Mr. MORSE. Mr. President, I yield the floor, if the Senator from Illinois or the Senator from Utah wish to speak.

THE FEDERAL RESERVE-TREASURY CONFLICT

Mr. DOUGLAS. Mr. President, I ask unanimous consent to introduce, out of order, a joint resolution for appropriate reference, sponsored by the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Iowa [Mr. GILLETTE], the Senator from New Hampshire [Mr. TOBEY], the Senator from Vermont [Mr. FLANDERS], the Senator from Minnesota [Mr. THYE], and myself.

The PRESIDING OFFICER. Without objection, the Senator's resolution will be received and read.

The joint resolution (S. J. Res. 45) to vest in the duly constituted authorities of the Federal Reserve System the primary power and responsibility for regulating the supply, availability, and cost of credit in general, introduced by Mr. DOUGLAS (for himself, Mr. FULBRIGHT, Mr. FLANDERS, Mr. GILLETTE, Mr. TOBEY, and Mr. THYE), was read by the Chief Clerk, as follows:

Whereas the primary power and responsibility for regulating the supply, availability, and cost of credit in general is, and should remain, vested in the duly constituted authorities of the Federal Reserve System; and

Whereas policies with respect to financing the Federal debt, as established by the Secretary of the Treasury, have a direct influence on the supply, availability, and cost of credit: Now, therefore be it

Resolved, etc., That (1) notwithstanding any other provision of law, including any provision of law granting emergency powers

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to the President of the United States, the primary power and responsibility for regulating the supply, availability, and cost of credit in general shall remain vested in the duly constituted authorities of the Federal Reserve System; and (2) the policies and actions of the Secretary of the Treasury relative to money, credit, and transactions affecting the Federal debt shall be made consistent with the policies of such Federal Reserve authorities.

Mr. DOUGLAS. Mr. President, I ask unanimous consent that I may speak briefly on the joint resolution.

The PRESIDING OFFICER. The Senator does not need to secure unanimous consent for that purpose.

Mr. DOUGLAS. Very well. Mr. President, six Members of this body, whose names I have previously given, are today introducing a joint resolution which does two things, namely, first it reaffirms the intention of Congress that the Federal Reserve shall have the primary responsibility for regulating the supply of credit and second it provides that the transactions of the Treasury in connection with the public debt shall be made consistent with those of the Federal Reserve System.

The purpose of this resolution is to give added courage to the Reserve System so that it will not be forced by the Treasury to buy an unlimited supply of Government securities. For such unlimited purchases merely swell the reserves of banks in the Reserve System and hence make possible a six times greater expansion of bank loans and a consequent increase in prices. Such purchases by the Reserve have in fact been largely responsible for the inflation which has occurred since the outbreak of the Korean hostilities. We can largely prevent inflation if we adopt two policies: First, balancing the budget and putting military expenditures on a pay-as-you-go basis so that the banks will not have to create credit to finance Government deficits; second, preventing the undue expansion of bank loans to private business. It is necessary for us to deal with both of these problems. To settle one without the other will be ineffective and incomplete. The resolution is an attempt to deal with the second of these issues.

DIFFICULTY IS NOT A LEGAL CONFLICT, BUT A POLICY CONFLICT

The core of the difficulty to which this resolution addresses itself does not lie in an overlapping of legal powers, since the legal powers of the Federal Reserve in the field of credit regulation and those of the Treasury in the field of debt management are generally clear-cut. The difficulty arises because the policies of either agency in its field cannot help affecting directly the policies of the other. The purpose of the resolution is to make it perfectly clear that whenever there is a conflict of policy that concerns the supply, availability, or cost of credit in general, the policies of the Federal Reserve System shall take precedence, and those of the Treasury shall be made consistent with Reserve policies.

Two points concerning the resolution should be emphasized. First, this resolution is the result of extensive hearings held last year by the Subcommittee on Monetary, Credit, and Fiscal Policy of the Joint Committee on the Economic Report. It specifically implements one of the recommendations made by that subcommittee.

