of the Western Hemisphere. Its defense is not only in our interests but in the interests of free men eveywhere.

Much criticism is offered, even to a discussion of this question. An atmosphere of hurry, rush, anxiety is being developed the effect of which is to make it difficult, if not impossible, for the American people to judge their own situation.

I may say at once that with proper economic action this hemisphere can be made self-contained in critical raw materials. From a long professional career and from years as Secretary of Commerce dealing with such questions, I might qualify in this field.

Further, unless we so dissipate our strength as to become a beaten and crushed people, we will be able to keep sea lanes open.

Moreover, this hemisphere can be defended from Communist armies, come what will. It is still surrounded with a great moat. To transport such invading armies either 3,000 miles across the Atlantic or 6,000 miles across the Pacific would require transport ships and naval protection which the Russians do not possess and could not build or seize, no matter what further countries they occupy.

If we have a proper naval and air strength, we could sink them in midocean. With somewhat more attention paid to our defense, this would apply to invasion via the Bering Straits. Hitler could not even cross the English Channel. Atomic bombs do not transport troops over the ocean.

Communist armies can no more get to Washington than any allied armies can get to Moscow.

No responsible military man denies these two conclusions.

The American people should not be frightened into rash action by fear that we cannot survive. I am not advocating isolationism. But if other nations should fail, we may be isolated by force of circumstance and against our will.

We might go into a period hard to endure, but this Nation can stick it out.

STRAIN ON ECONOMIC CAPACITY

The third stark realism upon which our policies must be built is our economic capacity. The bleak outlook of the world may well last more than a decade—possibly two of them.

The new budget calls for Federal spending of over $71,600,000,000. This $71,000,000,000 alone, plus state and local expenditures, is about 37 percent of our national income.

That is beyond the long endurance of any nation and fatal to the preservation of a system of free men.

The President has asked for a large increase of taxes. We will need also to increase State and local government taxes.

This burden is going to fall on people with smaller incomes. The proof of this is easy.

If all personal incomes above the level of a United States Senator were confiscated it would yield only about $2,500,000,000 of additional revenues. But confiscation would stop most people earning the $2,000,000,000. We must also remember that excise and corporation taxes in most part are ultimately passed on to the consumer or these milch cows would die.

Only austerity must enter the door of every American home.

Even before these burdens are actually imposed there are stark signs of economic strain. The purchasing power of the dollar has fallen 20 percent in 6 months. The stock boom indicates that many people are seeking flight from inflation.

Our already gigantic Government debts permit little expansion without inflation of credit. Two wars prove economic controls cannot wholly stop inflation. The surest road away from inflation is to accept the President's wise proposals to "pay as you go."

But we simply cannot carry this expenditure or such tax load for long.

Spending, taxing, and inflation of ourselves into exhaustion is one of the means by which Stalin hopes to overcome the United States.

The economic destruction of the United States is one of the means by which Stalin hopes to overcome us.

UNITED NATIONS COMMITMENTS

The fourth focal point of our thinking must be the United Nations.

Our stark reality here is the lack of cohesion and unity in the free nations. Even some of our European allies are anxious to appease the Chinese branch of the Kremlin on policies of the United Nations.

Despite this, we must not forget that the aspiration of mankind for over a century has been to find peace by collective action against aggressors. The United Nations was built on this same central idea as the concert of Europe and the League of Nations. Halting and faulty as it may be, we cannot abandon this idea and this hope.

But it must be clear that the UN for the present will not be a substantial protection from Communist aggression.

Our men are holding heroically to the mission assigned us by the United Nations in Korea. We are suffering great losses. General Marshall says we must send 15,000 men a month. We cannot yet see the end. But if we were to drive all the enemy out of Korea, how much of our armies must remain there to protect it?

Japan, Formosa, and the Philippines are vital links in our national security. This must not be minimized by nations anxious to direct our energies to Europe. We will need to retain much military strength in the Pacific to protect these areas.

Certainly there is little stark reality in talking about American ground divisions in Europe in view of our involvement in Asia.

ATTACK AS SIGNAL FOR TROOPS

The sixth consideration in our decisions revolves around the North Atlantic Pact and the proposals to start another American expeditionary land army to Europe.

Current statements stretch this pact far beyond its text. The pact provides that the nations shall aid each other in case of attack. There has been no attack.

Moreover, at the time of ratification of that alliance the administration, through the Secretary of State and the Chairman of the Foreign Relations Committee, gave positive assurances that under the pact no expeditions of American ground troops would be sent to Europe.

That certainly meant no forces to Europe prior to attack. Our participation, prior to an attack, was to be limited to munitions. The pact being the will of the American people through the Congress, and in the faith of the text and those assurances, I supported the alliance.

But last fall it became evident that the Administration was contemplating sending ground troops to Europe.

It was also evident that after years of gigantic American subsidies, the European Atlantic Pact nations had done nothing of consequence toward their own defense. Former Prime Minister Churchill had repeatedly and forthrightly stated this fact—the last occasion being only a few weeks ago.

I made two addresses in protest. Judging by the scolding of the European press, I may have helped to start them thinking.

Then General Eisenhower was appointed to organize their military strength. And the general has become the potent symbol of the policy of at once sending American ground troops to Europe.

The American people are indebted to General Eisenhower for many great services. He has magnificent fitness both for the command and the stimulation of spirit and action among the Allies in Europe.

But his appointment does not commit the American people as to policy.

EUROPE AS RUSSIA'S CHOICE

The stark realities in western continental Europe are their large Communist parties and the disunities which gnaw at their vitals. Their prejudices prevent taking Spain into the alliance with 20 divisions and the most defensible area in Europe. For some reason Turkey and Greece are excluded from the alliance.

Equally vital is the fact that there is little hope of adequate land defense of Europe without West German participation. Two months ago detailed plans and great progress were announced. Now it is decided that West German military participation is out or can wait.

