects upon market prices.
Mr. Bowles. We will be glad to give you any data that you might want. I would just like to add, however, that I think all of us will agree that subsidies are a necessary evil and can only be justified on the ground of great urgency, in holding our economy stable, or as stable as we can hold it through this period.

In food, the savings which result directly from food subsidies, to the consumer, are greater than the subsidy amount itself, by about, roughly 25 percent or a third. But, of course, that is not the major purpose of them. Their major purpose is to stabilize the whole situation throughout your economy, so as not to allow increases in the cost of living, which would encourage and start off, I am afraid, another round of wage increases on top of what we have had because of the rising cost of living.

The removal of the subsidy program, on the 1st day of July, would result in about 8 percent increase in the price of food, as expressed in the Bureau of Labor Statistics Index. Meat prices, 3 or 4 or 5 cents a pound; butter, 12 cents, and other items correspondingly.

I would feel that those programs should be tapered off during the coming year. We were very hopeful that we would have that job done by the 30th of June of this year. Mr. Anderson went into that in some detail, in outlining to you the hopes we had, the program which was fully agreed on by all Government agencies, and the reasons why it did not work out as we anticipated.

I would like to just say that I feel the subsidy program, particularly on food, is absolutely essential to stabilization. I feel that, without it, we could not head off a sharp increase in all pricing on up through, as further wage increases developed as a result of it, and a new upward spiral was started.

The Chairman. Subsidies are not a matter of first impression. It as a policy which has already been adopted by the Congress.

Mr. Bowles. It is part of the pricing structure in this emergency period. I know very well the farmers' fears and worries. They feel that subsidies will be pulled off at a time when they cannot get the increase in the price, which undoubtedly would be allowed. I think the Government has the responsibility to see that that is handled in such a way that the farmer will not be hurt, because I think that is a very legitimate fear on the part of the farmer and I think we owe it to them to handle it in a rational way which will allow him to get the price so that he would get the same return, or roughly the same return, that he did under subsidies.

The Chairman. Do you think that subsidies can be gradually reduced, and eliminated altogether before long?

Mr. Bowles. I would say that during the next fiscal year that would be our plan. You want to get the dairy subsidies out of the way before the flush period in May and June, a year from now. You do not want to pull the subsidies out right at a time when you have the flush months season before you, when they might not be able to get the price.

The Chairman. If we need any additional information on that, Mr. Brownlee will be able to furnish it?

Mr. Bowles. Yes, sir.

The Chairman. Mr. Patman.

Mr. Patman. Mr. Bowles, we have discussed price stabilization here a great deal. Since you are the Director of Stabilization, I would
like to ask you what you think about stabilizing wages. Do you think we have a good chance of stabilizing wages along with prices?

Mr. Bowles. I feel, Mr. Patman, quite optimistic about that today. I do not know how familiar you are with the program worked out by the Wage Stabilization Board in conjunction with my own Office. I think it is a good program, it is flexible and reasonable, and I feel it should result in the stabilization of wages, in line with the patterns which have generally been developed since VJ-day. Assuming that that has been done, I think we can stabilize around those levels.

Now, the big question, of course, and the very big "if" in that is: If you hold the cost of living in line. If rents go up and if food prices go up, if apparel prices get out of control, I think another round of wage increases would be inevitable, and I think that would be the tip-off of the whole explosion.

But I feel that, granted we can hold the cost of living, and all of the general factors that go into it, through this particularly critical situation, or 8 months ahead of us, then I feel that wages can be stabilized at about roughly these same patterns.

Mr. Patman. So wage stabilization depends almost entirely upon price stabilization?

Mr. Bowles. Entirely. They are tied together.

Mr. Patman. If we do not hold prices, we cannot hold wages, and that will result in a race between wages and prices, and, of course, as the prices go up, wages will go up, too?

Mr. Bowles. Everybody would suffer, organized labor would probably do a fairly good job of keeping up, this time, with the increases in the cost of living. The white-collar worker and the person living on fixed income would be the greatest sufferer. But everybody would be a victim. Nobody could possibly win out.

Mr. Patman. Is that not usually the beginning of an inflationary period, a race between prices and wages?

Mr. Bowles. In the past, that is correct, in the past wages have gone up somewhat less rapidly, partly because labor was less well organized in the past. There were only about 3,000,000 organized workers in 1919. At that, wage-rate increases were over 100 percent in that period.

Mr. Patman. Now they are much better organized than they were then?

Mr. Bowles. There are now some 12 to 14 million organized workers, and I think that the keeping pace with rising prices would probably be better accomplished. However, when the collapse came, you would be left with some fantastic rates up there, which you would have great difficulty working back out of.

Mr. Patman. That is all.

The Chairman. Mr. Crawford.

Mr. Crawford. Mr. Bowles, in one of these small booklets issued by the Office of Price Administration while you were Administrator, on page 19 appears the table "Retail profits," and it shows hardware retailers, small furniture stores, and others, and then down at the bottom, "Automobile dealers, 200 percent." In view of this further reduction in the automobile dealers' margin, which they think will occur, is there anyone in your organization who could give us the source of those figures showing automobile dealers' retail profits of 200 percent?
Mr. Bowles. I think Mr. Potter has some data on that. I think there was a study that was made last spring.

Mr. Potter. That was a study we made before we put our cost-absorption policy in effect to determine the possibilities of cost absorption.

Mr. Crawford. I think there are something like 32,000 dealers in the country. Could you tell us whether or not that survey included all those dealers or what percentage of them?

Mr. Potter. Oh, no; it included a relatively small but selected representative group of dealers. I cannot tell you now, here, just how many. That was very thoroughly thrashed out when the dealers were in here, and our surveys covered approximately the same number of dealers as had been covered by the National Automobile Dealers Association surveys for a number of years. I have forgotten the exact number. But it is a small and selected list, which was considered by the dealers' association to be adequate.

Mr. Bowles. The reason for that, Mr. Crawford, was the very high profitability of automobile repairs and upkeep during the war. A lot of dealers went out of business. A lot of them went into the Army or other work. A lot of automobile dealers went to work for the Office of Price Administration, incidentally, in the early days. And there was a smaller number of them left. Of those left, with the big repair business they developed, they all did extremely well during the war period, much to our surprise, when we made a check on it.

Mr. Crawford. Then, Mr. Potter, you cannot tell us at this time what percentage of all the dealers who remained in business were included in that survey, can you?

Mr. Potter. A very, very small percentage of the total dealers. We could not possibly——

Mr. Bowles. Four or five hundred members, I believe.

Mr. Crawford. The dealers tell me there are something like 10,000 dealers who went out of business between 1939 and 1943.

Mr. Bowles. A lot of them did.

Mr. Crawford. As a result of going into the Army, shifting to other industries, and for various other reasons?

Mr. Bowles. That is right.

Mr. Crawford. Now, in connection——

Mr. Potter. Could I make one more statement on that before you go on?

Mr. Crawford. Yes, sir.

Mr. Potter. In 1943 I was shown the operation of the Chevrolet Co. by Dick Grant, the vice president of General Motors, who, at that time, told me that to his very great surprise, and the very great surprise of the company, the dealers had their second best year in history in 1942, though they had relatively few new cars to sell, the trade-ins were profitable for the first time, and they made the full profit on new cars, which they had never made before, and repairs had become highly profitable.

Mr. Crawford. What percent of the cost absorption has been imposed on the dealers by the regulation?

Mr. Bowles. It is 2½ percentage points. The average initial margin was 24 percent. It was knocked down 2½ percentage points. Before that period, appearing before the House Small Business Com-
mittee, I stated that I thought it might be as much as 5 percent. Actually, the amount that went through was 2½ percent. I am told that they have just announced to the dealers that the remaining 2 points has been announced and that is all.

Mr. Crawford. That would be 4½ percent total.

Mr. Bowles. That is right. That is from the Office of Price Administration. I am getting some Office of Price Administration up-to-date information here.

Mr. Crawford. I guess the 2 percent is the one they referred to recently as having in mind that it might come through.

Mr. Bowles. That is right. That is still less than the 5 percent I stated would be taken last December.

Mr. Crawford. While on this cost-absorption question, have there been any recent rulings or orders issued which will force further cost absorption on wholesalers and retailers, particularly in the hardware field, as a result of some of the recent increases we have allowed in the steel industry?

Mr. Bowles. That is an Office of Price Administration problem, and you would be surprised how 4 weeks can take you out of all that. I think somebody here might answer that. I do not know.

Mr. Baker. With respect to builders' hardware, and so forth, we have recently issued, on March 13, a uniform percent margin mark-up regulation, which will reflect the average gross margin enjoyed by hardware distributors in 1941. There will be no absorption required, from this time on, with respect to builders' hardware, garage hardware, and certain specialties connected with it. It is our opinion that, in general, hardware retailers, on hardware items, will not properly be able to absorb any additional amounts.

In the case of retail lumber dealers, who handle some hardware items, it is also our opinion that there is no further substantial opportunity for absorption.

Mr. Crawford. The dealers have informed me in the last few days about orders which I understand have been issued within the last 2 weeks, imposing a 6-percent additional absorption.

Mr. Baker. What is the item, Mr. Crawford?

Mr. Crawford. It is on hardware.

Mr. Baker. You do not recall the item?

Mr. Crawford. No; I do not.

Mr. Baker. I would have to check that. My remark is limited to builders and garage hardware.

Mr. Crawford. In that same connection did you issue an order a few days ago to the hardware wholesalers, instructing them to bill, as a separate item, the pro rata transportation cost on hardware in-bound to their established amounts?

Mr. Baker. I do not know, Mr. Crawford. I would have to check that. I will furnish a statement on that to the committee.

Mr. Crawford. Well, I wanted to ask somebody some questions on it, if the order was issued. You say you will furnish a statement. That gives no chance for questioning.

Mr. Baker. Unfortunately, Mr. Crawford, we had the understanding that this morning questions would be largely directed to matters connected with Mr. Bowles, and we do not have present the heads of our respective divisions. I am not sure, since this is not a working
day for some of us, that I can get those people over here at once, but I would be glad to go out and try.

Mr. Crawford. No; I would not want to ask you to do that. These hardware firms have informed me categorically that you have issued a ruling which forces them to bill, as a separate item, the transportation costs on in-bound hardware. Now, imagine a wholesaler receiving a carload of hardware, made up of nails, bolts, screws, and every imaginable thing that could be put into a carload, including staples, smooth wire, barbed wire, and other items that we need not mention here, and then having to go into a detailed cost operation in an effort to break-down the transportation costs allocated to each separate type of goods, and then proceed to bill customers not only for the goods, but also for the pro-rated transportation expense. I would like to know if such a burden is being imposed on the hardware wholesalers of this country, and, if so, for what reason that could possibly be demanded?

Mr. Bowles. I can get you a statement on that. I agree that sounds like quite a burden. I do not know anything about it.

Mr. Crawford. Why, to me, it sounds like one of the most asinine rulings that could possibly come from any Government agency. But we will not delay the hearings to get that. Someone can prepare that information to the committee later.

Mr. Bowles, there has been quite a bit of discussion over the country about the booklet which was issued, called NDGA Exhibit A “Horror Exhibit.” Was that booklet issued by the Office of Price Administration, and, if so, at whose direction?

Mr. Bowles. I believe Mr. Potter can answer that.

Mr. Crawford. Was that issued by the Office of Price Administration?

Mr. Potter. Yes, sir.

Mr. Crawford. Under whose direction?

Mr. Potter. Under the direction of the Administrator.

Mr. Crawford. And by the use of the taxpayers’ funds?

Mr. Potter. Yes, sir. I will say that 1,000 copies of that were printed and most of those went to Members of Congress.

Mr. Crawford. Mr. Bowles, on page 8 of Mr. Baruch’s statement—I do not know whether I should ask you this question or not, but you would probably have something to do with it—Mr. Baruch says:

For 1 year I would extend the present war power, price fixing, and include wages with the provisions that no raise in price be made without the approval of the Office of Price Administration, and no increase in wage scales without approval of the Office of Economic Stabilization.

Would you care to comment on that for our benefit?

Mr. Bowles. The direct wage controls were dropped, as you know, right after VJ-day, and they were dropped after discussions with both industry and labor, on the part of the President. I was not then associated with that end of it. The wage controls during the war were based, first of all, on the no-strike pledge because wage controls can only be effective if you have a no-strike pledge which is reasonably effective, and, second, the power of the Government to impose a wage settlement on industry. In other words, to tell industry, “You must adjust this wage this way,” or that way.

Also, the power of the Government to use sanctions to enforce those wage regulations. Now, it was felt at that time—and I think that
both industry and labor shared the feeling—that the time had come to drop those, and that we ought to get back to collective bargaining, and work our problems out on a collective-bargaining basis.

Mr. Baruch is proposing that we go back to the wartime controls. I think administratively, psychologically, and every other way, it would be an extremely difficult thing to do at this point. I do not say that it could not be done, but I think it could only be done with the full cooperation of both industry and labor. I do not think it could be imposed by the Government.

You may not appreciate—because most people do not—that there are straight definite wage controls in the construction field—in the construction industry—legal controls over wages. It is established and operated through a board on which employers and employees and public members are present, more or less, at the request of the construction people and labor in that field. In other words, it was worked out with their full cooperation and according to their wishes, and it is very successful. It works very well.

Lacking that same willingness on both sides to cooperate fully, I just do not think that arbitrary wage controls—direct controls—at this time are workable.

The indirect control we now have, as I stated to Mr. Patman. I feel very encouraged about it. It is indirect, that is true, but I think it is workable and practical, and I am very encouraged about what is likely to happen under it, provided we hold the cost of living down reasonably well.

Mr. Crawford. During the war the Office of Economic Stabilization did not have the responsibility for approving wages?

Mr. Bowles. No, all they do is approve the policies. If the War Labor Board had a change in policy, that was checked through the Office of Economic Stabilization, just as the Office of Price Administration changes in policy were checked by it. It is a policy supervising office, not administrative.

Mr. Crawford. This control you have referred to in the building industry is largely a voluntary approach?

Mr. Bowles. As I understand, Mr. Crawford, both sides asked for it, and thought it was a good thing. They thought it would tend to stabilize employment, construction, and I understand it is working very well.

Mr. Crawford. One of the most successful builders, and I think one of the largest operators in my section of Michigan wrote me this week giving detailed information on his operations, and he tells me that he is losing most of his men who are being hired by industry, where industry will use them in constructing expansions to its plants. In some cases he points out that industry is paying them wages of from 50 to 75 percent more than he had been paying them for similar work on jobs which he controlled. Have you heard any general complaint in that direction?

Mr. Bowles. I had not heard that. You see, management would have a right to pay them anything, but they could only get credit for it in a price adjustment if it were approved. So it is a very small number of workers relatively to the whole, and they might never come near us at all.
Mr. Crawford. Well, this would not be for the use of producing merchandise. This would be for the purpose of expanding plants, building expansion?

Mr. Bowles. It would still be part of their costs, though, over a period of time.

Mr. Crawford. Well, in a way, yes. There is such a scarcity of that type of skilled worker that we may have a lot of trouble along those lines.

Mr. Bowles. I will keep my ears open for it. I had not heard anything like that specifically.

Mr. Crawford. There was one thought expressed in his statement by Mr. Wason, of the National Association of Manufacturers, which I would like to see whether you agree with it. It is where they referred to the $145,000,000,000 wartime savings, which I think you must have mentioned in your hearings before the Senate Small Business Committee in December 1945, at least, they show that as the source of their information. Then, they proceed to break down this $145,000,000,000, by pointing out that $45,000,000,000 is savings which the public had before the war, and, therefore, are not wartime savings. $12,000,000,000 in the form of trust funds. $21,000,000,000, time deposits. $35,000,000,000, invested in United States bonds. $32,000,000,000 in currency and bank deposits. That reduces it to about $17,000,000,000, I believe. Have you had a chance to see that statement?

Mr. Bowles. No; I have not. I assume it is correct. Our only point is—I have just been given the Federal Reserve Board record of liquid assets, totaling—he has here in common with all Mr. Wason’s figures “Put out by the Federal Reserve Board.” I have not read it myself. But the Federal Reserve Board total of liquid assets is $225,000,000,000, as against 1940, when it was $67,000,000,000. That is an increase roughly of $150,000,000,000.

Mr. Crawford. Yes; what I was anxious to do was to reconcile, as briefly, and as well, as I could, the National Association of Manufacturers’ analysis of your figure of $145,000,000,000. You do not happen to have the analysis of your figure used in December, do you?

Mr. Bowles. What I suggest is that I put this statement, which I have not read, myself, but which seems to be for the very purpose of explaining the Federal Reserve Board’s position as opposed to Mr. Wason, in the record.

Mr. Crawford. I do not want to confuse you here now. Mr. Wason’s remarks are directed, I assume, to a statement of yours. He gives us the source the hearings of the Senate Small Business Committee in December 1945. He said you used, in those hearings, $145,000,000,000. Our figures are Federal Reserve Board figures.

Mr. Crawford. My question is: What is your break-down of the $145,000,000,000?

Mr. Bowles. It would be the same as the Federal Reserve Board, because we got all our data from them.

Mr. Crawford. Then, if we put that in the record, that will cover it?

Mr. Bowles. Yes, if I could put this in the record, it will cover it. Mr. Crawford. Mr. Chairman, may I request that that statement go in the record?
The **Chairman.** Without objection, that may be done. *(The document above referred to is as follows:)*

**STATEMENT BY CHAIRMAN ECCLES**

For immediate release.

President Wason, of the National Association of Manufacturers, in his testimony in opposition to the extension of the Price Control Act on March 18 commented on an earlier statement by Mr. Bowles with regard to the inflation potential inherent in the accumulation of wartime savings. In discussing consumer demand, Mr. Bowles stated that wartime savings of the people now amount to $145,000,000,000. He appraised the significance of these savings as follows:

"Should people, whether consumers or businessmen, once lose confidence that the price line will be held and rush to meet future needs ahead of anticipated price increase, these vast wartime savings could throw the Nation into a wild inflationary scramble exceeding any it has ever experienced."

Mr. Wason apparently interprets Mr. Bowles figure of $145,000,000,000 as referring to the Federal Reserve estimate of liquid assets (that is, currency, deposits and United States securities) held by individuals and trust funds at the close of 1945. Although Mr. Bowles' reference was to different data, Mr. Wason's interpretation will be followed for purposes of these comments. 1 How, then, does Mr. Wason manage to reduce his initial figure of $145,000,000,000 to a mere $17,000,000,000, and how does he conclude that these assets do not constitute an inflationary danger if only production is allowed to expand without price ceilings?

**MR. WASON'S FIGURES**

(1) At the outset it must be noted that Mr. Wason's total of $145,000,000,000 is no over-all figure for liquid assets held by the public. It is limited to personal holdings only and excludes holdings by corporations and unincorporated businesses. If $52,000,000,000 of corporate holdings (excluding banks and insurance companies) and $28,000,000,000 of holdings by unincorporated businesses are added, the over-all figure for December 1945 becomes $225,000,000,000.2 Business demand at this time is as much a part of the inflation problem as are purchases by consumers. The danger of excessive inventory accumulation is an important factor. Thus, liquid assets held by businesses, as well as by individuals, are part of the broader picture.

(2) Even the $225,000,000,000 holdings for these groups is not all inclusive. It excludes Treasury deposits which will be added to private cash holdings and checking accounts when the Treasury balance is disbursed. Also, it excludes holdings of liquid assets by nonprofit associations, State and local governments, and certain other groups. A more inclusive figure (still excluding holdings by Government trust funds, commercial banks, savings banks, and insurance companies) for December 1945 approaches $275,000,000,000.

(3) In reducing the $145,000,000,000 of personal holdings to $17,000,000,000, Mr. Wason first excludes all items other than currency and demand deposits held by individuals—that is, he excludes holdings of all types by trust funds

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1 Figures used by Mr. Bowles were derived from Department of Commerce estimates of individual savings during the war period. By coincidence the total happened to be the same as FRB figures for total personal holdings of liquid assets as of December 31, 1945. Accordingly, Mr. Watson's interpretation is readily explained.

2 For a break-down of these figures, see Federal Reserve Bulletin for February 1946, p. 123.
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EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942

($16,000,000,000), as well as all-time deposits ($45,000,000,000) and United States security holdings ($41,000,000,000) of individuals. Thus, he reduces the total from $145,000,000,000 to $43,000,000,000. While there is justification for arguing that liquid assets held in the form of currency or demand deposits are more likely to be spent than those held in the form of time deposits or as investments in United States Government securities, this difference is one of degree only. Certainly, it is not justifiable to exclude altogether the $88,000,000,000 of time deposits and United States security holdings by individuals. Should investors be given reason to fear that the purchasing value of their investments might dwindle away due to price increases, securities would be offered for sale on a large scale. In protecting the Government security market the banking system would have to stand ready to absorb these securities and in the process they would be transformed into cash and demand deposits, which would then be available for expenditure.

(4) Taking the $43,000,000,000 of currency and demand deposits held by individuals, Mr. Wason argues that the amount held in 1939, or $11,000,000,000, should be deducted and only the increase of $32,000,000,000 be considered. Some adjustment of this kind is not unreasonable. Individuals and businesses may be expected to draw more readily upon recent additions to their liquid assets than to reduce their holdings below a level to which they have been accustomed for some time. Yet, it does not follow that, therefore, the entire amount of prewar holdings cannot be drawn on under any circumstances. That depends on people's expectations as to price developments.

(5) Next, Mr. Wason points out that personal incomes have about doubled since 1939 and concludes that people may hence be expected to carry approximately twice the amount of their prewar holdings of liquid assets. Deducting another $15,000,000,000 on these grounds, he arrives at a total of about $17,000,000,000. Again, Mr. Wason much overshoots the mark. When considering the increased volume of liquid assets, some allowance can properly be made for the simultaneous expansion in the level of output and income. Some increase in the level of liquid asset holdings is to be expected. However, the sharp increase in liquid assets relative to the level of national income that has occurred (see table) far exceeds a reasonable allowance for this factor under present conditions, when a large part of the gross national product is not yet available to civilian purchasers and production is not yet adjusted to demand. Thus, liquid assets held by businesses and individuals were 60 percent of gross national product in 1941; for the end of 1945 the same percentage is estimated at 124 percent. Taking demand and currency alone, the increase is from 30 to 48 percent. Taking United States security holdings, the increase is from 12 to 50 percent. These are large increases and should not be dismissed as merely the result of higher levels of income and production.

Liquid asset holdings and gross national product

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Gross national product</th>
<th>Liquid assets held by individuals and businesses</th>
<th>As percentage of gross national product</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Demand deposits and currency</td>
<td>Time deposits</td>
</tr>
<tr>
<td>1921</td>
<td>70.7</td>
<td>52.9</td>
<td>17.5</td>
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<tr>
<td>1922</td>
<td>99.4</td>
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<td>1923</td>
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<td>67.6</td>
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<td>196.7</td>
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<tr>
<td>1937</td>
<td>182.0</td>
<td>225.3</td>
<td>87.4</td>
</tr>
</tbody>
</table>

1 Holdings as of June 30. Commercial banks, savings banks, and insurance companies are excluded.
2 Gross national product is tentatively estimated annual rate for end of year and liquid asset figures are for December 31.

For further details see Federal Reserve Bulletin for February 1946, p. 122.
MR. WASON’S INTERPRETATION

Even if Mr. Wason’s residual of $17,000,000,000 were accepted, there would be no reason for complacency. It is still twice the corresponding 1939 figure and sufficient, if expended rapidly, to touch off inflation. An analysis of the liquid asset figures in itself does not mean much unless it is related to the abnormal economic situation with which we are confronted at this time when, as a result of the war, demand is far in excess of supply. It is obvious that in urban and farm real estate, in security markets, and in other areas not subject to price controls, prices have sharply advanced.

Because of the abnormality of the present situation, a sharp distinction must be drawn between the economic significance of these liquid assets in the current setting and their likely effect later on when the economy has returned to a more normal situation. At such a time the liquid assets may well be helpful in maintaining adequate demand and high employment. In the present situation, if expended prematurely, they would have disastrous inflationary consequences.

It is true, of course, that inflation is caused not by the existence of liquid assets but by their use to bid up prices. It is difficult to say to what extent they have been thus used to date, but it is a fact that there has been a sharp reduction in the rate of saving. Personal savings as a percentage of disposable income which had reached 30 percent in the second quarter of 1945 are now less than 20 percent and may decline still further in the course of the year. This tendency should not be accelerated by raising expectations that those who do not buy now will have to pay higher prices later on. Such a development would be invited by a weakening of OPA controls.

Mr. Wason is correct in pointing out that the use of liquid assets for purchases does not of itself reduce the total volume of such assets. If individuals or businesses draw on their liquid assets to finance purchases, the result is merely a shift of funds from the buyer to the seller. The volume of liquid assets can be reduced only to the extent that Government debt is paid off out of tax receipts or securities are sold by commercial banks to nonbank investors. Mr. Wason is therefore right in emphasizing the need for a balanced budget and contending that liquid assets cannot be absorbed by increased production.

It does not follow, however, that because large liquid assets will continue to exist, it will also be necessary to retain OPA price controls indefinitely. Inflationary pressures at this time result from the fact that there are large backlogs as well as current demands while the supply of goods in many lines is inadequate and cannot become adequate in a few months because production and distribution in sufficient volume take time. Once goods become available in ample supply to satisfy current demand and the most urgent backlog demand has been met, the excessive pressures from buyers will be reduced and at the same time competition among sellers will be increased. When this happens, price controls can be removed safely even though liquid-asset holdings remain large.

The CHAIRMAN. Mr. Brown.

Mr. Brown. I have no questions.

The CHAIRMAN. Miss Sumner.

Miss Sumner. Just one question. Mr. Bowles, on page 2 of your statement you said:

Believe me the record of Congress on the passage of the original act in 1942 took courage.

And—

constant efforts to weaken it during the last 3 years have been resisted is a tribute to the determination of our Congress and the sound workings of our democratic system.

Do I understand from that that you thought it took courage to vote for the act last year?

Mr. Bowles. No. What I mean is this: In 1942 Congress had, first of all, the foresight to see that the inflation that occurred after the last war and during the last war could be infinitely worse because we obviously embarked on a much bigger war and the impact of it could be infinitely more devastating. With that knowledge and with
that understanding, it passed a bill which was very new in this coun-
try, and not the kind of thing that any of us take to very easily.
I do not think any of us wants to see our economy put in any kind
of a strait-jacket, insofar as prices are concerned, or anything else.
We do it only because of an emergency situation, and we had never
done it before.
But Congress had the courage to do it for the first time, and, more
than that, had the courage to strengthen it 6 months later, and has
resisted consistently the efforts to weaken it. I feel that if we can
continue to hang on here for a while longer, we will have won a very
great major victory.
Miss Sumner. Well, did you think it took courage for the act last
year?
Mr. Bowles. I would not think so, because I would think anyone
voting for the act last year would know that they were voting for
what most of their constituents wanted, normal people. At the same
time, there is a great deal of pressure here, from different groups, who
have a perfect right to come here and talk, and present their case,
obviously. But that pressure exists, and we all know it.
Miss Sumner. Do you think it takes courage to vote for the act
this year?
Mr. Bowles. I would say quite the opposite. I would think it
took courage to vote against it.
Miss Sumner. It took courage to vote against it? Well, that is
just the opposite of the impression you gave me during your state-
ment and I wanted to clear that up, so we would know.
Mr. Bowles. I do not quite get your point.
Miss Sumner. Well, frankly, if you want to know my point, I
saw this, and I remembered that every wheel horse in Congress voted
for the thing last year, and I could not see how it took courage to
vote for it.
Mr. Bowles. I did not say it did. I said it took courage—
Miss Sumner. I did not intend to say that, but since you asked me
my motive, that is what my motive was.
Mr. Bowles. I did not ask your motive. I just said I did not
understand what you meant. You have now explained it.
Miss Sumner. I am glad you explained it, because that goes out
into the country that they showed a lot of courage by voting for it.
Mr. Bowles. Well, if the polls are correct, if 81 percent of the
people want something, I do not think it takes courage to go along
with that wish.
Miss Sumner. No; I do not thing it takes a nickel's worth of cour-
age to go along with the Government propaganda and machine and
the Gallup polls, and everything else.
Mr. Bowles. You are, however, subject to a great pressure the other
way. The public has not organized it.
Miss Sumner. You mean that the Government has.
Mr. Bowles. Well, the public has not; the housewife has not.
Miss Sumner. That is all.
The Chairman. Mr. Folger.
Mr. Folger. No questions.
The Chairman. Dr. Smith.
Mr. Smith. Mr. Bowles, what is the main objective you hope to
obtain by price control?
Mr. Bowles. Well, what we hope to obtain here, what I would like to see happen in the next year to 15 months is this: A war such as we have just fought obviously turns your economy upside down. It distorts it, changes it, and puts it under huge pressures. And the amount of money going out to people is far greater than the amount of goods available. Then, you start to reconver, when the war is over, back to peacetime. That takes time, it takes many changes, many other distortions, to get it moving back the other way. We know what happened after the last war.

I was reading, the other day, an economist's description of that period from 1914 to 1941, in the Economic Quarterly, of the Chicago University.

Mr. Smith. Would you mind indicating who the man was?

Mr. Bowles. I have forgotten the man's name. I had not heard of him before. It seems like he is a professor at Swarthmore, I think.

Mr. Smith. Would you mind putting that in the record?

Mr. Bowles. I will be delighted to. It was a very good article, I thought, very sane, and it described in detail the conviction we all had, right after Armistice Day, that the big danger of inflation was over, the upward surge in prices, and the inventory scramble which began in March, the efforts of the Government to retrace its steps and to reconstitute controls, the efforts to mobilize the local committees, local price groups, and so on, to try to get a grip on it. All of which failed. It was just too late to put it back into effect. Of course, we are all generally familiar with what happened after that.

Now, today you have some advantage over 1919 and 1920. First of all, our productive capacity is much greater than it was then. We can turn our goods faster when we get started, as we are already proving by being so well above our prewar levels already.

At the same time, we have a far greater excess supply of liquid assets over what we had in 1919 and 1920, and a far greater danger from that point of view.

My feeling is if we can get some general stability in this whole economy, or maintain stability, for a matter of relatively few months—say, 8 or 10 months—that you will really begin to be over the hump on this thing. Production will be really pouring out, in very large quantities, and from that time on you can begin to gradually pull out of a great many of these controls.

As I said before, this committee last February, when I was here, and as I stated here again, I think if we handle it right, and we use proper judgment now and do not rock the boat, and get the stability I am talking about, that a year from June, we will be free of practically all controls except rent control.

If we fail to do that, or if, for instance, the passage of the bill is delayed and there is too much uncertainty, if it takes too long, I think you will see—and I think you are beginning to see a little of it now—a scramble for inventories, people rushing out to pile up inventories, not knowing what higher price may be forthcoming later, and if the bill is weakened or knocked out, and general kind of scramble, which is terribly inflationary, with businessmen not knowing what their costs are from day to day, not knowing what their basic raw materials are going to cost, what labor is going to be, and because of those circumstances, the cost of living starting to rise, with labor starting to scram-
ble to maintain its end of it, and the farmer scrambling force, you will have a wholly unstable, uneasy, explosive situation develop.

I do not think production will be helped by it. On the contrary, I think production will be slowed down very greatly because of the uncertainties that would hit the average manufacturer, and I think the little businessman would take it on the chin, as usual, a lot harder than anybody else, because he would be the last to get his inventories built up. He would tend to buy his inventories as he did in 1920, at top prices, and when the inventory crack-up came, he would lose the most.

I do not think this economy can survive another real hard crack-up. I just think we would see fundamental changes which I do not want to see and you do not want to see.

Mr. Smith. Do you regard the Office of Price Administration as a part of the reconversion machinery?

Mr. Bowles. Very much so; yes, sir.

Mr. Smith. Just what is it that you are reconverting to?

Mr. Bowles. Reconvert ing from war to peace, from 4 or 5 or 6 years of all-out war, with half our economy devoted to building materials for war, and getting it all back onto a peace basis. It took us about 3 years last time. I hope we can do it much quicker this time.

Mr. Smith. Russia is back on a peace basis, and Germany is back on a peace basis; England is back on a peace basis. Is that all that you are aiming at, to reconvert to a peace basis?

Mr. Bowles. I would not say any of those nations are back on a peace basis yet. I think they are going through all the various degrees. Their problem is getting back to something more stable.

Mr. Smith. You do not see any other objective in your work than——

Mr. Bowles. To avoid inflation; that is all our job is.

Mr. Smith. To avoid inflation, and to reconvert to a peacetime basis? You would not care to define that peacetime basis, would you?

Mr. Bowles. I do not think that is our problem. I think our problem purely is to see that in the process of getting back into our competitive, free-enterprise system, that we do not blow up our economy in the meantime. Whatever kind of future we have, and I think it ought to be a pretty big one, and we all might disagree on how to get there, but I do not think that is any of our business. I think our job is purely to see that the price stability is there so that we can grow and develop on the basis of that foundation.

Our job is purely one of avoiding inflation and not getting in the way of production so that production can really roll out.

Mr. Smith. Is not your real problem, Mr. Bowles, to reconvert to freedom?

Mr. Bowles. That is right, to avoid inflation: That is our job. What happens after that is the problem of all of us in a democracy.

Mr. Smith. Now, in order to reconvert to freedom, you must have these controls over inflation?

Mr. Bowles. I think that is correct.

Mr. Smith. That involves prices, and when you say prices, that means wages?

Mr. Bowles. Prices and rents.

Mr. Smith. Prices means wages and rents.
Mr. Bowles. Every other democratic country, incidentally, that I know, that really is the kind of democracy that we understand, is following very much the same pattern that we have recommended. I mean by that, Canada, Australia, New Zealand, Scandanavia, Britain, and others.

Mr. Smith. Do you think that Great Britain is——

Mr. Bowles. It is a democracy.

Mr. Smith. Let us put it in different terms.

Mr. Bowles. A very definitely going democracy.

Mr. Smith. Is Great Britain a free nation? Does it have free enterprise now? For example, in banking, in coal mining, and in various other industries?

Mr. Bowles. Obviously, they are changing in various ways their system. They are doing things with it that I do not think have anything to do with inflation control. But all I am talking about is that they are democratic, and all I am talking about is democracy, such as in a country like Canada, which is closer to our general scheme than anything else, who have a program very close to ours. You will find that their problems and ours are very similar. Donald Gordon, the man in charge of price and rent controls and rationing and stabilization in Canada, you would find that his problems are very similar to ours. I just say they have followed much the same pattern that we have.

Mr. Smith. You are not prepared, then, to take a stand and say that your sole object is to reconvert back to freedom?

Mr. Bowles. Well, of course, if that is what you are getting at, of course, I am. But just as fast as we can get back to it. I do not think it is our job—that is what I am trying to say—to determine what kind of a system we have. Our job is to not have inflation. What your system is, over the period of the next 50 years, obviously going to be worked out by our people generally. I happen to believe very deeply in the system we have had, and I think we can do a great deal. I think that presents greater opportunities and can contribute more to general prosperity, security, opportunity, freedom of the individual, all those things, than any other system.

Mr. Smith. At any rate——

Mr. Bowles. I had a business and ran it for 15 years under it, and started out with $5,000 I borrowed from a friend and built up a business under it. I think it is a good system. It certainly treated me well.

Mr. Smith. Well, you would not be prepared to go any further than to say that your principal object is to control inflation?

Mr. Bowles. I will be delighted to give you all my views on our economic problems, but they are not pertinent to what my job is. That is not my job. If you would like to know what I think about our economic system, or the free-enterprise system, I will be delighted to answer any questions you have.

Mr. Smith. No, Mr. Bowles, you have, yourself, said that the Office of Price Administration—and, of course, you are not directly connected with it, but you are indirectly connected with it—is a part of the reconversion machinery.

Mr. Bowles. That is correct.
Mr. Smith. I put the question directly to you as to whether your main function is to work toward reconverting to freedom, or whether your main function is to control prices?

Mr. Bowles. The whole reconversion program, the whole operation of it, is under the War Mobilization and Reconversion Office set up by Congress, under Mr. Snyder. Our section of that whole operation is the inflation-control section. Beyond that there is getting rid of surpluses of war commodities, getting production in all these items, getting farm production, all the other phases of reconversion.

We have in the Office of Economic Stabilization, and in the Office of Price Administration, and the Wage Stabilization Board, one narrow field of that. I will discuss that field. That is our job, under the whole program, and plan laid down generally by Congress. Now, if you want me to step out of my field and talk about the rest of it, I will do it to the best of my ability, but I do not think it is pertinent to what we are talking about.

Mr. Smith. I do not think you can step out of your field. You are in a field. This is either a part of the American system or it is not and I think you have made your position on that point.

You have used the Federal Reserve Board Index of Industrial Production throughout this discussion. I would like to have you go into an analysis of that so that we may know just where we stand.

Mr. Bowles. Well, I am not an authority, Mr. Smith, on that index of production. I believe the record shows that the index stands, the industrial-production index stands at 159, using the 1935-39 base period not affected by war, as 100.

However, obviously, we had a very small Military Establishment in the period before the war, so that figure should be modified somewhat to discount the part of our economy which is still putting out goods and services and supplies for the armed forces. When you make that adjustment, it comes down to somewhere around 40 to 50—40 to 45 percent increase over 1935-39, but going up every week.

Mr. Smith. This index which you used relates to the production of what?

Mr. Bowles. Well, I suppose all industrial production. It is all manufactures.

Mr. Smith. Manufactures and minerals; is that correct?

Mr. Bowles. That is correct.

Mr. Smith. What percent of the total economy does that represent?

Mr. Bowles. Well, that is all production, is it not? It represents all production, I would assume, except farm production. It is industrial production. It is just what the word says.

Mr. Smith. Do you agree with the statement of F. A. Harper, professor of marketing at Cornell University, when he says that only includes about 25 percent of the total production?

Mr. Bowles. As I say, I do not know. I just know that is the general index that has already been accepted, in my memory, as the most official index of production, manufacture, and production. If the professor says it is not, I will be interested in reading his book. But I would like, myself, to know more about it. All I know is it has been generally accepted for a great many years, as long as I can remember,
as the index of what we are producing in the way of industrial goods. I suppose the defects it had were also defects in the base period.

Mr. Smith. Well, manufactures and minerals represent a certain proportion of production. Now, it seems to me that would be not a very difficult thing to figure out.

Mr. Bowles. The minerals? Mining, you mean?

Mr. Smith. Yes; manufactures and minerals.

Mr. Bowles. I think you will find, for instance, that coal production is away beyond anything it was in the base period. I think you will find copper and the others are, too.

Mr. Smith. We will grant that. But you people come in here and talk about the index of industrial production, and you give the impression that that represents all production. Now, what I am calling your attention to is that it does not represent all production.