NO SHARP BREAK WITH PRECEDENT

Second, this resolution in no way represents a sharp break with precedent. The independence of the Federal Reserve System from the Treasury was made clear by the enactment of the Banking Act of 1935, whereby the Secretary of the Treasury and the Comptroller of the Currency were relieved of their ex officio membership on the Federal Reserve Board. On this point, the legislative history is clear—particularly in the pronouncements of Senator Carter Glass, sponsor of the act, and himself a former Secretary of the Treasury.

On March 2, the Treasury and the Federal Reserve Board issued a statement saying that they had reached—

> a full accord with regard to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize the monetization of the public debt.

It is not clear just what this agreement means. The Treasury, at that time, made a simultaneous announcement of a new issue of 2¾-percent bonds, into which the present 2½-percent bonds, maturing between 1967 and 1972, can be refunded, but which will not be transferable or redeemable until maturity. The purpose behind this type of issue, with its increase of one-fourth of 1 percent in the interest rate, is undoubtedly to take out of circulation the some $20,000,000,000 of this type of bond held by banks and institutions, and hence to prevent them from being offered to the Federal Reserve, and hence to prevent them from swelling the bank reserves. So far, so good.

OPEN MARKET PURCHASING QUESTION APPARENTLY UNSETTLED

But there is no information available as to what the Federal Reserve System has agreed to do so far as purchasing Government securities in the open market in the future is concerned. No information on that point has been made public, but it is this very point which is vital to the problem at hand. If the Reserve System has pledged itself to buy these securities in unlimited quantities, then we may expect bank reserves, bank loans, and prices to rise markedly, and the alleged solution which was greeted with so much enthusiasm will be no solution at all. If, however, there is an agreement to purchase in only limited amounts—or for a brief period of time, then only a temporary agreement and only a temporary solution will have been found, and the issue of what our permanent open market purchasing policies should be will come up again for decision, and will come up shortly; and what may seem to be a settled matter may turn out not to have been settled at all. The Federal Reserve Board's past practice of complacently yielding to the pressures and blandishments of the Treasury indicates that unless its courage is stiffened from outside, it is likely to continue to yield, with unhappy results to the country, for it has not developed habits of internal fortitude which will insure its virtue unless we give it help.

We do not wish to have the Federal Reserve Board continue to be an inflationary agency; and we hope that the introduction and, I hope, the subsequent passage of this joint resolution will serve to check these alarming tendencies.

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

Mr. DOUGLAS. I am glad to yield to my friend and colleague from Illinois.

Mr. DIRKSEN. The joint resolution merely reaffirms powers which the Federal Reserve System already has, does it not?

Mr. DOUGLAS. Yes; but it also says that the Treasury Department in administering the national debt shall exercise its powers in conformity with the general program laid down by the Federal Reserve System.

Mr. DIRKSEN. The real purpose, then, is to put a little backbone into the Federal Reserve System; is it?

Mr. DOUGLAS. Yes in part. The purpose of the joint resolution is to do that partly by indicating that the Federal Reserve System has friends outside of the Board, but primarily by stating, as a matter of law, the supremacy of the Federal Reserve System in the event of a conflict of policy with the Treasury, so that they will stand fast and will not permit themselves to be used to inflate the bank credit of the country.

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

Mr. DOUGLAS. I am glad to yield.

Mr. SALTONSTALL. The junior Senator from Illinois [Mr. DIRKSEN] has already asked one of the questions I wished to ask.

My other question is this: Is the measure which the senior Senator from Illinois is discussing a joint resolution or a concurrent resolution?

Mr. DOUGLAS. It is a joint resolution, rather than a concurrent resolution.

Mr. SALTONSTALL. If the measure has for its purpose the stiffening of the back of the Federal Reserve System, why would not it be wiser to have it a concurrent resolution?

Mr. DOUGLAS. In other words, so as not to be subject to Presidential veto?

Mr. SALTONSTALL. Yes. The point I have in mind is that a concurrent resolution on this subject would not change the law in any way, but simply would express the sense of the Senate and the House of Representatives.