From press reports based on information from European officials and from General Eisenhower's statements, it would appear that his army, including the two American divisions now in Germany, would start with 9 or possibly 10 divisions; by the end of 2 years, including American divisions, it would seem to be 35 or 40 divisions.

The stark reality is that such an army is small compared to the strength of the enemy.

America is at present the major deterrent to the Kremlin's ambitions of world conquest. There is nothing that Stalin would like more than to get the United States into his clutches by fighting us on the ground in Europe. There lies his overwhelming strength.

Disaster could thus come to the American Hemisphere with no salvation to Europe.

The American people should have more information before they risk trying a third expedition of ground troops to Europe.

Any defense line in Europe must be over 400 miles long. Will our responsible leaders make a public statement that the forces so far proposed can defend this line against odds of 3 or 4 to 1? We have tried this in Korea.

Will our responsible leaders tell us whether they contemplate the proposed American contingent as only an installment? Does not this contribution and our huge increase in the Army budget imply many more American divisions? Do the American people know all the facts?

AIR-SEA POWER AS DECISIVE

Despite all these stark realities and these problems, I have believed there is a way to at least an uneasy peace for the world.

In my address of 6 weeks ago, I stated that we should not land men or send money to Europe until large European forces were in sight. I was well aware of the obligation assumed by Congress to give aid in case of attack. It was my view that we should hold to that provision of the pact and I urged "arming our Air and Navy to the teeth."

I suggest that air power and the Navy is the alternative to sending American land divisions to Europe. With our gigantic productive capacity and within our economic strength we can build and sustain overwhelming air and sea forces held on our home ground ready in case of attack.

Stalin well knows we could carry on that kind of war for his destruction for indefinite years.

The air threat has been during 4 years the most powerful deterrent to any attack on Western Europe. It is far more powerful than pouring American divisions into the reach of this Asiatic horde.

I am suggesting no attack. I am suggesting the very protection for Western Europe and our own defense which the Senate contemplated when it ratified the Atlantic Pact.

There are other reasons for such a policy—both military and economic.

LESSON OF STRATEGY IN KOREA

Manifestly if attack on Europe came, the free world would be inferior in ground forces. Such a ground war would at best be a war of defense. In the air we would have the offensive. An air force has range, speed, flexibility and striking power which can come nearer gaining a decision than allied ground armies.

Especially is this true, for in an air war the Communist horde would be without a large part of its ground allies—General Manpower, General Space, General Winter, and General Scorched Earth.

The whole Korean tragedy is developing proof that the way to punish aggressors is from the air and sea and not by land armies. It would be indefinitely less costly in dead and disaster.

The unbearable strain on our economic system will come from trying to do five things at the same time. That is, to maintain armies in the Pacific; to build up an air force; a naval force; to furnish munitions to nations who are determined to defend themselves; and to sent land armies to Europe. Our economy cannot carry this load for long.

I can give you an indication of the lesser economic strain to attain the same or more power by air than ground forces.

To train, equip, place in Europe, and maintain for 1 year 10 of the usual combinations of American divisions would cost about $4,500,000,000. This same sum would for example, purchase and man 390 B-26 long-range bombers compared to 60 of them at present. If neither went into battle, the annual cost of the 10 divisions would be about $3,000,000,000, and that of such a segment of the air force less than $1,000,000,000.

POLICY REVISIONS PROPOSED

I can most clearly state the points of foreign policies in which many of us believe at this time by summarizing a program. No program can be perfect—none without risk. For the present I suggest:

1. We should devote our overwhelming productive power to air and naval strength and supply of munitions.

2. If the Europeans are attacked, we should be prepared and use such overwhelming air and naval power to the limit and keep it up until they have had enough. The Kremlin knows that we are committed by the Congress to do so. I believe that reserve, if large enough, is Europe's real protection.

3. We should supply munitions to nations doing their utmost to defend themselves.

4. From the starkly realistic, economic, political and military reasons which I have given you, my personal conviction is that we should not create land armies for expeditions into the quicksands of either Europe or China. I do not want to even start on the road to another Korea.

5. There are those who think we should send more divisions to Europe for their encouragement even before there is an attack. To them, I urge watchful waiting until much more military strength has been developed by Europe itself and there is more evidence they have resolved their disunities.

6. We must reduce our national expenditures to a level we can carry over a long term of years, and at the same time avoid economic disaster which can destroy freedom in America.

Senator BYRD estimates that $8,600,000,000 of proposed nondefense expenditures in the budget could be reduced or postponed. We should spend all we can afford on air, navy, and munitions rather than large armies.

FOR BACKING CHIANG KAI-SHEK

7. We can and must defend Formosa, the Philippines, and Japan. We can do it by naval and air forces.

As to Korea, we should demand of the United Nations that they call for a stop of supplies to Communist China by the non-Communist nations.

Since Red China is making war on our American armies, we should free Chiang Kai-shek to do what he wishes in China and furnish him munitions.

8. I proposed 3 years ago that we should give full independence to Japan and Western Germany under representative governments. During 100 years these nations were the great dams against these Russian-controlled hordes.

In the last war we may have been engaged in a great crusade for freedom of mankind, but we certainly destroyed these two dams. The sooner they are given their independence the sooner, for their own security, they will resume their ancient role.

9. Recently I proposed that if the nations of Europe failed we should, as a prudent nation, have in mind a second line of air and naval defense based upon the foreign shores of the Pacific and Atlantic Oceans both north and south, and I may add the Mediterranean and Indian Ocean.

10. Congress should recover its constitutional authority over starting wars. It could certainty do so through its powers over the purse.

PROGRAM FOR RESTRAINING FOES

I have proposed no retreat, no withdrawal. I have proposed no repudiation of treaties or obligations. Rather I have proposed that the pledges to the Congress and the American people be kept. I have proposed that we stop, look, and listen before we start on a road of land war that risks the loss of all civilization.

I propose no good to Stalin. His greatest hope is to get us into a land war.

Before we go off the deep end of steps toward another land war in Europe, let us remember that we fought two such wars hoping to bring peace and we have no peace.