Mr. Bowles. You mean the Cornell man says it does?

Mr. Smith. I say that on my own responsibility also.

Mr. Bowles. I do not know about that. All I know is that it is a generally accepted index of industrial production. If you are trying to prove we have not got 45 percent more goods than we had before the war, being produced, I would disagree with you.

The Chairman. I think Governor Eccles filed all that information. I think he testified on that as to the statistics of the Federal Reserve, and they are incorporated in the record.

Mr. Bowles. Whether or not production is going up, all you need to do is look at the New York Times index, every Sunday, on the business page. In the last four consecutive weeks it shot up and it is now higher than it has been at any peacetime point. That is the New York Times index.

Mr. Bowles. I saw that furniture sales were up 39 percent over a year ago, in the morning paper in Washington. Retail sales are up.

Mr. Smith. What was the production a year ago?

Mr. Bowles. Well, it is coming up rapidly. That is the point.

Mr. Smith. What was the production a year ago?

Mr. Bowles. Whatever it is, it was 39 percent less than it is today.

Mr. Smith. Well, it might have been nothing. So, 39 percent, does that really mean anything? We are trying to put some meaning into these hearings.

Mr. Bowles. I think that is very good. I am for it.

Mr. Smith. Well, that is a fine statement, Mr. Bowles. Of course, we are all for that.

Mr. Bowles. Sure.

Mr. Smith. Before the war, Mr. Bowles, about 16 percent of our regular working force was unemployed.

Mr. Bowles. What year was that? 1939?

Mr. Smith. That is over the period from, we will say, 1932 to—

Mr. Bowles. Well, of course, you had very wide differences. You had something like 15,000,000 unemployed in 1932, which was probably about one-third of your working force, and then in 1939, it was down to around 7½ million out of about, roughly, perhaps 49,000,000, about one-seventh. The 16 percent, then, must refer to roughly 1939 figures, just on my own memory. I think you will find that is right.
Mr. Smith. You are taking into consideration the unemployed before the war. You are not taking into consideration the additional employment that was incurred as a result of the war, women, overtime, so on.

Mr. Bowles. I am talking about 1939. In 1939, I think, you had about 7½ million, 7½ to 8 million unemployed. You had a working force then of about 49,000,000 or 50,000,000, which were available to work. That is just about 15 or 16 percent, you see the figure you have there.

But in 1932, if you go back there, it was one-third of your whole working force which was unemployed. So it varies over that whole period.

Mr. Smith. But, Mr. Bowles, the point I am trying to clarify is this proposition that is being stated continuously, that we learned how to produce in great quantities during the war, and that we can somehow or other carry that formula of production over into peacetime production. That is the reason I am bringing up these points. Do you expect that 16 percent or 15 percent, or whatever the percentage might be, to be fully employed in this new order, or this new economy that is being worked out?

Mr. Bowles. Well, I would think that, with all the goods this country needs, and with all the demands we have for products, housing, food, and all the things that we want to eat and did not always get to eat, and wear, all the things we need done to our homes, schools, and everything else, there is certainly plenty to keep all of our people busy under a free-enterprise system, and I think business will be probably more prosperous by far than it has ever been before. I think the people are fully employed with the exception of 1½ to 3 million, who are shifting from one job to another, or out of work for one reason or another, often for their own choosing.

Mr. Smith. You are basing your policy of reconversion—

Mr. Bowles. You see, I do not make the policies of reconversion. They are made by Congress, and Mr. Snyder administers them. I only handle one part of it, which is inflation control.

Mr. Smith. You do not exercise any arbitrary powers, then, whatsoever, in carrying out the provisions of the Price Control Act? In other words, you only do that which is specifically written in the law? You do nothing else? You formulate no rules of your own?

Mr. Bowles. No regulations that are not authorized by Congress. According to the courts. Occasionally, they tell us we are wrong on something, and we change it. But that is what the courts are there for.

Mr. Smith. In order to get this volume of production in minerals and in manufacture, let us keep those two things separate, because that has nothing to do with the production of farm commodities and other things, in order to maintain that production in peacetime, it would be necessary for the working force to work longer hours than heretofore; is that not true?

Mr. Bowles. No; that is not correct. I think you will find, if we take the 40-hour work, which is the prewar workweek pretty generally established, that with something like anywhere from 58 to 60 million people working, we can turn out about $200,000,000,000 worth of goods and services a year.
Mr. Smith. And your point is—

Mr. Bowles. Which is about what we did during the war.

Mr. Smith. And you make that point on the basis that the efficiency of the worker has increased to that extent?

Mr. Bowles. No; you are employing more workers. During the war period we only employed about 51,000,000 workers. You had 12½ million of your ablest men in the armed services. Now your employment goes up. It is already 52,000,000, and on its way up, as these boys come home, and you will go up to something like—I do not know, nobody knows exactly, 58, 59, 60 million, I do not think anybody can tell what the figure is—it depends on how many women want to go on working, how many kids want to study after they get through high school. All these factors—but you will have 6 or 7 or 8 million more workers, you will work shorter hours than you did during the war, but the total production ought to be, roughly, the same. And I think we will all agree that the demand for the goods is there.

Mr. Smith. Just how do you figure that they will work fewer hours and the production will be the same?

Mr. Bowles. You have 6 or 7 million more people at it.

Mr. Smith. Then, you would expect these 16 percent of people who were unemployed to return to work?

Mr. Bowles. I most certainly and emphatically do. I hope we do not go back to maintaining 8,000,000 unemployed as a standard thing. I just do not see any reason for it. It would seem to be criminal if we did. I think you might have a depression once in a while, before we learned how to work it a little better. But we are going to have dips here and there sometimes.

Mr. Smith. Now, in order, Mr. Bowles, for the Nation to maintain this production, it would be necessary to regiment the people, the same as they were regimented during the war, would it not?

Mr. Bowles. I totally disagree with you.

Mr. Smith. Why not?

Mr. Bowles. Why should we? I think your question is a very challenging one. I do not see why in the world that should be. You go back to produce the things we need. We need all these bathtubs, homes—you can put the number of homes you need in this country from anywhere from 10 to 14 or 15 million. We never built more than 900,000 homes in a single year before the war, and there is a tremendous need for homes, a tremendous market for them. The automobiles we need, electricity, the power; there are terrific opportunities and needs for these things, and it seems to me we have got to get our rights higher and let the imagination go about what we did 50 years ago in talking about our economy, and get this feeling of expanding it to do all the things it can do for us.

Mr. Smith. You say—

Mr. Bowles. Very thorough. I think we have far more freedom, Mr. Smith, when you have all your people employed rather than when you have 8 or 9 million unemployed. A man who is unemployed has very little freedom. Maybe he has freedom to not eat very well, but his freedom of choice, his freedom of individual opportunity at that point is pretty limited.

Mr. Smith. In other words, you are arguing for straight, outright regimentation, when you say that?
Mr. Bowles. Why am I arguing for that? I do not quite get your logic.

Mr. Smith. You say we were less free when we had seven or eight million people unemployed than Russia is with all of her people employed?

Mr. Bowles. No. Of course, not. I do not get that. That is quite some logic.

Mr. Smith. I did not think you would, Mr. Bowles.

Mr. Bowles. I never brought Russia into this. You brought Russia into it; I do not think it has anything to do with it.

The Chairman. Will you yield to me, Doctor?

Mr. Smith. Yes.

The Chairman. There seems to be a lot of confused thinking in this committee, Mr. Bowles.

Mr. Bowles. I agree.

The Chairman. They talk about the surrender of our liberties. Of course, in a communistic country, the state is all. The individual amounts to nothing.

Mr. Bowles. Absolutely.

The Chairman. They take away his liberty and take it away permanently and give it to a dictator. In the totalitarian countries, that same thing prevailed. The people have nothing to say about it. Their liberties are taken away, in order that their state may often be more strong and impose its will on the surrounding territory, and enslave other peoples. Where have the liberties of the American people been taken away? The freely elected representatives of the American people have imposed certain restraints upon them for their own good. They are responsive to the will of the American people. If the American people do not want these things continued, they will take them away tomorrow.

Mr. Bowles. That is the very reason we are here talking about them.

The Chairman. They know it means their own salvation and their own good. And when you talk about return to freedom it seems to me that is all the bunk. The American people are free to work out their own salvation, and they are free to have this bill repealed immediately if they want to. That is my opinion. And it is my opinion the American people are willing to have these restraints placed on them for a longer time in order to work out their own salvation and to assure their economic stability.

Mr. Bowles. You have said it better than I have said it, Mr. Chairman.

Mr. Smith. Mr. Bowles, you are engaged, however, in a plea, here this morning, for a continuation of regimentation?

Mr. Bowles. Well, I am pleading for a continuation of control over inflation; yes. I am certainly appealing for control of inflation, so that we will not have inflation break loose in this country, and so that we will not have rents and prices and the spiral of wages and general inventory and financial collapse that would be sure to follow. Yes; I am arguing against that.

Mr. Smith. Mr. Bowles, you are telling this committee, and you are telling Congress, and the country, that you believe that this control can be eliminated at the end of another year, June 1947?

Mr. Bowles. Except on rent control. You may have some remaining products on which you need control. But I say that is if we do a
good job, Mr. Smith, during this period. If we get the legislation we need and if we can get this whole thing settled down. I think we can. I feel we can get rid of it. And then I feel we can go on to a very great prosperity. I feel there is no 20 years in our history, if you will go back and examine it, where we have not doubled the amount of goods we produced 20 years before, goods and services, with the same dollar values. No 20 years in which we have not doubled it. And I do not think we are going to do any worse in the future.

Mr. Smith. Under wartime conditions we doubled it. We doubled manufacturing and manufactures and minerals. We did not double these other things.

Mr. Bowles. The amount of goods and services which you produced were doubled.

Mr. Smith. All goods?

Mr. Bowles. Goods and services; all goods. You have done that every generation since the Civil War.

Mr. Smith. Well, we have also increased our population.

Mr. Bowles. That is correct, you have increased your population. Also we have just invented atomic energy, which might even speed things up.

Mr. Smith. Well, of course, we are getting a little bit far-fetched in this thing when we bring in atomic energy to save our freedom.

Mr. Bowles. I think it can. I think it can develop production for us and free us of a great many things.

Mr. Smith. Mr. Bowles, let me ask you this question.

Mr. Bowles. It depends on how we use it.

Mr. Smith. You say that you believe that price control can be eliminated at the end of another year if—

Mr. Bowles. Except on rent controls and some other products.

Mr. Smith. And how long do you think rent controls will have to be left on?

Mr. Bowles. It depends on what we do on housing and how fast we can get housing. As you get housing, in any one area, you drop rent control in that area. There would be, as I see it, no day when you would drop it all at once. You would ease out of this area, ease out of that area, when you got your housing built up so there was some relationship between supply and demand reestablished. Then you could pull out of that area. Rent control has been so devised to make it very simple to do that. We have some four hundred-odd individual areas. You can pull out of 3 or 5 or 10 or wherever it is not needed any longer.

Mr. Smith. Mr. Bowles, do you think that Mr. Wyatt, with his program, is going to accomplish that purpose?

Mr. Bowles. I think his program is the best hope we have of accomplishing that purpose, and I think that the Wyatt program will do more to get rid of rent control, because it will produce the homes, and give people a place to lay their heads at a reasonable price, than any other program I know of.

Mr. Smith. Again, you have asked for a totalitarian program to get rid of rent control.

Mr. Bowles. Mr. Smith, this is just a very personal view. I wish you would take it as such. I am no prophet. When I have tried to be a prophet, I have frequently been wrong. But I would like to sit down with you a year from today, if the Wyatt program is not passed,
and I will gamble that Congress will pass public housing legislation by overwhelming vote, that will go far beyond anything that Wilson Wyatt has proposed, and will put it in a much regimented program. I feel that this is the opportunity to build homes under free enterprise, with individual contractors, architects, and people establishing the forms that it will take. My bet is that if you do not have that program, that the country will be so up in arms by the time another 12 months goes by that Congress, by an overwhelming majority will pass far different legislation to get the homes built faster. That is my personal opinion. But if you are a betting man, I will bet you a dinner on it. I bet there will not be 50 votes against it in the House.

Mr. Smith. Mr. Bowles, let me challenge that statement. If the Office of Price Administration takes its fingers off building and allows it freedom, we will build more homes, and I am basing my judgment upon history, upon experience—than we will build by continuing Office of Price Administration regulations and restrictions on building materials, and having the Wyatt program.

Mr. Bowles. I will disagree with you, and I will do it based on history, and I will go back to the 1919 and 1920 years, when there was no Office of Price Administration around, and when there were no controls on anything, and building materials went up more than 250 percent in that period, during the war and right after the war. An awful lot of homes were built. At that time there was the same kind of demand, on a somewhat lesser scale, for homes. A great many homes were started, but with building materials going up at the rate they were going up, people got them half built, could not finish them, had to back out of their obligations, or carry through their obligations and later suffer foreclosure, and your whole number of new homes that rose up pretty sharply turned right around and collapsed. And we went to the lowest point in new-home building in a long time.

Here are the figures. In 1918 we built 174,000 new units. In 1919, the first year after the war, under no price control, it shot to 405,000 units.

It then just dropped away off, it just collapsed, because the prices of those houses were so out of line, and so fantastic, down to a little more than 200,000 units.

Then it took 3 or 4 years to again get that boom started, and then by 1924 and 1925 it was going well again, and 1926 was a big year.

Mr. Smith. Mr. Bowles, you have not given me an illustration of where that was different under price control. I will give you an illustration.

Mr. Bowles. We never had price control in that period, Mr. Smith. I am giving you the time when you did not have price control, and I am telling you we did not get homes built.

Mr. Smith. We got houses, though.

Mr. Bowles. You did not get houses.

Mr. Smith. We did not get houses?

Mr. Bowles. You had a collapse in your building boom.

Mr. Smith. We had houses in the twenties.

Mr. Bowles. But that was after the period right after the war, by 1924 and 1925. You had supply roaring out. You had big supplies. But in the period comparable to this one, a lot of homes were started,
but with building costs going up over 200 percent, you ran right into collapse. People were just not going to build during that period.

Mr. Smith. What was the record in Austria? They tried this Wilson Wyatt program in Austria. What was the result?

Mr. Bowles. In Austria?

Mr. Smith. Yes.

Mr. Bowles. I did not know that it had been tried there.

Mr. Smith. Yes; they tried it on a very grand scale.

Mr. Bowles. Well, what they had in Austria, as I understood, before the war, was socialized housing under the control of the federal government, the Austrian Government, which developed this housing on a purely government basis. There is nothing like that in the Wilson Wyatt program. It is a program to encourage and make it easy for people to go ahead and get started, and to have the people, as a whole, share some of the temporary high building costs under the subsidy system.

Mr. Smith. Mr. Bowles, you still think that, leaving this bill as it is, not putting in any amendments, and if you administer it so-and-so, that we can discontinue the program at the end of the year? Let me ask you this question——

Mr. Bowles. I did not say we could discontinue rent control at the end of the year.

Mr. Smith. What are you going to do about the inflation at the end of the year, the 250 to 300 billion dollars of Government printing-press money?

Mr. Bowles. $250,000,000,000 is not inflated in the ordinary sense, it is an accumulation of liquid assets which may give you inflation if it gets lost, but will not give you inflation if it does not get lost. The question is, Does it or does it not get lost? Does that money start to flow from savings banks, from Government bonds, from insurance policies, roaring into inventories, any kind of commodities we can get our hands on, bidding them up, to the height where we have always gone, and then collapse? That is inflation. But if we can handle this right, so that we can get production going, and get it really roaring, so that we can get supply and demand reasonably in balance, you can pull out of it and money does not become panic money, it does not become frightened, and it stays in the bank, in the insurance policy, under the mattress, in somebody's pockets, wherever it may be.

Mr. Smith. Give me an illustration of where it has worked that way?

Mr. Bowles. It worked that way in every country where you have had inflation. It worked that way in 1919 and 1920, for one.

Mr. Smith. In what country?

Mr. Bowles. United States of America.

Mr. Smith. How much Government printing press money did we have during that period?

Mr. Bowles. You had a very great increase. You did not have Government printing-press money, but you had a very great increase in all liquid assets over the period before the war. It was absolutely trivial compared to the increase you had had this time. You have a much greater danger this time. Opposed to that, on the plus side, you have greater production ability. And production is what is going to lick this problem, as we get going with it. But you had a great
increase in your liquid assets after the last war and during the last war, for the same reason that you have had in this war.

Mr. Smith. Mr. Bowles, you certainly distinguish between liquid assets that result from commercial loans—

Mr. Bowles. It does not matter where they come from, as long as you can get money and spend it.

Mr. Smith. You say it does not make any difference?

Mr. Bowles. If you can get it; it is money.

Mr. Smith. You do not think there is any difference between liquid assets that represent commercial transactions, and liquid assets that represent Government printing-press money? You do not think there is any difference?

Mr. Bowles. Well, wherever the source of it, if you can get that money, whether you borrow it from the bank, or whether you cash in your insurance policy, whatever you do to get cash to put into goods and commodities, there you get inflation really roaring, and obviously some money has already gone to the stock market on that basis.

Mr. Smith. Mr. Bowles—

Mr. Bowles. And it has gone to real estate.

Mr. Smith. Let us say that following the last war, much of the liquid assets resulted from commercial lending. You certainly are not stating to this committee—

Mr. Bowles. You also had an increase in currency, you had an increase in savings, you had an increase in war bonds, you had the same pattern, generally, of increased liquid assets. They went pouring into inventories, into goods, commodities, real estate, into the stock market, and you got a very dangerous collapse.

Mr. Smith. Mr. Bowles, liquid assets which represent commercial transactions are all automatically self-canceling; is that right?

Mr. Bowles. That is right.

Mr. Smith. They will cancel themselves out. Does Government printing-press money cancel itself out?

Mr. Bowles. Of course, it does.

Mr. Smith. It certainly does not.

Mr. Bowles. You can cancel it out. I will tell you how to do it.

Do it the way they did it in Belgium. I think, if we are getting to the same kind of problem you are talking about, if that really gets lost in the way you suggest, you are really going to have trouble. In Belgium they really went in for some regimentation in order to cure it. I do not think you would get the same kind of run-away problem you had in Germany because I think we would step in before that time with some very drastic action, as they did in Belgium. Obviously, that only happens if we make a complete mess of this job, which I hope we will not do—they called in, in Belgium, all their negotiable securities of every kind, including cash and everything else, and called it into the banks, and said there would be no value on it 5 days later. They had such a great excess of liquid assets over goods available. The banks, then, under the Government's direction, destroyed the value of, roughly, 50 percent of that, and gave you back nonnegotiable bonds at a very low interest rate. They also gave you, as I understand, a sort of an allowance to spend, and to run your business, your store, and your own family. They just destroyed the value of half
the money that was out there. Obviously, we are not going to get into anything like that unless we are crazy. But that is the answer to run-away inflation.

Mr. Smith. Is inflation loose now?

Mr. Bowles. I would certainly definitely and flatly say it is not.

Mr. Smith. Is it in danger of getting loose?

Mr. Bowles. Very great danger.

Mr. Smith. Will there be a time in the future when danger will not exist?

Mr. Bowles. I think it will exist, but I do not think it will stay what it is if we have the brains and get this country settled down a bit here.

Mr. Smith. If it starts to break loose, we will have to step in with the Office of Price Administration again; is that right?

Mr. Bowles. It is up to the Congress and the people, but I should hope they would not allow that to happen, if we value, as I value—and I am sure you do—your free-enterprise system.

Mr. Smith. Well, you are injecting a question there. In other words, you are hoping something will happen, but you have no historical facts to sustain your position.

Mr. Bowles. We have never been through a period like this. I may be too optimistic about this. It may be that we may take the step that I certainly feel we should take, hoping we will be able to take it, and if we do the job right, I think we will be able to get out of this program a year from June, with the exceptions I have noted, and you may then get into difficulty after that.

Mr. Smith. You may get into difficulty?

Mr. Bowles. You still may; no one knows. But I would assume it would go a good risk at that point to get out from under controls and I would be willing to take the risk at that point.

Mr. Smith. That means that we are faced with the prospect of at least possibly continuing the Office of Price Administration indefinitely?

Mr. Bowles. I do not see how you got to that conclusion. I said the danger may exist, and may still cause you trouble after the Office of Price Administration has gone. We may miscalculate. You may pull this thing out a year from now, June 30, 1947, let us say, with the exception of rent control, and some other commodities, and after you are out, even though the supply of goods is roaring out, because we have never been in circumstances like that, we might still run into trouble. I thought I made it very clear, and I think the record will show it, that I would be willing at that point to take whatever risk is involved providing we do a good job in the meantime.

Mr. Smith. That is all.

Mr. Crawford. Will you yield?

Mr. Smith. I yield.

Mr. Crawford. Mr. Bowles, I think you have just made one of the most significant statements which has been before this committee since these hearings started 5 or 6 weeks ago. You said that you felt the Congress would probably take certain steps if certain pressures developed. Now, I fear that is going to happen, because I think the pressures may develop, and that is one of the primary reasons I have tried to detract from the glory or importance or significance of Office of
Price Administration controls, because I do not believe the Office of Price Administration can do the job effectively, and I have tried to stress that in these hearings, and tried to develop the thought that there are other steps we must necessarily take in order to prevent the pressures developing which will force those extraordinary things to come into operation.

Mr. Bowles. I agree with you. I think June 30, 1947, if we do our job in the meantime, and do it right, that you can get at that time an orderly stepping out of this whole operation. Then I think you ought to take whatever other steps you can take to assure that you are not going to get yourself in a jam beyond that point, and I would just like to say this, Mr. Crawford, too: There is nothing sacred about this price level we have here. I do not know whether it ought to be 10 percent lower or higher, or what it ought to be. Nobody knows. I think that whenever you get out from under control, whenever you finally step off the end of the dock into cold water and you do not know quite how deep it is or quite how cold it is, whenever that time comes, some prices obviously are going up. I do not worry about that at that time at all, because the other prices will be going down. I think your competitive system will have taken hold. Goods will be pouring out. Let us take that risk at that point. The problem now is if you desert too far your price levels, it pyramids on you and goes right ahead.

I think a year or 15 months from today that sort of situation will be behind us, provided we have done our job right. Then, I think Congress can provide a tax program and other programs we need to see that we do not get ourselves in a jam after the Office of Price Administration is gone.

The Chairman. Mr. Hays.

Mr. Hays. Mr. Bowles, I want to speak very briefly about the black-market situation, because I fear that we have not taken it into consideration quite enough in these hearings.

You will agree that there is a point beyond which controls become ineffectual if your practical situation is such that an enforcement program, no matter how efficient, does not meet it. Now, with particular reference to used cars, for example, and lumber, and meat, to some extent, those would be your most glaring examples of black market; would they not?

Mr. Bowles. Yes; I should think they would be.

Mr. Hays. What is your thought about that, and what can you predict with reference to it?

Mr. Bowles. Well, of course, that really is Paul Porter’s job now, over at the Office of Price Administration, but I have the same interest in that you have, because clearly if those black markets get out of hand on you your whole stabilization program is threatened.

I read in the morning paper a statement by somebody or other of the Meat Institute that 80 percent of the items sold to the grocery stores here, meat items, were over ceiling. That just does not fit with anything I have ever seen or heard of. The Bureau of Labor Statistics makes a report each month. I have not seen it in a couple of months, but it is a confidential report, and I know the members of the committee can look at it, and it shows the amount of overcharges in 55 cities, and it is a very small fraction of that, something like 12...
percent of the stores, sometimes 5 percent in other cities, and so on. Conceivably, it could have gone up in the last 5 or 6 weeks, and I do not know about it, but I do not believe that is so. I do not think all the stores in Washington or dishonest. I think that is a pretty severe indictment on them, and I would take it as libelous if I were in their position. But that is another question. I just do not believe it.

What we usually find in black markets is this: Where you have an extreme scarcity developed as against demand, you get, of course, great pressure. If you throw enough men into that field, you can usually lick it. A year ago this spring the black market was very bad. Supply was way down.

Mr. Hays. You are speaking of meats now?

Mr. Bowles. Yes. Meats, a year ago. We threw in against that a great many people. I was at the Office of Price Administration then. We put about a thousand men on the problem, which is about a third of the whole staff. We put in controls all the way through so that you could easily check the flow of meat and check who was slaughtering, how many cattle, and so on. Complete controls. And by July 15, that black market was very well under control. There were just vestiges of it left. It was really cleaned up.

Now, after VJ-day, in the interest of pulling out of controls where we could, and in view of the very large supply of meat that developed, we pulled out of a lot of those supplementary controls, and I understand that the problem has developed since that time largely because of that. However, they are now reinstituting some of those controls over there in the Office of Price Administration, and I think it is very healthy, and I think we will again give the enforcement staff the kind of procedures they need to get a grip on it all over again. I could not tell you how big it was now, Mr. Hays. I do not know. But I doubt very much that it is anything approaching the rumored figures.

On used cars, that was always a tough one. There is no regulation that I can ever remember putting into effect as much as I disliked that one. We avoided putting it into effect for a long time because we knew it would be hard to enforce. We worked and worked and worked with industry groups, trying to have voluntary control over used cars. When we finally put the ceiling into effect, we made the ceilings very high, and I have had many a veteran write me saying, "I sold my Chevrolet for $400, and came back 3 years later and had an opportunity to buy it back at a higher price under an Office of Price Administration ceiling." Those ceilings were made high because we allowed them to move up, purely because we were fearful of how we could get compliance with that regulation.

We put it into effect in June 1944. I am sure it has checked used car prices very, very substantially. And we have had probably better luck on compliance than we expected. We expected it to be bad, and it was not quite that bad. That is a hard choice to make. We had to make it. It is not good in all areas. I think there is some black market on building materials. I think the new supplementary orders put out by the Civilian Production Administration will be very helpful in stopping it, because you can track down the people who get the materials easier and find out if they got it at a legal price.

We are getting complaints, many complaints, from builders and contractors that others are using side payments, and so on. But
wherever you have a real scarcity develop, and you use supplementary orders to back up the Office of Price Administration enforcement, then, you can usually clean the black market up.

We had a very bad poultry black market years ago. One of our difficulties was there we never knew how to get the supplementary controls in. There were 900,000 points at which poultry was being raised in the United States, and to try to license all those people was too much. We throw them in in one place, and it will bulge out somewhere else. But we are on the last lap here. In the meantime, the Office of Price Administration is really bearing down on that, very hard. There are boys who are working long hours, far more than your Government workweek, in trying to get those things under control, and they will do as good a job as they can do with the limited manpower they have, but it will never be perfect.

Mr. Hays. I am glad to get your statement on that. I do not think Congress would ever expect a hundred percent compliance or anything like that, and we would not be concerned with these incidental and isolated violations. But where you have a condition that extends throughout the industry—and used cars is the best example I can think of, because that defies enforcement—you do need to emphasize it, and I think Congress will approve the plans for enforcement that you have outlined, that is, shifting from one situation to another as that develops. That, of course, would require a more generous appropriation for enforcement than we have been inclined to give.

Mr. Bowles. If we could really staff that group up for 6 to 10 months, get enough people to really do that job, they could knock all that out. It is purely a question of personnel. As I say, we had a very bad black market in meat, and we threw over a thousand men against it, and that is not very many when you think of 600,000 stores selling meat and 30,000 slaughterers at that time slaughtering, and through those people we had a number of cases in the courts, the judges were very strict and gave us good sentences, and we really knocked it out.

But while we were doing that, the poultry black market got away on us. It is a matter of manpower.

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

Mr. Hays. Yes.

Mr. Brown. Mr. Taylor stated that a large percent of those engaged in the meat industry was in the black market. One or two witnesses stated the same thing about lumber. How can it be stopped? Why let it go so far without stopping it?

Mr. Hays. We did have a very serious picture, Mr. Bowles, as Mr. Brown stated, and it seemed pretty acute.

Mr. Bowles. I read that in the paper last year. At this time you had 115 pounds per capita, in meat. Right now you have something like 155 or 160 pounds of meat per person. The supply is 40 percent, or 50 percent bigger than it was a year ago. We shop around in a lot of different grocery stores and do not have trouble in getting meat. It is advertised in the morning paper, by Safeway, District Stores, and others, at regular ceiling prices. I have asked my family if they have had any problem or detected overceiling prices. They know the prices. They say "No." I am sure there is some existing. It may be spotty and in other sections of the country. But right here in Washington I do not think it is.
Mr. Brown. I do not think he had reference to the people who have been in that business. But you are getting new people engaged in that, and they are doing practically all the meat business. He said that down in the State of Texas the regular buyers comply with the law, but there are new people who are in the black market.

Mr. Bowles. I can tell you how to do it, Mr. Brown. We got into it last year. It is a tough proposition and nobody likes to do it. What we did last year was license those nonfederally inspected slaughterers, and by licensing them and putting quotas on how many they could kill, and making them prove they were in compliance with the regulations before they got a license, we knocked it out. Before the war there were 4,000 slaughterers in the country. About a year ago there were 20,000. We knocked the number down to about ten or twelve thousand by making them get a license, making them prove compliance before they got the license, going over their records, and making sure they were in compliance, and we wiped out a lot of the purely black-market operators and gave the honest man a chance.

That quota control, knocking those quotas down, caused terrific trouble. I do not think there is anything we got more letters from Congress on than that, because local slaughterers who had been slaughtering three or four or five times what they used to, a lot of them in the black market, when we pushed them back to a prewar quota, howled blue murder. But we knocked out the black market.

They are putting in some of those controls now. I believe they are going into effect on the 1st day of May or, rather, in the next week or two. No one likes to put those controls back on, but I think they will work.

Now, used cars, of course, when you really begin to get some cars roaring out, nobody is going to want to be stuck with these cars even at ceiling prices, and these ceiling prices on used cars are going to look plenty high just as soon as you get a little car production. In the meantime the Office of Price Administration will be doing their utmost. Those fellows really work in enforcement.

Mr. Hays. I am glad to have had your statement. I would like the record to show that I agree with you that the established businesses are generally making an honest effort to comply and I think this whole program would have been utterly impossible without them.

Mr. Bowles. Absolutely.

Mr. Hays. What I am referring to is those bypassing the established and legitimate businesses.

Mr. Bowles. That is right.

Mr. Hays. That is all. Thank you.

Mr. Bowles. I would like to say this: that when this program started out, an awful lot of people, looking back to prohibition, said, "You can never get this country to accept regulations of this kind. They just will not do it." That has not been the case. I think the country has accepted them remarkably well, and I think business has accepted them remarkably. You take the average store. It is no fun living under a lot of regulations and a lot of prices they have to keep up with. They do not enjoy it. But the overwhelming majority have done a bang-up job. As you say, Mr. Hays, if they had not done it, we would have had runaway inflation long ago, and I would not want to see it broken down at this point now, because they
have really done a good job, the retailers, department store, grocery people. They have done a marvelous job.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Mr. Bowles——

Mr. Bowles. Mr. Talle, I would like to say this before you start: I understand that you tried to get me on the telephone and could not do it. I was embarrassed to hear that, because I had not known about it. I picked up the testimony the other day and I am sorry about it. I did not know that you had called. I am sorry to hear it, because that is no policy of mine, I can tell you that.

Mr. TALLE. My files show that I have done that diligently since you became Administrator of the Office of Price Administration. I have never succeeded in talking to you.

Mr. Bowles. Well, I was not conscious of that fact.

Mr. Talle. Your successor is Mr. Porter? He is Administrator of the Office of Price Administration?

Mr. Bowles. That is right.

Mr. TALLE. And your title is Administrator of the Office of Economic Stabilization?

Mr. Bowles. Director of Economic Stabilization.

Mr. Talle. And Mr. Snyder is——

Mr. Bowles. Director of War Mobilization and Reconversion. I guess it is just Director of Reconversion now.

Mr. TALLE. And Mr. Wyatt is National Housing Administrator?

Mr. Bowles. Yes.

Mr. TALLE. And Mr. Small is Administrator of Civilian Production Administration?

Mr. Bowles. That is right.

Mr. TALLE. Those five offices were all established by Presidential order, were they not?

Mr. Bowles. Well, the Office of War Mobilization and Reconversion was set up, I think, in a statute that was established. I think it was established before that and set up by Congress later.

Mr. TALLE. Of course, they were all approved later by appropriation of money by Congress.

Mr. Bowles. Yes.

Mr. Talle. But not any of those have Cabinet standing?

Mr. Bowles. The Office of War Mobilization and Reconversion has. Of course——

Mr. Talle. I did not make myself clear. Not any of those officers have had Cabinet status?

Mr. Bowles. The only Cabinet status are the Cabinet. They are all limited to the war period, except National Housing. I think that would be more or less permanent.

Mr. TALLE. What I mean is the Cabinet as represented by departments of Government that have been created by law, by Congress, like the Treasury, Commerce, and so on.

Mr. Bowles. No; that is right.

Mr. Talle. Does Mr. Anderson of the Department of Agriculture, work with the Office of Price Administration and the other offices on certain matters?

Mr. Bowles. Yes; he works with them on all food pricing, rationing, on anything that affects food.
Mr. TALLE. So if we consider those circumstances, his office would be the only one that has Cabinet standing?

Mr. Bowles. I do not know what you mean by "Cabinet standing," but it is the only one that has a Cabinet position, sir; yes, sir.

Mr. TALLE. The president may call these other agencies into consultation, but I have in mind established departments.

Mr. Bowles. His is a permanent office and these others are temporary.

Mr. TALLE. I suppose there are some issues that are decided by the Administrator of any one of these agencies without consultation with other offices?

Mr. Bowles. Well, the ones that affect them solely, the ones that would solely affect their own operation, or ones where they do not cross line with some other agency, or—yes, they would. They would go right ahead and do the job. The Office of Price Administration is carrying out the Price Control Act.

Mr. TALLE. On some other matters, there would naturally be consultation, like between the Office of Price Administration and the Department of Agriculture, on food, for instance?

Mr. Bowles. That is right.

Mr. TALLE. There must be many issues which involve overlapping of authority.

Mr. Bowles. Cases; that is right.

Mr. TALLE. Are there any other agencies in addition to those six that I have mentioned, which are frequently called in for consultation?

Mr. Bowles. Yes; the Labor Department would be called in on anything touching on wage stabilization—occasionally the Bureau of the Budget—occasionally the Treasury.

Mr. TALLE. How about the Federal Reserve Board?

Mr. Bowles. Yes, the Federal Reserve Board.

Mr. TALLE. When consultations do occur, and a decision is to be made, who has the last word?

Mr. Bowles. It depends on what the subject is. On anything having to do with reconversion, surplus commodities, and all that, the President has the last word. He is the final authority. My own office has the stabilization program, and it is responsible for the stabilization program as a whole under the Executive order of the President. His powers are delegated to that office, to handle the policies laid down on stabilization. As far as disputes are concerned, they are really fairly rare. We have had very few cases in the last 6 or 8 months. There used to be a great many. In the early days, when I was here in Washington, it seemed on every issue everybody was jumping around on different sides, and so on. But there have been very, very few in the last 6 or 8 months.

Mr. TALLE. In the event that the Administrator of the Office of Price Administration made a decision of which you did not approve, could you veto that decision?

Mr. Bowles. By power delegated from the President. In other words, the President could veto it, as long as it was not illegal. Obviously, he could not tell them not to carry out the law, but as a matter of judgment, yes I could, just as the President could. That power comes from the President.
Mr. Talle. Is there any other administrative officer who would have authority to veto a decision made by the Office of Price Administration Administrator?

Mr. Bowles. I suppose the Office of War Mobilization could.

Mr. Talle. Could Mr. Wyatt do it?

Mr. Bowles. I do not believe he could. Not veto the Office of Price Administration, no.

If there is an issue there, they would come to my office. But I doubt very much whether there would be an issue there. I have been there a month and I have yet to see one that involved anything.

Mr. Talle. There is a bill which passed the House not long ago and which is pending before the Senate. If that becomes law, will not, then Mr. Wyatt have the power to veto decisions made by the Office of Price Administration in the case of building materials?

Mr. Bowles. I think if Mr. Hart, who is general counsel there, says yes, he probably would, if that bill became law.

Mr. Talle. Is there anybody who can veto your decisions other than the President?

Mr. Bowles. The President. I am a representative of the President, in charge of coordinating the stabilization and settling problems, and getting a coordinated program. As you say, yourself, there are a lot of overlapping interests, and they have to be worked out. The point is if it is done with any reason you do not have any problem, and I am very glad to say that since I have been there, I have had no problems of that kind and do not expect to have any.

Mr. Talle. Is there any other administrator, that is, any administrator other than yourself and Mr. Wyatt, if the housing bill becomes law, who has the power to veto decisions made by the Office of Price Administration?

Mr. Bowles. Well, the Department of Agriculture, of course, has. The Secretary's signature has to be on any program involving food.

Mr. Talle. And the law is followed carefully on that, so that Mr. Anderson can check it?

Mr. Bowles. I assume it is, by both agencies. I have never heard of it not being.

Mr. Talle. Who may veto decisions made by Mr. Small?

Mr. Bowles. He is part of Mr. Snyder's office, the Office of War Mobilization and Reconversion, technically, I believe, but if there were conflict, the President can.

Mr. Talle. In other words, Mr. Snyder could veto a decision made by Mr. Small?

Mr. Bowles. If there were conflict of viewpoint between the Office of Price Administration and Mr. Small's office, that would probably come to me if it involved stabilization, as it undoubtedly would.

Mr. Talle. Is there anyone other than the President who can veto decisions made by Mr. Snyder?

Mr. Bowles. No.

Mr. Talle. That is all, Mr. Chairman.

Mr. Bowles. It sounds complicated with all those different agencies. It really works pretty smoothly today. I remember the days when it did not work very smoothly, but it is working very smoothly now.

Mr. Talle. This is just something extra. It has been said here that 3 months before the expiration date of the act, 2 or 3 months before
the expiration of the act, the Office of Price Administration might dis-integrate and go into decay. Suppose the officers, keeping that in
mind, and the outlook being rather favorable, decided a month before
this expected period of decay began, that they simply would not go
to their offices at all, just would not show up. What difference would
it make?

Mr. Bowles. At that point you would obviously cease to have any
operations. You would have a law on the books which was meaning-
less, and it would seem to me that there would be no operations, you
would have no way to adjust it, and there would be chaos. The only
thing to do at that point would be to remove what you had left, I would
say. I certainly hope that does not happen.

Mr. Tallie. What I have in mind is how to avoid this period of
danger which has been talked of here, when you get to a point 3 months
before the expiration of the act, and things are going to pop. Would
there not be a way of tapering this off gently?