Mr. DOUGLAS. This resolution is not designed actually to change the existing laws which define the respective powers of the Federal Reserve and the Treasury, since, as I have said, there is no serious legal conflict. What the resolution does is to state that in the event a conflict of policy occurs, which affects the supply, availability, and cost of credit, the Federal Reserve System will

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have primary power, and the policies of the Treasury should be made consistent with Federal Reserve policies. I think that this constitutes, in effect, a restriction of the powers of the Treasury.

Mr. SALTONSTALL. Then it would become, in substance, a change in the law, would it?

Mr. DOUGLAS. It is an attempt to make the debt management function subordinate to the policy of maintaining stable prices.

Mr. SALTONSTALL. In view of the feeling of the administration on this matter, as expressed in the newspapers, does the Senator expect to get anywhere at all with the joint resolution?

Mr. DOUGLAS. I have great hopes of doing so. I thought it would be well to introduce it in a form which would have the force of law, rather than as a concurrent resolution, because a joint resolution, which must be signed by the President, has the force of law, whereas a concurrent resolution, which is not signed by the President, is merely an expression of congressional opinion.

Mr. SALTONSTALL. So the Senator from Illinois has made that choice, has he?

Mr. DOUGLAS. Yes. If I have made the wrong choice, and if this measure would be more appropriate in the form of a concurrent resolution instead, the committee to which it is referred can alter its form in reporting it to the Senate.

Mr. SALTONSTALL. The main purpose is to stiffen the back of the Federal Reserve System. Is that correct?

Mr. DOUGLAS. Yes; and to clip the wings of the Treasury.

Mr. DIRKSEN. Mr. President, will the Senator yield again to me?

Mr. DOUGLAS. Yes; I am glad to yield to my colleague.

Mr. DIRKSEN. I think it is a rather distressing thing that while the power of the President to appoint extends only to the members of the Federal Reserve Board, the President should undertake to persuade the Federal Reserve System to adopt such a course of action, under the circumstances now obtaining, when the Board should be almost unanimous in its decisions regarding matters which affect the credit and price system of the country.

I share the hope of the Senator from Illinois. It seems to me that there has been a political domination of the actions of the Federal Reserve System, and that the Treasury has won in that little contest, so that the management of the debt comes first, and the problem of credit flexibility comes second.

Mr. DOUGLAS. Let me say to my good friend and colleague from Illinois that, in practice, it probably will be necessary to unify the debt-management program with the credit functions of the Federal Reserve System. In view of the fact that Congress created coordinate powers in both Treasury and Federal Reserve, neither being superior to the other, I think that it was a proper act of the President and of the Treasury to try to get a unification of policy. My objection is not that they tried to get unification, but that the policy which they advocated was wrong. They tried to make the powers of the Federal Reserve System subordinate to the need for maintaining a low interest rate on Government bonds, whereas I think what should be done is to have debt management subordinated to the general desirability of maintaining a stable price level.

In short, I do not object to the fact that they tried, but to the fact that they tried in the wrong direction.

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

Mr. DOUGLAS. I am glad to yield to the Senator from Georgia.

Mr. GEORGE. Let me inquire of the Senator from Illinois to what committee the joint resolution is to be referred.

Mr. DOUGLAS. I am not the Presiding Officer of the Senate, so I would confide that matter to the Presiding Officer. I had assumed that probably the joint resolution would be referred to the Committee on Banking and Currency.

The PRESIDING OFFICER. The Chair is informed that the joint resolution will be referred to the appropriate committee.

Mr. GEORGE. If the joint resolution directly affects the powers of the Treasury, I should think some consideration should be given to referring the joint resolution to the Finance Committee.

Mr. DOUGLAS. I do not wish to engage in a jurisdictional dispute.

Mr. GEORGE. No, neither do I; but I should like to have the Senator express his viewpoint in regard to the reference of the joint resolution.

Mr. DOUGLAS. Has the Chair referred the joint resolution? I am willing to abide by the ruling of the Chair in that connection.

The PRESIDING OFFICER. The Chair has merely stated that the joint resolution will be appropriately referred. The question of reference will be left to the Parliamentarian to decide.