We should be prepared to make heavy sacrifices to help. But we should do it with common sense, within our strength, with the long view of history in mind.

The essence of the program I have proposed is to effectively restrain our enemies from attack upon our allies or ourselves. It is the best chance of peace—even if it is an uneasy peace.

If we pursue the lines of our own genius and resources, we can meet this—the greatest menace of a century.

And being in the right the Almighty is on our side.

CONTROVERSY BETWEEN THE FEDERAL RESERVE SYSTEM AND THE SECRETARY OF THE TREASURY

Mr. FERGUSON. Mr. President, I ask unanimous consent that I may be permitted to make a 3-minute statement preliminary to the introduction of some matters into the RECORD.

The VICE PRESIDENT. Is there objection? The Chair hears none, and the Senator from Michigan may proceed.

Mr. FERGUSON. Mr. President, one of the most important questions affecting the stability of the economy of the Nation today is that which has arisen as a result of the differences between the views of the Federal Reserve Board and the Secretary of the Treasury. While these differences do not command the attention which has been given to the more dramatic debate on foreign policy, there are those of us who believe that their impact may be almost as telling on our ability to remain free.

The junior Senator from Ohio [Mr. BRICKER] received last week a copy of a statement prepared by Hon. James K. Vardaman, Jr., a member of the Federal Reserve Board, intended to set forth Governor Vardaman's position in the dispute. With his statement, Governor Vardaman enclosed a covering note, asking for the comment of the Senator receiving it. At the request of the Senator from Ohio I ask unanimous consent to have inserted in the Appendix of the RECORD the statement of Mr. Vardaman, together with the note accompanying it, the reply to Mr. Vardaman by the Senator from Ohio and five articles by respected columnists commenting on the matter. These articles are: Politics in Finance, by Marquis Childs, from the Washington Post of February 7; McCabe Holds Power in Fight With Snyder; Dare He Use It?, by J. A. Livingston, from the Washington Post of February 8; Mr. Walter Lippmann's columns entitled "Today and Tomorrow," from the Washington Post of February 8 and February 12; and a column entitled "Fighting Fire With Gasoline," by Mr. Henry Hazlitt, from the February 5 edition of Newsweek magazine.

There being no objection the letters and articles were ordered to be printed in the RECORD, as follows:

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM,
February 5, 1951.

Memorandum to Senator BRICKER:

There is enclosed a statement which I issued to the press today giving my impressions of what happened at the meeting between the President of the United States and the Federal Open Market Committee of the Federal Reserve System at the White House at 4 p. m. on January 31; and also stating what I believe the Federal Reserve Board should say and do in connection with the financing program of the Government as officially promulgated by the Secretary of the Treasury.

I would sincerely appreciate it if you would read this statement in its entirety and give me the benefit of any comment you may care to make.

J. K. V.

STATEMENT BY GOV. JAMES K. VARDAMAN, JR., MEMBER OF THE FEDERAL RESERVE BOARD, FEBRUARY 5, 1951

Never having regarded membership on the Federal Reserve Board as a speaking part, I have made only three short public talks and given about the same number of interviews in nearly 5 years' service on the Board. However, in the present situation where an apparent attempt is being made to question the veracity of the Presidency in its dealings with this Board I feel that it is only fair to give my impressions of what has happened and what the conduct of this Board should be.

After the meeting between the Federal Open Market Committee and the President at the White House at 4 p. m. January 31, the Committee, consisting of all seven members of the Federal Reserve Board and the presidents of five Federal Reserve banks, returned to the Board's quarters and went into executive session. The suggestion was made that a written memorandum of what took place in the White House should be prepared, and Chairman McCabe requested Governor Evans to undertake that task. The preliminary draft of Governor Evans' memorandum which was released to the press by Governor Eccles without authorization of the Board or the Committee had not been approved by the Federal Reserve Board members nor any of the members of the Federal Open Market Committee. It was thought to be correct in all essential details but certain minor changes had been suggested. Governor Evans had prepared the memorandum from memory without notes. There were no notes taken at the meeting with the President so far as I know.

Governor Evans' memorandum was correct in essential details as to the words which were spoken during the meeting with the President, but the memorandum did not tempt to set forth the impressions and general atmosphere prevailing during the meeting. My own impression of the meeting was that the President of the United States had been allowed to leave the conference room with the definite impression in his heart and mind that the Federal Open Market Committee would support the Government financing and bond program as officially promulgated by the Secretary of the Treasury on January 18. I said to the Committee that I thought it was tragic that the President had been allowed to leave the conference with such an impression when the majority of the Committee apparently knew at the time they were not going to carry out the President's wishes.

On January 29, 2 days before the meeting with the President, I submitted a written memorandum to the members of the Fedeal Reserve Board and on the 31st to the Open Market Committee suggesting that the Board make the following public statement:

"The Federal Reserve Board has made its recommendations to the Secretary of the Treasury in connection with the interest rate on short-term Government obligations and also with reference to the interest rate and maturities on funding and refunding bonds. In the exercise of his statutory authority and obligation, the Secretary has not thought it wise to follow all of the suggestions made b, this Board in connection with these matters. Acting in his official capacity, as the spokesman for the Government, the Secretary has announced a financing program, and this Board has nothing further to say on the questions involved other than to state quite firmly and clearly that the Board will support to the fullest extent of its authority the program as officialy promulgated by the United States Treasury.

"Whenever it is in line with its statutory authority to do so, the Board will advise with the Secretary on all matters relating to the management of the public debt or any other questions which he may desire to discuss. But it should be clearly understood that under our constitutional framework and present statutory laws, the management of the public debt is the responsibility of the Secretary of the Treasury and this Board will support him to the utmost of its ability in his officially declared programs and actions.

"We believe the duty of this Board to be to make its ideas available and known in council, but not to make such ideas prevail and the Board will act in accordance with this belief in the present situation."