Mr. Bowles. I think it definitely should be. And I think that
when the end comes—I think what you have to do, too, is determine
what really needs to be continued—let us say rent control, and I
think a very limited number of scarce commodities—assuming always
that we do the job right to that point, and get the country settled
down—I think your tapering-off period ought to take you down so
that on the last day of the act, as applied to the other products, it
should not be a great shock to the economy. Obviously if you sud-
denly stop price control on everything, that is, held price control
on all items up to June 30, 1947, and dropped it on everything except
on rent, you would have a mess on your hands. They ought to be
taken off gradually. The whole decontrol program, as Mr. Porter
outlined it yesterday, contemplates that kind of tapering-off process.

Mr. Tallie. You see, an agency which has the power to fix price,
has the power to determine supply.

Mr. Bowles. That is right. If the price is too tight, you do not
get supply.

Mr. Tallie. If that price is low, a good many suppliers cannot
make their costs, and step out.

Mr. Bowles. That is correct, they do not manufacture.

Mr. Tallie. And, therefore, it is a power so great that it is rather
hard to describe. It is gigantic in a Nation like our own. May I
ask you——

Mr. Bowles. Of course, the court has a check on it always to see
that the law and the intent of Congress are carried out as they see it.
This legislation also has had another check, which I think has been
a very good thing, and that is the review, each year, by this com-
mittee. When you add up the amount of testimony, the amount of
discussion, I think you will agree with me that no act has ever been
discussed so much, and so much testimony heard on it, and I think
that has been a safety valve on the power that lies within the agency.
It has great power, that is true, and has to be watched carefully, and
has been all through the number of times when Congress has gone
over the ground and challenged this, reviewed that, and questioned
the other thing, and I think each one of these hearings has resulted
in improved administration of the Office of Price Administration
and the other stabilization offices. You have watched and questioned
and many times, as a result of that, you have gotten better adminis-
Mr. Talle. What I want is a free enterprise system, and the free operation of the forces of supply and demand. But if we must have price control, I would like to see the prices placed at levels so that the suppliers will furnish goods to the market without these extras, either direct or hidden subsidies.

Mr. Bowles. Well, your food subsidies, I do not think anybody particularly likes subsidies. They are an unnatural thing. They are in there because you have an unnatural situation. You have an emergency situation. As I said before, I feel if you pull out these food subsidies, for instance, and allow the cost of food and cost of living to shoot up, the way I think it would, you would run the very grave danger of starting the whole spiral over again and again.

Mr. Talle. What would you say about removing machines and machine tools—capital goods—from under Office of Price Administration regulations?

Mr. Bowles. That is an Office of Price Administration question, of course, and I would like to answer it off the record.

Mr. Talle. That is all, Mr. Chairman.

The Chairman. Mr. Riley.

Mr. Riley. I have no questions.

The Chairman. Mr. Buffett.

Mr. Buffett. Mr. Bowles, what essential differences can you mention between the economic regimentation used in Germany since 1936 and the economic program under your jurisdiction now?

Mr. Bowles. Well, that is an interesting question. I will start off with the fact that ours grew out of the war, ours grew out of an act of Congress, ours grew out of the free will of people expressed in Congress, through long hearings, and the judgment of very selected Representatives of the Congress, to be withdrawn at any time by the elected representatives of the people, and it seems to me there is nothing in the world to compare the two.

Mr. Buffett. What are the differences between our price control and their price control, our profit control and their profit control?

Mr. Bowles. I am not familiar with what kind of price control they had. The same question might be asked: how to differentiate between the system of Canada or England, I think you will find ours would be much clearer than their type of control.

Mr. Buffett. You have made no study of it, then?

Mr. Bowles. I have no idea what they did on price control in Germany. I assume they must have had them, but I do not know what they had.

Mr. Buffett. I think it would pay you to study it, because you would find that subsidies and cost absorption and maximum average prices were all there.

Mr. Bowles. You will also find them in Canada and in Sweden, Switzerland.

Mr. Buffett. That still does not say you have a free economy.

Mr. Bowles. No; but the fact that you can find something that happened in two different types of countries—German Nazis wore shoes; we wear shoes. They had subsidies; we have subsidies. I do not think that means there is any comparison between the two types of government.
Mr. Buffett. What essential differences are there between their economic regimentation and ours?

Mr. Bowles. One is imposed and one is arrived at by democratic process.

Mr. Buffett. That makes no difference in what goes on, does it?

Mr. Bowles. No; but what is the fundamental difference between their trains and ours, or their telephone service and ours? The point is, how do you get to that result? The point, with us, is that any time you people want to withdraw it, you can do it. That could not happen in Germany.

Mr. Buffett. You think people can withdraw it any time they want to, when information reaching them is cleverly designed through the control of the avenues of information?

Mr. Bowles. I understood the National Association of Manufacturers was out around the country doing a pretty good job of informing the people the opposite of what I think, and quite opposite to what a lot of the public think. They have done a lot, it seems to me, It seems to me I never listen to the radio but what I hear somebody talking on the subject of what is wrong with the Office of Price Administration and price control.

I think we are going to have one interesting reconversion, and that is when the point comes when you have no price controls, and business is going to have to explain to their stockholders or other people and themselves why things are not going right and why they cannot blame the Office of Price Administration, when they are not making as much money as they would like, or things are not quite the way they would like them. I do not think that is a reason to continue the Office of Price Administration, but it is going to be quite a conversion to try to find some other answer to some of our problems.

Mr. Buffett. The National Association of Manufacturers might turn around and wonder what you are going to do when you cannot blame them like you did in Topeka and other places.

Mr. Bowles. The National Association of Manufacturers has been very frank and stated clearly that they do not want it and do not like it. And they are very frank and right out in the open about it. I think they are extremely wrong. Let us put it this way. No one knows what is going to happen here. But suppose it is a 50–50 proposition, between right and wrong. That would not be good. That would mean you would continue for 12 or 15 months here a lot of controls that were not necessary, and were irritating, and that were a problem and costing the taxpayer, and nobody wants that. It would be folly.

But what happens if the National Association of Manufacturers is wrong? What happens if we are right and they are wrong, and this economy really does blow up and your prices and wages spiral and everything goes to pieces and you smash up all the savings we have and you spoil people’s confidence and faith in this system of ours and you make the United States of America look pretty foolish before the whole world—this great, powerful country that cannot manage its own destiny? I think that would be a real tragedy.

Now, I do not think it is any 50–50 proposition. I would put it roughly 100 to 1, although you might put it in another way.

Mr. Buffett. Of course, you know what the Government planners have done since the dawn of history is to persuade the people that
their critics are scoundrels and all they need is more controls and they can do the job.

Mr. Bowles. I have been called a scoundrel by experts from one end of this country to another.

Mr. Buffett. I did not imply that.

Mr. Bowles. I do not think they ought to mind spades being called spades, either.

Mr. Buffett. Let us get back to the free-enterprise system. If you have price control, what essential of free economy remains?

Mr. Bowles. I can get my job tomorrow.

Mr. Buffett. I am talking about the witnesses here.

Mr. Bowles. I can decide to give up my business tomorrow. I can decide to stop making brass tacks and make curtain rods.

Mr. Buffett. Not of your own decision. You have to come to the Office of Price Administration. You have to get a price.

Mr. Bowles. I can take the price of my competitor or get a price. But that is my freedom. You asked what the differences are, and I have given some to you. I think there are a great many.

Mr. Buffett. You can stay in business?

Mr. Bowles. Oh, yes; I can stay in business.

Mr. Buffett. You cannot change business until you get permission from a Government agency to get the materials for that business.

Mr. Bowles. There are very few places where your allocations are scarce. Sure, you have to get a price. But if you compare it with the freedom in those countries you are talking about—

Mr. Buffett. When you control the price you can put me out of business, can you not?

Mr. Bowles. If I disobeyed the rules of the court and am arbitrary and capricious, and all the things the lawyers talk about, of course, I can.

Mr. Buffett. If you control my profits—those are the essential elements of a free-enterprise system, as I understand it.

Mr. Bowles. Well, a free enterprise system: Another very important element of it is supply and demand, and free flow of goods, enough goods and enough production. I think we are awfully apt to forget that we have just been through quite a war, and one very, very big war, which involved us pretty thoroughly and involved all the world, and during that period of the war we all gave up some freedom. Some went in the Army. They drafted you. Put you into the Army. Told you what your wages would be, what your price would be, what something else would be. All of that to get the war won. Now, we have gotten to where the war is won. We have got the distortions of the war left over for a little period yet.

In the last war, after the last war, we just closed our eyes and pretended they were not there and a lot of very important people in the country said there was no problem, and they had their way. It resulted in the blowing up of the economy. There were $11,000,000,000 in inventories lost, 150,000 bankruptcies, and 400,000 farm foreclosures. Having looked at that, do you or I, in the name of free enterprise or anything else, want to embark on any such fantastic experience a second time or will it be more sensible to keep some of these controls in place until we can work ourselves back to a normal flow?
Mr. Buffett. The point is you will never get back to free supply and demand so long as you have a lot of artificial controls interfering, such as subsidies.

Mr. Bowles. We are making and distributing 45 percent more goods than we did during the war right today.

Mr. Buffett. There is considerable debate about how that distribution goes on.

Mr. Bowles. I do not think there is any debate on the production and number of people employed. I had not heard any debate on that.

Mr. Buffett. Well, in the food business, for example, in meat, we saw the survey come in yesterday that 83 percent of it was going into the black market.

Mr. Bowles. That is an awful indictment of American businessmen and Washington businessmen. I, frankly, do not share that opinion.

Mr. Buffett. That is not an opinion. It is a survey made by the Statistical Research of Chicago.

Mr. Bowles. I think the Safeway Stores and the District Stores ought to sue for libel, because I do not think those stores, which represent 60 to 70 percent of the volume in Washington, are dishonest.

Mr. Buffett. Do you not think it is a little bit unusual to say that when the other fellow presents statistics, his statistics are no good?

Mr. Bowles. I just think they ought to prove it in court. If I were running a grocery store in Washington and they accused me of that—

Mr. Buffett. This survey covers eighteen hundred-odd stores over a period of weeks. It is by an impartial survey agency.

Mr. Bowles. The statement was made that 81 percent of all the stores in Washington, D.C., were overcharging. Just take a few of your big chain stores. They do more than half the business here. And that statement is that they are being dishonest; and I think they are not. More than that, I think you ought to look at the Bureau of Labor Statistics figures. I know how they are prepared, they are prepared very carefully over a period of a great many years, and I think they show you figures in 55 cities in grocery stores, meat, and everything else, and I have not looked at them in 6 weeks to 2 months, but I think you will find it is a very small fraction in those figures. I have quite a lot of faith in the Department of Labor Research people. They are pretty capable and pretty conscientious people.

Mr. Buffett. You think that when those figures come in, and that when Mr. Taylor comes in from the cattle industry and says that 80 or 90 percent of the meat business is black market at some stage or other, that this Congress should accept a statement from downtown in the Government that these figures are worthless.

Mr. Bowles. I think the Congress ought to make up its mind. I think it ought to do some checking rather than take opinions.

Mr. Buffett. These are not opinions.

Mr. Bowles. Well, I would want to know, if I were a research man, what I suggest is call a research expert in here, call in some unbiased research expert, not connected with the Government, and say, "Let us put those figures together with the Department of Labor figures," I think that would be a good approach to it. I do not know enough to do that. I am not an expert.

Mr. Buffett. We will skip that for the time being.
Do you think economic laws can be determined by Gallup polls?

Mr. Bowles. No; but I certainly think that it has proved to be a fairly good judgment of what the public wants and thinks. I do not necessarily think the Congress—I think their record has been fairly good—not always.

Mr. Buffet. You like their record better than that of this statistical group in Chicago?

Mr. Bowles. I would like to read that. I would like to know more about it, and see whether they had as good a record as Gallup, and in forecasting what is going to happen, for instance, on election day. I would be prone to go along with them. I know the Bureau of Labor Statistics people have a pretty good record.

Mr. Buffet. Mr. Bowles, on February 27 you testified regarding the Federal employees, that the 20 percent increase should be considered a minimum figure. The committee decided on an 18 1/2 percent rise, I am told. According to figures furnished me, Federal employees, counting the rise given last fall, will have had an increase ranging from 30.8 percent to 41.6 percent, depending on grade and classification. During this same period, what is the percentage of price increase given the farmers of this country on their production?

Mr. Bowles. Of course, that 30 percent goes back to 1929, I believe, or 1928.

Mr. Buffet. Those are the raises that have been given in the last 15 months.

Mr. Bowles. Yes; they are the first raises given, however, in 15 years. Therefore, those are the increases over a prewar period. I do not think they are really very comparable. The cost of living, since before the war, has gone up 33 percent, according to the Bureau of Labor Statistics, and this still puts them underneath that figure on the increased cost of living.

Mr. Buffet. Let us take it since last July. The 18 1/2 percent raise. What raise have farmers had on their products?

Mr. Bowles. It does not matter so much when you have it; the point is there that the farmers have had increases through the war, the increase in price on farm products is over 100 percent since 1939.

Mr. Buffet. You claim that during the war we had reasonable equality, I think.

Mr. Bowles. I said better equality than we ever had before, between groups.

Mr. Buffet. Here is a billion dollar raise, roughly. Why is that raise not purely inflationary?

Mr. Bowles. Well, it puts some more money into people's pockets, that is correct. It is one-sixth as inflationary as Congress' action last fall in removing the excess-profits tax, which was $6,000,000,000. Now, I think that we have done some inflationary things. I think $1,000,000,000 more, however, in purchasing power, if it was that much—I did not realize it was anything like that——

Mr. Buffet. I am just reporting an estimate. I do not know what the actual figure is.

Mr. Bowles. I think you have to balance that against the advantages. I think you and I do not want any more government than we need; we want as little government as we can get by with; and we want good government; and I do not think it is a saving to the taxpayer of
the country, or any of us, not to pay the people who are trying to
handle these Government jobs reasonably. I ran a business before the
war, that had 300 people in it. I found that only by paying them good
wages and good salaries, could you keep the kind of morale and steam
and energy that you needed to get the job done. I think Government
employees, in addition to having been called all kinds of hands, from
bureaucrats on up, and often unjustifiably, it seems to me, are entitled
to at least equal pay with other employees. I do not think they have
been getting it. And I think you will get better government, more
reasonable government, and more efficient government, if we put them
on a comparable basis. I think it is just good business.

Mr. Buffett. You think a blanket increase over all employees at
a time when you are trying to lower your total pay roll is a good
way to cut it down; is that right?

Mr. Bowles. I think you can cut it down by fewer people.

For instance, the Office of Price Administration had 62,000 paid
employees last July. I believe it has considerably under 30,000 today,
28,000, I believe. That is considerably less than half, and you cut
your employees down as you do not need them.

Mr. Buffett. They do that automatically?

Mr. Bowles. If they do not, it is bad management. I do not think
you get better management by paying the employees less. I think
you get better management by paying them more. I know two or
three people today, who could go out of their Government jobs and
make three or four or five times, and did before the war, what they
are making today, who would like to stay in Government a bit, would
like some job where they could contribute something to all these
problems. If they are paid a little more—they do not ask to be paid
anything approaching what they could make in business—they would
stay here and contribute and help us to make this country work a
little better and get some of these problems settled. I think it is
good business, and I say that as an ex-businessman.

Mr. Buffett. If you had livestock to feed, and you either had to
buy black market or not feed them, what would you do?

Mr. Bowles. Well, I would find out—I would not break the
law.

Mr. Buffett. You would shoot them or sell them?

Mr. Bowles. If I could not run my operations as I assume other
people could, I would not go into the black market.

Mr. Buffett. Are you aware of the fact that people have testified
here that from one coast to the other, and from the Canadian border
to Texas, that the great majority of the transactions in protein feeds,
and various kinds of grain, are black market in one form or another?

Mr. Bowles. Some are over ceiling, there is no question about it,
and we ought to do everything we can to get it fixed. With an ade-
quate staff and an adequate number of people, we can do that job.
What we have to do is to get enforcement so that the honest people
can do their business honestly. That requires people, personnel, all
those things. You can always get rid of the black market by having
inflation. There was no black market in Germany in 1922 or 1923,
but they blew up the country. There was no black market here in

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1920, just before the crash, before we had our prices built up to fantastic levels. No black market then. You can always eliminate it by eliminating price controls. My idea is to make the price controls work, have reasonable prices, prices at which people can make a profit, sensible, flexible enforcement, and with people to enforce it. And get rid of them as quickly as you can.

Mr. Buffett. Have you ever seen a peacetime price-control effort that has succeeded?

Mr. Bowles. Well, it is doing pretty well now. The only one I know is this one.

Mr. Buffett. You might be interested in making a study of the Office of Price Administration they had in France between 1790 and 1795. We are right now at the black-market stage in our problem which they reached toward the latter stages of that inflation.

Mr. Bowles. What was the year?

Mr. Buffett. 1790. 1790 to 1795.

Mr. Bowles. I thought France was right in and out of war during that period.

Mr. Buffett. They were in and out of wars, and Napoleon took it over when they got through with their OPA scheme.

Mr. Bowles. We had them up in Rhode Island in 1785, too. I think we ought to get rid of them as fast as we can. I do not like them. But I like inflation less.

Mr. Buffett. You put free enterprise in a strait-jacket, and you say, "Go out here and run around the block in 10 seconds and if you do not do that, we will go to public ownership." I think that is an impossible situation.

Mr. Bowles. Well, business and industry are moving ahead pretty well. It may not fit in with everybody's logic because the theory is that you cannot produce under price control, though we did during the war very beautifully, and it may not fit in with some of the theories, but it is, unfortunately for the argument, producing rapidly and industry production is going up fast. If you will look at it, it is piling up every week and it is at the highest point we have ever had it; it is forty-odd percent above what we had before the war, and going higher.

Mr. Buffett. You think the production in lumber, bricks, and building materials, since the war end, has been a good performance?

Mr. Bowles. Lumber is coming up. We have a strike and other problems, you know. Lumber has had plenty of price increases. There have been more price increases in lumber than in any other item of the country since before the war. You did not get much production on lumber after the last war, with a 200-percent increase that we had during that period, including the war period.

Mr. Buffett. The last of August, as I recall it, the War Production Board suggested that we would have 3½ million radios in the balance of 1945.

Mr. Bowles. No; they said that in October, I believe, based on the figures given them by the radio industry. They did not know at that time they were going to have a series of strikes, which developed, in steel, Westinghouse, General Electric—Westinghouse is still out.

Mr. Buffett. Do you know of anything that contributed more to those strikes than statements of high Government circles that wages could go up 10, 20, or 30 percent and prices could go down?
Mr. Bowles. Well—

Mr. Buffett. I mean if the Government does that, free enterprise does not have a chance. If the Government creates conditions under which normal operations are impossible, it does not have a chance.

Mr. Bowles. I think wages ought to be established by collective bargaining and Government ought to be out of it. I think it is a matter of collective bargaining. In the meantime, however, we have got to keep these wages stabilized at or around the pattern developed since VJ-day, and that I believe we can do provided we hold the cost of living in line. If we do not hold the cost of living in line, if we push prices up, we cannot stabilize wages, and your spiral begins. I would like to avoid that.

Mr. Buffett. You do not think that spiral started when steel wages got a 15 percent increase?

Mr. Bowles. I think it was a rather bad blow when we gave a big price increase on steel. I would like to point out that the total increase on steel was 5 or 6 or 7 percent of the increase in the last war. Steel prices, generally, have gone up something like 12 percent since the war began, in 1940 and 1941. In the last war they went up several hundred percent on some steels, without price control. That did not help businessmen to plan their operations. That did not help them to know what their costs were, or to know what they could sell, or how they could sell it. It did not help production.

Mr. Bowles. They, generally, recovered from that illness, though, did they not?

Mr. Bowles. If you mean that we can go through another boom and collapse and possibly recover from it, I think we have got a gambling chance of recovering from it. But it would be a gambling chance.

Mr. Buffett. I had never suggested that we stop the Office of Price Administration sharply this year, I have said it should be tapered off, but I see no evidence that the Office of Price Administration is being tapered off, because everything that is being done is in the opposite direction, more control, more regulation, more regimentation.

Mr. Bowles. There has been a lot of decontrol. As a matter of fact, Paul Porter has been catching a lot of criticism from some people because he did too much.

Mr. Buffett. From the left-wing people.

Mr. Bowles. From the public, the people, the consumers.

Mr. Buffett. You say your job is to avoid inflation, or control inflation. What is your definition of the cause of inflation?

Mr. Bowles. The cause of inflation is an excess amount of liquid assets over the amount of goods available, and then a rush of that money, getting panic and frantic, into commodities, and it starts when people lose confidence in the general pricing levels. And they will lose confidence in the general pricing levels if we do not get a good act, without weakening amendments, and without too much delay in getting it.

In other words, if we wait from June 15, or wait until June 15 or June 30, I think there will be something like will happen, and we will invite collapse and chaos. And I do not think our economy can stand two 1929 collapses in the same generation. I do not think people are that patient.

Mr. Buffett. Now, what was the definition of the cause of inflation? I want to proceed from that point.
Mr. Bowles. Well, you get a big excess of money, bonds, insurance, savings, liquid assets of all kinds that can be cashed and put into commodities, and you get a limited amount of commodities, and if the one tries to rush to buy the other, you obviously bid the whole thing up to explosive heights.

On the other hand, if only that amount of the liquid assets available actually are used to buy the amount of goods available, the remaining amount of money simply sits there dormant, earning money for other people, perhaps, but not explosive.

Mr. Buffett. You say the cause of inflation is an excess of money over goods; that is right?

Mr. Bowles. That is right.

Mr. Buffett. We have that cause already, have we not?

Mr. Bowles. We have the potential causes of inflation all around us. That is the reason I am here today.

Mr. Buffett. If more money becomes available, that increases the pressure?

Mr. Bowles. Yes.

Mr. Buffett. Of course, I do not want to debate the definition, but what I do object to is to have one place where that definition is used and then all through the discussion on the subject, you change from the definition of inflation, which is a surplus of money over goods, to the effects of inflation, which is an entirely different situation.

Mr. Bowles. Mr. Wason is saying that you get inflation in the money supply, but not inflation in the price of goods. It is inflation in the money supply, that is direct, or liquid assets, but it only becomes disastrous if it rushes in to supplies and bids them up. As your economy develops and grows bigger and our production grows bigger, obviously, your supply of liquid assets, capital assets, and currency, grows, too. We normally and naturally would want, with a $200,000,000,000 gross national product, to have more. Obviously there would be more liquid assets, more cash, more currency. The point is that going beyond that, all our money can go into making our economy work better, into more capital goods, more factories, more plants, more productive equipment for business, more consumer durables for people, or it can go rushing in, bidding up these prices, and that is what we want to prevent.

Mr. Buffett. The fallacy of that, as I understand it, is that all this money that goes into these things produces its own purchasing power, does it not?

Mr. Bowles. I do not understand.

Mr. Buffett. In other words, all the goods produced in 1946 produce their own purchasing power?

Mr. Bowles. That is right.

Mr. Buffett. So this great backlog does not disappear?

Mr. Bowles. That is correct.

Mr. Buffett. So the danger is still there?

Mr. Bowles. But after you have production going, and get your whole economy really roaring, and your goods available, it is not dangerous money. It still potentially could do what you are suggesting, but it is not very much likely to do it. It is a matter of confidence. Congress is the board of directors that makes the decision, but I just hope that, in considering this decision, Congress will appre-
ciate the extent to which the psychological dangers of inflation are present.

I think the economic dangers—I do not really worry about them too much, until we get production rolling. I worry much more about the psychological things, fear, worry, what happens in the stock market, and in real estate, where you have no control over lands and houses.

Mr. Buffett. Of course, the question is who creates those psychological factors that create the stampede, and some day, if the stampede occurs, the person who controls the avenues is going to blame somebody else for the blow-up.

Mr. Bowles. I think that is a very good point, because if we did not talk about it, if there was no Price Control Act coming up this year, if the bill had been put through for 2 years, and you did not have to debate the whole operation, probably the country would feel a whole lot more settled down, because some people get up and say, “You do not need this thing. It is a lot of rubbish, communism, and everything else.” So, clearly, somebody has to get up and say they do not agree. By doing that and stimulating that debate, you do run the risk of adding to the fears, naturally. But what do you do about it? You just sit there and watch the controls go out the window? I do not think you do. I do not think the concept of democracy is that.

But I will grant you that the very discussions generate fear. But I think those fears can be settled down. If we get this act without weakening amendments, get our subsidies, and get them just as soon as we can, this country is going to settle down, it is going to go to work, people are going to feel secure again, business is going to know what their costs are, they do not have to go out and rush into inventory speculation, and I think you will find that in 3 or 4 or 6 months time the flood of goods that will come out will be very great and we will all start to settle down.

And 15 months from today you can be out of practically all of them, except rents.

Mr. Buffett. You think that the way OPA is proceeding now, that these price decisions are being made fast enough so that the problem is being solved on an over-all basis?

Mr. Bowles. Mr. Buffett, I think there are times when they are not made fast enough. I am sure there are errors there. There are times when there are delays we wish we did not have. But they have really established a great record over there in the last few weeks in getting those prices out. I put on a lot of pressure, Paul Porter has, everybody has, and the record is extremely good.

I do not say that somebody, somewhere, along the 3,000,000 businesses in the country could not find a delay, but they are really down to a very minor percentage today, I think, compared to what they were. The production is going to move.

Mr. Buffett. Of course, meanwhile, a lot of those businesses are disappearing. You take in the butter business. It is one of the most significant items in the ordinary budget.

Mr. Bowles. What was that again?

Mr. Buffett. Butter, production of butter.

Mr. Bowles. There are 810 failures in the last year against 29,000 or 30,000 in 1929. The lowest point we have ever had in history. And
there are 400,000 more businesses in the United States than 2 years ago.

Mr. Buffett. Yes, Mr. Bowles, you can always pick out those individual figures. But the fact is that there are 300,000 less businesses now than there were in 1941.

Mr. Bowles. And 400,000 more than there were in 1943. It depends on where you start.

Mr. Buffett. Starting from where we began the war is where most statistics start.

Mr. Bowles. If you say we have not gotten over the effects of the war entirely, I agree with you, but the point is during the last 2 years people have been rushing out and starting new businesses at a great rate and you have today 400,000 more than you had a couple of years ago.

Mr. Buffett. Butter production is half of what it was 4 years ago, and one-fifth of all the creameries in America have gone out of business in the last 5 years.

Mr. Bowles. I have not seen those figures. Your butter problem is that basically you have an X amount of fluid milk. Fluid milk has stood up pretty well.

Dairy labor, which was at a premium during the war, was such that production has gone up during the war period in a pretty good level. Now, what do you do with the milk: you put it into ice cream, butter, cream for the table, and milk. During the war, I think our milk was up about 20 percent.

During the war we had controls over cream, and how much butter-fat went into ice cream. You got pretty thin ice cream. Not very good. You could not buy very thick cream. Those controls have been taken off. Butter has always been the least profitable item of all dairy products. It has always been. It is always a thing you put your butterfat into when you cannot sell it for some other purpose.

You can put the controls back in. You can make various adjustments. But if you do that, you are going to have less ice cream, less cream at the table, and probably that would be a good thing. I got along fine with the ice cream I had during the war. Today it is much richer and much better. As a result we get less butter.

Mr. Buffett. How much of the milk in this Washington area today is reconstituted milk? Do you know? A man testified here the other day it was 40 percent in the Alexandria area. The point I am making is this: that the dairy industry, under your regulation or regimentation or whatever you want to call it, is no longer a free enterprise, is it?

Mr. Bowles. Well, we had a war.

Mr. Buffett. Yes; but the war is over.

Mr. Bowles. And we had to do a lot of things we did not want during that war. The war period, the war distortions, are not over yet. Certainly, you do not have complete freedom. But let us go back to 1935–39 or 1922–29, or any period you want, and look at the hardship, distortions, messes, problems, everything else we had. We have always had them. The trouble is every time you get one today: "It is that lousy Office of Price Administration did it. Some day the Office of Price Administration is going to be gone and we are going to be on our own again, and I am going to love it."

Mr. Buffett. The difficulty is the dairy industry comes in here and says if we are going to do our job, we have got to get rid of controls by July 1. I do not know about the merit of that, but I do know that
no one knows as much about the dairy industry as the people in it, and if they say they have to have some freedom to get their job done, and if the Government does not give them that freedom, free enterprise can be condemned without even a trial.

Mr. Bowles. Free enterprise has its chance only if we can do this job and keep the blow-up from happening. Then we can really move with free enterprise.

Mr. Buffett. Then, you concede that what we are going through now is not a period in which free enterprise is operating?

Mr. Bowles. Free enterprise is obviously under raps and hobbles through price control. When you have price control—the essence of free enterprise is competition with prices being established by the market. I think you will agree that prices were never as established by the market as we would like to have seen before the war. We had trade agreements, association agreements, deals that the Department of Justice could not quite catch up with, and a good many businessmen spent a lot of time trying to avoid the rigors of the market.

However, let us get back to it as quickly as we can, I say, then, let us get more competition into our system rather than less.

Mr. Buffett. With all its defects, that system brought more things to more people than this system.

Mr. Bowles. I think it will continue to do so in the future, on a bigger scale.

Mr. Buffett. But you will agree with me that right now it has no such opportunity?

Mr. Bowles. I think it will have opportunity, all the opportunity you and I want for it, only if we avoid inflation. It would be very hard to build the kind of thing you and I want out of free enterprises on the wreckage of a terrible collapse and crash. I think that free enterprise went through its greatest crisis in 1931 and 1932. The fact that we have managed to come out of that somehow and battled our way back out of that terrible mess, which the regimentation did not get us into, social planners did not get us into, the Office of Price Administration did not get us into, the New Deal did not get us into, the budget was balanced, everything was beautiful, Government did not interfere with business or anybody else, and we were flowing along in a new era, when it folded up under our feet. We survived that and battled our way out of it. And I think that the fact that we survived was because we had people who believed in the system and helped to make it work.

Now, we do not want to go through another 1929 collapse test again. Maybe we will stand it. I do not know. I hope we do. I would rather see us ease out of this thing, and then we can do a very great job, and do more for more people, have more security, more freedom, bigger profits, with business, better income for farmers, and better and steadier employment for workers than any other country in the world.

Mr. Buffett. Where you disagree basically is that you think you can avoid inflation by price fixing, whereas Mr. Eccles, who should be an authority, said before this committee that inflation comes from expenditures beyond revenue. If that is true——

Mr. Bowles. Mr. Eccles and I are in very complete and full agreement on all phases of this. The only thing Mr. Eccles and I disagree on is he feels the crack-up, if we weaken the Office of Price Adminis-
tration, will be even greater than I think it is. I think it will be great. He thinks it will be infinitely greater than I do.

Mr. Buffett. You do not seem to agree on what inflation is.

Mr. Bowles. We agree on that.

Mr. Buffett. He said it comes from expenditures beyond revenue. And we are still continuing that.

Mr. Bowles. That is what I said: More money out there than there is goods. As I remember Mr. Eccles' testimony, you had nobody here who more firmly backs up continuation of price control without weakening amendments. You cannot make a disagreement between me and Mr. Eccles, because there is none. Except as to the crack-up. Mr. Eccles says there is little chance of survival, and I say we have a fighting chance.

Mr. Buffett. You have this difference. You are telling the people of America that we are going to avoid inflation by price control.

Mr. Bowles. I say it is our only chance of avoiding it. National Association of Manufacturers says we can avoid it by letting everybody do as they please. You probably saw the cartoon in the Washington Post when the National Association of Manufacturers said, "Take off price ceilings and prices will go down," and the little girl says, "Are you feeling all right, Grandmother?" And I think they are just that wrong. They are frank about it. They come out and say that. I have more respect for that than I have for groups who come in with some harmless amendment that actually would have the same effect of wrecking the controls. Let us fight it out on an open basis. Do we or do we not do the job? If we are going to have the kind of amendments that wreck this bill, I would rather not have any bill. Let us be frank and honest about it.

Mr. Buffett. On that very point, do you think the Government should attempt to force an average producer or manufacturer to produce a product that does not allow him a fair profit?

Mr. Bowles. You mean give some business a directive to produce something at a loss?

Mr. Buffett. Either with a directive or without a directive. I will read it over again. Should the Government attempt to force an average producer to manufacture and sell any product at a price that will not return him a fair and reasonable profit? Of course, if you fix a price that does not return him a fair and reasonable profit, then, that is about the equivalent of a directive.

Mr. Bowles. I certainly do not think the Civilian Production Administration ought to give production directive to somebody to make some kind of an item at a loss. Obviously, that would be completely wrong, and we could not possibly justify it or explain it or defend it.

However, the fact that some things are occasionally made at a loss is nothing new. Something like 25 percent of all the goods flowing through retail stores in 1939 were sold at a loss. Over half of the firms in the country reported losses in 1940 to the Bureau of Internal Revenue. They lost money.

Now, we have worked very hard here to try to get even inefficient firms, which, when the Office of Price Administration is gone, will not be able to blame anybody for it, to work out. We have tried to even give that firm special prices, to make exceptions for them, to allow them a price, so that even though they are inefficient, providing
they are selling at a normal volume, that they can go ahead and make a profit. The Office of Price Administration has worked out an awful lot of wrinkles to cover those people.

Mr. Buffett. Now, let us see if I can get an answer to this.

Mr. Bowles. That is the best way I can answer it. Give me a specific case, and I will answer it better.

Mr. Buffett. I will repeat part of the question and then I will give you a specific case. Let us say window-sash frames, for example.

Mr. Bowles. Suppose a thousand firms are making a profit and 75 or 80 percent of them, under the Office of Price Administration regulations, are guaranteed at least what they made in the base period before the war. At least that. If the base period before the war was a natural period, where they were losing money, or was not a typical period, then, they will take a different period. Of the remaining 20 percent, some are making less than they made before the war, let us say, and some might be losing money. The Office of Price Administration has such regulations—so-called general rescue clause—which would step in to help those fellows by saying the sash weights, if you are selling a normal volume of them, of what you made before the war, let us say, they give you a special price to keep you from losing money.

Even though, when you get back to our free competitive set-up, that fellow selling those sash weights at that high price, due to the fact that he is not in the wrong market, let us say, or buying materials and cannot help but buy them on the wrong basis or inefficient, does not know the sash-weight business, whatever it may be, when he gets back to a competitive system, will go bankrupt. But that is the way it will always be. In the meantime, we will try our best to see that he at least breaks even.

Mr. Buffett. Do you agree, then, that a reasonably efficient producer, that is what I mean by the ordinary average, should not be expected to sell any product at a loss?

Mr. Bowles. Absolutely.

Mr. Buffett. A price should not be fixed except a price where an average producer can make a profit, at any time?

Mr. Bowles. That is right. The Office of Price Administration now has the product standards, which gives total cost to a product. You see, any industry, as such, has to have at least their prewar profit, and most of them, 35 percent of them, well above that. They are guaranteed at least their prewar profit.

Now, let us say that while the industry is in that condition, the industry makes an individual product, just one product out of many they are making, which is in a loss position. Although they are in good shape on everything else. Well, the Office of Price Administration has a provision which allows total cost, if an item of any importance at all gets into that kind of shape.

Mr. Buffett. But they do not have any provision that all those items have a price on them which will give him a fair, reasonable profit.

Mr. Bowles. Each item?

Mr. Buffett. Yes.

Mr. Bowles. They do not. That has never been in the history of our economy. We have never had anything like that.
Mr. Buffet. It is one thing for a man to sell something at a loss when he is operating his own business, but it is something else when he is compelled by Government edict to suffer a loss.

Mr. Bowles. I agree. I think that is very right. If you want to go bankrupt on your own time, that is your business. I think I would object to having the Government make me go bankrupt. I would like to point out, however, that there are only 810 of them went through the experience last year, which is a record low in our whole history.

Mr. Buffet. You and I disagree about the importance of that figure, because it is very misleading, if you take into cognizance the total number of people who went out of business because they were discouraged about the outlook. That changes the entire significance of it.

Mr. Bowles. I assume, though, that when 30,000 went out of business in 1929 because they could not pay their bills, there must have been others going out who were discouraged, worried, fearful, and upset. That is always there.

Mr. Buffet. Yes; but total discontinuances is the only figure that is any good for comparative purposes.

Mr. Bowles. Well, the number of businesses in the country has gone up 400,000 in the last 2 years. It went down before, but people went into the Army, and, of course, you had less stores and less little business. And you had a lot of them lose money.

Mr. Buffet. Generally, the Office of Price Administration always take the figures in 1941 or 1940, before the war, and then brings them up to date. In this instance you take a figure in the middle of the period and bring that up to date.

Mr. Bowles. It is the current trend, though. What you are interested in is what is happening now, conditions at the present. The other trend was when everybody was going into the Army, not when boys were coming out of the Army. This is a more fair and typical period, the last 2 years, rather than going back to a period when everybody is rushing into war jobs, giving up their little shop on the corner, that they always lost their shirt on, to turn out airplane parts. Now they are leaving the airplane plants, going back into their business, and the trend is upward.

Mr. Buffet. But you do not contend that your cost-absorption policy is making it easier for people to go into business.

Mr. Bowles. There has always been cost absorption. The economy has been based on it, always.

Mr. Buffet. Cost absorption by Government fiat?

Mr. Bowles. Not by Government fiat, but by methods naturally used in running business. When I get a wage increase normally in peacetime, I do not go rushing out and raise my price. I look at my competition, I look at costs I can lower, and I try to keep that price down.

Mr. Buffet. Here is a firm operating in industrial machinery. They say:

We are presently operating at a loss of 5½ percent on our gross sales of power shovels. The Office of Price Administration says we can correct that by increasing production. Our production is now equal to any peacetime year we ever had. If we got it up to our war-year records, 1944, our loss would still be over 3 percent on every sale we made.
Mr. Bowles. When was that letter dated? Was it before the wage-price policy?

Mr. Buffett. March 22.

Mr. Bowles. Yes. Well, I turned that over to the Office of Price Administration, and they are going to look it up for you. It does not sound right.

Mr. Buffett. You would not think it sounded right, either, when I reported here yesterday that Johns-Manville has abandoned the production of a number of building-materials products at a time when we are supposed to make every effort on earth to get building materials turned out.

Mr. Bowles. I would like to know what they are, because if they are of importance in the building program, Wilson Wyatt would tell us about it, and we would increase prices to get more of those. Mr. Buffett, I would like to get what they are.

Mr. Buffett. They are all in the record. J-M are the largest people in the world. I do not think they would even want to make them if there was not a good demand, do you?

Mr. Bowles. I do not know. It depends on what they are. I know that the whole program has been carried out very effectively. The production of those items is being stepped up. Essential building materials, all the way through, are going up at a better rate today than ever.

Mr. Buffett. There is more wool on hand in the world today, and in this country, than at any time in history. Do you think there should be controls on wool under that situation?