Mr. DOUGLAS. I merely requested that the joint resolution be appropriately referred. I am ready to abide by any decision which the Chair or the Parliamentarian may make in that connection.

Mr. President, in connection with this matter, I ask unanimous consent to have printed in the body of the RECORD, at this point, as a part of my remarks, an article entitled "The Inflation Crisis," by Gardiner C. Means, published in the Washington Post for March 4, 1951.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

THE INFLATION CRISIS

(By Gardiner C. Means)

The Federal Reserve has the responsibility for preventing an inflationary expansion in the money supply. The Treasury has the responsibility for managing the public debt and keeping its costs as low as possible. The controversy between them has rested on the assumption that these objectives are in major conflict and that one or the other must give way.

In my opinion, it is possible to serve both of these objectives. To understand how this is possible, we have first to understand the actual issues in the controversy. Then we may be able to outline a program which would serve to control the money supply and keep the costs to the Treasury low.

There are really four basic issues involved in the controversy:

1. Is the current rapid expansion in the money supply inflationary?
2. Has the Federal Reserve the power to stop it?
3. How much would it cost to stop it?
4. What would be an adequate program?

On each of these issues there can be honest differences of opinion, and the major task in resolving the conflict is to narrow down the area of disagreement on each. If essential agreement could be reached on these four points, the basic policy decision should be clear.

THE MONEY SUPPLY

1. Is the current rapid expansion in the money supply inflationary?

Between the start of the Korean War and the end of 1950, the money supply (demand deposits and currency) increased by more than $7,000,000,000, or 6 percent. In the same period, wholesale prices went up nearly 12 percent, consumer prices more than 4 percent, and standard hourly wage rates around 3 percent. What is the connection between the increase in the money supply and the increase in prices?

Few, if any, economists today hold with the old theory that an increase in the money supply will necessarily produce a proportionate increase in the price level. Rather, one has to look at the facts in each case. Have the increases in the money supply since Korea been an important source of inflation?

Study of the facts suggests that in the first 3 months after Korea, money increases were not a major source of inflation though they may have contributed in a minor degree. The main source was the wave of consumer and business buying which resulted from the starting of the Korean war and the Government plans for defense.

In spite of a 3-percent increase in production and a shift of the Government from a cash deficit to a cash surplus, wholesale prices rose nearly 8 percent and retail prices more than 2 percent. Yet the more than seasonal increase in the money supply was less than 1 percent. There is little doubt that even if there had been no increase in the money supply, there would have been a major price rise.

But by the end of September, the main impact of the wave of buying had spent itself. Consumers were back to normal buying. Farm prices and food prices at wholesale and retail were back to their August 1 levels and the rise of industrial prices was tapering off. A period of relative price stability might have been expected.

Actually, the month of October was one of relative stability. The wholesale price index was no higher at the end than at the beginning of the month.

But then a rapid rise in prices began again in November and has continued to the present time, lifting the wholesale price index another 7 percent and retail prices another 2 percent. Was this caused by a further wave of consumer buying, by the stepping up of defense expenditure, or what?

The rise in prices in November and December was not due to a new wave of consumer buying. Consumer expenditure in the fourth quarter was below that of the third, and was no more than could have been expected on the basis of the postwar relation between consumer expenditure and consumer income.

Also, the increased demand did not come from Government spending. Expenditure on the security program was about 1.5 billion dollars higher than before Korea, but other expenditures were less and the Government

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operation continued to produce a cash surplus.

Private construction and net foreign purchases did not increase.

The big increase in demand came from business investment in inventories and equipment, which increased more than seasonally by over two billion dollars. At the same time, commercial bank loans to business increased more than two billion dollars over seasonal and the money supply increased by close to three billion dollars over the normal seasonal increase.

It seems clear that the big source of extra demand in the fourth quarter came from the business side and was financed by the expansion in bank credit and the money supply. If they had not been able to borrow, it is reasonable to suppose that much of this extra demand would not have been effective. The conclusion therefore seems to be justified that money expansion was the primary source of inflation in the fourth quarter.