The Poard and the committee refused to consider the issuance of any such statement in spite of the fact that it was generally thought that Chairman McCabe had given President Truman every reason to believe that the committee and Board would support the Government financing program.

As long as the questions involved were in th enegotiation stage I felt it to be the duty of the Board to present and argue its ideas with the Secretary of the Treasury, and if necessary with the President. But once the Secretary of the Treasury, as the official spokesman for the Government on debt management, had promulgated the Government program I felt strongly that this Board should give such program its wholehearted support personally and officially. The question of statutory prerogatives and personal feelings should be subordinated to te all-important necessity of supporting the Government and the Presidency in this time of national emergency. For myself I unhesitatingly waive any theoretical statutory authority and prerogatives in order to support the Government and the Presidency at this time; and if there is any question in my mind as to the propriety of such a waiver I will try to appear before the proper congressional committee to ask for clarification of my statutory responsibilities as a member of the Board.

FEDERAL RESERVE BOARD,
February 7, 1951.

The Honorable JAMES K. VARDAMAN, Jr.,
Board of Governors,
Federal Reserve System,
Washington, D. C.

DEAR MR. VARDAMAN: This will acknowledge receipt of your statement of February 5, 1951, and the attached memorandum requesting any comment that I might care to make.

The first part of your statement relates to your version of what took place at the January 31 conference between the President and the Federal Open Market Committee. Naturally, I cannot determine whether your report of that conference or the report of Governor Evans is correct. However, the aftermath of confusion which has followed a conference intended to clarify matters convinces me that the President has failed to grasp the basic issues of fiscal policy which are at the bottom of the dispute between the Treasury and the Federal Reserve Board.

Your statement makes it clear that you feel that the Board should support the financing and bond program advocated by Secretary Snyder. If this opinion is based on economic rather than legal considerations, I do not question your right to advance it. My own view is that the Treasury's fiscal policies will result in disastrous inflation. Since May 1950 the Board's holdings of Government securities have increased by $3,500,000,000, which in turn has led to a sixfold expansion of credit. The proposal that the Board should continue to support the Treasury's cheap-money policies has been accurately described by Mr. Henry Hazlitt as "fighting fire with gasoline."

The concluding paragraph of your statement is one of the most amazing ever uttered by a public official in recent years. You say: "The question of statutory prerogatives * * * should be subordinated to the all-important necessity of supporting the Government and the Presidency in this national emergency." The meaning of this euphemism is that the laws passed by Congress should be disregarded whenever the President feels that the national emergency so requires. I am unalterably opposed to that sort of totalitarian philosophy either in war or in peace.

You also say in the final paragraph of your statement that you "unhesitantly waive any theoretical statutory authority and prerogatives in order to support the Government and the Presidency at this time." First, I would like to point out that the laws of the United States are not "theoretical" for 150,000,000 American people. They must obey them or go to jail. By what right do you presume to waive statutory authority in violation of your oath of office?

Finally, I invite your attention to the fact that the Federal Reserve System is accountable to the Congress, and not to the Presidency as you suggest. Congress has not charged the Board with the duty of supporting the price of Government securities, but, rather, with the duty of supporting the value of the dollar.

Until such time as the duties of the Board may be changed by act of Congress, I trust that you will see the impropriety of your suggested waiver of statutory authority and prerogatives.

Sincerely yours.

[From the Washington Post of February 7, 1951]

POLITICS IN FINANCE

(By Marquis Childs)

HOW NOT TO STOP INFLATION

As the roulette wheel of inflation continues to spin, checked somewhat but not stopped by the wage-price freeze, there are events in the news which have an ominous meaning. The following developments have a bearing on whether the wheel is to be stopped or whether the reckless gamble is to go on.

1. The response of Congress to the President's tax recommendations is confirmation of the fear that existed before the program came up for final action. Almost certainly final action will be delayed for several months. There is a widespread determination to cut deeply into the President's $71,000,000,000 budget—which can be healthy if it is not indiscriminate on the defense side.

2. The report of a Senate subcommittee shows how political influence has operated to get loans out of the Reconstruction Finance Corporation. Professional fixers, in one or two instances former RFC employees, have taken large sums to get loan applications approved.

3. The controversy between the Treasury and the Federal Reserve Board over Government credit and the interest rate on Government bonds has created doubts as to fiscal policy. Congress, which granted the original powers to the Federal Reserve Board, will have to step in.

For several years reports have circulated about politics determining, in some instances, the loaning policy of the RFC. Details were first supplied in this column on how Merl Young, with his White House connections, stepped from a comparatively minor position in the RFC to a highly paid job as Washington representative of the Lustron Corp., which got a $37,000,000 loan. That loan is in default and the RFC has a doubtful chance to get something back from the assets of the company.

What has happened in the RFC shows the deterioration in standards of administration that has taken place during the past 3 or 4 years. There has been too much indifference toward ordinary integrity, or even the appearance of integrity, in the conduct of Government and the handling of the large sums of money entrusted to Government.

This points up sharply the contest between the Treasury and the White House on one hand and the Federal Reserve Board on the other. For most of us the argument over fiscal policy is in terms that are nearly impossible to understand since they are so far beyond our daily problems of grocery bills and the installment due on the car.

But one thing is perfectly easy to understand. That is President Truman's action in calling the members of the Board to the White House to discuss their policy on Government bonds. What makes this such an unusual act is that Congress specifically gave the Board powers independent of the Treasury to act as an instrument for maintaining the Government's credit relationship with the Nation's banks. Never before has a President taken up directly with the Board the issue of the Board's policy.

After the meeting the White House issued a statement saying that the Board had pledged to maintain the Government's security market at existing levels both as to refunding and new issues. Board Member Marriner Eccles says that no such agreement was reached since, he adds, the President did not raise this point during the discussion.

Secretary of the Treasury John Snyder insists that to raise interest rates on Government securities by half of a percent would cost a billion and a half additional in interest charges. This, Snyder says, would be the next effect of Federal Reserve policy.