Mr. Bowles. It depends on whether the price of wool is likely to rise.

Mr. Buffett. Do you think it would rise very much with that kind of a situation?

Mr. Bowles. There is a lot of cotton, but I understand cotton went up.

Mr. Buffett. Well, the surplus is so large in wool that the authorities estimate it is a 12-year supply. Of course, as long as you have price control, you have an artificial element in price, do you not?

Mr. Bowles. That is right.

Mr. Buffett. Then, you do not know how much it would go up in a free market until you take off price control?

Mr. Bowles. That is right, you do not know.

Mr. Buffett. It seems to me that is the great fallacy in all decontrol schemes.

Mr. Bowles. What we are doing on certain items, we are taking price controls off. Where it has no relationship to the price of living, even though we know the prices will go up. But we do not like to do it on anything that affects the cost of living or the basic living costs.

Mr. Buffett. What would we need in the case of wool to determine that the price should be turned loose?

Mr. Bowles. I am not familiar with the wool situation. Obviously wool is going into the most vital stuff we need. Whether your supply of wool is of the right kinds or types of wool to make the things we need or not, I do not know. You may find there is a scarcity of the types we need most. I do not know.
Mr. Buffett. Is not the most efficient way to determine that by letting the industry solve it in its own way?

Mr. Bowles. I do not think the problem there is holding up production, the fact that we are holding down the price of wool. I would not want to increase apparel prices any more. They are already too high. If we want to shove the prices of suits and coats up and let the veterans pay through the nose, it might help, but I do not think we ought to do it. Theoretically, it might not happen. You say, "Why should you not take the risk?" That might be a proper question. I would not take the risk at this period. It is the kind of a risk that I think we must take next year, at some point, exactly that kind of risk. A lot of those should be taken in the period of the next 15 months, that is the way to get out of it. I would not take the risk now.

Mr. Buffett. But you have no formula that you can tell me now of how you would arrive at that; is that right?

Mr. Bowles. Yes; but you are approaching it from a different point of view. Some things go into the cost of living and some do not. You look at it differently. In the case of capital goods, where the cost of those goods is distributed over years, you have to have a different approach. You are very cautious at this point on your cost-of-living materials.

Mr. Buffett. Of course, the cautiousness makes the danger that you are so close-fisted that production and enterprise will be discouraged to a point where we will nationalize our industries without even giving free enterprise a price? Is that not a possibility?

Mr. Bowles. I think that is very much of a red herring. Not yourself, but I have heard it from a lot of people.

Mr. Buffett. I have studied these price-fixing programs in other countries, and you have not done so—

Mr. Bowles. I have studied them very much in other countries. I have not had access to the German situation, and I do not know about the Napoleonic Wars, but I have really studied it pretty carefully in England and Canada.

Mr. Buffett. The Brookings Institution puts out quite a study on the German price-control scheme, and I think Brookings ranks as one of the foremost nonpartisan economic institutions in the country, and that their reports will be accurate on that. I suggest you study it. That is all.

The Chairman. Mr. Bowles, I want to thank you and Mr. Porter and the other members of your staff for the fine testimony you have offered, for the very fair and frank discussion.

Mr. Folger. Mr. Chairman, I want to ask permission to insert in the record a statement from Mr. Scott and Mr. Hedrick on tobacco.

The Chairman. Without objection that may be inserted.

(The document above referred to is printed in appendix.)

Mr. Smith. I have a letter from Mr. Rand, of the Monsanto Chemical Co., which I would like to insert in the record.

The Chairman. Without objection, it may be inserted in the record.
The Honorable Brent Spence,  
Chairman, House Banking and Currency Committee,  
Congress of the United States, Washington, D. C.

My dear Congressman Spence: In connection with your committee's consideration of the price-control bill and the extension of the life and authority of the OPA, the management of this company takes opportunity to submit the following statement for inclusion in your record of committee hearings.

It is our concept that the function of OPA is to prevent a rise in the cost of living and to prevent inflation. However, it is our belief that the present legislative authority for the OPA is so broad as to permit policies now in force to tend to the opposite result. If OPA is to be continued, the continuance of these policies must specifically be prohibited by the Congress.

As you know, the chemical business is a relatively young industry—and a dynamic one. Occasionally new products are evolved as a result of research, whose use decreases the cost of living. One instance is the use of chemical accelerators in rubber which had a large part in increasing the life of tires from 3,000 miles to the present 30,000 miles. The element of the cost of living represented by tire usage would have been greatly reduced whether the price of the accelerator were $1 or $3 per pound.

As a result of constant research, new products that perform such services in every conceivable field may now make their appearance. It is in the national interest that the full development of such products be encouraged. The more of those products that come upon the scene of our national economy the more of the unavoidable increases and other elements comprising the cost of consumer goods that can be absorbed without increasing the ultimate cost of living. It must be remembered that a new product performing a new service cannot increase living costs because it will not draw purchasing power unless it can give better value or lower use costs. New chemical products will not find acceptance unless they increase living standards or overcome critical shortages.

We, therefore respectfully urge that there be included in any legislation extending the life and authority of OPA, a provision which exempts from Government price regulation new products whose use have a beneficial effect upon our national economy by helping to prevent a rise in the cost of living. The following specific language for inclusion in the price-control bill is recommended: There shall be exempt from the jurisdiction of OPA—

"Those new products which when used in the manufacture of goods tend either to increase their life or not to increase their production cost, and thereby reduce the cost of living. A 'new product' is defined as being a composition of matter, compound, mixture, fabrication or synthesis which—

"(1) has not previously been commercially or industrially available, or

"(2) serves a new use or performs a new service."

At present OPA's rulings restrict the margin of profit on such new products to the current experience of the manufacturer in his normal trade. These rulings do not permit a sufficient margin to compensate for the cost of research and experimentation usually necessary in such new developments.

To free new materials and products from price regulation without danger to the cost of living would have a most beneficial effect upon those companies whose research work is producing newer and better things for the public. An increased incentive to intensify research on this class of products would be certain if such companies can be assured a fair return for their research expenditures. Inevitably, the national economy and our standards of living will be the beneficiaries. We stand ready to be of any assistance possible to your committee. Please feel free to call upon us for any further information which you may desire concerning this matter.

Sincerely yours,

William M. Rand, President.

The chairman. The committee will adjourn to meet in executive session at 10:30 on Monday.

(Whereupon the committee adjourned to reconvene in executive session on Monday, April 1, 1946, at 10:30 a.m.)

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APPENDIX

STATEMENT OF THE LEGISLATIVE COMMITTEE OF THE VETERANS LEAGUE OF AMERICA,
PRESENTED TO THE HOUSE BANKING AND CURRENCY COMMITTEE, FRIDAY, MARCH
29, 1946

Mr. Chairman, ladies and gentlemen of the committee, my name is Bernard K.
Johnpoll. I am a reporter for textile and apparel trade publications. I have
been a correspondent in Washington for such trade papers since the inception
of OPA's maximum average price regulation for clothing and fabric in January
1945. Prior to that I worked as a textile market writer for a leading New York
newspaper. I believe I know more about this particular regulation than any
other reporter in Washington. The newspapers I work for do not agree with
me; what I say here in no way reflects their editorial opinion, I speak merely
as the representative of the Veterans League of America. I have been asked
to express the opinion of the organization and myself, because we believe the
economic future of this Nation will in great part depend upon your action here.
We believe that without this order and price increase or cost absorption, price
control is a farce and inflation a guaranteed development.

First, therefore, let me point out that your committee and Members of Congress
as a whole are receiving telegrams and mail from a small, selfish group on this
order. All of these messages appear to be opposed to the MAP. Particularly
have these messages come from the members of the National Retail Dry Goods
Association.

A thorough investigation by even the NRDGA into the issues involved in the
MAP would make even that organization realize the importance of continuing
that order. Unless the narrow, selfish interests in the NRDGA prevail there
is every reason to believe that the organization would withdraw its opposition.
But I know that the leaders of the NRDGA will continue to spread false propa-
ganda, with the lure of higher prices, to get retailers to ask for repeal of the
order. Let me point out that the great mass of those who benefit from MAP—
the average salaried employee—would not write because they are kept in abject
ignorance of the order's significance by newspapers whose chief source of revenue
is the retail advertising from NRDGA's members.

Let us try to understand the order:
First. It requires that the price lines produced by the clothing manufacturers
generally reflect those lines produced in 1943.
Second. It requires that clothing manufacturers charge no more, on the
average, than was charged during a base period—generally 1943.
Third. It allows for certain exemptions (in the case of cheaper garments) and
pricing tolerances; that is, it permits as much as 10 percent above the 1943 average
for the base period.
No honest manufacturer stands to lose from this regulation. As a matter of
fact as yet unpublished figures by the Securities and Exchange Commission, I
am told by an official of that agency, will show that 1945, the first year under
MAP, was the most profitable for the entire industry. No year came close to it.
Why was it necessary for the order to be issued?
In 1943, the base year, it was noted that production of cloth and clothing
would not be sufficient to meet demand. The difference was, however, not suf-
ficient to warrant rationing, or so the War Production Board believed.
By 1944 it became apparent even to the WPB that the situation was getting
out of hand. The draft was absorbing an increasing number of skilled textile
hands, production was declining, and there is every reason to believe that
rationing would have prevented a run-away inflation in clothing prices at that
time. But none was ordered.
By late summer of that year, it became apparent that rationing would be impossible. There just wasn't enough clothing available. The situation had turned from serious to critical.

It was at that time that I turned in my uniform for civilian clothes. I searched all over New York for a decent suit and finally found one, a prewar $22.75 value at $45, at a store owned by an NRDGA member. Perhaps this is part of the answer to NRDGA's opposition to MAP.

Another grievous situation was also noted at that time in the clothing market. With wide-open demand, and no production, manufacturers stopped making cheaper garments and produced only their highest price lines. Lower priced clothing became almost unobtainable. Families of servicemen found that their pay would not allow them to purchase clothing.

To meet this crisis OPA and WPB prepared a joint program, aimed at increasing the output of low-priced clothing.

If any blame is to be placed for the failure of the program, it should be laid at the foot of Kenneth W. Marriner, chief of WPB's Textile Bureau and his associates in the WPB. These men, almost entirely recruited from the textile industry, appeared to be more interested in the industry's profits than in the national welfare. They, I believe, sabotaged the program.

From my coverage of the development of the clothing program, I am led to the belief that, had not WPB and industry sabotaged it from the start, it would have worked.

The MAP was designed to get the price lines back to 1943 levels. These were already above normal. It is true that the order has not been completely successful. This is due more to the expert dodging of the order by the clothing manufacturers, retailers, and woolen and rayon millmen than to OPA's having issued a poor regulation.

If today the Congress would give OPA more power to enforce its orders, instead of putting road blocks in the agency's path, I am convinced that not only MAP but all clothing orders would be out the window within a year.

When I think of my friends who died in combat in the Arctic wastes off Norway in this fight for national freedom and of finding the selfish interests trying to keep their families from having clothes, I believe it is about time to put my own job in jeopardy and speak out; otherwise, I would not be a true American and would have no right to speak for veterans. These groups make me ashamed of my countrymen at times.

I ask for my organization and its many friends in an out of the services that all amendments to end the maximum average price regulation for textiles and apparel be forthwith defeated, both by your committee and the House as a whole.

Respectfully submitted.

BERNARD KEITH JOHNPOIX,
Director of Public Information for the
Veterans League of America.

WOMEN'S TRADE UNION LEAGUE OF THE DISTRICT OF COLUMBIA,
Washington, D. C., March 1, 1946.

The Hon. BRENT SPENCE,
Chairman, House Banking and Currency Committee,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN SPENCE: The members and affiliates of the Women's Trade Union League of the District of Columbia are deeply concerned about the maintenance of the Price Control Act. We appeal to your committee to report favorably on H. R. 5270 and without any amendment to weaken it.

Price control must be maintained, at least until such time as there is a sufficient supply of all goods, if inflation is to be avoided. Should inflation grip the country, wage-earning groups would suffer most. Our league represents wage-earning women, and we are convinced that unless the Price Control Act is extended, prices will soar, rents will skyrocket, and we will be caught in the grip of economic catastrophe.

We urge that Congress extend the act now and not wait until its expiration date, June 30. A good deal of the shortage in certain goods today is not a real shortage but a boarding of goods, waiting for removal of control so prices may
be inflated. We believe such hoarding would be greatly decreased if Congress
would act now.

We have faith that the act will be extended.

Sincerely yours,

Florence Barnes,
Chairman of Legislation.

Eastern Cooperative Wholesale, Inc.,

Hon. Brent Spence,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.

Dear Sir: With the question of the extension of the life of OPA before your
committee, I am anxious to inform you of the earnest support the 50,000 members
of the 200 consumers cooperatives, which are members of our organization, have
given.

As an organization performing a wholesale grocery business, we are fully aware
of the many and complicated problems facing OPA and the difficult operating
conditions that can arise from the complex regulations it has found necessary.
Our organization, through a misclassification in early days of OPA, suffered a
considerable financial loss of approximately $20,000. I mention this fact in order
to underline our conviction that despite such experience, we are thoroughly
convinced that the welfare of the Nation requires the continuation of OPA
controls at this time. The delegates from the member societies have considered
the matter of price control at the annual meetings of the last several years and
have firmly stood behind the principle.

We urge you to report favorably on the continuation of OPA. We are sending
copies of this letter to Congressmen in the 11 Northeastern States in which
our membership resides.

Sincerely yours,

William M. Blaisdell, President.

Statement of Mrs. LaFe1l Dickinson, President, General Federation of
Women's Clubs—Record of Hearings on Price Control, House Banking and
Currency Committee

Mr. Chairman and members of the Banking and Currency Committee, during
the war period the General Federation of Women's Clubs, composed of two and
a half million members, consistently supported the antiinflation program of the
Federal government. On December 1, 1945, the board of directors of the Gen-
eral Federation passed the following resolution endorsing the continuation of
such a program during the reconversion period:

"Whereas in no war in the history of the United States has the general public
been protected so successfully from runaway prices and general and serious in-
flation as has been the case during the war just ended; and

"Whereas the United States now faces graver dangers of uncontrolled inflation
than during the war or at any time in its history; be it

"Resolved, That the board of directors of the General Federation of Women's
Clubs supports continued Federal legislation for equitable wage ceilings and price
control on basic commodities, such as food, shelter, and clothing, as being essential
to the common good and to sustain prosperity during the period of adjustment."

The members of the General Federation of Women's Clubs are largely home-
makers and as such represent a cross section of the consuming public. They know
that abandonment of wage and price controls at this critical period will lead
to economic disaster. They remember what happened after the last war and
are convinced that history will repeat itself unless controls on both wages and
basic commodities are continued during the period of transition to a normal
economy. We therefore urge continuance of OPA price-control legislation.
Representative Brent Spence,  
Chairman, House Banking and Currency Committee,  
House of Representatives, Washington 6, D. C.


The dangers of inflation are clear to the women and girls of the Y. W. C. A. The national board's professional staff working in foreign lands could add to the testimony of returning veterans regarding the effects of inflation in other lands. Countries in the midst of economic chaos see their only promise for the future in the stability of the American economic system. An inflationary boom followed by depression would ruin this country and render it incapable of assuming a position of leadership in the world organization.

In addition to our interest in world economic stability, we have a deep personal concern for the welfare of each woman and girl in the Y. W. C. A.'s of America. Our constituents represent a large cross-section of American society. I wish some of our business, professional, and industrial girls, farm women, urban housewives, and wives of veterans could speak here from their own experiences as consumers. Mrs. Lempi Matthews, president of the business and professional council of the Y. W. C. A., recently analyzed some cost-of-living schedules turned in by business girls last year. She found that even with price control, white-collar workers, who are members of the Y. W. C. A., had difficulty in budgeting enough to permit them to purchase enough food and clothing. Medical care was entirely missing from many of the budgets, possibly because some girls did not need it, but probably because many could not afford it.

One of the most serious problems, housing, disturbs us greatly. The Y. W. C. A. has cooperated in providing temporary housing for women workers in crowded industrial centers. Its existing residences have been filled beyond normal capacity to meet the needs of working girls for decent shelter. It is not hard to imagine what the demoralizing effect would have been on girls during the war had they been unable to find moderately priced, comfortable, warm accommodations. War production would have suffered and human beings would have been sacrificed. We cannot allow them to be sacrificed now. We firmly believe that, for the best safety of all economic groups in our society, controls should be maintained on rents in crowded areas and on prices of consumers' goods that are still very scarce. Many businessmen admit freely that they want necessary controls on rents and prices of scarce consumers' goods because they know that they could not survive the competition of an uncontrolled price war. If inflation should hit the country, no one would be safe. Even those who would make high profits for a while would suffer in the long run. The small wage earner and business man and woman would suffer most of all. It is a risk this country cannot afford to take.

We recognize that greatly increased production is the only satisfactory way to prevent runaway price inflation. The Office of Price Administration has sincerely attempted to follow a pricing policy that will encourage high production.

However, other factors have made it impossible to produce rapidly many goods that are in great demand. Among these factors are shortage of certain basic materials and shortage of manpower. Along with extension of price control it will be necessary to allocate materials for clothing and construction to places where they are most sorely needed, and to encourage workers to enter textile manufacturing and the building trades in greater numbers. Continuation of certain food subsidies is another necessary part of the total stabilization program because food prices cannot be held if other prices rise.

In other words, price control is not the sole answer to economic stabilization. But until ways are found for increasing the amount of scarce goods and a sufficient number of homes are built, price control is the only protection the consumer has.

Some of the uneven effects of pricing policies need to be ironed out, and no one knows this better than officials of OPA. All of their public statements and their
actions during the past months in decontrolling many items point to their sincerety in dealing fairly with each situation that arises. We sincerely appreciate the courageous forthright way the OPA officials have protected the interests of the consumer to date, and will give them our whole-hearted support in the months ahead.

Sincerely yours,

MRS. HENRY A. INGRAHAM,
President.

WESTERN COOPERATIVE DAIRYMEN'S UNION,
Fresno 1, Calif., February 18, 1946.

Chairman, House Banking and Currency Committee,
United States Congress, Washington, D. C.

DEAR SIR: We see by the press that hearings are now under way before your committee on extension of the Price Control Act during the year 1946-47. We wish to take this occasion to let you know the views of our organization, representing thousands of independent producing dairymen in the State of California.

We are on record favoring the extension of the Price Control Act as the only way in which ruinous inflation can be avoided. Naturally, we are particularly interested in that section of the act which concerns dairy-feed subsidies. These must be continued during the next year if hundreds of small independent dairymen are not to be driven out of business by the cutthroat competition of corporate interests.

You may rest assured that although there has been loud criticism of the Price Control and Subsidy Act from certain persons who claim to represent California agriculture, the above views represent the feeling of at least 80 percent of the small dairy producers of the State.

Please do everything you can to secure extension of the Price Control Act with its subsidy provisions.

Yours very truly,

GEORGE P. HITCHCOCK,
Field Representative, Western Cooperative Dairyman's Union.

STATEMENT BY A. E. LYON, EXECUTIVE SECRETARY, RAILWAY LABOR EXECUTIVES' ASSOCIATION, TO THE HOUSE BANKING AND CURRENCY COMMITTEE ON H. R. 5270, MARCH 20, 1946

This statement is filed in behalf of the Railway Labor Executives' Association with offices at 10 Independence Avenue, Washington, D. C. The organizations represented by the association are as follows:

Brotherhood of Locomotive Firemen & Enginemen.
Order of Railway Conductors of America.
Switchmen's Union of North America.
The Order of Railroad Telegraphers.
American Train Dispatchers Association.
Railway Employees' Department A. F. of L.
International Association of Machinists.
International Brotherhood of Boilermakers, Iron Ship Builders and Helpers of America.
International Brotherhood of Blacksmiths, Drop Forgers and Helpers.
Sheet Metal Workers' International Association.
International Brotherhood of Electrical Workers.
Brotherhood of Railway Carmen of America.
International Brotherhood of Firemen and Oilers.
Brotherhood of Railway and Steamship Clerks, Freight Handlers, Express and Station Employees.
Brotherhood of Maintenance of Way Employees.
Brotherhood of Railroad Signalmen of America.
National Organization Masters, Mates and Pilots of America.
National Marine Engineers' Beneficial Association.
International Longshoremen's Association.
Hotel and Restaurant Employees' International Alliance and Bartenders International League of America.

These organizations represent approximately 1,250,000 railroad employees.
The policy of our organizations toward OPA has been that of critical support. During the last year we have on numerous occasions joined with other labor organizations in criticizing specific OPA actions which we felt weakened the administration of price control, rent control, and rationing. For example, we urged that the decontrol pricing policies be considerably tightened over those announced by OPA. We lost in this battle, but we believe that our fight was made in the interests of public welfare and of the members of our organizations. Our interest in the extension of OPA is that we wish to have a stable postwar economy. We do not want prices to go so high that the members of our organizations will not be able to buy the goods and services constituting a decent standard of living. We want them low enough and stable enough so that railroad workers and the men and women at war will be able to buy the goods and services constituting a decent standard of living. We want them low enough and stable enough so that railroad workers and the men and women at war will be able to buy the goods and services constituting a decent standard of living.

First, let us touch briefly on a particular problem concerning rent control. The housing shortage continues to be acute throughout the country and there seems little possibility of much relief in the near future, except in small areas where military installations are removed. While rents have been held comparatively stable, the sales prices of homes have skyrocketed. Evictions of tenants by landlords seeking to cash in on the inflationary boom in real estate have become a very serious problem.

It is strongly recommended that action be taken to prevent these evictions and that the Congress give consideration to plugging the important gap in our defenses against inflation left by the lack of control in the sale of residential real estate. There is all too much danger that the present boom in real-estate prices will lead to the same experience of foreclosures as occurred in the thirties. All too many workers are being forced to dissipate their savings in the forced purchase of rented homes. While it may be hoped that new construction in some volume will get under way within the next 6 months, the tremendous housing deficiency left by the construction famine of the depression has been aggravated by the lack of building during the war and will result in the continuance of an acute housing shortage throughout the Nation. If the public is to be protected from skyrocketed rents and drastic inroads in its budget, it will be necessary to continue rent control until the dangers of runaway rent inflation have been abated.

Labor has been frequently critical of OPA. One way for OPA's operations to be improved is for Congress to provide sufficient funds for OPA enforcement activities. The black market is on the increase. Railroad labor believes that a sustained drive on all black-market operations is required and that OPA should crack down on all violations. To do this effectively, additional appropriations for enforcement are necessary, and although this is not the appropriate committee, we desire to emphasize it in this general statement.

An organized campaign with millions of dollars being spent by various groups has been launched to undermine price control by charging that it is interfering with production. We heard this charge over and over again during the war years. We hear it now. Business says it can't produce under OPA regulations. But did price control interfere with production during the war? Is it really doing so now? In 1939, the industrial production index average was 103. The 1945 average of this same index was 263. The December 1945 rate of production was 51 percent over 1939. In 1939 corporation profits before taxes were 5.3 billions. In 1945 these profits amounted to 22 billions, more than four times as great. Has price control interfered with farmers' income? In 1939 net income of farm operations before taxes was 4.6 billions. In 1945 it was nearly three times as great. There were 14,768 business failures in 1933. In 1945 there were only 810. The figures of the OPA show conclusively that the earnings of landlords are far better than in prewar years. In the case of apartment houses, net operating income for the year ending December 31, 1944, was 36 percent higher than in 1939; in small structures it was 38 percent higher. No; we know that

1 Source: Federal Reserve Board.
2 Source: Bureau of Agricultural Economics.
3 Source: Dun & Bradstreet.
4 Source: OPA Rent Department; before interest and depreciation, but after taxes.
the evidence is great that price control has not interfered unreasonably with business.
A large part of World War I inflation came after the Armistice. War controls this time must not be abolished until supply is in balance with demand.
I have hit on some of the high spots of the inflationary pressures that have developed and are still developing and although there may be certain periods of short duration and certain segments of our economy which will experience deflationary pressures, we are convinced that it will be more than a year before there will be sufficient production of civilian commodities to permit the relaxation of present price and rent controls. Therefore, we recommend that Congress extend OPA for the full 12 months as stated in H. R. 5270.

STATEMENT OF E. G. LINDEMANN, LIVERMORE, KY.

I have come to Washington to present to this committee a history of the Green River Chair Co., of Livermore, Ky., a small independent manufacturing plant, showing how the plant was affected, and is now being affected, by the regulations and the actions of the Office of Price Administration, and to seek an amendment to the Price Control Act so that it will definitely require that the Administrator grant sufficient relief to manufacturers known as hardship cases to enable them to earn a reasonable profit when distributing their products through the channels of distribution used prior to the war.
I wish to show how we were misled by administrative officials to believe that price relief would be given when such relief was required in order to maintain normal profits; that as a result of this false impression we cooperated with the OPA in the early months of 1942 by holding our prices to the December 31, 1941, level even though the demand for our products greatly exceeded the supply; that later, when we were caught in a price squeeze as the result of the price regulations imposed upon us, all of our pleas, our arguments, and our efforts to secure proper relief were ineffective; that, as a result of not securing this needed relief, we were forced in August 1943 to radically change our methods of distribution by sacrificing our largest and best accounts which normally accounted for two-thirds of our sales, and in addition accept a loss of $10,000 for that year; that we were forced to discontinue entirely the production of many of the different lines of chairs which we normally manufactured, practically all of which would be classed as low-priced items; that, as a result of the regulations that did not permit us in 1943 to secure price relief to offset increase in wages, we were unable to offer our employees the increase in wages to which they were entitled and therefore we were unable to hold our employees and our production suffered; that, as a result of failure to secure an increase in price to offset an authorized increase in wages in our weaving department in 1944, we were forced to discontinue all of our weaving operations which were an essential part of the process of producing chairs and rockers with woven seats, and such chairs and rockers were dropped from our line; that when we had finally been reduced to the point where even our employees were wondering if we were going to be able to continue our operations for another 2 or 3 weeks, the OPA, in January 1945, issued an order for individual relief which could have been of real benefit to us if it had been issued 6 or 8 months earlier, or if it had not been canceled later, but we were unable to take advantage of it at the time it was issued due almost entirely to the cumulative effects of the regulations in effect prior to its issuance; that, while the price of our chairs was rigidly controlled with only very minor increases allowed, the prices of materials that we had to use in manufacturing our chairs were either placed on a dollar-and-cents maximum price basis far above the prices we had been paying for them when our prices were frozen, or proportionately much greater increases in prices were allowed on those materials than we were allowed on our chairs; that the OPA has used, more or less deliberately, a policy of delay, holding out a promise of relief to come in the near future, and then issuing an order which any reasonable person should have known was not going to answer the problems which we were facing; that other manufacturers of competitive lines were either forced to discontinue these lines entirely or accept hardships similar to those which we accepted in order to remain in business.
There has been an increase of 93 percent in the price of our lumber; an increase of 18 percent in our wages; an increase of 22 1/2 percent in salaries; an increase of 58 1/2 percent in the price of coal; and if these increases were applied to the total cost of these same items in our fiscal years ending May 31, 1940,
Office of Price Administration controls. We feel that in many cases price controls
will not receive sufficient increase to justify manufacturing them. Similarly, under any over-all adjustment, some items will receive a greater increase in price than necessary, and other will not receive sufficient increase to justify manufacturing them. For this reason we are appealing to this committee and to the Congress of the United States to provide in the act, if the life of the act is to be extended, for some method whereby the Administrator will be required to grant such adjustments without any undue delay.

On Sunday night, March 30, Mr. Chester Bowles made the statement that
progress toward peak production and full prosperity is being delayed by “fear
and doubt and blind self-interest,” according to press reports. He did not say, but he should have said, that much of this fear and doubt is created by the policies of the OPA, and that while the OPA may be sincere in blaming the “blind self-interest” of manufacturers for the present low state of production, that these same manufacturers are equally sincere in blaming the obstinacy of the OPA in adhering to its policies in spite of the almost universal belief of manufacturers that those policies are a hindrance rather than an aid to full production; that those policies are giving new manufacturers a decided advantage over old manufacturers; that those policies have driven cheap items completely from the market, and until those policies are changed, cheap items will remain off of the market; that those policies tend to produce or aggravate conditions that cause or underlie the current mounting pressures for inflation, rather than to counteract or alleviate those conditions.

In my brief a plan is proposed which we certainly would not have proposed if we were not sincere—namely, to forfeit any profits made in excess of a reasonable profit if the OPA will permit us to set prices which we believe are necessary to enable our factory to get back to normal production and distribute its products through our normal channels of distribution on a reasonably profitable basis. If the OPA is as sincere in its position as we are in ours, and if the OPA would be willing to guarantee a reasonable profit under their regulations, which is asking no more than we offer when we offer to forfeit any amounts made in excess of a reasonable profit, we certainly would be willing and glad to bring back into our line items on which we are confident that we will be required to accept a loss when sold in accordance with the OPA maximum price regulations. Either plan would be satisfactory with us, but we prefer the plan which we presented as it could produce income to the Government, whereas the guarantee by the OPA would, in our opinion, result in a heavy drain on Government finances. Any other practical method would be satisfactory to us. What we want, and what we feel our sentiments are identical with those of many other manufacturers of cheap items, is a requirement that the OPA provide a practical method whereby sufficient relief can be given without delay so that we might manufacture and sell the products of our line through our regular channels of distribution on a reasonably profitable basis. We feel that such relief should be made available not less than 2 to 4 weeks after applications are filed.

When we requested a hearing before your committee, we did so, with the hope that we could present some ideas that might be helpful in providing method to take care of hardship cases without tearing down the entire structure of the Office of Price Administration controls. We feel that in many cases price controls
are a prime factor in creating a scarcity of products, as they most certainly have been in creating severe shortage of cheap furniture, and inflation thrives on scarcity. To successfully fight inflation we must not only control prices, but we must eliminate the scarcity of articles on the market as rapidly as possible, by encouraging production. The greatest encouragement that can be given to a manufacturer to really produce needed items is to guarantee that he shall be permitted to earn a reasonable profit. If he is unable to see a profit he becomes very much discouraged, and production suffers.

The Government recognized this principle by providing subsidies to industries whose products were essential to the war effort when it became apparent that production in those industries was hampered by price controls. When inflation threatens, every individual unit of every industry becomes essential in the fight to eliminate scarcities, even those units which are high-cost producers. Where an over-all adjustment provides sufficient relief for a great majority of the individual producing units in an industry those firms which are not subjected to undue pressure after such adjustments have been made have no just complaints. But those firms which cannot operate at a reasonable profit under such over-all adjustments either because they belong to a section of the industry for which the adjustments are insufficient, or because they are high-cost producers, do have a just complaint, and their production should not be cut off. We would not suggest a subsidy, but we would suggest that such firms be given the choice of operating under the over-all adjustments or of making an agreement with the OPA whereby, in return for being granted the privilege of adjusting their prices to include all current costs of production plus a reasonable profit, and I would suggest 6 percent on sales or 8 percent on the par value of their invested capital, whichever is the lower, as being reasonable—they will agree to forfeit to the Federal Government any profit they may make in excess of the maximum profit allowed under this special adjustment, but in no event is the amount to be forfeited to exceed the amount allowed in the special adjustment. In other words, they shall not be required to earn less than they would have earned had they operated under the over-all adjustment provided for their industry. The amount, if any, that must be forfeited to the Government should be deducted from the profits of the manufacturer before the income and excess-profits taxes are applied.

Naturally it would be necessary to provide some limitations against increasing wages, salaries, or reserves and including such increases in costs in order to hold down profits. But any wage or salary increases made to comply with the laws, or which have the approval of the Government should be considered as legitimate increases in costs, and any amounts set up in reserves according to a regularly established method of setting up reserves should be considered a legitimate charge to the cost of production.

This method would have many arguments in its favor. We might mention the following:

1. It would lay the basis for full production by every operating unit of every industry in the fight against inflation.
2. It would eliminate unjust complaints against the price controls, for it would give any firm suffering from price controls a reasonable method of securing ample relief. A firm which refused to use this method could not be considered as being seriously hampered by price controls.
3. It would not upset the general price levels which would be established by the over-all adjustment, as only the hard pressed firms would apply for relief.
4. There would be no reason for any firm to apply for excessive prices because there is a limit set to the profits which any firm applying for relief under this method would be permitted to retain.
5. As soon as the scarcity of articles is relieved, with the help of the production of the firms which receive this special relief, competition would again appear and any high-cost producers who received this special relief would be the first to feel the pressure against prices. If they were then forced to discontinue operations it would be the result of natural forces, and not the result of Government regulations, and at the same time their production would have continued as long as it was needed in the fight against scarcity and inflation.
6. It would enable the Government to control prices without subjecting itself to justified criticism of old and long-established firms who are being strangled to death by OPA regulations when those same regulations favor newly established firms which are permitted to include all current costs and a profit in establishing their prices.
7. It would cost the Government nothing in subsidies and it could provide
some income where firms overestimated their costs and as a result earned
greater profits than the maximum allowed under the special relief provisions.
8. It would not be so important for the OPA to check all items of cost, as any
amounts overestimated would come back to the Government in the form of a
forfeit, whereas under present regulations such excess amounts remain in the
hands of the manufacturers. The Internal Revenue agents could check for
excess profits under such an agreement at the time they check the income tax
reports of the manufacturers. It would not require an additional group of
accounts to check for the OPA.

Whether our suggestion will meet with the approval of your committee is not
important. The important thing is that this committee might be impressed with
the legitimate complaints of long-established manufacturing firms, and
write into any legislation extending the life of the Office of Price Administration
a direct requirement with a stipulated method for granting price relief in cases
of hardship, so that any firm applying for relief in the future can do so with
the assurance that such relief will be granted. We can vividly remember the
statement, "No price increase will be sanctioned unless affirmatively required
by law," and the statement that to grant individual relief would require indi-
vidual study of the pricing of each factory and that this task would be practi-
cally an impossible one. So that we might not again hear those words from admini-
strative officials of our Government we are pleading with you that a
definite requirement be placed in the legislation to provide for a reasonable
method of price relief, including a profit for firms who cannot operate at a
profit under general over-all regulations, and that a requirement be placed in
the legislation that such relief must be granted within a definite period of time,
not exceeding 30 days after the application is filed, so that the OPA cannot
delay action with the statement that the task is an impossible one—hence my
suggestion that an agreement be authorized whereby profits earned in excess
of the maximum profits allowed under the special relief provisions may be
forfeited to the Government * to the extent that such profits result from these
provisions.

Before we close our statement we would like to call your attention to the
fact that in 1937 the floodwaters of the Green River stood on the roof of part
of our factory and water stood at least 10 feet deep over every inch of the 20
acres on which our plant is located. So our profit for the fiscal year ending on
May 31, 1937, could not be considered representative, and the effects of the flood
ran over into the following fiscal year, ending in May 1938. During our fiscal
year ending in May 1939 we experienced a strike that closed our plant for 4
months, during which time, nothing was manufactured or shipped. Then in our
fiscal year that ended in May 1940, we experienced a fire which completely de-
stroyed our sawmill, a band mill; our double cane-seat chair plant which
accounted for from 30 to 40 percent of our total sales; our bending department
which provided bent stock for both of our chair plants; and seriously damaged
our power plant, without which, we naturally could not operate our remaining
plant. Therefore, if any provision should be made that the earnings of this
base period be used as a basis for profit to be allowed under present conditions,
some relief from its provisions should be granted for any firm which operated
under such abnormal conditions as we experienced from 1936 to 1940. We are
calling this to your attention as there seems to be a policy in the OPA to con-
sider this particular period as being a normal period.

To Chairman and Members of the Banking and Currency Committee of the House
of Representatives:

My name is George R. LeSauvage. I am president of the National Restau-
rant Association, and also represent the 80 State and local associations affil-
iated with the National Restaurant Association. The national and these affili-
ated associations represent all restaurant trade associations in the United States
except one or two very small ones. These associations represent the majority
of the restaurant operators in the country, which restaurants are 90 percent in-
dependently owned and mostly small business—situated in the cities, towns,
villages, and crossroads of the country. Since the existence of the Emergency
Price Control Act, the restaurant industry has fully cooperated with the OPA
so that we, as an industry, would fulfill our social obligation to the welfare of
the country. Representing these operators, I have come to Washington 102 times.
Our relationship with the OPA, in the main, has been very satisfactory even though, at times, honest differences of opinion did exist.

The general purpose of the Emergency Price Control Act was to stabilize prices—in short, to prevent inflation. With the main purpose of the act, we have no objection, nor do we wish to ask price control for everyone else and have an exception made for our particular industry. We do, however, seriously object to the administration of the act and many harsh rules and regulations purported to be issued under the authority of the act.

Since retailing is the immediate channel of distribution with which the consumer deals, for obvious reasons, the burdens of price control have fallen most heavily upon retailers. In general, the Office of Price Administration has ignored the position of retailers—whether or not price adjustments at this level are warranted. The number and complexity of regulations, orders, and amendments issued by the Office of Price Administration have already been pointed out to you.

The Emergency Price Control Act was admittedly not a perfect legislative enactment. Yet despite its weaknesses, it has been reenacted in substantially its original form since 1942—perpetuating both the weaknesses of the law and the causes of its inequitable application. Unless Congress acts, these inequities will be continued or the Office of Price Administration will take the reenactment of the Emergency Price Control Act in its present form as a mandate from Congress to continue and to extend the present inequitable and undemocratic administration of the act.

The restaurant industry, embracing the small and large public feeding establishments in the United States, has three comprehensive and deep-seated criticisms of the Office of Price Administration.

1. The method of application and enforcement of regulations and orders issued by the Office of Price Administration in the field offices of this agency.
2. Absorption by the public eating establishments of price increases granted to producers and distributors because of certain increased costs—even though the same justification for price adjustments exists at the retail level.
3. Failure to provide adequate relief for those restaurant operators whose expenses are rapidly forcing them into financial hardship.

ADMINISTRATION AND ENFORCEMENT OF THE EMERGENCY PRICE CONTROL ACT

With respect to the field administration and enforcement of the Office of Price Administration, the emphasis which this agency has placed upon the detection of petty violations—in many cases inadvertent clerical errors resulting in single overcharges of 5 cents and in some cases as little as a single penny—is rapidly breaking down the faith these American merchants have in their Government.

The arbitrary and capricious methods used by many of the local price-control boards in compelling the small restaurateurs to consent to $25 and $50 administrative settlements resemble Gestapo techniques.

In their zeal to detect accidental overcharges, the enforcement branches have neglected the greater problem of the black markets where the real inflation is taking place.

It is currently being reported in the newspapers that dealings in the black market are on the increase. We believe that the enforcement division of OPA should be concerned with the stopping of these practices and less concerned about using their inspectors to detect petty violations, most of which are inadvertent and through mistake or misunderstanding. Price control controls only the legitimate operators and not those dealing in the black market. Consequently, we believe that unless the black market operations are stopped, a continuation of the price-control act is useless.