Even more important, if the present Treasury policy continues to be rigidly followed by the Federal Reserve, a much greater inflationary money expansion is likely.

FEDERAL RESERVE'S POWER

2. Has the Federal Reserve the power to stop monetary inflation?

The Treasury has contended that the measures the Federal Reserve wants to take to stop money expansion would not only cost the Treasury in higher interest rates but would also be ineffective because a small increase in interest rates would not limit the demand for bank credit. Thus, the Secretary of the Treasury has stated that "fractional increases in interest rates of Government securities" would not have "a real or genuine effect in cutting down the volume of private borrowing and in retarding inflationary processes." Recent studies of the effect of interest rates on business behavior support the view that small increases in interest rates will not significantly deter businesses from borrowing. If this were the way in which the Federal Reserve was seeking to control the money supply, there would be no reason to quarrel with the Secretary's position.

But the rise in interest rates is not the method by which the Federal Reserve would limit the money supply. Rather, it would be a byproduct of a very effective method which it has the power to use. This is by limiting the volume of bank reserves.

If a bank has more idle reserves than it wishes to carry, it will almost certainly expand its loans and investments (except, perhaps in time of depression). If it has no idle reserves and cannot get additional reserves, it will not expand its loans and investments. Thus, if the Federal Reserve were able to control the total amount of bank reserves in existence, it could control the volume of bank credit and the total amount of money outstanding.

Actually, the Federal Reserve does now have the necessary legal power to limit bank reserves. All it needs to do is to reduce its holdings of Government securities and perhaps raise its discount rate. There is no reason to question that this procedure would be effective so far as limiting the money supply is concerned. Probably a net sale of one billion dollars of its 20-billion-dollar holdings of Government securities and a moderate increase in the discount rate would absorb all of the existing excess reserves and cause a gradual shrinkage in the money supply.

Unfortunately, the selling of this amount of Government securities and the refusal to buy more would force down Government security prices and raise the interest rates required on new issues. This increase in interest rates would not be the means by which the Federal Reserve would limit bank credit and the money supply as the Secretary of the Treasury suggests, but would be a byproduct of using the very effective means it has to the power to use.

On the other hand, the Secretary of the Treasury is quite properly concerned at the thought of lower prices on Government securities and higher interest costs on the public debt. The $257,000,000,000 Federal debt places grave responsibilities on his shoulders, no less weighty than those on the shoulders of the Federal Reserve for preventing inflationary money expansion. This is the real heart of the issue between the two agencies. Is it worth the cost in extra interest and in other ways to prevent further monetary inflation?

COST OF HALTING IT

3. How much would it cost to stop monetary inflation?

The Secretary of the Treasury stated in January that a rise of one-half percent in the interest rate on the $257,000,000,000 of public debt would increase the interest cost of the debt by $1,500,000,000 a year and the present Congress would have to raise this amount of extra taxes to prevent it from being inflationary. Later, simple arithmetic forced him to change the figure of cost to one and one-fourth billion. But a little consideration will show that even the smaller figure is a gross exaggeration.

Twenty-five billion dollars of the debt does not finally mature for 20 years and the Secretary of the Treasury would have to wait that long before he had to refund it at the one-half percent higher rate. In fact, none of the $104,000,000,000 of marketable long-term debt matures and has to be refunded in the next 2 years, though some of it could be called if the Treasury wanted to pay the extra interest. To this must be added the special issues held by Government trust funds and a large part of the nonmarketable savings bonds and notes which do not mature and would not be cashed under a sound program.

Thus, at the very maximum, less than half the total debt matures or could be cashed in the next 2 years. And if holders could be made to keep a large proportion of their savings bonds and notes, the extra half percent interest charge would apply to only a fifth of the total debt. On this basis, an added one-half percent on the issues requiring refunding in 1951 and 1952 would amount to between one hundred and four hundred million dollars in 1941 and two hundred and five hundred million dollars in 1952.