Eccles and others on the Board say that the extra interest cost would be nearer $200,000,000 since the rate would be raised only on new issues and not on all Government securities. But even if the cost was considerably greater they argue that it is essential in order to check the flow of credit that is being released through the banks under the present policy.

The Federal Reserve Board has bought $3,500,000,000 in Government bonds since May chiefly from insurance companies and savings banks. This figure should be multiplied by six, it is contended, to get the amount of credit inflation which such action means.

In April of 1948 the President replaced Eccles as Chairman of the Board and named in his place Thomas B. McCabe, a Philadelphia industrialist. Two years before he had made what was generally interpreted as a political appointment in naming his old friend from St. Louis, James K. Vardaman, Jr., to fill a vacancy on the Board. Vardaman had had only limited experience in the banking field.

To permit politics in this field is to invite an explosion that could do almost as much damage as an atomic bomb. With each day that passes it becomes increasingly obvious that the wage-price freeze cannot hold the line against inflation unless it is buttressed by other measures. There should be at this moment a willingness to consider the remedies that, however unpalatable they may be temporarily, have the backing of so many knowledgeable men.

[From the Washington Post of February 8, 1951]

McCabe Holds Power in Fight With Snyder; Dare He Use It?

(By J. A. Livingston)

In the fight between the Federal Reserve Board and the Treasury, the initiative rests with the Reserve Board if it cares to exercise it. This is true even though President Truman has publicly sided with Secretary of the Treasury John W. Snyder.

The Reserve Board's open market committee has congressional authority to lower the prices it pays for Government securities. But to do so would run directly counter to Snyder's program of financing rearmament. Will Chairman Thomas B. McCabe risk that? Or will he feel he must resign?

Snyder has laid the groundwork for a knockdown, drag-out fight in Congress—if necessary. In a New York Times interview he berated those "who would have the Government make it possible for the banks to make even bigger profits at a time when industry, business, and labor are asked to forego part of the profits they would realize from defense mobilization." Shades of Andrew Jackson in his fight against the Bank of the United States.

In the row to date, members of the Reserve Board have been dominated by the thought that the country's great internal danger is inflation and that Snyder's policy aggravates it. Commercial banks own $60,000,000,000 of Government securities. If the Board is required, as Snyder demands, to buy these bonds at fixed prices, the banks can—at will—increase their reserves sufficient to expand credit by $360,000,000,000, or seven times the outstanding volume of loans. All the banks have to do is sell their bonds. Thus the volume of credit would be determined by individual banks, and not as Congress intended, by the Reserve Board.

The Reserve Board is quite prepared to maintain a stable market for Government securities. But it wants to be free to let prices drop, so that if banks want to sell, they'll be penalized. Or, to put it the other way, it wants to create an incentive for holding.

As it is now, a bank or insurance company that has purchased a marketable $2\frac{1}{2}$-percent long-term bond can get its money back at any time—from the Federal Reserve—without loss. No holder of American Telephone & Telegraph bonds can expect that. He always runs the risk of loss if he wants to sell. Presumably he buys to hold to maturity.

The Treasury's underlying fear is that once the Reserve Board started to lower the price of Government securities, holders would anticipate the decline and try to beat it. Panic might result. So Snyder would rather keep prices and interest rates fixed and the market settled. In that way, he always knows beforehand what future financing will cost him.

Thus, the real issue is this: Who's boss over the money supply, the Treasury or the Reserve System?

If Snyder prevails in the fight, then the Reserve Board would become an administrative arm of the Treasury. It would clear checks, supervise regulations W and X, examine banks. Some people say that it has already surrendered its independence, that whenever a central bank bucks the Government, it writes its own finish.

The Treasury, then, would be in the anomalous position of being the central bank and the country's biggest borrower at the same time. It would make its own terms on what it borrows and then use its central banking powers to make the loans good.

A face-saving device is conceivable. From time to time, the board has sought additional power to curb bank credit. One recent proposal would "sterilize" all reserves created by Reserve System purchases of Government securities. But Snyder had adhered to the institutional line of former Secretaries of the Treasury Henry Morgenthau, Jr., and Fred Vinson. They haven't liked to cramp the banks because that might depress the market for Government securities.

Perhaps now Snyder will back a Reserve Board legislative proposal for additional powers to curb bank reserves. The Board could then save face by agreeing to support Snyder's bond market in the manner to which Secretaries of the Treasury, ever since Morgenthau have become accustomed. And a knock-down, drag-out fight in Congress—to determine who's boss—would be avoided. But the conclusion would be plain: Snyder. He'd have the Reserve in Truman's hip pocket.

[From the Washington Post of February 8, 1951]

Today and Tomorrow

(By Walter Lippmann)

FOR MR. SNYDER TO EXPLAIN

The dispute between the Treasury and the Federal Reserve Board is not a tempest in a teapot. It is certainly not a personal feud. Nor are there any questions of veracity or honor involved. It is about a question of policy which is fundamental in our mobilization—what to do about the fact that a gigantic military program has been superimposed on the greatest civilian boom in our history.

The Federal Reserve System is appointed by law to see to it that the volume, the cost, and the availability of the total money supply of this country is such as to avoid either a deflation or an inflation. The view of the Federal Reserve Board is that the armament program can be carried out even allowing for an increase of productivity, only by a considerable deflation of the civilian boom. But it is imposible to reduce the civilian boom, indeed it is impossible not to pour oil on the fires of inflation in that boom, if the Federal Reserve System is going to be compelled, as it is now, by the President and the Treasury to buy unlimited amounts of Government bonds at essentially fixed prices—at a $2\frac{1}{2}$-percent rate for long-term marketable bonds.

The view of the Treasury, as stated by Seccretary Snyder in his carefully prepared speech of January 18, is that the public credit of the United States depends on keeping the price of Government securities at the $2\frac{1}{2}$-percent level, and that this is of such enormous importance that the Federal Reserve System must manufacture the money to keep on buying the bonds in order to maintain them at that price.