We do not wish to minimize the splendid work done by the members of the price panels, but in our discussions with members of these panels, we are referred to the operating instructions issued by the Washington office of their agency. We earnestly request that this committee on the extension of the Emergency Price Control Act examine the following booklets issued to the price-control boards:

1. Operating Hand Book for Members of Price Control Panels.
3. How Price Control Works.

Even though the penalties of the Emergency Price Control Act are quasi penal in nature, there is no consideration given in OPA enforcement to inevitable and accidental errors resulting in overcharges. It is doubtful if Congress in its most recent extension of the Emergency Price Control Act was thoroughly familiar with the extensive authority which it was delegating to this agency.
We trust that Congress did not intend the extension and use of the power assumed by the Office of Price Administration as presently exercised.

The National Restaurant Industry Advisory Committee has repeatedly requested that the instructions given to price-control boards be made available so that the members of the industry will know the procedural policies of the agency. The Office of Price Administration has refused to make these instructions available, giving as their reasons that such instructions are confidential. This is a dangerous and undemocratic attitude. Administrative regulations and instructions should be public information.

Even with these secret instructions, there is a definite lack of uniformity in the interpretations given by price-control boards and in the activities of individual price-control panels. The same set of facts may provide relief in one case, and deny relief in another, depending upon the attitude of the price-control board.

The antagonism against the Office of Price Administration for the use of such tactics is best illustrated by an item appearing in a Chicago newspaper on March 11, 1946. This newspaper item describes how OPA agents are to be proceeded against in Lewistown, Ill., on a charge of operating a confidence game. Pertinent quotations from this newspaper article follow:

"Scheduled for hearing here at 10 a.m. before Justice of the Peace Opie Lambert on confidence-game charges are Edward Fox, of Pekin, Ill., OPA district enforcement officer with headquarters in Canton, Ill., and Miss Rosalie Baldwin, of Canton, one of his price investigators.

"Lauch Crissey, State's attorney of Fulton County, who authorized the warrants yesterday, said today he did so in order to bring into the open for a legal test the OPA practice of assessing 'fines' against accused violators of OPA price ceilings under threat of injunction proceedings.

"We are not charging that Fox kept any of the money for himself," Crissey explained. "We do charge that Miss Baldwin reported violations of price ceilings which in fact had not taken place and that Fox wrongfully exacted money in the name of the United States by threatening Ludlum and others with litigation to put them out of business."

"Crissey said that under Illinois law the essence of the offense of operating a confidence game is the wrongful obtaining of money and that it is immaterial that the person wrongfully obtaining same was acting under the color of Federal authority and giving the money to the Treasury.

"'Ludlum is only one of five grocers in Canton who have closed up or sold their businesses within the last 6 weeks,' Crissey said. 'These men had all been in business for long periods of time, some for over 20 years. All were accused of violating price ceilings and haled into Fox's office where, without any formal hearing, they were coerced into signing confessions of violations and paying settlements."

"Apparently the OPA had some sort of drive on to find out how many violations it could uncover and how much it would collect in 'fines,'" the State's attorney commented. 'These five men have been driven out of business and now they have nothing to lose from coming forward and telling the truth.'"

COST ABSORPTION

The policy of cost absorption has descended with particular viciousness upon the restaurant and public-feeding industry. The operators comprising these groups are frozen at prices charged during the week of April 4-10, 1948. Since that date, the number of price increases permitted producers and distributors of food commodities have been numerous. Commercial rents and wages have increased and, in general, the expense rates in this industry have been increasing steadily. In some cases rents have increased twofold and threefold. Unless recognition of these factors is given and relief granted, the public-feeding industry will face ruin. This danger is not in the distant future, but is a present reality. Because of the present world food crisis, increased production of raw food commodities will not solve the problems of the restaurant industry.

ABSENCE OF ADEQUATE RELIEF IN HARDSHIP CASES FOR RESTAURANTS AND PUBLIC-FEEDING ESTABLISHMENTS

Restaurant prices are governed by restaurant MPR 2, section 17, of this regulation entitled, "Adjustments," providing that ceiling prices for any eating or drinking establishment may be increased under certain circumstances; briefly, that they are (1) operating under such financial hardship as to threaten the dis-
The continuance of operations; (2) such discontinuance would result in inconvenience to customers, and (3) that, if restaurants were discontinued, customers would be forced to pay as much or more than proposed adjusted prices elsewhere.

This hardship clause has caused considerable misunderstanding and dissatisfaction with the Emergency Price Control Act in that very few applications have been acted upon favorably and the showing to be entitled to price relief is too cumbersome.

We are quoting from a letter received from one of the district offices of the Office of Price Administration denying relief under section 17 on restaurant MPR 2:

"In conjunction with processing your application, an audit was made of your establishment's operations during the base period year of 1942, and during 1944 and during the first 3 months of 1945. A comparison of your establishment's profit and loss after deduction of a $2,500-per-year proprietor's salary shows that in 1942 the establishment earned $1,822.87 (6.83 percent of sales) while in 1944 it earned $1,964.30 (3.91 percent of sales). Its earnings during the first 3 months of 1945 was $42.62 (0.37 percent of sales), and while not considered as a conclusive indication of its profits position for the year 1945, do show that the establishment continues to operate profitably."

The National Restaurant Industry Advisory Committee to OPA has continuously attempted to get a revision of this hardship clause. This matter came to a head in October 1945, at which time the committee met with the Restaurant Branch of the OPA in Washington on October 31. The advisory committee was advised that an amendment had been signed and would soon become effective. This proposed amendment would revise the hardship clause and eliminate the objectionable section. This action was never taken.

For the benefit of the committee, we quote section 17 of MPR 2:

"Sec. 17. Adjustments: (a) OPA may adjust the ceiling prices for any eating or drinking establishment under the following circumstances:

"(1) The establishment is operating under such financial hardship as to cause a substantial threat to the continuance of its operations; and

"(2) Such discontinuance will result in serious inconvenience to consumers in that they will either be deprived of all eating or drinking services or will have to turn to other establishments that present substantial difficulties as to distance, hours of service, selection of meals, food items or beverages offered, capacity, or transportation; and

"(3) By reason of such discontinuance, the same meals, food items, or beverages will cost the customers of the eating or drinking establishment as much as or more than the proposed adjusted prices.

"(b) If you are the proprietor of an eating or drinking establishment which satisfies the above requirements, you may apply for an adjustment of your maximum prices by submitting in duplicate to your OPA district office a statement setting forth:

"(1) Your name and address and the name and address of your establishment.

"(2) A description of your eating establishment including type of service rendered (such as cafeteria, table service, etc.), classes of meals offered (such as breakfast, lunch, and dinner), number of persons served per day during the most recent 30-day period, and any other information which is necessary to describe your establishment and the nature and extent of your operation.

"(3) The reasons why your customers will be seriously inconvenienced if you discontinue operations.

"(4) The names and addresses of the three nearest eating places of the same type as yours.

"(5) A list showing your present maximum prices and your requested, adjusted prices.

"(6) Detailed profit and loss statements for the establishment for (i) a 3 months' period which ended not earlier than 90 days prior to the date of your application, (ii) a 12 months' period which ended not earlier than 90 days prior to the date of your application and (iii) the calendar or fiscal year approximating the year 1942."

A study of that section will convince any fair-minded person that although the restaurant might be in financial difficulty due to the increased cost of doing business, he might still be refused relief under this section.

To make a showing that a restaurant was essential, a restaurant operator might have to go to the extremes of securing signed statements from all of his customers to the effect that they would be unable to obtain food if his restaurant was closed. Ridiculous as this may seem, many restaurants throughout the
country have been denied price relief, even after they show financial difficulties, for the reason that they are not essential.

We believe that the so-called essentiality clauses should be entirely eliminated for the reason that we do not believe any official or employee of the OPA should have such wide discretionary powers over any operation, which power is being constantly exercised.

RECOMMENDATIONS

1. Subsection (e) of section 205 of the Emergency Price Control Act of 1942, as amended, should be modified in the following respects:

(a) Persons who violate a regulation, price schedule, or order should be liable for only the amount of overcharges, except in cases where violations are willful or the result of failure to take practicable precautions against the occurrence of violations. In cases of willful violations or where the violator has failed to take proper precautions, the penalty should be discretionary with the court.

(b) The authority of the price-control boards derived from this section 205 should be limited to fact finding. The present system of administrative settlements should be abolished and penalties assessed under the Emergency Price Control Act should only be made after formal action, using regularly constituted courts of the United States, upon proof of willfulness or the failure to take proper precautions against occurrence of violations.

2. The undemocratic policy of cost absorption and indirect profit control should be eliminated from the administrative programs of the Office of Price Administration by adequate declaration of congressional intent in the Emergency Price Control Act. Cost absorption is the most harmful brain child of the Office of Price Administration. Legal basis for the application of this principle has been in the nature of a rationalization by its proponents in the Office of Price Administration. It certainly is not contemplated by the Emergency Price Control Act and should not be a policy of Government. Cost absorption is discriminatory in its essence and subsidizes certain groups in our national economy at the expense of retailers.

3. The hardship clause of section 17 of restaurant MPR 2 should be rewritten in accordance with the suggestions of the National Restaurant Industry Advisory Committee of the Office of Price Administration.

4. The justification for the continuance of price control is rapidly being overshadowed by the evils of present administrative policies of the Office of Price Administration. Unless Congress recognizes these dangerous trends and takes steps to correct them in connection with the extension of the Price Control Act, it might be better to abolish such controls, rather than permit these controls to break down the American system of free enterprise and individual opportunity.

We recommend the formulation of pricing programs which will take into consideration the realities of the increased cost of doing business by the restaurant industry. Such programs should recognize the changing conditions of the reconversion period and should be directed at the ultimate elimination of controls in the restaurant industry, as well as in other industries, and over particular items as soon as decontrols are warranted.

Respectfully submitted,

GEORGE R. LESAUVAGE,
President, National Restaurant Association

DAIRY INSTITUTE OF CALIFORNIA,
San Francisco 4, Calif., March 14, 1946.

HON. STEPHEN PACE, M. C.,
Chairman, House Special Committee on Food Shortages.
Washington, D. C.

DEAR SIR: We respectfully propose that section 3 (d) of the Emergency Price Control Act be amended to read:

"(d) Nothing in this Act shall be construed to modify, repeal, supersede, or affect the provisions of the Agricultural Marketing Agreement Act of 1937, as amended, or of any State law establishing minimum prices for an agricultural commodity in its raw or processed or manufactured forms, or to invalidate any marketing agreement, license, or order, or any provision
thereof, or amendment thereto, heretofore or hereafter made or issued under the provisions of such act or State law;"

or, as an alternative, that section 302 (c) of the act be amended to read:

"(c) The term 'commodity' means commodities, articles, products, and materials (except materials furnished for publication by any press association or feature service, books, magazines, motion pictures, periodicals and newspapers, other than as waste or scrap), and it also includes services rendered otherwise than as an employee in connection with the processing, distribution, storage, installation, repair, or negotiation of purchases or sales of a commodity, or in connection with the operation of any service establishment for the servicing of a commodity; Provided, That nothing in this Act shall be construed to authorize the regulation of (1) compensation paid by an employer to any of his employees, or (2) rates charged by any common carrier or other public utility, or (3) rates charged by any person engaged in the business of selling or underwriting insurance, or (4) rates charged by any person engaged in the business of operating or publishing a newspaper, periodical, or magazine, or operating a radio-broadcasting station, a motion-picture or other theater enterprise, or outdoor advertising facilities, or (5) rates charged for any professional services, or (6) minimum prices established by a State pursuant to the provisions of a statute thereof for an agricultural commodity in its raw or processed or manufactured form, in a manner that will conflict with such established minimum prices."

The suggested amendments are italicized in the above quotations.

DELAY IN EFFECTUATING MERITORIOUS PRICE ADJUSTMENTS UNDER EXISTING ACT CAUSES IRREPARABLE LOSS

In proposing the above amendments we definitely do not encourage inflation. Our objectives are simply and solely to enable the fluid-milk industry in California, when it has a case for price adjustment, to avail itself of a State law designed to deal effectively with the problem, to present its case to a State tribunal, the qualifications and integrity of which are unqualifiedly conceded by the Office of Price Administration, and if the case be meritorious, to have the adjustment made effective without undue delay.

Fluid milk is a perishable product that must be produced daily and sold immediately on the current market. It cannot be held back until a favorable market develops. Unprofitable milk production may be avoided, of course, by the slaughter of cows, if the deprivation of the public of an adequate milk supply be an acceptable consequence. If not, price adjustments, when clearly merited, must be made effective promptly.

The records and surveys of the Department of Agriculture of the State of California show that in Los Angeles County at the present time, fluid milk, that is, milk for consumption in the fluid state, amounts to a shade over $1.31 a pound butterfat. The producer receives for his milk $1.03 a pound, plus a Federal subsidy of approximately $0.22 a pound. He, therefore, is losing $0.06 a pound, which is approximately one-half cent a quart. This loss is becoming greater daily by reason of the shortage and mounting prices of alfalfa hay and grains. Dairy labor, in addition, which is fully organized in Los Angeles County, encouraged by the recently announced wage policy of the Federal Government, is demanding substantial increases in compensation. The position of the milk distributor is about as precarious as that of the producer.

If the Emergency Price Control Act as it now stands, provides the only remedy for these problems, the continued losses that will ensue before a price adjustment is made effective, and the consequent threat to the fluid-milk supply, are apparent. To obtain relief, the situation of the industry, briefly sketched above, must be presented in detail to an agency 3,000 miles away from California. That agency must then refer it back 3,000 miles for investigation and verification. It has no facilities in this State for such purposes and will therefore resort, as has been its practice heretofore, to the organization and records of the bureau of milk control of the Department of Agriculture of the State of California. The facts thus obtained, relayed another 3,000 miles, must then receive the consideration and analysis of Washington officials. Assuming that the information moves these officials to grant a price adjustment, the decision must then be made effective through the tortuous procedure that lies at the basis of most of the criticism.
of Office of Price Administration. In the meanwhile, irrecoverable loss ensues, the fluid-milk supply diminishes, and a State law which can solve these problems fairly and promptly is ignored.

THE PRINCIPLES UNDERLYING THE PROPOSED AMENDMENTS ARE RECOGNIZED IN THE EXISTING ACT

The Emergency Price Control Act, as it now stands, recognizes the principles upon which we base our proposals. It exempts from its operation prices established for agricultural commodities under the provisions of the Agricultural Marketing Agreement Act of 1937, (see sec. 3 (d) above), and also exempts rates charged by any common carrier or other public utility (see sec. 302 (c) (2) above). These exemptions constitute a recognition by the Congress that prices or rates established by governmental agencies, Federal or State, under applicable statutes, are prices or rates essential to the existence of the industries affected by them and are unlikely to be greater than the necessities of the case require. The amendments proposed by us do not violate these principles.

During the 1930's the fluid-milk industry in the State of California, as well as in all the other States, was in a deplorable condition because of the business depression in those areas. In 1934 the Federal Government came into the State under the provisions of the Agricultural Marketing Adjustment Act and attempted to stabilize the industry. The Federal courts, however, held that the fluid-milk industry in California was purely intrastate in character and that the Federal Government had no jurisdiction (Birdie v. Kurtz, 75 Fed. 2d 898; Hill v. Darger, 76 Fed. 2d 198). After these decisions, the Federal Government withdrew. The rule of these cases precludes the operation of the Agricultural Marketing Agreement Act of 1937 in California.

In 1937 legislation similar to the Federal legislation, but more carefully and soundly drawn and more comprehensive, in that it regulated prices to the consumer in addition to those paid the producer, was enacted by the State of California and is now embodied in chapter 10 of division 4 of the Agricultural Code, a copy of which is attached. Under this law fluid-milk prices are established only after an investigation by the Director of Agriculture of this State, and a public hearing at which producers, distributors, and consumers may and do appear and make themselves heard. Minimum prices to be paid producers are established in accordance with the standards set forth in section 736.3, subparagraph (b). Prices to consumers are regulated in accordance with the standards set forth in section 736.12, subsections (1), (2), and (3), (p. 22). It will be noted that the subsections last mentioned provide for the protection of the consuming public. Anyone aggrieved by the prices fixed by the Director has the right of court review. This right has been availed of in several instances.

Since its inception this law has been administered by the successive Directors of Agriculture of California in an honest and efficient manner. Prices have been established at such points as to cover the costs of efficient milk producers and milk distributors but operating margins have been extremely narrow and have required the elimination of all inefficiencies and waste in operations to provide any profit. It has developed in California an adequate supply of milk of high sanitary quality. Under its operation prices paid producers and wages paid labor have been among the highest in the United States, and prices charged consumers have been among the lowest. The ability and integrity of the Bureau of Milk Control, the State agency which administers the law under the Director of Agriculture, is unqualifiedly recognized by the Office of Price Administration which relies entirely on the Bureau for cost data and other statistical information relative to the fluid-milk industry in California.

THE EMERGENCY PRICE CONTROL ACT AS IT NOW EXISTS DISCRIMINATES AGAINST THE FLUID-MILK INDUSTRY IN CALIFORNIA

From what has been said it is apparent that the industry in California is burdened with an unreasonable discrimination. It happens that the intrastate character of the industry in this State is brought about by its isolation from other States by mountains and deserts. Because of this geographical accident the Agricultural Marketing Agreement Act of 1937 may not operate here as it does in the New York, Boston, Chicago, and other markets where the milk supply for the area is drawn from sources beyond State lines. This discrimination is enhanced by the failure of the Emergency Price Control Act to permit the California statute, similar in principle and purpose and sounder in its results, to
operate in this State. The amendment proposed to section 3 (d) will cure this failure.

It may be asserted that there is a proper basis for the above discrimination, in that the Agricultural Marketing Agreement Act of 1937 is, like the Emergency Price Control Act, administered by Federal officials, whereas the State act is administered by State officials who may be susceptible to local prejudice or influence. We cannot concede this assumption that Federal officials have a monopoly on integrity and ability. On the contrary, we contend that State officials, intimately conversant with local conditions of milk production and quick to react to changes therein, are far better qualified to administer a sound program of milk-price control than an agency whose reactions must be stimulated from a distance of 3,000 miles.

Neither is that assumption conceded by the Emergency Price Control Act itself. Under section 302 (c) (2) of the act, quoted above, there is exempted from regulation "rates charged by any common carrier or other public utility." The rates thus exempted are, in most instances, determined by State officials under state statutes. The milk industry may, technically, not come under the above exemption but it very definitely comes within its principle. Numerous courts, including the United States Supreme Court, have held the fluid-milk industry to be "affected with a public interest," and therefore subject to price regulation. If there is good reason for exempting a public utility whose rates are regulated by State commissions or similar boards, we see no reason why the fluid-milk industry in California, the prices of which are regulated by a department of the State government, should not also be exempted.

THE PROPOSED AMENDMENTS WILL NOT ELIMINATE PRICE CEILINGS OR CAUSE INFLATION

The amendment we propose does not mean that Federal price ceilings will be eliminated. Under such amendments the State law, operating on a purely intrastate industry, will determine what minimum prices are necessary to maintain an adequate supply of sanitary milk for the consuming public at fair and reasonable prices. The prices thus determined will become the State minimum prices. They will, at the same time, also automatically become the OPA ceiling prices. An example of how this will operate is contained in section 402 of OPA Maximum Price Regulation 329, fixing maximum prices to producers for fluid milk. There the minimum price set under the Agricultural Marketing Agreement Act of 1937, for areas where that act is in effect, is the OPA ceiling price. It will be unlawful, therefore, under our proposed amendments, for the industry to sell milk at a price higher than the State government decides is necessary to its existence.

In this connection we wish to point out that due to the isolation of California and the intrastate character of the fluid-milk industry therein, milk prices in this State can have no effect whatever on fluid-milk prices in other parts of the United States. As a matter of fact, as you will note from the preamble to the enclosed statute, conditions of production and distribution vary among different parts of the State to such an extent that the law is administered on the basis of separate and distinct marketing areas within the State, and the respective prices established therein are without relation to each other.

We therefore respectfully urge the enactment of either of the above amendments in order that we may avail ourselves of a law which does not violate the essential principles of the Emergency Price Control Act but which, in its administration, is free of the cumbersome procedure and unnecessary and costly delays involved in the administration of the Federal act.

Respectfully yours,


Baltimore 31, Md., March 21, 1946.

Hon. Brent Spence,
Chairman, Banking and Currency Committee,
House Office Building, Washington, D. C.

Dear Congressman Spence: My name is F. Bowie Smith. I represent the Lumber Exchange of Baltimore City, the oldest lumber organization in the country, incorporated in 1875, composed of 41 firm members of the lumber business in Baltimore and vicinity, covering all phases of the industry: Manufacturers, distributors, wholesalers, and retailers.

I have read with interest the proceedings of your price-control hearings, particularly pages 1951 to 2022, comprising the testimony of Messrs. J. Francis Smith, John Alexander, Jr., and George H. Zimmerman, and these gentlemen have, in my opinion, well stated their case. The only criticism I can offer is the possible understatement from the standpoint of the percentage of lumber now going black market and the terrific expense being incurred by those endeavoring to
build housing are being forced to buy in small quantities, if at all, and at exorbitant prices. I speak from an experience of almost 39 years in the lumber business, through booms and crashes, codes and ceilings, and I state, without fear of contradiction, that never has there been such chaos as exists today in the lumber industry. The pitiful part of the whole situation is that there is nothing wrong with the lumber industry which could not and would not be corrected by production. The Nation's lumber industry is capable of producing more lumber than can be consumed in the greatest building boom ever experienced, but under a price structure designed to encourage production for war, lumber items needed for home building are not being produced in volume and many operations are entirely out of production because of inability to operate at a profit.

In my own case I could easily mention a dozen manufacturers who supplied us regularly with lumber through the years but from whom today we get absolutely nothing. There are several reasons. Most manufacturers are operating and taking advantage of the OPA regulation which permits them to sell within a radius of 25 miles at a price in excess of the regular ceiling price to the trade. Each community has its pent-up demand, and, as stated by previous witness, most mills are not inclined to be too inquisitive as to whether or not the truck calling at their mill has come within the 25-mile limit.

Baltimore has always been known as a cheap lumber market and many of its industries are situated here because of that factor. The principal reason for its being a cheap lumber market is geographical. We have ready access to Virginia and Carolina producing sections and by far the large majority of this stock used to reach us by water at a freight rate considerably less than rail, but since OPA this situation has changed completely. They have added so many restrictions on production, almost entirely based on theory and not on practice, that practically no lumber now comes to us by water and very little by rail.

Prior to World War II the highest lumber market ever known was in 1919 and 1920, but lumber was available for the buyer who could pay for it. During that period, the highest price ever reached for framing lumber, the type used for housing and construction—from nearby States—was $12.50 on shipboard Baltimore. This covered such sizes as 2 x 4, 2 x 6, 2 x 8, 2 x 10, and 2 x 12—good construction lumber. Today it is not possible to buy the kind or condition of lumber that was available at that time. The grades are lower and the condition is always green, but, strictly in accordance with OPA regulations, this same lumber, while not available in quantities, would cost from $62.50 to $65 wholesale. Acknowledging the fact that our economy has changed considerably during this 25-year period, and that the cost of labor and equipment has greatly increased, the fact remains that today, in spite of OPA and its multitudinous rules and regulation, it has not succeeded in “holding the line” but has succeeded only in stifling production, creating and maintaining a black market, making criminals out of normal business people who try to abide by their many rules and regulations but oftentimes find that before a new price list can be created based on some recent change, another change has come about, and often entirely innocently they have violated OPA rules and regulations because of changes that they could not possibly follow, and usually do not make sense.

Remove OPA restrictions and you would instantly see a rush of production that would soon find a proper price level through the only real regulation that needs no enforcement—the law of supply and demand. There is healing in production of numerous economic financial ills. In production lies a good job for every good man and only in that way can we hope for genuine prosperity. If OPA was kicked out as we maintain it should be, many prices might rise for the time being but so rapid would be the rise in production that they would soon find a proper level and it would be far better to pay a higher price than OPA now claims for the white market than to pay still higher prices such as are now being paid in a black market. If all price controls had been lifted immediately after VJ-day we would now have reached a point of production where supply and demand would regulate prices in every line. Instead of that during the 6 months that have elapsed since VJ-day we have had only more confusion and chaos until most of us have reached the point that only the hope of being some day permitted to run our own business without regulations provides the incentive to keep our doors open. We do not need czars and administrators in this free country which has become great through free enterprise and only by a return to this system can we hope to maintain our world prosperity.

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http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis
standard which has been based on one single accomplishment, namely, production.

Respectfully yours,

F. BOWIE SMITH.

(STATEMENT BY ROY A. CHENEY, PRESIDENT, UNDERWEAR INSTITUTE, SUBMITTED TO HOUSE BANKING AND CURRENCY COMMITTEE)

The most important domestic problem before the Congress today is the stimulation of production. Until we have full and uninterrupted production, we cannot have any assurance of continued employment nor the commodities and goods required for our high standard of living, at prices to fit all pocketbooks.

In brief, continuance of the curbs we now have on production is the sure road to inflation.

Unfortunately, there is a tendency to disregard established economic facts and proven methods of securing production and settle the issue of price controls on emotionalism and generalities. Our people are told that industry, through selfish greed, desires to remove all price controls so that it can reap exorbitant profits. Our people are told by responsible officials of the Government that industry desires inflation. Multiple controls, confusing regulations, threats of reprisals and penalties—many in direct defiance of congressional legislation—make it impossible for industry to refute these charges and distribute commodities and goods already produced and to plan future production schedules with any degree of certainty.

Speaking for the Underwear Institute and the manufacturers of knit goods who are members of the Institute, we simply ask—not the elimination of price controls in one fell swoop—but the inauguration of sound price controls in accord with the will and intent of Congress and in line with established methods of doing business. At no time has the underwear industry had an opportunity to operate under reasonable and sound controls. We ask that this honorable committee insist that the Office of Price Administration abide by the same laws it seeks to enforce.

Let me be specific.

At the present time the knit underwear industry is operating under four orders: General maximum price regulation for certain items of lightweights; SO 139 for other items of lightweights; MPR 221 for certain items of heavyweights; and SO 137 for other items of heavyweights.

The general maximum price regulation was put into effect in the spring of 1942 and froze prices as of February or March of that year, though the costs reflected in their frozen price ceilings went back to the summer and fall of 1941.

To understand the circumstances surrounding orders SO 139 and SO 137, it is necessary to give you a little history:

In the summer of 1945, Dr. William Elliott, head of the Office of Civilian Requirements, and certain officials of the War Production Board, became very much worried about the shortage of underwear and were convinced that the shortages were unnecessarily brought about by the rules and regulations of the Office of Price Administration. In the early part of August 1945, so I am informed, Dr. Elliott and an official of the WPB met with Judge Vinson in the latter’s office, with Samuel Levitties, then head of the Manufactured Goods Division of OPA, Jerome Ney, then head of the Consumer Goods Division of OPA, and, I believe, Mr. Bowles, though I am not sure of the latter.

At that meeting, so I am informed, all parties agreed—with Judge Vinson concurring—to give the manufacturers of certain vitally needed heavyweight underwear items their total costs plus an incentive profit, which was later fixed at 4 1/4 percent. Nothing was done with regard to the issuance of such an order until Mr. Levitties, under oath and on the stand before the Smith committee of the House, in the latter part of September, testified that the heavyweight underwear order would be issued within 2 or 3 days. The order, SO 137, was issued on October 17, 1945. Thus over 2 months elapsed before OPA’s promise was fulfilled.

I was informed, and I believe my information was correct, that the understanding between the parties meeting with Judge Vinson in his office was that the order was to be a simple, straightforward, cost-plus order with no strings attached. When the order came out it involved a great many things, such as investigations by the OPA, and the right of the Administrator to revoke the

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order with or without notice. Just recently, one of our mills, making a badly
needed type of heavyweight underwear, filed for relief under the order in Decem-
ber 1945 and was not given the relief of 4 percent until late in February, thus
holding up the production of this underwear for that length of time.

Later our industry was told that this order, SO 137, was only an interim
order which would have expired on February 1, 1946. The order was renewed
with an expiration date of March 31, 1946, and we were informed last week
that the order would not be renewed and that until the OPA issued their pro-
posed over-all order, the mills would revert to their 1942 freeze prices. In the
main, and for the majority of the mills making this type of underwear, the
1942 ceiling prices are below their costs.

Inasmuch as it takes 6 weeks—from the time the underwear mills receive
shipments of yarn to the time they ship the finished underwear out of their
plants—the underwear mills are considering shutting down their divisions mak-
ing this type of underwear, which is the type worn by the farmer and the work-
ingman. The expiration of this order throws them back to MPR 221, which,
when issued September 15, 1942, was stated to be a temporary order and to
remain in effect only so long as some of the mills had what the OPA claimed
were low-price inventories.

So, there will be no great production of heavyweight underwear for men,
women, or children from now on, and, consequently, no real consumption of the
cotton used in those items.

Now, turning to S. O. 139 which affects certain items of lightweight underwear,
such as men's athletic shirts, men's lightweight unionsuits, etc., this order pur-
tected to be a relief order, but by the inclusion of cut-off prices which were
too low, it did not bring out production. It was presumed to be a relief order
and started out to give the mills 15 percent additional on their ceilings, but if,
after the application of 15 percent to their ceilings, it brought their prices above
the cut-off prices, then the cut-off prices prevailed. For example, if a mill's
costs were $3 on men's athletic shirts, it was allowed in the first part of the order
to add to that 15 percent or 45 cents, but in the last part of the order it found
that in any event it could not sell that shirt for more than $2.60 per dozen, so it
was unable to produce. Only some few mills, perhaps five or six, were able to
operate under this order and as these were small mills, it did not increase, to
any great extent, the production of underwear for the consumer or the consump-
tion of cotton. With reference to this order, an official of the OPA told our OPA
Advisory Committee on December 11, 1945, that a new order on lightweights
would be issued on January 1, raising the cut-off prices so that the production
of lightweight underwear for men, women, and children could be resumed. To
date that order has not been issued.

At the request of the Office of Price Administration, the chairman of our OPA
Advisory Committee, some weeks ago, appointed a task committee to work with
OPA in developing an over-all order along the lines of MPR 605. The task com-
mittee has had three meetings since December with OPA and cannot find out
from OPA the answer to certain questions which they have raised so that they
can advise the OPA of the effects of the principles of MPR 605 upon the knit
underwear industry.

However, the following facts have already been pointed out to OPA by the
industry's task committee:

1. That no increases in labor, given by the mills since August 18, 1945,
can be reflected in ceiling prices whether or not the Wage Stabilization
Board approves of such increases. (In this regard a number of our mills
have raised their minimum wages from 15 to 20 percent since August 18,
1945, to a minimum of 65 cents an hour, and have done this to avoid the
danger of strikes. Other mills are now in negotiation with unions.)

2. In response to direct questions by members of the task committee, the
Office of Price Administration have told them that material prices will be
frozen as of the date of the order so that any increases in material costs,
after the date of the order, cannot be reflected in ceiling prices.

3. A responsible official of the OPA made known to a member of our task
committee that if, in going through the maze of figures and accounting, a
mill found its ceiling prices higher than its ceiling prices in 1945, that these
would be rolled back, and further, if the new ceiling prices returned to the
industry a greater profit than the average for the bad years 1936 to 1939,
inclusive, that there would be a roll-back in ceiling prices so that the industry
would not profit more than in the years 1936-39.

The accounting problems imposed by an order such as MPR 605 on a knit under-
wear mill are insurmountable and cannot be met by the great number of mills in
the industry which are small. The order is so involved and so complicated that
this fact will undoubtedly put most of the mills in the position of violating the
terms of the order at once.

Conditions facing the underwear industry can be summarized briefly as follows:

OPA declines to allow current production costs plus an opportunity for estab-
lished manufacturers to make a reasonable profit while approving exorbitant
prices for shoddy goods produced in new plants or foreign markets. The OPA
maximum average price policy makes it impossible for manufacturers to ship
goods now in stock because they cannot get materials to make similar quantities
of so-called low-price products. In both instances the Office of Price Adminis-
tration are acting under rulings contrary to congressional legislation.

CPA is denying manufacturers twills and satens and trim needed for produc-
tion, due to foreign demands, and at the same time threatening action to force
the output of needed consumer goods. Yarn producers are compelled to divert
yarns from underwear production due to inability to pay an adequate price for
cotton or show a profitable operation.

Faced with material shortages, production and distribution restrictions, and
the prospect of operating at heavy operating losses, mills in the underwear in-
dustry are facing conditions that are impossible to surmount.

In the face of this Government stoppage of production, Justice and other
agencies are joining hands in further crack-downs on the textile industry
through courts to which manufacturers are denied access. If the Government
were attempting to destroy the competitive system and business and industry,
there would be no more effective pattern than the Federal policies and regulations
in effect today. Lip service to postwar production is being freely given by those
in control of our economy, but their acts take the form of regimentation in the
highest degree. The consumer is the victim of these policies through being forced
to buy scarce commodities of a shoddy character at high prices while established
manufacturers are powerless to do other than appeal to Congress for the right
to produce and distribute their products.

The underwear industry urges that the House Committee on Banking and
Currency in recommending continuance of price controls specifically provide
that—

1. The Maximum Average Price Regulation, and any and all regulations
issued in whole or in part in pursuance of the cost-absorption policy presently
being administered to be withdrawn and rescinded.

2. No maximum price shall be established or maintained for any com-
modity under authority of this act or the Stabilization Act of 1942, as
amended, or otherwise, below a price which will reflect to producers, manu-
facturers, wholesalers, distributors, jobbers, and retailers dealing in such
commodity a recovery of cost per unit based on current cost plus a normal
prewar margin of profit.

3. Manufacturers be given free access to courts for trial and judgment on
all OPA matters—a right that is now denied.

Given an opportunity for reasonable profits and freed from production restric-
tions, the underwear industry will quickly produce a heavy volume of quality
underwear at prices far below those now prevailing for scarce and shoddy
merchandise.

NATIONAL ASSOCIATION OF FROZEN FOOD PACKERS,

STATEMENT BY THE NATIONAL ASSOCIATION OF FROZEN FOOD PACKERS ON H. R. 5270
BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY

The National Association of Frozen Food Packers is a voluntary trade associa-
tion. Its membership which includes pioneers in the frozen-food industry, repre-
sents approximately 80 percent of the total annual production of frozen fruits
and vegetables. Packers in 34 States are included in the association's mem-
bership.
The frozen-food industry is a growing one. Probably many committee members are familiar with its products and with the fact that the industry is intimately connected with farming and farm crops. It has proved itself during the difficult war years and now looks toward greater opportunities for peacetime development.

The frozen-food industry, like every other industry, is deeply affected by price control and by whatever decision will be made by the current congressional consideration. For this reason, this difficult problem has been given our close and constructive attention. The crux of the question is, How soon and in what way shall price control be terminated?

We want to make plain at the outset that this industry like most all others, does not like postwar price control.

We have good reason, we believe, for disliking postwar price control. In the first place, there have been and still are serious defects in the operation of price-control regulation on this industry. For example, under the present regulation, flat prices (or specified dollar-and-cent prices) are set for new packers on the west coast, and on certain items, for new packers in all States. In many instances, a new packer of a flat-priced item will be obliged to operate at a loss and he cannot obtain any individual price adjustment because the regulation does not authorize individual price adjustments for new packers of these flat-priced items. (See sec. 12, Supplement 17 to Food products, regulation 1.) This introduces competitive inequities.

A second flaw—also restrictive on development and production—is the treatment of packers who for one reason or another sold merchandise at an abnormally low price in the base period (1941). Packers who operated in 1941 determine prices on the basis of a formula which starts with the 1941 price and adds adjustments for some subsequent raw material and other cost increases. These low 1941 sales prices used by an important segment of the industry were below production costs for a number of reasons. One important reason—because this is a relatively new industry—was the production of expensive experimental packs for the purpose of developing production techniques. An even more important reason was that 1941 was a year in which low sales prices were offered to aid in introducing a relatively new industry into the food field. Low introductory sales prices were further driven down by a relatively large and hence more competitive frozen food pack. Since the 1941 sales price is the base price, the abnormally low prices of some packers consequently have been perpetuated under all price regulations. The small relief afforded by individual price adjustments is generally insufficient to bring these packers to a competitive equality with the majority of frozen food packers of the same items.

These inequities are bad enough in wartime; they are worse in a reconversion period requiring maximum food production; and they may be immeasurably worse under the new wage-price policy.

The uncertainties of new wage-price policy are a further reason for dislike of price control. The new policy, which has yet to be clarified, certainly will lead to additional wage demands in this industry. The Stabilization Director ruled both in 1944 and 1945 that this industry could not absorb labor-cost increases. That is equally true now.

But will our past experience—such as the inequities just described—permit us to believe that the OPA will give the industry relief from our inevitably higher wage rates? We do not know. We simply point out that we have had great difficulty in excising price control inequities; that some inequities still exist; that there will be inevitable industry-wide cost increases; that these increases could not be absorbed last year; and most important that there is no assurance for any relief from wage increases resulting from the new policy. As you know, OPA under the new policy is not required to grant price relief. Indeed, the industry as a whole must be in a position of hardship before relief will be granted. Even then, President Truman declared: "If the general level of prices is to remain stable in the next few critical months, the immediate price relief in such cases (hardship cases) must be conservatively appraised."

How is that hardship to be measured? Executive Order 9697 states the measurement is to be "the average rate of profit equal as nearly as may be to the rate of return on net worth earned by the industry in the peacetime base period applicable to that industry." The significance of this test is best understood against a detailed explanation of the industry economics. It is sufficient here to say, however, that because of the history of industry economies and OPA pricing theories, and the announced policy of conservative appraisal of the need
for relief, this industry fears a tremendous price squeeze if no adequate recognition is given in ceiling prices to increased raw material and labor costs. The consequences can be perpetuation and heightening of present inequities plus removal of incentives for production. Thus the postwar development of the industry may be greatly hampered at the start and production—the basic answer to any need for continued price control—will be curtailed. Certainly the solution to termination of price control is not found in slowly squeezing out growing industries.

This squeeze can result from increased labor costs alone. Perhaps even more important is the derivative effect of the new policy upon our raw material costs. This industry is closely related to and dependent on farming and farm crops. This fact can be shown by a wealth of evidence. It seems sufficient simply to point out that raw material costs—for raw fruits and vegetables—for example, form a very large percentage of the prices of the products of this industry. In fact, the inability of the industry to absorb increased raw material costs since 1941, recognized by subsidies and by OPA regulations, clearly shows this interrelation.