Of course, $20,000,000,000 of this debt is held by the Federal Reserve and any extra interest paid would come directly back to the Treasury through the earnings of the Federal Reserve, say $100,000,000 a year. Also, the Treasury would recover in income taxes some of the extra interest paid to the public. Altogether, the extra taxes which the present Congress would have to raise to pay for an increase of one-half percent on all Government securities maturing in 1951 and 1952 is not likely to be more than two hundred million and three hundred million dollars in the 2 years, a far cry from the one and one-half or one and one-fourth billion dollars which the Secretary of the Treasury has claimed.

Of course, if higher rates had to be sustained permanently, later Congresses would have to meet larger interest charges. But we are concerned with the problem of inflation in the present. If we were to get into actual war, these later increases in interest costs would be a small price to pay for avoiding a heavy head of inflationary steam at the beginning of the war. If we don't get into war, defense demands on production should be slacking off and a return to lower interest rates would be more than likely, so that the higher rate would never be applied to the debt which does not mature in the next 2 or at most 3 years.

Account should also be taken of the fact that if monetary inflation is not stopped, the costs of the defense program would increase and would also require greater tax revenue.

The second concern of the Secretary of the Treasury, that for the market value of outstanding Government securities, presents a different problem. If all interest rates went up one-half percent, a 2½-percent bond due to mature in 20 years and initially selling at par, would have to drop to a price of $92.50 in order to yield 3 percent. It may be that such a price drop would be serious, particularly if the Treasury has to increase the Government debt greatly in the future.

But at the present time, under pressure from the Secretary of the Treasury, the Federal Reserve is forced to support practically all Government long-term bonds at a premium. Thus, the Secretary of the Treasury is insisting that the Federal Reserve should pay a subsidy, sometimes as high as $5 per $100 of bond, to any bondholder who is willing to sell his bond now. If anything, the Government should require a slight penalty for anyone wanting to sell his long-term bonds now, just as there is now a small penalty on the cashing of savings bonds ahead of their maturity.

The Secretary presents a more significant argument for trying to hold long-term Governments at prices which will yield around 2½ percent when he points out that the 2½ percent rate has become a semi-institution around which banks and insurance companies have built their policies.

Fortunately there is a very real possibility that approximately the 2½-percent rate on long-term Government bonds can be retained at the same time that the Federal Reserve objectives are achieved. The Secretary has assumed that, to carry out its objectives, the Federal Reserve would have to lift up all interest rates practically by the same amount. Such is not at all the case. At the present time, short-term interest rates are way below long-term rates. Historically, this is the situation which has usually accompanied a depression, when short-term prospects are poor but ultimate recovery is expected. In boom times, short-term rates have usually been above long-term rates.

It is highly probable that the Federal Reserve could continue to support long-term Governments at about the 2½-percent rate and at the same time sell enough short-terms not only to offset the long-terms it had to buy but also to mop up the excessive bank reserves now outstanding. This would, of course, raise short-term interest rates but not long-term rates. How much this would raise short-term rates is by no means clear, but it seems quite likely that the whole program could be handled so that short-terms were still below the 2½-percent rate, say, at 2¼ percent or less. If all the $41,000,000,000 of short-terms now outstanding were in fact raised to 2¼ percent, the extra interest over what they could now be refunded at would cost little more than $100,000,000 in 1951 and less than $250,000,000 in 1952, not counting the extra interest paid to the Federal Reserve itself.

It is quite possible that such measures would take us through the next two years without departing significantly from the 2½ percent long-term rate and without further monetary inflation. The Federal Reserve banks now have $15,000,000 of short-term Governments and only $5,000,000,000 of long-terms. If they stop paying a bonus to anyone willing to sell his long-terms now and sell their short-terms so as to (1) contract bank reserves by say one billion dollars, and (2) have the funds to support long-terms, their supply of short-terms should last quite a while. Certainly, until such a program is attempted, discussions of a radical departure from the 2½-percent rate should be postponed.