I may say, however, that though the Secretary has stated his views, he has merely stated them dogmatically, without proof and without any serious attempt to reply to the great array of expert opinion which supports the Federal Reserve Board. There is not available at the Treasury as this is written any document which shows how the Treasury thinks the inflation of money, which its policy demands, is to be dealt with.

Perhaps Secretary Snyder can prove his case. But he will have to prove it, not merely to declare it. He will have to prove that policy of manufacturing money to keep the price of Government bonds at a $2\frac{1}{2}$-percent rate does not, as Mr. Eccles says it does, set up "an engine of inflation" which raises all other prices and, therefore, because it devalues the dollar, makes even the apparent stability of Government securities a fiction.

In arguing the Treasury case Mr. Snyder will have to face up to the fact that the dispute is no longer theoretical. The record of the last 6 months of 1950 proves with a conclusiveness that is rare in matters of this sort how inflationary is the Treasury's policy. The record shows that the inflation we have suffered since the Korean War is due to this policy, that as a memorandum from the economists of Chicago University puts it, "the price rise of the last 6 months could almost certainly have been largely or wholly avoided * * * prices would probably be a little above their level in May if the Federal Reserve System had kept its holdings of Government securities unchanged, instead of adding to them by $3,500,000,000." That is a serious and a definite charge made by responsible experts who speak with great authority, and their argument has the support of an overwhelming majority of bankers and theoretical economists.

The inflation since the Korean War began last June has been marked by a rise in personal incomes of about 10 percent, by a rise in wholesale prices of about 11 percent, by a rise in the cost of living of nearly 6 percent.

What caused this inflation? Was it the Government's expenditures for war and rearmament? It was not. During the last 6 months of 1950 the Government actually took in more money than it spent. It had in fact a surplus of nearly two billions in the cash budget. This surplus was due to the fact that the taxes Congress so wisely imposed had begun to yield revenues from the enormous prosperity of the boom before there was time to spend very much of the big appropriations for armaments.

Thus the inflation since Korea has not been caused by the military budget. The budget in fact has been deflationary. What is more, during this same period the Federal Reserve System has lost $1,500,000,000 in gold that went abroad. That also was a deflationary influence.

Nevertheless, despite the deflationary budget and despite the deflationary loss of gold abroad, we have had a lively and extremely disconcerting inflation. What caused it? It was caused by the compulsory manufacture of money in the Federal Reserve System in order to buy those Government securities which the Treasury insisted must be bought at a fixed price. That is what caused the inflation. From May 31 to the end of 1950 the demand deposits of the country—the money in which business is largely transacted—rose by over 8 percent. This increase in the volume of money corresponds very closely indeed to the increase in prices. "It is no accident," says the Chicago memorandum, "that these figures are so nearly of the same magnitude. This is about as clear a case of purely monetary inflation as one can find."

Mr. Snyder should tell the country how he proposes to finance effectively the military program if, in competition with it, he continues to insist on having inflationary manufactured money pumped into the civilian economy through private channels, through local governments, and through the agencies of the Federal Government, of which, according to Mr. Russell Leffingwell, there are now about 100 engaged in lending and giving and spending money.

And while Mr. Snyder is explaining all that it would be a good idea if the Director of Defense Mobilization, Mr. Charles E. Wilson, considered the problem, and perhaps took a hand in the solution. He is vitally interested in the solution. For it is hard to see how he can fail to run into tremendous trouble if underneath the artificial price and wage structure he is trying to establish there is the destructive force of a repressed but swelling monetary inflation.

[From the Washington Post of February 12, 1951]

Today and Tomorrow

(By Walter Lippmann)

OFF THE CUFF

Much is at stake in the argument between the Treasury and the Federal Reserve System, and the complicated problem can only be confused and bedeviled if President Truman lets it become distorted into a political quarrel between his friends and his opponents. The controversy is not like an election or like a football game which can be settled and disposed of when one side has won and the other has lost. For the management of our huge Federal debt by the Treasury and the regulation of the supply of money and credit by the Federal Reserve will have to be carried on continuously and cooperatively.

The two agencies of Government are going to have to agree on a common policy. Neither can afford to win in the sense that it knocks out the other and then drags it along triumphantly behind it.

The crux of the present controversy is whether they are to work together with some flexibility, or whether the Treasury is to dominate the Federal Reserve System in order to maintain a rigid pattern of interest rates. My own inquiries have convinced me that if the issue of flexibility were left to those who best understand it in the two agencies, it would not be a fighting issue at all, and that the problem could be settled by practical operations in the money market, and without resounding declarations.

The rigid dogmatism which now appears to be the Treasury policy certainly does an injustice to its good sense and competence. And the impression which has got abroad is, of course, absurd that the Federal Reserve System is not concerned about the Federal debt and is advocating a policy of let her rip. "We are suffering," says a very highly qualified observer who wrote to me the other day, "the consequences of having had three exceptionally stubborn Secretaries of the Treasury in succession during the past 10 years." Now that it is essential to put an end to the inflation of Federal Reserve credit, we have to deal not only with the problem itself, which is a delicate one, but with politicians who have become so addicted to inflation that they tremble at the idea of being deprived of it.

Before long Mr. Truman will find that the question is not so simple as he thought it was when he summoned the Federal Reserve Board and the presidents of five Federal Reserve banks to the White House. He will find that even if he were able to force the Federal Reserve to manufacture as much inflationary money as the Treasury's rigid interest rate required the controversy would break out again elsewhere.

It would break out because to control prices and wages and to obtain production uninterrupted by strikes will prove to be impossible if the pressure of inflationary credit is not reduced. It is a reasonable certainty that if the Federal Reserve Board were to knuckle under today, within a short time Mr. Wilson and Mr. Johnston would have to revive the argument.