It has been generally reported that, because of the new policy, farm products may be exempted from price control in order to meet higher farm costs resulting from the new policy. If farm prices are uncontrolled, subsidies become wholly impracticable. To exempt farm products from price control while keeping this industry under price control would bankrupt many packers and would deal this new industry a terrible blow. If farm products are exempt from price control, then such exemption and the effect of the new wage-price policy require that this industry likewise must be exempt from price control.

As a responsible industry group, we fully recognize the disastrous effects of speculation, inflation, and resulting crash both upon the country at large and upon this industry; all seem to agree, however, that price control must be ended as soon as possible and that termination depends in large part upon a balanced production and demand. If it is decided not to grant an exemption for farm products—which necessarily must include this industry—we endorse the suggestion made by Ralph E. Flanders of the Committee on Economic Development with respect to automatic pricing, use of actual industry costs in pricing, and liberalized standards for price relief. Moreover we urge that amendments should be made in the Price Control Act to deal specifically with means to terminate price control on a selective basis.

The need for such amendments is indicated by the record. Although OPA has made some claim of liberality in granting administrative price exemptions under the standards of OES Directive 68, the fact is that OPA has exempted only a small number of food items from price control. The total number of exempted food items is only a small number of all commodities—metals, and so on—which have been exempted. Mr. Bowles testified that the total value of all items—metals, food and so on—which have been exempted is $3,500,000,000. This figure is only 15 percent of the national food bill of $40,000,000,000 according to OPA figures. And it should be noted that, with the exception of citrus juices, potatoes, and snap beans, the food items have been exempted because they were considered by OPA to be too insignificant to justify the bother of further price control. It is therefore clear that the exempted food items form a negligible portion of the national food bill.

The important reconversion matter of selective price-control termination should not be left to the uncontrolled discretion of OPA operating under administratively created standards. Interested groups should participate in removal of controls on a selective basis just as they participated through industry advisory committees in fixing ceiling prices. The original reasons for creating industry committees, who played a salutary part in price control, are still cogent in the problem of price removal.

We urge that the Price Control Act be amended in certain particulars to announce and apply the policy of selective price-control termination. Such a policy would recognize that the problem of timing the termination of price control varies from industry to industry. This policy should be implemented by providing for industry participation on a case-by-case basis and by providing continuing congressional supervision. Accordingly, we urge the enactment of amendments to cover the following points:

(a) The Price Administrator shall exempt a commodity or item thereof from further price control when the sales price for such commodity or item, in the judgment of the Price Administrator, will not rise, after such exemption, appreciably above the average level of current ceiling prices for the commodity and all items thereof.
This suggestion would provide a standard to which the Price Administrator, in consultation with industry committees, as mentioned later, would have to comply. Basically, this suggestion is founded on the idea that price control for each item must be ended when a relative balance of supply and demand is attained. This proposed amendment recognizes the practical difficulty of writing a formula in terms of supply and demand which will work for every kind of business. Since price reflects in most cases the relative supply-demand situation, it is reasonable to make the market price the basic guide.

In suggesting such a general formula, however, it is also emphasized that the formula contemplates and would permit as basic evidence of supply and demand the use of all statistics, whenever available, giving a true picture of the situation in each industry. For example, official inventory, production, and demand statistics are available for this industry. They show that some items, particularly apricots and peaches, are in a balanced supply-demand condition. Such facts should be emphasized in applying this general formula.

It is urged that, once an item is exempted, it should remain so. For reconversion purposes, it is believed that the price certainties—such as more definite production planning—to be gained from a final exemption outweighs any possible advantage from a power to suspend and then reimpose price controls.

(b) The Price Administrator shall consult at any time with the industry advisory committee upon the request of the committee to consider removal of a commodity or item thereof from price control.

This amendment would carry out the suggestion of industry participation in selective price-control termination. It is possible that section 2 (a) of the act authorizing industry committees to consult on price-control imposition might also be construed to apply to committee consultation for price-control removal. However, such a construction is far from required under present language. If selective price removal is to be accomplished on a selective basis throughout the life of the act, it is imperative that industry committees participate actively in consideration of particular exemptions. Such authority and requirement should be clearly specified in the statute, and a reasonable time limit should be set for OPA action on industry recommendations.

(c) The OPA shall make all of its compiled statistics available to the committees and shall consult with the committees on the basis of such statistics.

From time to time there has been difficulty in obtaining from OPA information necessary for a reasoned judgment. The industry committees should have the opportunity to be as well informed as OPA officials. Confidential material would be protected by the requirement that only compiled statistics shall be available.

Lawrence S. Martin, Secretary-Manager.

Wrenn Hosiery Co.,
Mount Holly, N. C., February 20, 1946.

Gentlemen: There is such a critical situation prevailing today in the supply of yarns available to us which no doubt you are partially familiar with, but we would be less than frank and unappreciative of your loyalty and friendship if we did not call your attention to the fact that several counts which we do not spin, and on which we have relied in the past from other spinners, have been cut off with no promise of relief in sight.

A large number of mills have been sold to integrated concerns who have a fully vertical operation, completely removing such yarns from the sales yarn market. This company owns a thread converting plant which has heretofore been fortunate enough to obtain a large share of their yarn requirements from spinners, but in self-defense we will be forced to convert a minimum of 60,000 pounds weekly to that source.

Beginning April 1 we will be forced to make a drastic curtailment in deliveries to our customers, and our purpose in writing you this far in advance is to acquaint you with our situation so that you will be in better position to protect your own interest.

Indicative of the shortage that exists with us, the attached copy of letter is only one of a substantial number of similar communications we have received by mail and telephone in recent weeks. Unless the OPA comes to the rescue of
cotton-yarn spinners so as to provide them with the proper incentive to increase production, it is our opinion that many knitters and weavers will be closed down or forced to greatly curtail their own operations for lack of cotton yarns.

Yours very truly,

AMERICAN YARN AND PROCESSING Co.,
W. H. SUTTENFIELD,
Vice President and Sales Manager.

FEBRUARY 18, 1946.

AMERICAN YARN & PROCESSING CO.,
Mount Holly, N. C.
(Attention Mr. W. H. Suttenfield, vice president and sales manager.)

DEAR SIRS: As you will appreciate, with present-day price of cotton and giving effect to the advance in wages, there is no profit in spinning 30/2 at the present time at the price which the OPA allows us producers to charge for the yarn. We cannot afford to operate at a loss, so we shall be forced into some other line of endeavor.

This is to advise you we will not be able to take on additional business when your present contract is completed, unless the OPA does give us relief that will give us a profit in line with what we believe we can do in making other commodities.

It has been a genuine pleasure to do business with you, and we hope conditions will be such that the situation will be early corrected.

Very truly yours,

COMMITTEE ON BANKING AND CURRENCY,
House of Representatives, Washington, D. C.

GENTLEMEN: Request is made that corrective measures in the anti-real-estate owner operations of OPA be instituted, or, that owners be subsidized against losses resulting from OPA ceilings in the same manner as farmers and other classes have been in the past and still are subsidized.

While the OPA has in general probably been a very good thing for the country as a whole, there are instances where its operations have been unfair and disastrous for certain classes of the country’s population. One of these classes is made up of those persons who have invested their savings in residence real estate in areas in which the OPA has set ceilings. This is due to the disregard of the OPA of the costs to the owners of property. The writer of this letter falls in the class mentioned.

To illustrate the unfairness of the OPA and its effects on property owners, the following information is given:

I am at the present time a Reserve Army officer leaving the service as soon as accrued leave has been taken. I was called into the service in December 1940. At that time I was a Government clerk by occupation and a property owner. During the war my mother has had power of attorney to handle my affairs. At the time I went into the Army I instructed her to purchase for me some property I was considering. This she was unable to do, with the result that it became necessary to purchase other newly constructed property instead. Due to her physical condition there was considerable delay in purchasing these properties. At the same time she invested some money of her own.

I have been in the Army drawing bachelor captain’s and major’s pay 5 years and 2 months. I have lived economically during that time, saving more than half of my pay. Since the placing of unreasonably low ceilings on the property, it has been necessary to use much of my pay which I had expected to have accumulate in the bank for my use in starting a business on my return. I therefore do not have the money necessary to start the business as my liquid savings now available amount to only $1,000, whereas I have sent to my bank allotments amounting to $8,000 together with $700 cash. This amount was sent during my 32 months overseas.

In addition, my mother has had to put all money she has made from other sources into these properties in order to not lose them by foreclosure on the mortgages.

My experience with real-estate investments goes back more than 20 years, and that of my mother more than 50 years. We have both believed what the teachers of economics have always taught, that real estate was one of the safest investments possible, often surviving crashes in Government securities. We
have since learned by experience that real estate can be a very unsafe investment from causes other than economic, i. e., unreasonable Government regulations which in effect are confiscatory, depriving the owner of what is rightfully his. I have not had time since my return from overseas to make a thorough study of the OPA law and its regulations, but I have studied enough to be generally familiar with it. During the World War I Washington had a rent-control law, which after the war was ruled by the Supreme Court unconstitutional. The present law set up an organization that is far more vicious in its dealings with real-estate owners than anything that occurred during the life of the previous organization.

There are now two parts of the Government which occur to me as having the function of determining the value of real estate. The OPA with its rent control and the condemnation boards which evaluate property to be purchased by the Government for Government use. If the value is calculated from the rents that OPA will allow, it would probably be very far from that found by a condemnation board. Why does this difference in valuation exist? There can be little, if any, justification for its existence. I do not think that all the difference could be due to error or bias on the part of the condemnation board. There is considerable evidence available to show error and bias on the part of the OPA to favor tenants against the property owners. In addition, where the owner does not consider the value set by the condemnation board to be adequate he can appeal to a court to set aside the valuation and place another one on the property. This court is entirely independent of any control or influence by the condemnation board. This is not true of the emergency court of appeals and the appeals channels within OPA. An appeal there is about the same as appealing to a man as a higher authority against abuses he has committed as a lower authority. There can be little likelihood of receiving an unbiased decision on the appeal.

When the OPA rent-control organization was investigated by a subcommittee of the House of Representatives in 1943, Report No. 699, copy of which is enclosed, there was enough evidence presented to prove that the OPA operates in an arbitrary and unconstitutional manner and exceeds its authority even to the extent of superseding laws passed by Congress contrary to the limitations placed in the law creating the OPA. For an example of bias I quote paragraph (5) of the report.

“(5) Particularly in the early stages of rent control, it appears that the rent department released broadcasts and sent out publicity tending to depict landlords generally as a greedy and grasping class; actually encouraged complaints by tenants against owners; required unnecessarily complicated questionnaires of landlords; and made unwarranted investigations of their private affairs.”

My mother tells me that at this hearing an official of OPA stated they had a rigid policy that no person with real-estate experience would be hired. This was evidently done to insure that no people could get into the organization who might by chance be inclined to ever favor an owner due to his understanding of the owners’ problems. This has had the obvious effect of creating an organization in which any bias that may exist would be against the owner. It also indicates to me that it was a deliberate attempt to build an organization that would be biased against owners. To show that that bias existed within the past year I quote from a letter from the OPA to my mother last March;

“The rent regulation for housing does not recognize a pecuniary benefit to the landlord.”

In the 20 years’ experience that I have had with real-estate investments I studied trends in the area in and near Washington. For the following information I am depending entirely on memory due to desire to complete this letter quickly. However, I believe my memory to be correct. During the early thirties the sale and rental prices on Arlington property were both depressed. About the middle thirties they both came up to about the proper prices; then they went down again to depressed prices but not as low as previously; then about the end of the thirties and in 1940 there was a moderate rise in sale prices due to improved conditions and the greater ease of a person being able to finance the property by FHA. This same ease of financing made it as easy to buy property as to rent for anyone who did not have a bad credit rating. Down payments for houses were often as low as $100 plus transfer charges. Under this competition the rental market stayed depressed and that was the rental situation on January 1, 1941, the date set for rent-control standards in Arlington.
The ceilings are often placed on property arbitrarily without inspecting it and without attempting to provide a fair return on the investments. This is itself a violation of section 1 (a) of the act creating OPA. I refer to the part that says "to protect persons with relatively fixed and limited incomes, consumers, wage earners, investors and persons dependent on life insurance, annuities, and pensions, from undue impairment of their standard of living; * * *, which would result from abnormal increases in prices." The OPA has failed to carry out its job on the things I have had to buy. The Washington Post carried an article on January 20, 1946, which shows the following increases in price in what it calls the six war years: Rents, 4 percent; food, 51 percent; clothing, 46 percent; fuel, electricity, and ice, 14 percent; house furnishings, 45 percent; and miscellaneous, 24 percent. I am in the wage-earner class and am also an investor.

The object for which OPA was organized was a good one, but it decided on ceilings so low that they are in effect ordering that property owners will pay the cost of subsidizing the tenants of their property. This is contrary to all the principles on which this country was originally founded and on which it has operated long enough to become the world's foremost Nation.

If the Government believes that tenants should be subsidized, the Government should pay the costs, as it is unconstitutional to tax one class of people for the sole benefit of another class. This is in effect what is being done although it is not called that. It is an evasion.

It would appear that with all the injustices and unconstitutional practices that were brought out by the investigation in 1943 that has large and well organized groups as the real-estate associations and those affiliated with them would have been able to get enough pressure on Congress to have brought about a number of corrective measures which have not been made. I do not know to what extent they have tried. I have suspicion that they have not done all they could. I am not prepared to make charges that they have not done all they could, but I know a perfect motive in not wanting too much correction to be accomplished. To illustrate the point, the charges or commission on the sale of a house is 5 percent of the sale price. Likewise the charges on rent collection and other agent's work is 5 percent of the rent collected. If through lack of corrective measures fewer houses are available for rental the prospective renter will have to buy a house on which a sales commission will probably be paid. Then if this buyer has to leave a year later he sells the house, and he probably pays a sales commission. This represents $500 commission on each sale of a house at $10,000 against a rental agent's commission of $36 if OPA set a rent ceiling of $60 per month on it. Even if only one-third of the sales go through the real-estate firms it would still be financially to their advantage.

My mother obtained possession of one of our properties last April and decided to rent furnished rooms in the house instead of the whole house. This way it would take care of several more people as it was a rather large house. Also, this method of renting the property would make it possible to get enough to have the property to be self-supporting instead of operating at a deficit. The OPA has actually refused to allow her to have a ceiling price on these particular rooms, which in effect makes her liable for prosecution if she collects this rent.
on it. Their action in refusing to give her a ceiling is done for the sole purpose of forcing her to continue to rent the property as a house, which they have written instructing her to do. If she rented the house as such, the tenants, as they have done heretofore, would not be prevented from renting the rooms at room rates, thereby making the difference themselves, the OPA aiding and abetting them.

My mother rented rooms in this house but cannot collect rent from the roomers. Seven of the roomers have left and there will be no means of collecting from those who left. So far our losses on this house because of lack of ceilings is about $2,000, part of which we may be able to collect if we can get ceilings. This action on the part of OPA is unreasonable. If a tenant can rent the rooms, there can be no legitimate reason why we should not. This case is being taken up with the Department of Justice in a few days, as some officials of that Department expressed the opinion to my mother that it appeared to be a case for criminal prosecution.

Due to my leaving the service at this time, and having only $1,000 of my past allotment money and my pay while on terminal leave, I find it necessary to sell two houses, that would not have been withdrawn from the rental market, in order to raise money to clear most of the second trusts on the houses I still own. If I did not do this I would not be able to meet the payments due and would lose the property on foreclosures.

My mother tells me that she knows of many people who withhold property from the rental market because it is not economically feasible to rent it at OPA ceilings. One case she mentions is a friend having a home in the suburbs, and I have talked to the owner. In this home there is a nice apartment of two rooms, kitchen, and bath which the owner-occupants had rented to a friend for the very low rent of $25 per month. When the place became vacant 2 years ago the owners made no attempt to rent it again, because, knowing the OPA policies, they did not think it worth while to run the risk of becoming involved with the vicious rulings of the OPA.

It is clear that additional housing facilities already existing could and would be made available if it became economically sound for the owners to release the facilities. I could not attempt an accurate guess but I believe that in the Washington metropolitan area there are probably several thousand or more places that could be made available for families if reasonable inducements were made to warrant the action. To get these places available will require change in the OPA, or a subsidy from the Government.

Sincerely yours,

WILLIAM M. JOHNSON.

SOME REASONS WHY OPA IS LARGELY RESPONSIBLE FOR THE ACUTE SHORTAGE OF HOUSING UNITS AND IN A MEASURE CONTRIBUTED TO YOUTH DELINQUENCY BECAUSE OF THEIR UNFAIR DISCRIMINATIONS AGAINST PROPERTY OWNERS

This is a statement of facts which can be proven regarding the persecution by OPA of my agent on my rental houses.

These properties are newly constructed bricks (and one frame), in good neighborhoods of Arlington, Va., built in the summer of 1942. The owner is an officer who has served in this war since December 1940 and overseas 32 months. His mother, as attorney in fact, has used every reasonable effect to obtain fairer treatment from the OPA while he was overseas fighting for the interests of our people, including his own. He owns 12 properties. The average owner of rental properties probably owns not more than one. Therefore, 12 owners would receive each on their own property the losses he sustains one. Multiply these 12 owners by the many owners throughout the United States and you can readily see that OPA in their discrimination against, and their persecution of property owners is very largely responsible for the present housing shortage. These discriminations were called to the attention of Mr. Bowles, who has not honored his own word.

House No. 1.—The only frame house was originally seven rooms and bath. After an expenditure of over $1,300 putting in extra radiators, drains to the street, and refinishing expensively so as to add to the desirability of the property rather than as cheaply as possible. This house is very close to Washington on a corner of three streets with garage and beautiful grounds and was first rented nicely furnished for 2 months to two families at $75 each per month. In determining the rental the short term was taken into consideration. OPA...
reduced the rental to $85 furnished for the families and $75 unfurnished, which is the same rental that under their rules would have been received for the property had no improvements been made. When vacant some months later more than $1,200 additional was expended on the property, extra bath added and extra room, and it was turned into a rooming house. Having been told by OPA that if a tenant rented rooms we could receive more rent we placed a rental price for a rooming house so low that we hoped OPA would not change it; the price asked was $125 per month and would give the operator not only their living quarters with all expenses, but about $100 a month extra. This price was accepted by OPA. Some months later OPA cut the rental to $115 per month. Luckily the tenants had just moved. This since has been operated by the owner's mother as a rooming house renting to couples, but instead of furnishing and service, there is provided a community kitchen and living-dining room which gives these couples the opportunity to prepare their own food at less cost and a better quality than they buy in the average public dining room. Each couple pays $50 per month, or $25 each, which includes all their living expenses except food. Other rooms in the neighborhood, without kitchen privileges, but including sheets and perhaps some service, rent as high and in some instances higher than the charge we made. A community kitchen in Washington provides sheets and maid service additional and charges $70 per room per month. OPA claims these houses are not rooming houses in accordance with their regulations because the sheets and maid service are not provided. The tenants prefer the chance to prepare their own meals in the community kitchen and at the lesser charge than if the linens and maid service were included instead.

The Department of Justice, Civil Rights Section, and OPA criminal divisions have stated this ruling of OPA is criminal since it does away with our constitutional rights and no one but the owners can decide whether or not it is a rooming house. Many rooming houses in Washington provide room only and that unoccupied occupants constitute a rooming house.

House No. 2.—The finest house, an English type brick with stone insets, very modern with Venetian blinds, eight large rooms, two and a half baths, was originally rented to a major for $120 per month. OPA on their own initiative cut his rent to $85 per month. We understood about the time the WAC's were organized he rented rooms to several WAC's, for about the price that he was paying for the entire house. We learned of this when he was leaving the Army and the city, and wrote Arlington OPA that he was leaving and asking the Arlington rent director to inform us immediately how much extra rental we could receive for the period that he had rented out rooms as we desired to collect before he left town. The Arlington rent director, Mr. Buchanan, answered, "Their investigation showed no more persons in the house than when he took it." When the OPA regional attorney, Mr. Dupree, was asked about this at the Department of Justice, he answered, "The tenants left the city before." Shouldn't we have been permitted the extra rent for all those back months?

Despite OPA's statement that the house had not been rented in January 1941, two rooms had been rented at $30 per room. Six rooms were then rented at $30 to six girls. After these girls left owing unpaid bills, we learned they had sublet rooms at a higher price. We then expended several hundred dollars in remodeling the property and also several hundred in extra furnishings including an additional new gas range and refrigerator, turning it into a rooming house with community kitchen and living-dining room such as has been previously described. The house could accommodate 16 persons with proper light, air, etc. Rooms were rented to 12 girls and we requested of OPA a change in the ceilings on rentals to $25 per person. OPA has never given us a change in ceilings so we have been unable to collect the rent. As soon as this change in ceilings is granted we can take care of six more couples comfortably.

House No. 3.—This house is a six-room fine quality, dark red brick with some stone trimming. The builder was about to be foreclosed when the house was first completed and he rented it in January 1941 for the quickest price he could get, $65 per month. I understand other similar properties in this neighborhood rent for $100 per month. The day before the property was to be foreclosed a real-estate operator purchased it. He furnished to OPA a sworn affidavit of the circumstances and that about $700 additional was expended by him in properly finishing the property. Despite the affidavit, OPA cut the rental to $65 per month, and we had that loss for about 2 years. It was then furnished with furniture above the ordinary and rented for $125 per month. OPA cut this price to $85 per month, although similar properties in the neighborhood were renting...
from $115 to $125. When the property became vacant last summer we let it stay vacant as some of the tenants in 2 months’ period had so damaged it that it cost more than $200 to repair. When the Department of Justice asked Mr. Dupree, the OPA regional attorney, if we could ask subsequent tenants higher rental to offset these losses, he answered “No.” We have just sold this property.

Houses No. 4.—Five-room, air-conditioned bricks, were cut from $80, which just about covered costs on the unfurnished house, to $60 per month. When two of these became vacant we furnished them and were allowed by OPA $5 more for the furnished houses than the cost of the unfurnished house, or $1 per room per month for the furniture. The average furnished house is said should bring about $15 per room for furniture. The third house has recently become vacant and we were trying to hold all properties off the rental market until the unfairness of OPA is corrected—or placing on sale if necessary. We have made an exception in this case for a man brought here in RFC who was so desperate that he was praying to God for a house in which to place his family. They were at one of the war plants which had furnished heat and light to the home occupants and which was to be cut off in a few days. Two of these furnished houses were recently vacated and we are holding them to sell unless we can get a fair rental.

Houses No. 5.—These houses were originally five-room and attic houses, the center one with an extra half bath. The rents were cut to $60 per month. When the Johns-Manville Co. insulated the one with the old second floor and finished the attic floors. New floors were laid above the subfloor and the entire space partitioned into two large rooms, totaling seven rooms. Johns-Manville said the rooms would be sufficiently warm without extra heat. All tenants since have found them very comfortable.

The tenant in one of these wanted insulation but did not want partitions on the second floor. The OPA had cut his rent to $60 which they raised $5 per month after it was insulated, which is yet far lower than the original cost and a heavy loss to us. The insulation costs us nearly $19 monthly for 3 years on each house.

Another house was vacant a year ago last August and a lieutenant colonel begged to rent it. We answered, “We cannot afford to rent a house to a family.” We intended to furnish and rent furnished rooms. His continual nagging for the house finally wore us down and we said, “Congress has passed Public Law 383, which applies to these hardship cases and requires OPA to allow the operating costs and increased taxes; we will let you have the house at cost and have our auditor furnish a detailed statement for OPA.” This statement, I think without depreciation on furniture amounted to $137.62 per month. This, of course, included furniture payments. We signed the lease at $140 a month for 1 year, first and last months payable in advance. OPA paid no attention to Public Law 383 except to state that it did not refer to our houses, but only to houses rented as of such and such a date. Our houses were built after that date but OPA had cut the rentals which he had placed just covering costs to the same rentals as houses of that date. Although our houses were modern, mainly air-conditioned and insulated and there were no similar houses of that type on the rental market in the Arlington rental area in January 1941. OPA immediately cut the rental for the lieutenant colonel to $100 per month and subsequently brought out a regulation that an owner could not receive more than 1 month rent in advance. The colonel and his wife, and OPA demanded a return of the last month’s rental which had been paid previous to that regulation, and in accordance with the laws of Virginia, where the property is located. Finally, Arlington OPA attorney, Mr. Sieber, sent us practically a blackmail letter ordering us to return $40 or he would report us to Roanoke. My agent telephoned him, “What will you do if I don’t pay it?” He replied, “We will take you before a Federal court in Alexandria and have one of the Federal judges from Richmond try you.” My agent telephoned a prominent attorney in Richmond, told him the story and asked him what kind of men these judges were. He answered, “Don’t let them bluff you, you have nothing to fear from either of these judges.” My agent went to the Military Affairs Committee of the House, told the story and asked if she fought the case, could it hurt her son. The answer was, “You fight it, if they attempt to hurt your son, let us know.” Two or three days later Mr. Sieber telephoned her in a very angry tone and said, “We have had 2 letters from Roanoke, telling us to take action against you and you have not given me any answer.” She said, “That’s funny, you wrote you would not report me to Roanoke for 10 days, and it will not be 10 days until next Monday” (it was Thursday). “Now, what are you going to do?” He
said, "We will fine you double and triple." How could they? There was no 
celling on the furnishing house.

Mr. Bowles wrote Senator Lucas February 24 that I would not now and would 
not be required in the future to refund the money. OPA wrote the White House 
on July 13 that the matter had been settled in my favor and they hoped satis-
factorily adjusted by this time. However, they instructed the tenant to deduct 
$40 from his July 1 rent. The matter has been settled in our favor in the court.

Five-room, modern, air-conditioned, insulated bricks, first floor, with large 
grounds, costing nearly $80 per month were rented for that price, and were cut 
by OPA on their own initiative to $50. These houses have very large rooms 
with fireplaces and are one block from highway bus. One was rented to a clerk 
in a Senator's office, due to the Arlington Oil Burner Co. requesting that I rent 
the property. He got the oil burner out of order and instead of calling the 
company to whom he was under obligation for being permitted to live in the house 
called a competitor because the original company had refused to help him against 
me in court. This particular company had given a year's guaranty on the oil 
burner. Had he called them, there would have been no charge. The competitor 
charged $57.50. The tenant and OPA demanded that we pay this bill. We 
answered OPA we would not pay for the tenant's anger. That had he called the 
firm who had so kindly secured the house for him there would have been no 
charge. Both oil burner companies upheld us, so both local and National OPA 
were obliged to decide in our favor. The National OPA in writing the White 
House regarding this stated they had decided in our favor but did not state they 
had used every effort to make us pay it—that our evidence was so overwhelming 
against their persecution they were obliged to decide for us.

Last April I notified the tenants we would need these houses for the use of 
the owner's family. They took the matter to OPA and OPA fought us to the 
extent of their attorney, John Sieber, interrogating my agent in the Virginia 
courts. He had no license to practice in Virginia and no Virginia lawyer asso-
ciated with him. We are advised that Mr. Sieber can be jailed for this action.

House No. 7.—This house originally rented for $85 to tenants who were so 
indignant when OPA cut the rental to $55 then raised to $56.50. When this 
family was transferred to Montreal, they obtained our consent to transfer the 
property to a colonel who could pay cash for their furniture which they had 
offered us, but we were unable to pay all cash which they needed in making 
the transfer to Canada. Later we purchased the furniture from the colonel when 
he was transferred. We then rented the property furnished. OPA permitted 
rental furnished of only $82.50, whereas the costs unfurnished were $83.50. 
These last tenants damaged so heavily that the costs were over $200 to put it in 
order. The window shades were in ribbons. Last spring we partitioned the 
large room, making four bedrooms in the house and advertised to rent rooms 
with kitchen privileges. The tenants in these rooms, Arlington Hall employees, 
caused a loss of over $1,000 to the overseas owner. They prevented any other 
persons from renting rooms, changed the furniture to suit themselves, appro-
riated the whole house at our expense excepting $25 each, gave liquor parties 
and we are told had men there nights.

IN A MEASURE CONTRIBUTING TO CHILD DELINQUENCY

OPA regulations that a purchaser cannot get possession of an occupied house 
under 6 months and then only with their consent, or continued court action 
causings further delay, prevents a purchaser from establishing a home for his 
family, thereby requiring the children to be scattered away from the parents 
and thus depriving them of their mother's supervision and care.

PRICE CONTROL OR DECONTROL?

(A STATEMENT ADOPTED BY THE BOARD OF DIRECTORS, CHAMBER OF COMMERCE OF THE 
UNITED STATES OF AMERICA, WASHINGTON, D. C.)

PRICE CONTROL OR DECONTROL?

The OPA, 8 months ago, let it be known that in its view about 70 percent of 
the ceiling prices would be decontrolled by June 1946, 30 percent remaining under 
control. Now we are informed that these figures probably will be almost re-
versed. Indeed, some Government officials have voiced the opinion that there is
no prospect in the months—and perhaps even years—ahead, of getting out from under control.

The reinstatement of several material controls and price ceilings since VJ-day, and the alleged necessity, 8 months after the end of hostilities, of an indefinite continuation of price control is evidence that we are not returning to a peacetime free society. It has been contended that price control “should be abolished as soon as practical” or “when supply and demand are in reasonable balance.” This balance is what the OPA states as its objectives; but since this criterion is expanding controls rather than contracting them, there must be something seriously wrong with the prescription or there may be other Government policies which are prolonging controls.

WARTIME CONTROLS

During the war the supreme objective was the production of war matériel, requiring the shrinkage of the civilian economy to essentials, in order that the war might be prosecuted to a speedy conclusion with maximum intensity. Therefore, to some extent, wages and more especially prices including some rents were rigidly controlled, materials were allocated to war and essential civilian production, and scarce consumer goods were rationed. Two chief types of subsidies were paid: (1) To induce, for example, the opening of submarginal mines (production subsidies), and (2) to keep the cost of living index from rising (price depressant subsidies) as rapidly as it otherwise would rise. Inventories of goods accumulated before Pearl Harbor in the hands of consumers, distributors, and manufacturers helped to tide us over during the war. Victory gardens, thrift, patriotism-inspired cooperation, deferring maintenance, and other factors, helped to make the wartime controls reasonably effective.

The wartime upward price pressures which nevertheless prevailed, were due primarily to two factors: (1) Although a large fraction of production was not available for civilian use, labor and other producers nevertheless were paid “purchasing power” for this production; (2) to make possible the payment of Government purchases, the Government through its financial operations greatly, and perhaps needlessly, increased the money in circulation including demand deposits in banks—the equivalent of money.

To the extent to which tax rates were increased, a part of this greatly augmented money income was recaptured by the Government, before it was spent. Wartime Government bond purchases also diverted a part of the increased incomes away from consumer markets. Nevertheless, strong upward price pressures continued throughout the war.

POST VJ-DAY CONTROLS

At war’s end wage controls and rationing were largely eliminated. Materials controls were relaxed. Price control, including some rent control, was continued almost unabated.

During the war the people and the Government, in a fundamental sense, knew what was wanted; the controls were designed to gain those ends. Now that the war is over and a free stable society with high-level employment is our supreme objective, it is the ultimate consumer, the private individual, who should determine what is to be produced by the free expression of his demands in the market place. But so long as prices are artificially depressed, while wages are relatively free to rise and other controls are relaxed, there is little possibility of prices in relation to new costs, guiding production along the lines desired by the consumer. Price loses its function; when this is the case Government directives must be substituted.

Government bond purchases have been reduced and bond redemptions have increased, placing into the hands of the public additional quantities of current purchasing power. The demobilization of veterans provides mustering-out pay, readjustment allowances, and many GI loans are being made—all tending to provide current spendable funds for which little current product is produced by the recipients of these funds.

Now that the wartime dangers appear to be history, the patriotic appeals of self-discipline are less effective. Strikes paralyzing individual companies, whole industries and communities have multiplied. According to the almost universal testimony, industrial efficiency has declined. Labor turn-over is high.1 Whatever technological improvements in production were developed during the war have not yet been incorporated, for the most part, into the productive process and will take years to assimilate.
Tax rates on business and on individuals have been reduced. Some 12,000,000 lower-income earners have been wholly excused from paying income taxes, thus keeping in their hands more spendable funds. Wage increases for salaried and other workers have been general since VJ-day so that probably there are few workers who have not received, or will not shortly receive, an increase varying from 10 to 18 percent. All this pays additional funds into the hands of the workers so long as they are working. Several million persons have retired from the labor force—but they continue to consume. Frictional unemployment perhaps is normal while many jobs remain unfilled.

FREE PRICES WOULD ABOLISH SHORTAGES

If prices were allowed to seek their natural levels, shortages would disappear promptly because the open or market price, free from ceiling or other controls, is that price which brings into balance the supply and demand for commodities. Free prices or rising prices presumably would stimulate production of the most essential commodities as indicated by free consumer demand; simultaneously, the rise of these prices would cause numerous buyers to drop out of the market either because they did not have the funds with which to pay the higher prices or they would regard the prices as too high; they would wait. Thus free prices are the one sure way of causing supply and demand to come into adjustment. Competition, in time, would tend to force prices to correspond closely to costs.

PROBABLE DURATION OF SHORTAGES

Since prices are fixed on a broad front, there is no way to determine when supply and demand will come into balance at such fixed prices—the answer in some cases may be never, or at least not until the next depression occurs. The shortages and the time required for output to catch up have been greatly underestimated. Labor force surpluses have been overestimated.

Consider the men's clothing situation. During the war, when the men's clothing industry was producing millions of uniforms for the men in service, civilian production of men's clothing was reasonably adequate for the prevailing demand. This equality of demand and supply was possible because a large number of men were either in the services or were contemplating entering the services, and also because more civilian clothing was then produced than has been the case since VJ-day. Certain controls on worsted yarns developed at the later stage of the war and civilian clothing production was drastically reduced.

At the end of the war, with the demobilization of millions of men in prospect and with the cancellation of military clothing orders, it was expected that production of civilian clothing would return promptly to the market.

The reverse is the case. It is estimated by the Civilian Production Administration that about 40,000,000 suits are needed to fill pipe lines, veteran and civilian needs. Today, production estimates by this same body, indicates an estimated production of around 24 to 25 million suits. Normally from five to eight million suits are carried as inventories; today these inventories are virtually nil. Shortages of components recur. More than the normal number of suits are sold without vests and extra trousers. Spinning, weaving, suit manufacturing—all are part of the productive process. Shortages of materials or labor may occur on more than one front. Will supply and demand ever come into balance under price control?

What has been said of men's suits may apply to innumerable other articles, but how many cannot be determined. Certainly housing, motor cars, some types of electrical appliances, and many other products under depressed prices may be expected to be in short supply for one, two, three, or even more, years. Therefore, if the Government's criterion for eliminating price controls remains "when supply and demand come into balance" and if money incomes are pushed up by law or union pressure while prices are kept suppressed and nothing else is done to reduce the causes of inflation, it is doubtful that supply and demand will come into balance until a general economic collapse occurs. This means an indefinite perpetuation of price controls.

MORAL ASPECTS OF PRICE CONTROL

Is this perpetuation likely to so condition the American people to controls and make them so subservient to these controls, that they will ever generate enough
individuality and realism to shake these controls? Habit is a powerful force. Once the mind and individuality of man is suppressed for a considerable period of time, man loses his desire for self-assertion and self-expression; he becomes a prey for further regimentation. The general public acceptance of price control more than half a year after VJ-day, when it was a free society for which we fought the war and which we were promised, is evidence of a decline of American individuality. The character and fiber of a people are a nation's greatest asset. The problem of price control is not merely an economic question.

We need to remind ourselves that by 1928—5 years before Hitler came into power—German public authorities were in control of over 50 percent of the national income (in spite of which the German economy suffered its greatest collapse in history and the people were driven into hostile and opposing camps). A government crutch can be used too long.

ARE PRICE CONTROLS RETARDING PRODUCTION?

The view is widely expressed that price controls are retarding production. Nearly every manufacturer and distributor is able to cite shortages of commodity after commodity which he needs in his business for production or for sale. Suppliers cite hundreds of such cases in explanation to their buyers for the delay in delivery. Hundreds of items are out of production because of low ceiling prices. In some cases, workers must be laid off because of shortages of raw materials or component parts. Certain foods are exceedingly scarce because of the way price controls are administered. Thus at the time of writing butter is relatively scarcer than table cream and ice cream. Specific ceilings on feeds and on beef may cause shortages of meats relative to other food. All this is the almost universal testimony of businessmen and farmers.

Yet, the OPA denies most of these allegations and insists that production and employment are at all-time highs, at least for any peacetime years. Thus Mr. Chester Bowles, in his testimony on February 17, 1946, stated that the notion that price control is retarding production—

"* * * is nonsense * * * 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 these 52,000,000 workers doing if they are not producing? Why is it that industry after industry is crying for more and more employees?"

Whether every assertion made by Mr. Bowles is demonstrable or not may be subject to dispute; but that he stressed a relevant point frequently overlooked, cannot be denied. Apart from strikes and frictional unemployment, our labor forces do appear to be relatively fully occupied.1 The most recent figures of the Federal Reserve Board on industrial production (the only over-all data which we have) indicate that production is substantially ahead of the last peacetime years. Thus, total production at the end of 1945 was about 50 percent above the 1939 level, and in the case of durable goods the output was about 70 percent above the 1939 figure.

### Industrial production

[Physical volume 1935-39 = 100]

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1 Federal Reserve Bulletin, February 1946. The figures for January-March 1946, will be slightly lower due to strikes.

2 The Department of Commerce February 15, 1946, report on The Labor Force states that in January there were 2,290,000 persons unemployed available for work and seeking work. This figure, as usual, did not include those (amounting at that time to 2,500,000 who were in work because of illnesses (50 percent), because of bad weather (20 percent), and the remainder because of strikes, temporary lay-offs with instructions to return within a specific period of time, and other minor reasons. The report states that 51,400,000 members of the labor force were at work.
It should be noted that these figures are based on physical volume, and therefore not influenced by the declining value of the dollar.

In the light of these data, it is none too clear that the OPA ceilings are actually retarding production as a whole in any substantial degree. That these ceilings, based largely on prewar-cost differentials, are reducing production of some items and stopping production of others altogether, is true; but whether the ceilings are retarding total production is still in dispute. Clearly, if more butter is to be produced and the shortage is thereby overcome, this would involve a reduction in the use of butterfat for other items—unless total production were raised. Similarly, the increased output of certain construction items would draw labor and other resources away from production elsewhere—unless additional labor and other resources could be drawn into the industry. But where is this labor—trained labor in many cases—to come from? If labor is relatively fully occupied and raw-material producers are operating at or near capacity, it is difficult to see how serious bottlenecks can be broken without creating other bottlenecks, at least until efficiency rises and more labor-saving improvements are put to use.