When the order for a general price freeze was issued on January 26 Mr. DiSalle issued a statement which had been approved by Mr. Eric Johnston, the Administrator of the Economic Stabilization Agency. It is the statement of men who find themselves forced to do something which they don't at all like to do. The statement says that though the general price control has become necessary as an emergency measure, Mr. Johnston and the men responsible with him have no illusions: "The effect of price control is not to eliminate inflation but to suppress it * * * major reliance must be placed upon vigorous taxation and a strong credit policy. To the extent that we succeed in reducing the inflationary pressure by these means we make the task of price control that much easier."

As a matter of fact, this is almost certainly an understatement. Price control will not work at all if the inflationary pressure continues to accumulate. It will produce an orgy of corruption and black markets, of injustice and discontent. In order to make price control work well, that is to say with reasonable honesty and fairness, it would be necessary not only to stop adding to the inflation but to find ways of accomplishing a measure of disinflation.

We shall have to come to that. At least for the emergency period of the mobilization we shall have to resort to emergency methods to disinflate, measures beyond any contemplated by the Federal Reserve Board or really within the proper use of its powers. In one way or another the disinflation will have to be brought about by a considerable reduction in Federal, State, and local public expenditure of civilian uses, by greater private and corporate savings, and almost certainly also by scrutinizing more critically than it is now the fashion to do the content of some of the military programs. We should not naively assume that the survival of western civilization depends upon treating every order from the quartermaster, and every order for four-door sedans, as sacrosanct.

Perhaps the most important thing to be noted about the President's intervention in this business is that he thought he could settle it personally in a few minutes' talk. That is one of Mr. Truman's weaknesses. In this case he didn't settle the controversy but he aggravated it. Thus, though he was lining up the Federal Reserve System behind the Treasury, he did not even take the precaution of having the Treasury represented at the meeting. This prevented him from hearing the issue argued by men competent to discuss it. It left him supposing that he himself could argue the Treasury's case. In fact he didn't argue it and he couldn't argue it. The Federal Reserve men listened to him and did not argue with him because they were too polite to argue with the President of the United States on a subject about which the President obviously was not understanding the question.

It would be ever so much better if Mr. Truman would recognize the difficulties and the complexities of a problem like this, and would realize that no one would think it a reflection on the President of the United States if he himself does not know the answers off the cuff. Then he would do what most Presidents bebfore him would have done. He would bring together those most responsible and best informed—in this case the representatives of the Treasury, of the Federal Reserve System, and the civilian mobilizers, Mr. Wilson, Mr. Johnston, and Mr. DiSalle—and he would press them to work out agreements. He would reserve his own influence for use against anyone who in the discussion showed himself to be at once badly informed and highly opinionated.

[From Newsweek magazine of February 5, 1951]

Fighting Fire With Gasoline

(By Henry Hazlitt)

How preposterous can the situation get? The administration starts the inflationary fire, fights it by pouring on more gasoline, and then talks as if it were completely mysterious in origin. Or it hints that the fire was started by business, by the speculators, the hoarders, the profiteers, or by the buying public. And it acts on this assumption when it insists on the completely false remedy of price control, which puts the economy in a straitjacket of prohibitions, allocations, rationing, licenses, and subsidies, unbalances and disrupts production, creating artificial shortages. All this is called total mobilization.

Take the Secretary of the Treasury, John W. Snyder. He is personally a mild-mannered, quiet, unassuming, amiable, loyal, and honorable man who thinks of himself as a conservative. He would be shocked beyond measure to learn that he is more responsible than any other single man for the existing inflation in this country and the almost universal fear of further inflation. And he has earned this No. 1 position not only by his past record but by his extraordinary announcement on January 18 that the long-term rate for marketable Federal securities must be held at 2½ percent. He might just as well have announced outright that he is determined to have more inflation.

Mr. Snyder's attitude stems, of course, not from any desire for inflation, but from a tragic lack of understanding of economic cause and effect. Inflation, always and everywhere, has one basic cause—an increase in the supply of money and bank credit. At the end of 1939, demand deposits and currency outside of banks totaled $36,000,000,000. At the end of May of 1950 this total had reached $109,000,000,000. At the end of December of 1950 it had reached $117,000,000,000. This is not merely the cause of inflation; this is the inflation. The increase in commodity prices is merely a consequence.

And the principal cause in turn of this increase in money and bank credit has been the artificially low interest rates maintained by the Treasury. This cheap money policy has not merely swollen the volume of private borrowing; it could be maintained—in connection with the policy of pegging Government bonds above par—only by encouraging the member banks to load up with Government bonds and by forcing the Federal Reserve banks to buy as many of those bonds as is necessary to maintain the predetermined rate. They bought these bonds by creating deposits or printing money.

All this is now an old story among monetary economists and bankers. But Mr. Snyder has never understood it. He can see the problem only from the immediate short-run interest of the Treasury—to pay as low an interest rate as possible. "Any increase in the 2½-percent rate," he says "would seriously upset the existing security markets."

Any increase in prevailing interest rates would of course mean a lower price for present outstanding bonds. But Mr. Snyder refuses to see that the only alternative to accepting this comparatively mild consequence is an uncontrollable inflation. In the face of overwhelming economic opinion and evidence to the contrary, Mr. Snyder persists in declaring that a cheap money policy and inflation have nothing to do with each other.

If Mr. Snyder stood alone in this appalling blindness the situation would not be so grave. But he is supported in administration circles by a conspiracy of silence. Within the Federal Reserve System there is some real understanding of the situation; but—with a few honorable exceptions like Allan Sproul, president of the Federal Reserve Bank of New York—there is precious little courage. Mr. Snyder's statement clearly implies that Chairman McCabe of the Federal Reserve Board acquiesces in the policy of maintaining the inflationary 2½ percent interest rate. In lieu of any genuinely effective over-all action, the Board on January 16 announced the token gesture of increasing required stock margins from 50 to 75 percent. Meanwhile, an ominously growing bureau prepares to cure inflation with the colossal hoax of price control.