The fact seems to be that we do not have enough labor, enough trucks, enough knitting machinery, and enough productive equipment in line after line to break down all production bottlenecks in a short space of time. We are short of productive capital equipment and manpower; are we demanding the impossible in insisting that there be no shortage of goods? The deferred consumer demand, the needs of the veteran coupled with the enormous liquid savings in the hands of the people, and the high hourly earnings of the American people are placing a demand on the American economy which exceeds that of wartime. Price control or no price control, many wants may remain unsatisfied for years ahead. The economic reformers who, in the depression, cried, "We have solved the production problem but our problem is one of distribution," have exaggerated our productive capacity—as fabulous as it is, especially compared with that of other countries.

What then is wrong with price control? With the OPA? With the Administration's policies? What can be done to speed production? To reduce price pressure? And above all, what can be done to hasten the abolition of price control?

As previously indicated, at the heart of the transition price-control problem are two prime factors: (1) The method of war financing, creating enormous surplus buying power, and (2) the administration's wage policy.

**WAGE POLICY**

Perhaps never in history have a government's economic advisers been so grievously in error as were those of the present administration before V-J-day. Because the Government was responsible for nearly 50 percent of the total demand for goods and services during the war throughout our economy, it was the general opinion of those responsible for advising the Government in its transition policies that when the Government withdrew its demand for goods and services a major collapse would occur. At various times and places, Government officials predicted 5, 8, 10, and 20 million unemployed after V-J-day. One CIO union predicted 30 million unemployed for the period following war's end. Congress did an excellent job of establishing legislation for the care of the GI's, for settling war contracts promptly, and disposing of surplus goods and in many other ways showed great foresight; but some persons in and out of the Government have continued to argue, "Congress has neglected the human side of reconversion." Administration leaders reiterated these charges and took a number of steps which today are directly and heavily responsible for our plight.

Thus, as war's end approached, the argument was advanced that we must maintain wartime take-home pay. This became a battle cry. The argument was made that a number of factors would reduce take-home pay: downgrading of labor, disappearance of high-paid jobs, abolition of overtime and so on. The Office of War Mobilization and Reconversion prepared a document (mimeographed) entitled "Facts Relating to Wage-Price Policy (OWMR-502)" which was designed to show in detail just how much loss of take-home pay would result from each of these factors and that wages could be raised by about one-fourth without the necessity of any price increases. It was further argued that

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2 Rising wage rates, coupled with the penalty time-and-a-half wage requirements for overtime, under rigidly controlled prices, unquestionably has the effect of reducing the effective labor supply—the number of hours worked per week.

3 That the decline in take-home pay was grossly exaggerated is now admitted by Government officials.
wartime efficiency gains made wage increases possible without price increases. The document purported to prove under varying assumptions that straight-time hourly wage rates could be increased by 24 percent without increasing prices. This document was never published but copies of it "leaked out." After some heated sessions with non-Government economists, the Government economists themselves decided that the document was too vulnerable to warrant its publication. But the damage was done. Labor unions quoted it extensively and are continuing to quote it to prove that the indicated wage increases could be made without price increases.

Some of the same Government economists who wrote this document "advised" the General Motors fact-finding board, which recommended a huge wage increase. But the numerous price increases, grudgingly granted since then, and the President's Executive order of February 14, 1946, are a frank admission that the Government's economists were in grievous error. But, to repeat, the damage was done.

But this was not enough. The Department of Commerce, set up to help business with authentic figures and data, also prepared a "wage-lifting without price increases" document entitled "Domestic Economic Developments" (Oct. 25, 1945). This was a study of the automobile situation and purported to prove that the wage rates in the motor car industry could be increased by 25 percent without any price increases. This document was "inadvertently" released by the Secretary of Commerce, although it still has not been officially published. Again, the damage was done. The notion got abroad that profits were fabulous, corporation treasuries were swollen, and that wages could be greatly increased without anyone having to pay for the treat. Labor took full advantage of both documents.

Furthermore, high administration officials continuously harped on raising purchasing power, as though purchasing power were something apart from production. Money is a medium of exchange—it is not, in and of itself, purchasing power. If it were we could merely have the mailman bring us a bundle of daily purchasing power.

This bit of history is recounted not in order to blame someone for our impasse. Rather, its purpose is to make it clear to the American people that, unless we can secure a higher order of economic insight and statesmanship, we are likely to continue to be led into more and more economic chaos. Unless we can get a more or less complete replacement of the relatively small number of Government advisers responsible for this irretrievable damage to the American economy, we are not likely to have an Administration properly advised when the next crisis arises.

When the first fact-finding boards appointed by the President made their reports, the members of the boards and the key men in the Administration were still under the delusion that our transition problem was deflation. So they recommended 15 percent to 20 percent wage rate increases. Even if this diagnosis of impending deflation had been correct, which it was not, the theory of raising wages when deflation is threatening was thoroughly tried in the 1930's with such adverse results, that one might have expected a sounder prescription. Surely we cannot create jobs by making it more expensive to put men on the pay roll!

Again we must say, the damage was done. Before the Administration discovered that our postwar problem was inflation rather than deflation numerous substantial wage increases had been inspired, recommended, or ordered. Wage controls were virtually abolished and the unions were urged by the Administration to see what they could get, which frequently in practice meant tying up a company, a whole industry, or a whole community, by means of a paralyzing strike and mass picketing where necessary.

The President's Executive order of February 4, 1946, states that it is the administration's wage policy to encourage general wage increases across the board up to the levels already established where these increases have been secured since VJ-day. Thus, it is inevitable that wage rates of nearly all workers will be increased in retailing, wholesaling, service, and manufacturing, by about 15 percent to 18 percent or 20 percent. Nothing less than this will be acceptable. Meantime the fiction, and it is pure fiction, is maintained that the President's Executive order may involve a "slight bulge" in the price line, but only a slight bulge which later will be straightened out.

Immediately after the settlement of the General Motors strike, and after the above was written, the Secretary of the Department of Commerce publicly recognized this document to have been in error. N. Y. Times, March 16, 1946, p. 1.
Wages constitute approximately 70 percent of all costs in our economy. To argue that wages can be increased in a relatively brief period by 15 to 20 percent across the board (on top of wartime straight-time hourly increases of 15 to 20 percent) without any price effects except a slight bulge, later to be corrected, borders on the irresponsible. In unimportant matters the people can be misled without serious consequences. But when the facts come to be known about this wage-price situation in the months ahead the American people will be confronted with price increases closely corresponding to the current wage increases. Yet, they have been led to believe otherwise by their Government. Not only do we have monetary inflation; we have wage inflation and a frustrated or delayed price inflation.

By readily permitting wage increases “which do not require price increases” the Administration has taken too narrow a view of the price- and cost-making process. Every wage increase, even when it does not necessitate a price increase, stimulates upward price pulls and the black market under current conditions because of the increased buying power which it places in the hands of the public. Some wage readjustments at war’s end were inevitable, but they should occur primarily where employers find them necessary to recruit an adequate labor supply.

There is, of course, much more in the current policies than meets the eye. Just as the interest rate is being driven downward in order to redistribute income from the savers to the nonsavers, so the wage policy is designed to depress profits and other risk-taking incomes, while wage income is inflated. A gradual, subtle economic revolution is in process. It is so subtle and surrounded with such high-sounding slogans that the people are not aware of the true inwardness of what is taking place. But this has always been the case during such periods of history until after the events, as in the case of prewar France.

**FISCAL POLICY**

Our methods of war financing, continuing deficits for over a decade, and the “cheap money” policy lie at the foundation of our price-control problems. Even the erroneous wage policy has been conditioned strongly by fiscal policy. Until we recognize the interrelationships between all these issues and policies and until we put our financial house in order, all other policies will prove ineffective in dealing with price controls.

One of the great “miracles” of war finance, it is said, has been the financing of our growing debt by means of a steadily declining interest rate. The Treasury has boasted of the low interest rates it is paying on Government borrowing. The true story of war finance cannot be written, however, until all the evidence is in—some years ahead. The low interest rate has been made possible only by means of relying heavily upon the sale of Government bonds to commercial banks and to the Federal Reserve banks.

As a result of this financing currency in circulation (pocket money) increased from about $6,000,000,000 in 1939 to nearly $27,000,000,000 by the end of 1945, as indicated by the accompanying table.

**Rise in bank deposits and currency**

<table>
<thead>
<tr>
<th>Date</th>
<th>Demand deposits</th>
<th>Time deposits</th>
<th>Currency outside banks</th>
<th>Total deposits and currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1939</td>
<td>$27,355</td>
<td>$26,701</td>
<td>$6,055</td>
<td>$60,913</td>
</tr>
<tr>
<td>January 1945</td>
<td>65,600</td>
<td>46,600</td>
<td>23,700</td>
<td>135,900</td>
</tr>
<tr>
<td>January 1946</td>
<td>76,500</td>
<td>49,100</td>
<td>26,200</td>
<td>176,400</td>
</tr>
</tbody>
</table>

1 Federal Reserve Bulletin, March 1946.
2 Preliminary.

* * *

Thus the New York regional administrator of the OPA stated on February 26th: "* * * the black market in New York City is worse than during the war * * *" (New York Times, February 27, 1946).
Demand deposits (check-book money—the equivalent of currency) increased from $27,000,000,000 in 1939 to over $76,000,000,000 in 1946. This constitutes an increase in money from $33,000,000,000 in 1939 to $102,000,000,000 in 1946.\(^1\)

The Federal Reserve Board has released some additional estimates of liquid "asset" holdings of business and individuals as indicated in the following tabulation.

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**Estimated liquid-asset holdings of individuals and businesses**\(^1\)

[In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>1939, December</th>
<th>1942, December</th>
<th>1945, December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>65.1</td>
<td>111.6</td>
<td>225.3</td>
</tr>
<tr>
<td>Currency</td>
<td>5.8</td>
<td>13.1</td>
<td>26.0</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>20.9</td>
<td>36.7</td>
<td>61.4</td>
</tr>
<tr>
<td>Time deposits</td>
<td>26.3</td>
<td>27.7</td>
<td>48.2</td>
</tr>
<tr>
<td>U. S. Government securities</td>
<td>12.1</td>
<td>34.1</td>
<td>86.7</td>
</tr>
<tr>
<td>Business holdings, total</td>
<td>19.7</td>
<td>29.2</td>
<td>79.8</td>
</tr>
<tr>
<td>Personal holdings, total</td>
<td>45.4</td>
<td>72.4</td>
<td>145.5</td>
</tr>
</tbody>
</table>

\(^1\) Federal Reserve Bulletin, February 1946.

\(^2\) Preliminary.

It will be noted that now the American people and business have upward of $225,000,000,000 of liquid assets, of which over $145,000,000,000 are held by individuals. With the artificially low interest rates earned by some of these assets, it cannot be expected that people will want to hold all these assets if a preference for expenditure develops or if a better opportunity for investment materializes. In other words, the fiscal situation of the Government may be vulnerable and unstable. It remains to be seen whether our methods of war financing have been a miracle or a mirage.

In 1939 our national income was about $71,000,000,000; our money supply about $33,000,000,000. Some such relation between money and national income has persisted for many decades. That is, we tend to have over the years about $1 of money for each $2 or $3 of national income. Now, if this prewar relationship between money and national income should tend to be reestablished by natural economic forces, our national income in dollars would tend to be about two to three times $102,000,000,000, which is our present money supply. This would mean a national income of 200 to 300 billion dollars in contrast to a figure of about $100,000,000,000 at present controlled prices and regimentation.

To put the matter another way: It is not probable that the American people and American business would care to hold in pockets and in the form of demand deposits $102,000,000,000 in money—a form which does not earn any return and which does not augment the owner's standard of living so long as it is in the pocket or lying idly in the bank. In other words, it is altogether likely that the owners of these vast liquid assets will want to do something with them. Either they will spend them in the months ahead for consumer goods and thus bid up prices more fiercely, or they will want to invest them in real estate, securities, or in some other form. If they try to invest them, as many are now doing, stock prices will rise and we have inflation there, or they will invest them in real estate and then we have inflation in real property. Both are happening and that is why the Government has tried to stop security speculation by prohibiting buying on margin and giving speeches against such speculation, and is now proposing to put ceiling prices on vacant lots, farm lands, and other real property. Every time the Government intervenes with one of its ceiling devices or other controls, the inflationary pressures just move over to some other outlet.

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\(^2\) In addition time deposits rose from about $27,000,000,000 in 1939 to $48,000,000,000 in 1945; savings bonds, carrying such a low rate of interest that there is not much premium on holding them to maturity, increased to $48,000,000,000; many people view these as highly liquid savings to be spent as soon as goods are available or better investment opportunities open up.

*Digitized for FRASER*  
http://fraser.stlouisfed.org/  
Federal Reserve Bank of St. Louis
The American people can be expected to continue to find ways of spending and investing their money, regardless of how fast the Government claps on ceilings or closes loopholes first here and then there, only so long as the Government chooses to deal with symptoms instead of causes.7

It has been argued that the Federal budget will be short of balance by only a few billion dollars in the fiscal year 1947, and that the Treasury will not have to resort to any substantial borrowing in the several years ahead except for refunding operations because of large Treasury balances; therefore it is claimed that inflationary pressures through the Treasury will not be substantial in this connection.

This overlooks, however, the fact that (1) refunding may involve bank borrowing and that (2) the Treasury balance of about $25,000,000,000 is now for the most part inactive.

Since it is assumed by the foregoing arguments of the Administration that tax revenues will not equal Government expenditures and since it is assumed that the Treasury balance, now not only large but largely idle, will be steadily reduced to make up the deficit in revenue, the activation of these billions of dollars now in the Treasury will provide a powerful inflationary factor. To put the matter another way, at present the velocity of circulation of this huge Treasury surplus balance is virtually zero but steadily these dollars will be used to meet Government pay rolls, buy commodities and other services thereby becoming purchasing power and making a demand on American industry for goods and services, directly and indirectly. This is a further inflationary pressure even though no new financing were involved.

As business expands it is inevitable that many concerns will be forced to borrow funds, which will create additional purchasing power, this making it all the more urgent that Government fiscal operations work in the direction of reducing Government requirements for funds.

The Budget for the fiscal year 1947 calls for expenditures of nearly $36,000,000,000. What this means in real terms is that the Government will be in the market for billions of dollars worth of goods and services. This is further inflationary pressure.

**PROFIT CONTROL**

The OPA has consistently denied that its pricing policies were in the nature of profit control. Yet, unless the OPA uses the phrase "profit control" in some esoteric or special sense, it is obvious that it has endeavored to control profits. Base period earnings, generally 1936-39, have been used as a bench mark with prices just high enough to permit earnings on net worth at this prewar rate. Some companies because of cost reductions or inordinately large volume have done better than this criterion was designed to permit. During the war with the large volume, when many services were omitted, lines were less diversified than is required to satisfy peacetime consumption and when there were greatly reduced selling costs, profits did mount in numerous cases.

The Federal Reserve Board's sample data on profits show, however, that in general there have not been "war" profits.8 Thus in 1939, 1,465 large corporations had net profits of $847,000,000; in 1940, the figure for 1,818 corporations, a much larger number, was $1,628,000,000. In the period from 1942 to 1944, net profits for approximately 1,800 large corporations averaged about $920,000,000 per year. Unquestionably individual companies prospered as never before on the basis of unprecedented volume, but the average corporation as reported by the Board, although it too did an all-time high volume of business, made earnings during the war which were lower than before we entered the war.9

We have two additional sources of general data on profits, neither of which supports the view that industry during wartime has made inordinate profits. The accompanying table states the official data on net profits, first as reported by the United States Treasury and therefore official and, second, data reported by the National City Bank covering some 1,500 manufacturing corporations.

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7 Nor is this criticism of administration policy based on hindsight. See Maintaining Purchasing Power in the Transition, Chamber of Commerce of the United States of America, July 1943. In fact, the view that inflationary forces would outweigh deflationary forces after the war was set forth as early as September 1944 in Inflation and the Post-War.

8 Data in this section are profits after taxes.

It will be noted in the first column that after nearly 10 years of deficits and subnormal profits, profits of American industry by the 1940's began to be restored to the predepression level and for the period from 1940-44 the average profit actually was slightly below the rate of the late 1920's.

Similarly, the data covering only manufacturing corporations show that except for 1941 (in December of which the United States entered the war), the profit rate throughout the war period was below the rate of the late 1920's, and slightly below the years 1936 and 1937.

American business corporations throughout the war followed an exceedingly conservative dividend policy. In all of the postwar planning during the war so much emphasis was placed on more jobs that American industry recognizing that only through investment of earnings and savings can productive self-sustaining jobs be created, retained a larger than normal proportion of profits in the business. This, of course, accounts for the rise in liquid assets now owned by American business—assets which in due course will be converted into raw material and finished goods, inventories, pay roll and new productive facilities. Are American corporations now to be penalized for having husbanded their resources so well during the war? Furthermore, with the higher wages and prices now prevailing, a business must have larger working capital.

Whether the present price control policy will provide adequate incentives to maintain production cannot be determined. It is true that high volume and capacity operation do tend to generate substantial increases in profits but if total costs exceed total selling prices there can be no profits and therefore no incentive regardless of the volume of business momentarily attained.

The OPA in its price policies is betting on huge volume but it is easy to predict that this volume will not be forthcoming if businessmen on a wide front once become convinced that every dollar of sales will involve more than a dollar of costs. For this reason the present price control policy, unless it is promptly flexible, may in time actually thwart total over-all production and not merely distort production.

Profit control continues under Executive order of February 14, 1946. The order sets up prewar profit standards as the bench mark (sec. 2 (b)). Whether this will prove adequate to keep our total labor force fully employed cannot be known.

10 During the war American industry did more and more work for less and less return. Thus to take one example, the automobile industry earned about 7.5 cents per dollar of sales in 1939 and 1940; after this, the figure declined steadily until in 1944 the net profit per dollar of sales reached a low of 2.6 cents (New York Times, February 27, 1946). This is what appeared generally throughout industry.

11 For a decade the "Washington economists" have argued that profits are deflationary while wages stimulate the economic system because, it is alleged, a part of profits are always hoarded and thus cause a break in the circuit flow of money. If this is true and if these economists followed their own logic, they should now argue for high profits since now our problem is inflation and not deflation.

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Net profit to net worth of United States business corporations

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent of return on net worth after taxes, depreciation, interest</th>
<th>Year</th>
<th>Percent of return on net worth after taxes, depreciation, interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All active corporations 1</td>
<td>1,297 manufacturing corporations 1</td>
<td></td>
</tr>
<tr>
<td>1928</td>
<td>7.2</td>
<td>11.6</td>
<td>1937</td>
</tr>
<tr>
<td>1929</td>
<td>7.5</td>
<td>12.8</td>
<td>1938</td>
</tr>
<tr>
<td>1930</td>
<td>6.5</td>
<td>6.4</td>
<td>1939</td>
</tr>
<tr>
<td>1931</td>
<td>6.0</td>
<td>2.3</td>
<td>1940</td>
</tr>
<tr>
<td>1932</td>
<td>-2.9</td>
<td>-5</td>
<td>1941</td>
</tr>
<tr>
<td>1933</td>
<td>-1.0</td>
<td>2.5</td>
<td>1942</td>
</tr>
<tr>
<td>1934</td>
<td>3.9</td>
<td>4.8</td>
<td>1943</td>
</tr>
<tr>
<td>1935</td>
<td>3.3</td>
<td>6.7</td>
<td>1944</td>
</tr>
<tr>
<td>1936</td>
<td>4.7</td>
<td>10.4</td>
<td></td>
</tr>
</tbody>
</table>

1 Source: Treasury Department, Statistics of Income.
2 National City Bank Letter, August 1945.
3 Preliminary.
Question may also be raised whether it is equitable in establishing wage policy to take account of the rise in the cost of living and the alleged increase in efficiency and productivity, but denying that investors are entitled to a similar cost of living adjustment by keeping them to their prewar returns. Stockholders are, like human beings, they also must eat in order to live and it does not seem to be in accord with American traditions to have our great Government adopt policies along class lines.

SUSSIDIES

The President in his statement accompanying the Executive order of February 14 demanded that subsidies be continued for another full year. He thus recommended the continuation of "concealed inflation." The Housing Expediter has recommended construction subsidies—more concealed inflation. We must recognize frankly that subsidies are a device for establishing what may be called "dishonest prices," that is, prices which do not reflect the facts of supply and demand. They appear to be holding the price line when in fact the price on subsidized products is paid in part by the consumer over the retail counter and in part in his tax bill. How long will we move from expedient to expedient? There is a limit to temporizing. Sooner or later we must face the economic facts of life.

SO WHAT?

This completes the diagnosis of the inflationary pressures. The one outstanding conclusion derived from this analysis is that price control on a broad front is largely dealing with symptoms. The problem is not price control; it is inflation control. Until this distinction is generally recognized the people and Government will demand "symptom treatments." The cry of "inflation" has been sounded so often and so vehemently that the public is now heavily sold on a continuation of price controls.

Any one who questions price control is labeled an enemy of the people. But the people have become victims of an irresponsibly superficial diagnosis. As a result the Administration is truly slaying dragons. Until this devious approach to the inflation problem is abandoned in favor of a realistic analysis, the case for price control will appear overwhelming to the public.

The Government has made little educational effort to instruct our citizens on the causes of these inflationary pressures. For this reason, while the public, the Administration, and many local groups are continuing to insist upon palliatives, sedatives and nostrums, the reasons for the alleged necessity of continuing controls go unrecognized. The Government keeps fostering the utterly preposterous dogma that wages can be raised again and again and that little else needs to be done except to hide inflation through subsidies, and only a "little bulge" will occur in the price line.

The Administration has made many mistakes as to wage policy, fiscal policy, and many other matters. When the Government makes a mistake, it makes a big one—affecting all the people and the whole economy. Private individuals, too, make mistakes as do business firms, but when they make mistakes, retreat is relatively quick, corrections may be instituted promptly and the repercussions are likely to be local and to be less serious. Until the Government develops an over-all coordinated policy for effectuating decontrol, temporizing expedients, and failure will continue. Worst of all, reconversion to a free society will be indefinitely delayed.

IF PRICE CONTROL WERE ABOLISHED

One reason why men differ in their views as to the desirability of continuing price controls, is that they differ as to what would happen if controls were dropped summarily. All admit that some price rises would follow. But government must recognize that some price readjustment will inevitably follow after decontrol regardless of when decontrol takes place. But would the rise in the cost of living index be 10 percent, 20 percent, 30 percent, or some multiple of one or the other of these figures? And how long would it last?

Since we are not dealing with a set of mechanical relationships it is impossible to predict the precise or even the approximate rise in prices which would occur. If after decontrol people generally became convinced that a rising price trend would continue for some months or perhaps several years, this in itself would most assuredly accelerate the rising trend; people would want to convert dollars and savings into goods and investments before their currency and savings declined still further in value. On the other hand, if people generally conclude that substantial price rises are likely to be temporary a "buyer's strike" might
occur. Uncertainty prevails. A price spiral probably would spend itself in a relatively brief period and then deflation would set in.

But it must be remembered that the expenditure of currency and bank deposits merely involves a change of ownership and does not extinguish this excess purchasing power. The new owner would then have the funds to spend or invest. Only the retirement of the Federal debt and meantime its reconstitution in a form which people really desire to hold, will reduce the excess money and deposits. Is the government prepared to shrink its budget to the point where debt retirement would be permitted to accomplish this purpose? The excess money supply would be corrected if we move the entire cost-price-wage structure to higher but properly balanced relationships.

**SUMMARY RECOMMENDATIONS**

Spiraling wages and prices can do nothing but harm to our economy and its people. Every effort should be made to stimulate stable, productive employment for the months and years ahead with reasonable price stability; this requires close cooperation of Government, agriculture, labor, and business. Business commitments and business transactions must rest on a foundation of confidence in the value of currency and in the reasonable stability of prices. We renew our pledge in support of this program.

The expansion of controls 8 months after VJ-day, rather than their contraction and the upward price pressures, are evidence to every man that we are not moving forward to a free society with low prices. We, therefore, require a reexamination of our reconversion policies.

We recommend a gradual elimination of price controls on commodities and that the final date for the elimination of all such controls be October 31, 1946; we further recommend that rent controls, properly adjusted, be extended not beyond March 31, 1947.

Congress should eliminate all wartime production and price depressant subsidies within the next 6 months. Costs of government must be drastically reduced. Deficit financing must be terminated. Every proposal for new governmental expenditures should be coupled with definite methods for raising the required revenues. The budget should be overbalanced and debt retired. Foreign lending should be geared into own domestic supply and demand conditions. Congress should make a thorough investigation of Treasury fiscal policy and make recommendations as to interest rates, borrowing and budgetary procedure designed to minimize inflationary pressures.

Since VJ-day our policies have been based largely on the conception that we are faced with a problem of mere price control. The failure of these policies is due to a misdiagnosis of our problems. We have wage inflation, we have currency inflation and a delayed or frustrated price inflation. The solution can come only through a coordinated policy which deals not purely with the symp-
toms of inflation, as does price control, but with the real causes of the inflationary pressures which abound in many sectors of the economy.

Under the policies suggested herein, some prices may rise, others may fall. Production will be stimulated and bottlenecks will disappear more promptly. Because of the distortions already created in the economy during the war and since VJ-day, additional adjustments are inevitable. Instead of frustrating these adjustments, the Government should try to guide them along natural lines so that gradually we will have an effectively functioning free economy with high level employment at good wages.

STATEMENT OF
H. E. FOREMAN, MANAGING DIRECTOR,
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA, INC.,
TO THE
HOUSE BANKING AND CURRENCY COMMITTEE'S HEARING ON THE
EXTENSION OF OPA

The Associated General Contractors of America is the national trade association of construction contractors. Its members, over 3,575 in number operating in all parts of the country, perform every type of construction.

At its twenty-seventh annual convention, held in Chicago in February of this year, the following resolution, a copy of which has been transmitted to every Member of Congress, was unanimously passed:

GOVERNMENT REGULATIONS

"The Associated General Contractors of America, at its twenty-seventh annual convention on February 21, 1946, expresses the conviction that the construction industry could execute the work which is vitally needed for the development of the Nation more quickly, more efficiently, and more economically if wartime controls over the industry and the other industries supplying it were abolished, and goes on record as being opposed to Government control over the construction industry by the continuance of wartime regulations beyond the periods currently established by law."

We desire to present here some of the facts and the thinking which inspired the passage of this resolution.

Construction is well known as one of the most complex and intricate of all industries. The fact that each project differs from all others in many particulars and that in the industry a great number of different grades of many different materials and items of equipment are used, make the preparation of cost estimates a highly technical operation. Furthermore, the contractor has to take into consideration many other items, such as weather, unknown soil conditions, the future availability of the various kinds of labor which may be needed as the work progresses, etc., all of which are exceedingly uncertain to say the least but which have a very profound effect upon the cost of the project.

In spite of these facts, however, in 1943 the OPA determined to establish ceiling prices on construction operations. This effort resulted in Maximum Price Regulation 251. Our association made formal protest against this regulation, chiefly on the grounds that it was impractical from every point of view. It was subsequently modified somewhat, but it still exists to harass contractors who find it exceedingly difficult, if not impossible, to understand and apply to their operations.

In construction there exist many technical and business procedures which over many years have demonstrated their sound practicability. The importance of a thorough understanding of them, to the successful management of a construction business, is well known to contractors but is frequently not understood by the layman and we are certain that for the most part they have never been comprehended by OPA. When ill-advised attempts to regulate these procedures are made by those who do not have a well-grounded experience in this industry, the entire mechanism is thrown out of adjustment, and confusion, uncertainty, and apprehension are the inevitable results. Thus, the great construc-
tion industry with its enormous potentiality to make national prosperity a reality is rendered to a great extent impotent.

Construction has long been regarded as a basic industry which might be counted upon to operate as an effective balance wheel in our national economy. It normally furnishes lucrative employment to hundreds of thousands of laborers and skilled craftsmen. Of course, the industry simply cannot function without materials.

We now have a huge potential market for construction. We are reliably informed by the materials manufacturers that they have ample capacity to supply the needed materials. That they have been strangled by the unrealistic and ineffective pricing policy of OPA is well known to us all. Inventories have been depleted by demand and have not been replenished for the reasons cited. It is, therefore, clear that the construction industry is ready and anxious to go ahead but it finds itself without the necessary materials.

Costly delays and apprehension which has been brought about through Government interference have a far more harmful inflationary effect than would result from the early removal of price control from these materials. The normal competition which would inevitably develop with expanding production would, in our opinion, soon result in a reasonable price structure in this field and the construction industry could then move ahead to the performance of its normal functions in our national economy.

H. E. FOREMAN.

STATEMENT OF WESLEY E. DISNEY BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE ON EXTENSION OF PRICE STABILIZATION ACT

Mr. Chairman and Members of the Committee:

This appearance is made on behalf of the Western Oil and Gas Association, an organization comprising substantially all of the elements of the oil industry in California, both major and independent—production, refining, and distributing.

My appearance is in response to the following telegram from the executive vice president of the association:

"Western Oil and Gas Association believes all controls should be lifted on petroleum industry. No other industry is more normal in operation than it is. Production and processing is at peacetime level and competitive condition should govern operation and prices. We would like you to represent us before OPA and state this as our position.

"DON E. GILMAN, Executive Vice President."

No truer statement could be made than in this telegram, that "no other industry is more normally in operation than it (the oil industry) is. Production and processing is at a peacetime level and competitive conditions should govern operation and prices." Not a scintilla of testimony has been introduced before this committee to dispute the fact that supply balances demand in the oil industry. Not a witness disputes the fact. No one argues about it. It is completely and thoroughly admitted.

Witness after witness has appeared before your committee and proved beyond a shadow of a doubt that supply balances demand. Yes; and that supply greatly exceeds demand. No witness intent on the extension of controls over the oil business has even attempted to controvert these facts or this argument. These witnesses are compelled to cling to the threadbare slogan "Hold the line." Their argument that continued control of the oil industry would prevent inflation is not based on any claim that has a factual basis.

Every top-flight statement from the Government by those who have authority in policy making supports the thesis that, with hostilities over, when the supply of a commodity balances the demand, controls should be abandoned. I am pleased to quote from a statement of Mr. Russell B. Brown, general counsel of the Independent Petroleum Association of America, before this committee, as follows:

"I. "It is the policy of the Government, in order so far as possible to prevent price increases, that there be prompt and firm enforcement, during the present emergency, of Government controls over scarce materials and facilities." [Italic is mine.] That quotation is from Executive Order 9697, dated February 14, 1946."
2. "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 per-
centage of the total. The continuation of heavy general inflationary pres-
sures has made the retention of most price ceilings necessary to the mainte-
nance of a stable economy. They will be lifted as quickly as supply ap-
proaches balance with demand."—From Fifth Report of the Director of
War Mobilization and Reconversion, dated January 1, 1946.

3. "Price control should and must be removed as rapidly as supply con-
ditions permit. Barring continued labor-management difficulties, the pro-
duction estimates for 1946 indicate that in industry after industry during
the next 12 months we will find supply and demand coming into balance.
As that occurs, I assure you that your Government will move promptly to
eliminate the last vestige of price restrictions in those industries. But to
remove them before competitive conditions are again established is to invite
inflationary chaos."—From the speech by Chester Bowles, then OPA Admin-
istrator, December 6, 1945, before the National Association of Manufacturers
in New York City.

4. "We should extend the Price Control Act just as soon as possible to
remove the lingering hope of the minority that they can profit out of the
scarcity that exists before our total reconversion makes available all of
the items for which our appetite is whetted."—From speech of Secretary
of the Treasury Vinson, January 31, 1946, before the Baltimore Association
of Commerce, Baltimore, Md.

The presumption is that these statements were made in good faith and were
intended to be relied on. Evidently the public took them at their face value.
Certainly the oil industry did. If these statements were made in good faith,
they should not be flaunted in the face of the public now, since the conditions
they prescribed have come to pass.

We cannot believe our Government is in such a condition that public officers
can hold out a position of promise to the public, or any segment of the public,
then violate the conditions he imposes in his statement, and continue to expect
the public's confidence in him or his operations.

If we must come to such a reluctant conclusion, with misgivings as to the
integrity of our Government, then those witnesses who have testified that the
OPA is not "holding the line against inflation" but is "holding the line against
production" are correct. Certainly that is literally true as to one phase of the
oil industry (kerosene production) as described by witnesses appearing before
you who proved by the most convincing evidence that the dilatory tactics of
OPA had actually created a shortage of kerosene at a time (recently) when
there was an oversupply of crude oil and its production.

Let us reason together as to what constitutes or creates inflation. Runaway
price inflation is created when there is a vast population of bidders abundantly
supplied with money competing for the possession of a scarce commodity. A
group of men with plenty of money bidding on a lone article, especially one of
necessity, would bid the commodity's price to an unreasonable status. If the
demand for the commodity as a necessity were extreme and the supply of money
unlimited, price would be no consideration whatever. Money would be simply
nominal.

On the other hand, if the supply meets the demand, ordinary competitive forces
would force down the price as soon as the law of economics had sufficient time
to play upon the situation. The first situation described would be a seller's
market; the second describes a buyer's market.

But, theorize about a factual situation. The facts are that the supply of oil
and its derivatives is equal to the demand. Yet, it exceeds the demand. There is
an over supply. Testimony of the witness Robert Wilson, of the Stanolind Co.,
is to the effect that we have 105,000,000 barrels of surplus gasoline—the largest
surplus accumulation of gasoline in the history of the industry.

With this condition in his face, what becomes of Mr. Bowles' statement, announc-
ement of policy, yes, his promise of December 6, 1945, in New York City to
"promptly eliminate" when "we * * * find supply and demand coming into
balance." Did he mean it? If he did mean it and conditions continue to put
the balance on the side of supply as against demand, it is time for him to act.
But, he has not acted and apparently will not.

Every organization that has taken the trouble to investigate the facts has
found that the facts justify the arguments made by the industry before your
committee. The list of these organizations comprise: Petroleum Administration
The oil industry has had the patience of Job. It has petitioned; it has pleaded; it has begged, all to no avail. It has presented its facts to every division of the executive departments having jurisdiction and has been contemptuously brushed aside. These pleadings have been ignored; these petitions have been discarded; the supplications have fallen on the deaf ears of minor officials who have ignored the announcements of policy of those who are high in executive authority. These subordinates have continued their destruction march under the banner of "hold the line"—meaningless unless applied realistically with a view to the facts.

Mr. Chairman, all down Anglo-Saxon history the petition for redress of grievances has been addressed to the king. But the king's lawyers have always found means to discriminate. The king's minions have always found means to thwart the people's will and to ignore the people's grievances. But the Anglo-Saxon system of redress of grievances gives the citizens the right to appeal to those elected officers of his government who by their power under his system of government have the right, the authority—yes, the duty to redress those grievances—the legislative department; the Congress.

So, after a long series of hindering and delaying processes before the departments, this industry, which patiently went about the great work of winning the war, now comes before this committee, knowing that the American spirit still animates the American Congress, so that action may ensue; believing that when the most exacting case is made, when every condition has been fulfilled, in answer to the claims of the opponents, that this Committee and the Congress will act—and act aggressively.

Members of the committee, when you give authority to OPA to exercise these controls for another year, you must remember that notwithstanding all the protestations that have been made, these controls will continue no matter if the supply of oil becomes so great that it becomes dirt cheap. Why shiver about the question of price, why even discuss it—unless we have reached a complete totalitarian stage in America. The question of price takes care of itself when the supply exceeds the demand; when we have a buyer's market.

In my opinion there should be a formula placed in an extension of the Price Stabilization Act to the effect that it shall be mandatory, when it can be established by certain specified Government reports that supply is equal to or as now, exceeds, the demand, controls for that commodity under the Stabilization Act shall be disposed of. I think, however, that if this formula is placed in the legislation, it will have to be coupled with the right of the individual to go into the courts of his native land and enforce the formula against the zealots. This is a sober statement based on the experience the industry has had with the OPA in the past four years. Unless you give the citizen the right to go into a court of competent jurisdiction to enforce the mandatory section proposed, those in control will ignore it as they have other provisions of the Stabilization Act.

MACHINERY & ALLIED PRODUCTS INSTITUTE, Washington 6, D. C., March 14, 1946.

Hon. BRENT SPENCE, Chairman, Committee on Banking and Currency, House of Representatives, Washington, D. C.

DEAR MR. SPENCE: We wish, again, to express our appreciation to the Banking and Currency Committee for the time given to our testimony on the need for removing industrial machinery and equipment from price control. We are also taking advantage of your invitation to include in the record, as an extension of our remarks on March 12, additional information. This letter is such an extension of our testimony, and we ask that it be inserted in the record.

You will recall that at the beginning of the afternoon session you explained that during the luncheon recess you had informed high OPA officials of the nature of our testimony and indicated that, in your opinion, we had made a good case for price decontrol. These OPA officials then advised you that they intended to remove capital goods from price control and that rapid decontrol action could be expected. This information was encouraging to us because it represented a policy declaration to the head of a major committee of Congress.

In view of your statement at the hearing, it was a great surprise to learn
after we left the committee room that while the afternoon session was in progress, OPA had issued an announcement to the press which clearly states that the official policy is not price decontrol in the industrial machinery and equipment field. Instead of decontrol, a vast program of complicated and time-consuming price relief actions is being undertaken. The OPA statement, which is attached, announces 45 industry-wide price surveys for industrial machinery and equipment items, denies individual price relief while the surveys are in progress, and concludes that “it is believed that establishment of industry-wide price adjustments will, in most cases, answer the needs of individual companies in these industries.”

This new action by OPA will further augment the barriers to production of vital machinery urgently required for the volume output of low-cost consumer goods needed to combat inflation, as set forth in our original statement. It delineates a program that calls for long delays and for a damming up of statistical information which would give no relief for many months, if at all. Such a program is wholly inadequate to meet the problems of machinery and equipment manufacturers.

We know that you will want to check the conflict between the information given you and the OPA press announcement describing the present program. We will get in touch with you further on this matter after you have been able to complete your inquiry.

Respectfully yours,

WM. J. KELLY, President.

OFFICE OF PRICE ADMINISTRATION

[For immediate release: Tuesday, March 12, 1946]

Over 45 industry-wide OPA surveys are under way in capital goods industries at present, and findings of these surveys are to be used as a basis of adjusting ceiling prices, where required, to reflect increased raw material costs and approved wage increases, Arthur H. Moran, price executive of the Machinery Branch of the Office of Price Administration, announced today.

“While these industry-wide surveys are in progress,” Mr. Moran said, “manufacturers who file for individual company adjustments will not receive adjustments until the surveys are completed. It is believed that establishment of industry-wide price adjustments will, in most cases, answer the needs of most individual companies in these industries for price relief.