Mr. FERGUSON. Mr. President, I wish to read into the RECORD from the letter by the junior Senator from Ohio [Mr. BRICKER], in order to stress the particular point involved, as well as some other points. The letter was addressed by the junior Senator from Ohio to Governor Vardaman. I read:

The concluding paragraph of your statement is one of the most amazing ever uttered by a public official in recent years. You say, "The question of statutory prerogatives * * * should be subordinated to the all-important necessity of supporting the Government and the Presidency in this national emergency." The meaning of this euphemism is that the laws passed by Congress should be disregarded whenever the President feels that the national emergency so requires. I am unalterably opposed to that sort of totalitarian philosophy either in war in in peace.

You also say in the final paragraph of your statement that you "unhesitantly waive any theoretical statutory authority and prerogatives in order to support the Government and the Presidency at this time." First, I would like to point out that the laws of the United States are not theoretical for 150,000,000 American people. They must obey them or go to jail. By what right do you presume to waive statutory authority in violation of your oath of office?

Finally, I invite your attention to the fact that the Federal Reserve System is accountable to the Congress and not to the Presidency as you suggest. Congress has not charged the Board with the duty of supporting the price of Government securities, but rather the duty of supporting the value of the dollar.

Until such time as the duties of the Board may be changed by act of Congress, I trust that you will see the impropriety of your suggested waiver of statutory authority and prerogatives.

REPLY TO THE PRESIDENT'S CHALLENGE TO CUT THE BUDGET

Mr. BRIDGES. Mr. President, last Thursday the President of the United States held a press conference during the course of which a reporter noted that some Members of the Congress had expressed their determination to squeeze the water out of the budget. Newspaper reports quote Mr. Truman as reply to the effect that, "they said they were going to do that last year, and ended by adding a billion or so, and then asked the President to do the cutting." The President is further reported as saying he is not going to do it for them this year, that it is a good budget and a tight budget, and he dares the Congress to do anything about it.

Mr. President, I am not sure that it is my sole responsibility, as a minority Member of the Senate, to attempt to set the RECORD straight so far as Congress is concerned. The President's statement certainly is a challenge to the majority of this body, as well as to the minority, because in the handling of the budget last year we did function properly. I wish to state that the kindest thing the Senator from New Hampshire can say about the President's remarks—and the Senator from New Hampshire has a kindly and warm feeling for the President, personally—is that either Mr. Truman was misinformed, or he was attempting to be facetious. He has repeatedly advised the press and other groups that he is an expert on the budget—that he has been preparing budgets for years and knows all about them.

We can only hope, Mr. President, that President Truman knows more about the budget which he submitted on January 15 of this year than he knew about the budget he submitted last year.

Mr. President, I wish to make it perfectly clear where I stand on this matter. I wish to take exception to the President's statement that the Congress added a billion or so and then asked the President to do the cutting. I have in my hand a copy of the appropriations estimates for 1950–51, with all the actual budget estimates which were requested by the President and by the Bureau of the Budget for consideration by the Congress.

I have the record here, in its official form. If it is available to me, certainly it is available to the President and to every other Senator, so what I am saying I am taking from the official record. Senators can examine it. There can be no question about it.

Let us discuss, first, the general appropriations bill for 1951. The estimates considered by the House were $30,300,000,000. The House cut this figure to $29,100,000,000. By the time the budget estimates reached the Senate, the figure had grown to $35,500,000,000. As finally enacted, the appropriations bill had been reduced to $33,900,000,000, a reduction of more than $2,000,000,000.

I wish next to call attention, Mr. President, to some facts concerning the second supplemental appropriations bill. The estimates considered by the House totaled $18,000,000,000. The House reduced this figure to $17,800,000,000. By the time the estimates had reached the Senate the figure had grown, as a result of increased estimates from the President, to $19,900,000,000, and the supplemental bill as finally passed by the Congress remained at that figure—$19,900,000,000.

It can readily be seen from these facts that the statement which President Truman made the other day to the effect that Congress had added a billion or so simply does not make sense.

Taken together there are some interesting figures regarding the total appropriations for the fiscal year 1951. The estimates considered by the House were $66,700,000,000. The House reduced this figure to $65,000,000,000. By the time the estimates had reached the Senate, the President and the Bureau of the Budget had submitted additional estimates to bring the figure up to $74,200,000,000. When passed by the Congress this figure had been reduced to $72,300,000,000.

The Senate will recall that the so-called Bridges-Byrd amendment, which had the support of the overwheling majority of this body, was adopted by a vote of 55 to 31. The over-all effect of that amendment was to reduce the appropriations bill by nearly a billion dollars and as amended by the Senate it provided for an additional cut of $550,000, a very substantial amount. The Congress was perfectly clear at this point. It stated where the cuts were to be made and by whom they were to be made. However, when the appropriations bill was sent to conference, the administration leaders brought sufficient pressure to bear to change the intent of the Bridges-Byrd amendment and directed that the President and the Bureau of the Budget make these reductions, in the sum of $550,000,000, wherever they see fit.

It is very interesting in view of these facts, Mr. President, that President Truman claims the Congress added a billion dollars or more, and he did the cutting. The fact of the matter is that he did the adding on and the Congress did the cutting. The facts are here. They speak for themselves. It was the Congress and not the President which reduced the final estimates submitted by the President and the Bureau of the Budget from $74,000,000,000 to $72,000,000,000.

The President, Members of Congress, and everyone else should examine the official record in this regard, which speaks for itself.

Mr. FERGUSON. Mr. President, will the Senator yield?

Mr. BRIDGES. I yield.

Mr. FERGUSON. Is it not a fact that the President sent to Congress supplementary estimates and budgets, so that he increased the budget, rather than the Congress increasing the budget over and beyond his estimate?

Mr. BRIDGES. That is absolutely correct.

Mr. FERGUSON. So, the Congress did not appropriate unbudgeted items over and above the amount of the budget estimates both as contained in the original and in supplemental budgets.

Mr. BRIDGES. The Senator from Michigan is absolutely correct.

Mr. FERGUSON. Does not the Senator feel that it is up to the whole Congress, representing the people, as it does, to accept the challenge issued by the President, by looking into his budget and