“In view of this, companies who are contemplating the filing of individual adjustment applications should reconsider their need for filing at this time.

“After OPA announces the results of the surveys, individual price adjustment applications from companies in a surveyed industry who justify the need for additional price relief over and above that granted the industry, will be taken care of.

“OPA will continue, however, to process individual adjustment applications as it has in the past where no industry-wide surveys are contemplated or in process.”

The fields in which industry-wide surveys are now being conducted by the OPA Machinery Price Branch are as follows:

Industrial power boilers, 100 pounds per square inch of pressure (except oil country type and locomotive type), super heaters, economizers, shell and tube heat exchangers, air preheaters.

Electric metallic tubing.

Machine tools.

Radio tubes.

Fractional horsepower motors.

Construction machinery.

Gears, speed reducers, and sprockets.

Railway frogs and switches.

Distribution transformers.

Leakage storage batteries.

Watt hour meters.

Specialty transformers.

Air compressors up to and including 10 horsepower, excluding refrigerating.

Mechanical Jacks.

Vices.

Pulverized coal burners and industrial stokers (1,200 pounds and over).

Car and locomotive axels, forged and steel wheels.

Steel conduit.

Forgings.

Farm equipment.

Stampings.

Integral horsepower motors.

Tire meters.

Railroad brake beams.

Plug fuses.
EXTEND PRICE CONTROL AND STABILIZATION ACTS OF 1942

Wire and cable.
Switching equipment and cut-outs.
Porcelain insulators.
Pole line hardware.
Industrial hand trucks, truck wheels, and truck casters.
Mechanical power transmission.
Hydraulic jacks.
Pipe tools.
Steel mill rolls.
Coated and bonded abrasives.
Brewery and beverage bottling machinery.
Meat and poultry machinery.
Grain milling and cereal machinery.
Food canning, vegetable and fruit machinery.
Tobacco machinery.
Bakery machinery.
Woodworking machinery.
Clay working machinery.

MACHINERY & ALLIED PRODUCTS INSTITUTE,
Washington 6, D. C., March 21, 1946.

Hon. BRENT SPENCE,
Chairman, Committee on Banking and Currency, House of Representatives,
House Office Building, Washington 25, D. C.

DEAR MR. SPENCE: In connection with a question which came up during our appearance before the House Banking and Currency Committee on March 12, we submit herewith a letter from Ralph E. Flanders setting forth his position on the removal of industrial machinery and equipment from price control.

You will recall that during the afternoon session on March 12, members of the committee asked whether Mr. Flanders, whose testimony was heard in February, was in agreement or disagreement with the recommendations of the Machinery Institute. You will note from Mr. Flanders' letter that he is in complete accord with our recommendations for price decontrol of industrial machinery and equipment.

We respectfully request that Mr. Flanders' letter and this letter of transmittal be inserted in the record as an extension of our testimony.

Respectfully yours,

WM. J. KELLY,
President.

JONES & LAMSON MACHINE CO.,
Springfield, Vt., March 18, 1946.

Mr. WILLIAM J. KELLY,
President, Machinery & Allied Products Institute,
Washington 6, D. C.

DEAR MR. KELLY: In response to your inquiry, I will say that I made no reference to elimination of price controls on industrial machinery and equipment in my statement before the House committee simply because I wished to keep out of it all specific reference to any product or line of business in which I had a personal interest.

I am, however, convinced that it is for the public interest that price controls be not merely relaxed but eliminated on industrial machinery and equipment. Relaxation removes some of the load but still subjects the industry, most of which is in small units, to the unappreciated burdens of complicated compliance. Elimination on the other hand would stimulate an expansion and output which will accomplish the two things for which OPA is working. These two things are the expansion of the volume of production and the decrease of the cost of production.

There is no way in which the cost of these goods will reach the consumer in higher prices. Industrial equipment cannot be sold unless it meets the purposes for which OPA is established.

You will understand that this letter is written to you in my capacity of chairman of Jones & Lamson Machine Co., and not as chairman of the research committee of CED, which connection I wish to keep clear of personal interests.

Sincerely yours,

RALPH E. FLANDERS.

MILLER MANUFACTURING CO., INC.,
Richmond 11, Va., March 27, 1946.

Hon. J. VAUGHAN GARY,
House of Representatives, Washington, D. C.

DEAR VAUGHAN: As you know, we are manufacturers of special or made-to-order millwork, and we are operating under the general maximum price regula-
tion and are frozen to our March 1942 highest prices. Since then we have had the following regular hourly wage rate increases:

<table>
<thead>
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<th>Date</th>
<th>Cents per hour</th>
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<tr>
<td>Mar. 1, 1943</td>
<td>3</td>
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<tr>
<td>Mar. 1, 1944</td>
<td>5</td>
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<tr>
<td>Mar. 1, 1945</td>
<td>7</td>
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Now, at the moment, we have had innumerable increases both in softwood and hardwood lumber prices. All of the above we have had to absorb.

We have been contacting OPA for some little time, and they advised us some weeks ago that either an advance or some kind of relief was in the process of being promulgated and would be out in the course of a week or 10 days. Yesterday they were indefinite as to the time this will be approved by the legal department. Basing our experience on OPA's revisions in other lines, we are just guessing that this will be some 8 or 10 percent advance, which will not be a drop in the bucket to enable us to make any kind of a profit on the millwork for the GI Joe houses.

You understand that we are not producers of lumber, but we buy the rough lumber and fabricate it into millwork; and doors, windows, frames, and such are just as essential a part of a house as the rough lumber.

The usual course of the OPA is to require a period showing a loss of money and operations before relief can be granted. This is no incentive to increase your production of millwork, but is just absolutely foreign to good common business sense because you have no means of recovering the loss once it has been sustained, and furthermore, you have no guaranty that you will have sufficient relief to meet the continuing mounting cost.

It is a very simple matter to have some experienced men review the prices and ascertain whether the prices will, or will not, afford an operating profit under present conditions. The OPA has such men and they are not hard to get, but after these practical men make the recommendations they have to run the gauntlet of the various divisions to be approved by men who have never had experience in the particular line. The result is that their recommendations are delayed (not only delayed, but are revised), and they do not come out in the form recommended by the people who do know.

There is already a shortage of millwork, and, in our opinion, this is going to continue to get worse. We believe the tendency will be to eliminate the overtime hours so as to eliminate the time-and-a-half rates, with the idea of minimizing the loss.

We understand that the House Banking and Currency Committee is now conducting a hearing on OPA, both with regard to extension of its life and rules and regulations under which it operates.

We urge you to bring this to the attention of the committee and urge them to grant OPA the authority (if they do not already have it) to make immediate decisions, without requiring industry to show loss period experience and other red tape that they now must have before they grant relief.

Your prompt attention to this matter will be appreciated.

With kind regards, we are,

Yours very truly,

MILLER MANUFACTURING Co., INC.,
T. B. SAUNDER, President.

STATEMENT OF W. KERR SCOTT, COMMISSIONER OF AGRICULTURE, STATE OF NORTH CAROLINA, BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE CONCERNING THE EXTENSION OF THE PRICE CONTROL ACT

MARCH 28, 1946.

Price ceilings on tobacco could only be justified when the war was in the fighting stage.

Now that more acreage is requested, quality should again be the basis of sale. I believe the farmers of North Carolina are entitled to the premium for this experience and skill and I hope Congress will eliminate price ceilings on tobacco and tobacco products.

The supply of leaf is now adequate for domestic purposes and the elimination of a price ceiling will aid us in regaining foreign markets.
The supply of manufactured products is also adequate and the law of supply and demand plus good salesmanship should be encouraged. The fewer regulations and price controls the better, certainly with any commodity that is available and is a controlling factor in our economy.

W. KERR SCOTT,
Commissioner of Agriculture.

STATEMENT OF SIDNEY H. POSNER, MOUNT VERNON, N. Y., MADE BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE OF REPRESENTATIVES, WASHINGTON, D. C.

I am an attorney and counselor at law, duly licensed to be admitted to practice in all of the courts of record in the State of New York and in the District Court of the United States for the Southern and Eastern Districts of New York. I manage various apartment houses in the county of Westchester which have approximately 300 tenants. Westchester County, N. Y., was made a defense rental area in October of 1944 with the freeze date fixed as of August 1, 1944. I have been engaged in the management of property for the 7 or 8 years last past.

Westchester County is probably the only defense rental area for which rent control was refused and within a month thereafter invoked. I wish to preface my remarks with the statement that price control in the present unsettled economic condition is very necessary. However, the same should not be used as a sword but rather as a shield. Unfortunately, the position of the landlord and tenant has always been a hostile one and while the same persons will pay any price for commodities, they curse their landlord when paying ceiling rent and as costly as rent control has been to me, I would not wish the country to undergo the economic upheaval which would of necessity occur if rent control was revoked. However, rent control should be retained with certain amendments to the original act. The members of this committee are well aware of the fact that increases have been allowed in practically every industry. The President's fact-finding committees have found that price control in of itself has failed and prices have risen, otherwise there would be no necessity for a percentage increase to labor. If the cost of living remained fixed, there was no necessity for the 15- to 20-percent increases granted to practically every industry. The landlord's cost of living has likewise increased, but he is the whipping boy and no one is arguing his position. The Office of Price Administration in the computation of costs and expenses for real estate have made it a point to eliminate interest and amortization of mortgages costs in establishing fair rental return to the landlord and their argument is that they do not wish to prejudice the superprudent real-estate owner who owns his real estate free and clear while allowing those who have mortgages to figure their mortgage expenses as part of their operating expenses. Being practical, we know that in the apartment-house field, there are few, if any, of said building which are owned free and clear. Mortgages that have become due in the last year have had to be renewed at increased interest rates and at increased amortization rates; the rents however have not been adjusted for this increase.

Westchester County at the start of the war was very hard hit from a rental point of view. With gasoline rationing, it was impossible for a goodly number of tenants to operate their cars to and from work and as a result of which vacancies occurred in large numbers. As a result of the vacancies, the remaining tenants made better bargains with their landlord and if the landlord did not reduce rents or give concessions, the tenants moved to buildings in the immediate neighborhood. This condition existed in Westchester County up to approximately June 1944. Thereafter and up until August 1, 1944, the landlord was in a position to restore his rentals. Unfortunately, however, most rentals in Westchester County are made on May 1 and October 1, and as a result of which, the landlord, while he may have attempted to restore his rents by increasing them slightly, was never able to take advantage of these increases because of the fact that August 1, 1944, was fixed as the maximum rent date. The rents as of August 1, 1944, were approximately 10 percent less than they were in March of 1942 so that Westchester real-estate owners were frozen with rents that were "depression" rents and we use the word "depression" not in its full economic sense, but rather in the sense that they had been depressed because there was an overabundance of apartments as compared with tenants. It is true that the opposite condition prevails today. Operating costs, exclusive of interest
and amortization, have increased substantially. According to the statistics of the Office of Price Administration, fuel costs as of 1942 amounted to between 9 and 10 percent of the gross rent. The average apartment house in Westchester County uses either buckwheat coal or residual No. 5 fuel oil or bunker C No. 6 fuel oil. The price of buckwheat coal to my knowledge has increased from March 1942 from $6.70 a ton to $12.00. The cost of No. 2 fuel oil has increased from 5½ cents per gallon to 8 cents. No. 5 oil has increased from 4½ cents per gallon to 6½ cents. No. 6 bunker fuel oil has increased from 3½ cents per gallon to 4½ cents. The increase in fuel has increased the cost of fuel from the 1942 average of 9 to 10 percent of the gross rents to between 13 and 18 percent of the gross rents. Insofar as the coal is concerned, a grossly inferior fuel is being purchased at the increased costs. All of these price increases were with the consent of the Office of Price Administration.

In spite of Government restrictions as to increase of salary during the war, superintendent's salaries were increased between 25 and 75 percent to 150 percent and while this does not amount to more than 2 or 3 percent in the total of the gross rents, it is necessary. As a result of the cost increases, we find that a five-room apartment formerly cost between $32.50 to $35 per year. Our cost for painting this same apartment today is $110 which gives us an average increase of 45.60 per year. The Office of Price Administration maintains that without vacating the apartments and with less frequent painting, the landlords are in the same position as formerly. This is false. In the first place the painting costs have increased on an annual basis and not decreased as contended by the Office of Price Administration who also completely disregards the intangible known as good will.

It is only with "bad tenants" that I stand upon my 3-year right as to painting. The average tenant has the same amount of painting because we look forward to the time when the supply of apartments may exceed the demand for them. Fuel costs and labor costs have more than eaten up the possibility of the vacancy reserve. Today every single repair to the building and every part of supplies purchased have doubled and tripled in costs. When a tenant needs a faucet, they are not interested that the ceiling price is $3.25. They want a faucet and such faucets during hostilities sold for $14 each. Window shades increased from $0.29 and $0.39 each to $0.89 and $1.20. Refrigeration repairs and boiler repairs have tripled and quadrupled in costs. Perhaps they were black-market prices, but if need was necessary, it was purchased. The vacancy coefficient argued so strenuously by the Office of Price Administration was more than consumed in the increased cost of repairs and supplies. It was greatly exceeded if one adds increased fuel costs and labor costs. A 15-percent increase in ceiling rents will reestablish the landlord in his original position and will not unduly injure tenants. I say this realizing that most tenants are salary or wage earners, but their salaries and wages have increased between 50 and 100 percent over their salaries and wages of 1941 and 1942 while their rents in Westchester County are less today than they were in 1941 and 1942. Based on our experience with 100 percent occupancy of apartments, our cost for repairs, supplies, and painting are in excess of what we normally set up as a reserve for vacancies, painting, and repairs. If the vacancies did in fact exist, it would be catastrophic to real-estate owners. The normal 10 percent for vacancy and repairs and painting are exceeded by repairs and painting. To illustrate this, I submit the following:

303 Sheridan Boulevard, Mount Vernon, N. Y.—A 64-family house, located in a high-class residential area. The total annual rents are approximately $42,300.00. There has been no vacancies in this building since June 1944. During the year 1945 we had the following expenses under painting, repairs, and vacancies: Painting, $2,272; general repairs, $1,112.58; refrigerator repairs, $391.78; miscellaneous items, $755.54. A total of $4,270.95, which is only 10 percent of the gross rents. To this must be added the fact that the bank holding the mortgage increased the interest rate from 3 to 3½ percent on a mortgage.
In excess of $200,000 which amounts to over $1,000 per year and increased the annual amortization from $6,000 to $7,000 per year.

35 Columbus Avenue, Tuckahoe, N. Y.—A 22-family house having a total annual rent of $10,400 with a minimum of painting, etc., had painting, repairs, and supplies amounting to $866.17 and of this sum only $197.65 was painting, which was the painting cost for one apartment.

260 South Second Avenue, Mount Vernon, N. Y.—A 35-family house. Out of rent income of $19,483 we had painting, repairs, and supplies cost of $1,116.29, of which plumbing repairs were $265.73 and we are now in the midst of having a $600 plumbing repair job. There has been no vacant apartment in over 2 years.

31—36 Orchard Street, Tarrytown, N. Y.—Eight-family house and eight stores where the landlord makes no repairs to the stores and the income of the stores is two-thirds of the total income of approximately $7,200. $712.88 was spent for painting, supplies, and repairs out of a total rent of $7,200 and none of these repairs were done to the stores. In this building there has been no vacancy in over 2 years.

48–52 South Bleeker Street, Mount Vernon, N. Y.—Two five-family houses with a total annual rent of $3,583.20. Painting, repairs and supplies amount to $702.03. Here, too, there has been no vacancy for approximately the last 2 years.

10 Locust Street, Mount Vernon, N. Y.—A six-family house with a total rent of $2,150 and in which building there has been no vacancy for over 2 years. The cost of repairs, painting, and supplies amounted to $475.96.

381 South Broadway, Yonkers, N. Y.—Here there is a total annual rent of $15,829 for 26 apartments and of this rent $3,600 is from stores for which no repairs or painting were done so that the actual rent from the apartments is $12,229 and of this sum painting, plumbing repairs, and supplies amounted to $928.70.

25–29 Morningside Avenue, Yonkers, N. Y.—Twenty-four apartments and twelve garages. $14,011.50 is the annual rent of which the garages bring in $729 a year so that the total apartment rent is $13,291. This is the only building we have where the repairs, painting, and supplies amount to less than 5 percent of the total rent. However, this amounts to a little less than $500 per year.

Larchmont Gables Apartment, being known as 3–11 East Post Road, Larchmont, N. Y.—A 40-family apartment house having 28 garages and the total rent for the apartments eliminating the garages comes to approximately $25,000 and in this building the painting, plumbing repairs, and supplies and miscellaneous amounted to $2,099.79, just short of the 10 percent that is ordinarily figured for vacancy, repairs, and painting. Here, too, there has been no vacancy for over 2 years.

Westminster Court, 352 Webster Avenue, New Rochelle, N. Y.—A 20-family house with an annual income of $22,340. There has been no vacancy in this building for approximately 3 years. Painting, repairs, and supplies, etc., amounted to $3,331.59 with the tenants receiving exactly the same service they received previously. These costs have pyramided so that the owners were able to obtain just about half the return on their investment for the year 1946 as compared to what they received in 1942 when they had approximately $1,000 in vacancies.

20 East Fourth Street, Mount Vernon, N. Y.—A 24-family house with an annual return of approximately $17,000 a year. There has been no vacancies in this building for approximately 2 years. Add the cost of painting, repairs, and supplies together, the total comes to $1703.05, 10 percent of the gross returns.

I cite these figures not to unduly prolong this statement or to annoy the committee with personal matters; but this is indicative of the fact that even though there is no vacancy loss to apartment house owners, they do not have the bonanza that the Office of Price Administration claims. The increased cost of painting, supplies, and repairs have put the landlord back in the same position as if the normal vacancy and repairs, supplies and painting existed with their previous cost. Surely with every trade and industry receiving increases in their ceiling prices, the landlord should not be forgotten. It is true that politically, tenants outnumber and outvote landlords, but unless it is the purpose of the Government to have public ownership of real estate; in other words, socialism, relief by a percentage increase will have to be granted to the real-property owners.

In regard to new construction, it is our opinion that no ceiling rents should be fixed, and we say this even though we are not in the construction business.
and do not intend to construct any apartments. The speculative builder today is in the position of knowing that he can only receive 20 percent more as rent than for comparable apartments in his area. The various rent directors can be trusted to fix as comparables the lowest renting property in his area. Construction costs today, however, are any man's guess. I recently conferred with three very well known builders and engineers of Westchester County, and they informed me that building costs today are between 40 and 80 percent higher than they were in 1941. This was without computing the increased costs, which must of necessity be figured because of the present failure to insure a smooth flow of materials needed for construction.

In my studied opinion, the greatest fault with price administration is that landlords and all other persons, and we are speaking only for landlords, are at the mercy of incompetent bureaucrats who are judge, jury, and appellate court. If local courts were open to those persons aggrieved by the rulings and regulations of the area rent director this great hardship and mistreatment of the landlords would terminate. Recently we had occasion to have a rent reduction ordered. The rent reduction was based upon the fact that the landlord, whose lease was made in 1941, refused to make refrigerator repairs. The tenant's lease specifically provided that all repairs to the refrigerator were to be made by the tenant at the tenant's own cost and expense. The bureaucrats have attempted to read into rent control the termination of all legal contracts. On appeal, the rent was restored but in the meantime the landlord was "out" the amount of the decrease for 3 months. Tenants, by a telephone complaint to the rent office, procure an interim reduction, and then it becomes incumbent upon the landlord to show why the rent should be restored. This, of course, is contrary to all American concept of law and justice.

All of us know that law and justice is by and large fairly administered by our courts, both State and Federal, and if instead of a landlord having to appeal from the area rent director to the regional administrator and then to the National Administrator and then to the Emergency Court of Appeals, all of which takes time, no opportunity is given to cross-examine and no one by observing the actions and the demeanors of the affiant is in a position to lend credence or distrust insofar as any particular affiant is concerned. The greatest perjurer, if his story sounded plausible, would carry his point. We believe in the American system of justice and the American system of justice grants every man a right to a trial by a jury of his peers and not a bureaucrat who is endeavoring to justify his unnecessary position. Furthermore the bureaucrat acts as the judge, jury, and prosecuting attorney. If I were judge, jury, and prosecutor I would find in my own favor, and I feel that I am a fair and normal person. The bureaucrat, who feels that he has been ordained by Almighty God, feel that they can never be wrong and if they prosecute, they must be right, and the result is a foregone conclusion.

It is respectfully submitted that recourse should be had to the courts from any ruling by an area rent director if the landlord feels aggrieved thereby and that such court may be either the State or Federal court. There is no reason why a landlord, if aggrieved, should be compelled to bring his proceedings thousands of miles from his real property for the purpose of having the same adjudicated. Each landlord's grievance in itself is small and the cost of using a court in Washington, D. C. is prohibitive as against the amount sought, and justice delayed is justice denied. The local courts, State and Federal, can do a more thorough job and they will prevent local rent directors from acting as dictators. Today they feel free to do as they see fit as they realize that before the matter could even be brought into the emergency court of appeals a year and a half would elapse. If, however, as soon as their decision was rendered and the landlord felt aggrieved, he could institute proceedings for review in a court; this would curb rent directors. The decisions of the rent director would become more realistic instead of seeming to be issued in an attempt to see how great a beating can be given to the landlord.

Rent control without giving a percentage increase is costing bona fide investors in real estate millions of dollars. I give, for example, the owners of 303 Sheridan Boulevard, Mount Vernon, N. Y. The owners paid $259,000 for this property in April 1942. They have paid in $57,500. This property in 1942, 1943, and 1944 even though it had its percentage of vacancies, returned an operating profit to the owners. This building has been fully rented since June 1944 and in almost 2 years since that time has not earned $1 due to the rent freeze at
depressed rents. The best offer that the owners could obtain for this building is $242,000, out of which a commission must be paid. Surely this was never the intention of the Congress in enacting rent control, but this is the practical result.

BRIEF PRESENTED BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE OF REPRESENTATIVES BY J. M. WELLS ON BEHALF OF THE AMERICAN MANUFACTURERS OF SEMIVITREOUS DINNERWARE

My name is J. M. Wells, secretary-treasurer of the Homer Laughlin China Co., Newell, W. Va. I am speaking for the American Manufacturers of Semivitreous Dinnerware. We have plants in California, Illinois, Indiana, Tennessee, Ohio, West Virginia, Michigan, and Pennsylvania, employing about 18,000 men and women with annual sales of approximately $30,000,000. Our prices are controlled by Maximum Price Regulation No. 116, effective April 27, 1942.

I don't pretend, Mr. Chairman, to have any knowledge of the food, clothing, or real-estate industries that would enable me to make a sound recommendation on the elimination or continuation of price controls covering them. However, my long experience in the dinnerware business has kept me in reasonably close contact with related housefurnishing lines and I am convinced that if they were removed from the control of OPA the price increases would be moderate and the effect on the cost of living would be negligible. I am certain no well established, reputable manufacturer or merchant is going to jack up prices out of all relation to costs, simply because he can get it for a limited period. Such a policy would be so short-sighted as to be unthinkable by anyone with the least appreciation of the most valuable commodity in any market-customer good will.

On the other hand the return of the housefurnishing industries to a free competitive market without Government control would mean a material increase in production in all lines and in some lines this would be tremendous.

In the dinnerware industry it would mean many additions to present plants for increased production and probably the building of complete new units. It would mean increased hours of work at overtime pay for many employees and additional shifts in present plants. It would mean the production, which many plants have been putting into artware knickknacks (which have been decontrolled), will be returned to plates and cups and saucers which are so badly needed in the homes. And especially it would mean the return in volume of the low-priced lines that have been rapidly disappearing from the counters of the 5- and 10-cent stores.

Our industry is peculiarly vulnerable to the "higher wages, same prices" fallacy. Our pay rolls constitute well over 60 percent of our total costs of production. We are just about at the top of all industry in this respect. When the OPA granted us a price increase of 5 percent on October 1941 prices, under M. P. R. No. 116 in April of 1942, they estimated this would permit the industry as a whole to show a profit of 3.27 percent on sales, before income taxes, providing our volume of business was no lower in 1942 and succeeding years than it had been in 1941 and providing, there were no further increases in our costs of labor and materials.

Sales did actually show a slight advance in 1942 over 1941 and have remained just about the same in succeeding years. So called "fringe" increases granted labor by the War Labor Board since that time have amounted to just about 6 percent on pay rolls. This alone would have wiped out all profit estimated by the OPA. In addition to this, labor was so scarce in certain departments where we could not substitute women for men, we were forced to do a great deal of overtime work. The premium pay for this overtime has averaged during the last 3 years close to 3 percent of total labor cost. Also the average costs of our raw materials have gone up more than 15 percent since April of 1942. Some important materials have advanced more than 50 percent.

Obviously, had we continued to sell the same patterns to the same customers as in 1942, the industry would have been completely broke today. When we found that OPA refused to pay any heed to our cries for help until a company had actually been operating in the red for a considerable period of time, there was nothing for us to do but drop some of our low-price lines and concentrate production on the more expensive patterns. This meant when the housewife had to buy new dinnerware for her table there was little available but the higher-priced ware—and the cost to her was much greater than if OPA had granted...
us a moderate increase on the cheaper lines, so that we could have continued
to produce them in the same proportion as in 1941.

Now I am anxious the committee should understand this switching from
low- to high-priced patterns, was not done indiscriminately, but only to the ex-
tent necessary to enable the individual companies to show a very moderate
profit. The housewife can still buy a white, undecorated cup and saucer in the
syndicates stores for a nickel apiece and a dinner plate for a dime, although the
quantities available have been greatly reduced. There are literally hundreds of
patterns she can buy from the mail-order houses, the department and chain
stores at exactly the same prices she paid in 1941.

I should have mentioned that the retailers were forced to absorb the 5 percent
granted us in 1942.

We call your particular attention to this situation in view of the Bureau of
Labor Statistics' most recent figures showing the cost of housefurnishings, as
a whole, have advanced 48 percent since January 1941. We seem to have been the
forgotten industry.

We are now faced with a demand from the Pottery Workers Labor Union
for a 30-percent wage increase. We have been dealing collectively, on an in-
dustry-wide basis with an A. F. of L. union, the National Brotherhood of Opera-
tive Potters, for nearly 50 years—with but one general strike of a few weeks'
duration, 24 years ago. We will, of course, have to meet and bargain with them
on this most recent demand and in all probability grant, in the words of Executive
Order No. 9697 "a wage adjustment which is consistent with the general pat-
ttern of wage adjustments which have been established in the industry or local
market area."

It is quite true that under the provisions of this same Executive order the
Price Administrator is obligated to grant us a price increase which, taking
into consideration the earnings of the industry as a whole, during the most re-
cent accounting period, and the cost of the wage increase, will permit us in his
judgment for the next year to "earn an average rate of profit equal to the rate
of return on net worth earned by the industry in the base period." This will
not solve our problem.

Such a formula would not permit us to again produce the low-priced lines
of 1941, since it takes into no account whatever the increases in labor and mate-
rial costs that have occurred since then. As higher costs of production de-
veloped after the wage increase, and I believe everyone agrees that will happen,
we would be forced to still further transfer our output to the higher-priced,
more profitable lines. This, in itself, it should be understood, reduces produc-
tion, since it is obviously impossible to get through a factory as many dozens of
elaborately decorated ware as plain, white ware, or ware with simple, inexpensive
decorations.

We don't want to be driven into that position. We want to go back to what
we consider the normal situation, where we can get all departments operating
as near capacity as possible; and that means a heavy proportion of our entire
production must be sold in plain, uncomplicated patterns.

After serious consideration, we see no way of reaching this desirable objective
except through entire decontrol by OPA, and I want to emphasize that it is a
desirable objective for all concerned—consumer, labor, and management.

Of course, prices will be higher than they were in 1941, but they will be a far
cry, not only from the 48-percent increase attributed to house furnishings as a
whole, but even from the 33 percent considered as the over-all increase in the
cost of living.

We would call your attention to the fact that the average yearly expenditure
per person of population for our products is less than 50 cents, so that the
moderate increases we would establish could have no possible inflationary
effect.

Also please note that price controls were lifted from the ceramic art-ware
industry several months ago, and their total production is estimated at
$60,000,000, or twice that of our factories.

We are quite certain that if you can give even a very limited amount of study to the facts stated above, you will be convinced that the economy as a
whole will be benefited and the cost of good, serviceable dishes to the consumer
will be less, if the semivitreous dinnerware industry is relieved of OPA price
controls.

We trust you will so recommend in your report on H. R. 5270.
To Whom It may Concern:

On February 12, 1946, at about 11 a.m., the undersigned A. G. Dudley, who is president of the Climax Hosiery Mills, located at Athens, Ga., had a conference with Mr. J. Russell Boner and Mrs. Ruth Duhl at the desk of Mrs. Dahl in the Office of Price Administration in Washington City. The matter under discussion was the question of ceiling-price relief for the manufacture of hosiery at said mill. This visit had been arranged through the office of Congressman Paul Brown, of the Tenth Congressional District of Georgia. After the undersigned had stated his case, Mr. Boner said, in substance, as follows:

That OPA had no ruling that our case would come under, with the exception of SO 133. The writer stated that that order had been investigated and would not afford the relief we needed. After considerable discussion, I asked about a new ruling, and the request was met with the statement that it would take so long to obtain a new ruling that probably another war would be started, and the conference ended without securing relief or any hope of relief.

This statement is true according to my best recollection of what occurred.

A. G. DUDLEY.

Sworn to before me this day.

[SEAL]

NENA WILHITE,
Notary Public, Georgia State at Large.

STATEMENT BY CHARLES D. BARR, OF THE IMPERIAL CASKET CO., LEESVILLE, S. C.

The casket industry in the entire United States is around 500, mostly small concerns. The largest company in the industry does less than 15 percent of the total dollar volume of the industry. The total annual sales in dollar volume is less than 75,000,000. It is our understanding the average firm does around $150,000 business annually. Our dollar volume was a little less than $270,000 for last year. We employ an average of from 50 to 55 people.

If we were relieved of the OPA price control, the industry as a whole is geared up to produce more caskets than the demand, especially as metal houses are getting back into production of metal caskets and vaults. This will materially reduce the demand for wood caskets, which competition automatically will keep the price close to the cost of production. No danger of inflation.

There is not now, and has not been during the entire war, a real shortage of caskets. However, there has been, and is now, a shortage on some specific kinds, due to shortage of materials. The inventory is probably badly out of balance, because price controls have tended to drive out the units in the lower price brackets, because OPA rules have deprived the casket manufacturers of flexibility in making substitutes in the minimum price caskets.

Because of the unbending rule, it has been practically impossible to procure the approval of the OPA on the most insignificant price changes, in order to recover the cost. Consequently, the cheapest units are not being made. This being the case, the burden falls on the poorest people.

The casket that could have been made for around $20 with a small increase of $2 or $3, was simply dropped from the line, and in its place caskets in brackets from $30, $40, and $50 have taken their place, and a funeral director that might have furnished this cheap casket at a small mark-up is being forced to sell the higher-priced caskets, at a larger mark-up.

Now then, the price relief is not the primary objective. It is the matter of permitting him to use his knowledge, experience, and ingenuity to contend more competently with the difficult shortage of materials and rising cost, and thereby enable him to deal with the lower end of caskets, which we feel will prove advantageous to the public as a whole, which is called upon to pay the bill.

We do not think OPA has anyone on its staff who is thoroughly familiar with the difficulties and perplexities of the casket industry's requirements. Therefore, their decisions are an obstruction to production and costly to the public—more especially the poorest people.

We submit that caskets have nothing to do with the cost of living. The vast majority of funerals are paid for out of insurance for that purpose.
If the industry is exempted from price controls the lower end of caskets will, in all probability, be available again to the public, possibly at some slight increase in the prewar prices.

These very cheap caskets have been historically sold at an extremely narrow margin above actual cost of production. It is also our understanding that the funeral directors have always handled these very cheap caskets at less than their average cost per funeral, and the poorer people will be better served on account of their availability, and actually the public as a whole will be benefited, rather than penalized.

The casket industry is more or less sectional in area and cannot be treated as a homogeneous industry, possibly with exception of metal caskets and vaults. Yet the OPA attempts to hold the entire industry over the United States to be the same, whereas their problems are different, and local OPA branches, apparently, lack authority to make any adjustment, even though they may be sympathetic.

It is our understanding some in the OPA still favor the rigorous price control and that they are completely lacking in appreciation of the value of flexibility in industry, which will retard the output, especially of the small manufacturer in our industry.

It is our understanding those in OPA that are favoring strict controls are basing their opinions, to a certain extent, on financial statements of one or two of the very largest firms in the casket industry. Probably their earnings are up somewhat; however, they cover a wider area and have always produced practically all of their output in the higher-grade caskets, which, naturally, has a larger profit.

Such is not the case with the average casket manufacturer, and instead of the public as a whole being helped in our industry, it is to the contrary, especially the poorest class of people.


In order to accomplish this, it is necessary that an amendment be made to the Price Control Act, as follows:

1. That the Office of Price Administration be required to announce ceiling prices on processed vegetables at least 15 days prior to the planting date of the respective vegetables being priced.

2. That the Office of Price Administration be required to reflect in ceiling prices, all increased costs of component parts of the finished canned food being priced and to include particularly all labor, all raw stock, boxes, cans, labels, adhesives, supplies, freight, etc.

The above amendments are needed since growers are faced with increased costs of supplies and labor and are refusing to contract or plant at area average prices provided by the USDA. These prices do not provide sufficient incentive to the farmers.

It is the Office of Price Administration's verbally announced policy that they will not reflect increases in canners' ceiling prices other than to partially offset increased wage costs and approved sugar increases. They indicate that they will not reflect increases which canners find it necessary to pay on raw stock, boxes, cans, labels, adhesives, supplies, freight, etc. These items, individually and collectively, are so large that, under present ceilings, canners cannot absorb them.

If food production is desired in 1946, it is essential that the above amendments be incorporated in the Price Control Act, immediately. Without this action, the 1946 production will be materially curtailed.

C. L. Skinner,
Secretary, Tri-State Packers' Association, Easton, Md.

William Free,
Secretary, Pennsylvania Canners' Association, York, Pa.

Robert W. Mairs,
STATEMENT OF HON. EDWARD H. REES, OF KANSAS, BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY, IN SUPPORT OF A PROPOSED AMENDMENT TO THE BILL TO EXTEND THE EMERGENCY PRICE CONTROL ACT

Mr. Bowles, now Director of the Office of Economic Stabilization and former head of the Office of Price Administration, has indicated before congressional committees that he sees no purpose in continuing price controls on commodities after there is a normal supply of such items upon the open markets. The past performance of the OPA shows that this policy has not always been followed. Congress should enact legislation making it mandatory that price ceilings and economic controls be removed when the supply of any commodity equals the demand.

I am submitting an amendment that reads as follows:

"Sec. —. The provisions of the Emergency Price Control Act of 1942, as amended, shall not apply whenever the Office of Civilian Production Administration shall determine and certify to the Office of Price Administration that the production or supply of any raw material, or any manufactured, refined, or processed product, is equal to, or in excess of, consumer demand for such raw material or product."

When the supply of commodities reaches a production sufficient to satisfy consumer demand, Government controls should be lifted to allow basic economic laws to become operative. It is the American approach to our economic problem and the sooner that approach is reached, the better it will be for our country.

The Office of Price Administration, and every other Government agency dealing with materials and commodities, ought to cooperate in an effort to see to it that everything possible may be done in reaching the goal of full production at the earliest possible date.

There has been too much tendency in Government agencies, I regret to say, to retard full production, rather than give it every encouragement possible. All-out, full production is the real antidote for inflation.

CALIFORNIA CREAMERY OPERATORS ASSOCIATION,
Davis, Calif., March 26, 1946.

The Honorable GEORGE E. OUTLAND,
House of Representatives, Congress of the United States,
Washington, D. C.

Dear Mr. Outland: The Committee on Banking and Currency, of which you are a member, has before it a brief submitted by the American Butter Institute through its president, Mr. D. K. Howe. We have been in contact with dairy leaders in the United States during the entire period of the war. The brief presented by the American Butter Institute represents the thinking of informed dairy leaders on the butter situation. Our association, therefore, wishes to go on record endorsing the information and recommendations occurring in this brief.

In addition to the information provided in the brief, I would like to submit some of my personal experiences pertaining to the butter situation dating back to April of 1942. I had occasion to make contacts by correspondence and personal interview with a number of individuals who at that time were responsible for establishing price policies in connection with production for the war effort. To me and others who have been connected with the dairy industry intimately for the past 30 years, it was obvious the procedure adopted in pricing butter would result in eliminating butter from the American market. I have had at least 2 dozen men in the employ of various Federal bureaus in Washington, Chicago, and San Francisco regional offices tell me frankly it was economically unsound for the American people to consume butter. This theory apparently prevailed among a small group only. Nevertheless, there was a sufficient number of them in position to effectuate policies, prices, etc., to put their philosophy into practice. As late as February of this year an economist formerly connected with one of the bureaus in Washington told me frankly butter was through. It was economically unsound for consumers to use butter.

All I have said here is not heresay but personal experience. I received this information during my travels and also from individuals passing through my office on various occasions during the war. I can arrive at no other conclusion, therefore, than that the present butter situation was brought about on purpose. Discriminating price structures and other procedures were simply means to an end. They were the effect and not the cause.
I notice in reviewing testimonies of the various individuals before committees in Washington that those giving the testimony diplomatically evaded as frank a mention of the cause of the situation as I have given here. However, I know many of the men who have appeared in Washington before committees have had the same experience as myself relative to the small group in the various Federal bureaus sharing in the philosophy “It is not economically sound for consumers to use butter.”

In other words, if I as a consumer prefer butter and am willing to pay 50 or 60 cents a pound for it I am to be deprived of this choice because others in the employ of the Federal Government have decided it is not good for my economic well-being.

The butter branch of the dairy industry is too important an integral part of the entire dairy industry not to be given immediate, careful consideration. Prior to the war the United States Bureau of Commerce quoted the dairy industry as representing 24.6 of the annual agricultural income. Butter has always been the base from which prices of other dairy products sprang. This is because it is a national and international commodity which reflects quickly supply and demand. It absorbs the surplus during times of surplus, which will reoccur again, and contributes to shortages in other branches of the dairy industry during periods of low production. No structure is sound without a solid base. The butter industry has always been the base on which the rest of the dairy industry stands. These are some of the economic principles those individuals who sought to eliminate butter from the American market failed to understand.

It seems to me the time for frankness has arrived. This is the first time I have put this information in correspondence going to Washington. I would be glad to have you submit this as part of the hearing on the butter situation which is currently before the Banking and Currency Committee.

Thanking you, with kind regards, I remain,

Very truly yours,

FRED H. ABBOTT, Secretary.