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AN ADEQUATE PROGRAM

4. What would be an adequate program? If the policy of preventing monetary inflation had been adopted last summer and fall by the Federal Reserve and accepted by the Treasury, it is likely that it could have been carried out without any important dislocation or confusion in the security markets. But now things have gone so far that a fairly serious readjustment may be necessary, one which is likely to be less harmful if quick.

To halt monetary inflation, the Federal Reserve might adopt the following program:

1. Publicly announce that in its considered opinion the value of long-term Government bonds can be maintained in the near future close to par without preventing the necessary limitation on the money supply, and that it will cooperate with the Treasury to this end.

2. Make clear to the Treasury (a) that this does not mean supporting long-terms above par as at present; (b) that it does mean supporting them slightly below par until such time as new or refunding issues of long-terms have to be sold, when the support level might have to be raised; (c) that this is not a permanent commitment but one for the foreseeable future and may have to be revised at a later date in the light of events; (d) that this cooperation is conditioned on the Treasury's cooperation in not setting the interest rates on new security issues at rates which are in conflict with the Federal Reserve's responsibility for limiting the money supply. In practice, the rates on new issues ought to be arrived at by mutual agreement.

3. Raise rediscount rates to whatever level is necessary to prevent more than an appropriate amount of borrowing of reserves from the Reserve banks.

4. Start selling short-terms at a rapid rate, perhaps at once pushing the yield up to 2¼ percent and selling what the market will take at that rate with the expectation the short-term rates will fall back somewhat after reserves have been sufficiently reduced. If the contraction of reserves could be brought about quickly, the Treasury would have the benefit of the new and more stable rates in its July financing.

5. Allow the prices of long terms to fall slightly below par but support them at a level consistent with, say, a price of 98 for a 20-year, 2½-percent bond.

I believe that, in the absence of actual war, such a program would be successful in stopping money inflation without undue cost to the Treasury. Clearly the Government already has these powers. It should use them.

Mr. DIRKSEN. Mr. President, will the Senator yield for a parliamentary inquiry?

Mr. DOUGLAS. Certainly.

Mr. DIRKSEN. Mr. President, has the resolution been referred?

The PRESIDING OFFICER. It has not been.

Mr. GEORGE. Mr. President, I merely wish to suggest that if the primary purpose of the joint resolution is to curb the power of the Secretary of the Treasury, then I think obviously the joint resolution should have its day in court, so to speak, before the Finance Committee, as well as before any other committee to which it might be referred, because in the Finance Committee we have very much to do with the Treasury, and necessarily so.

Mr. DOUGLAS. Certainly I am not an expert on parliamentary procedure. The senior Senator from Georgia knows much more about this matter than I do. However, I should think that the joint resolution is certainly a measure with which the Committee on Banking and Currency is also intimately concerned.

Subsequently, the joint resolution (S. J. Res. 45) introduced by Mr. DOUGLAS (for himself and other Senators) was referred to the Committee on Banking and Currency.

TREATY OF PEACE WITH ITALY

Mr. WATKINS. Mr. President, I ask unanimous consent to introduce, for appropriate reference, a joint resolution and I request that it be read.

The PRESIDING OFFICER. Without objection, the joint resolution will be received. The clerk will read the joint resolution.

The joint resolution (S. Res. 46) to relieve the Government of Italy of its obligations to the United States under the treaty of peace with Italy, and for other purposes, introduced by Mr. WATKINS (for himself, Mr. BRIDGES, Mr. WHERRY, Mr. KEM, Mr. DWORSHAK, and Mr. MALONE) was read by the Chief Clerk, as follows:

Whereas the treaty of peace with Italy, entered into on February 10, 1947, by the United States and certain other nations, deprives Italy of her right of self-defense;

Whereas such treaty also prevents the performance by Italy of her obligation under the North Atlantic Treaty to contribute to the full extent of her capability to the defense of Western Europe; and

Whereas certain territorial concessions required of Italy under such treaty of peace are in violation of the provisions of the Atlantic Charter: Now, therefore, be it

Resolved, etc., That the United States (a) hereby relieves the Government of Italy of all obligations to the United States under the provisions of the treaty of peace with Italy, entered into on February 10, 1947, by the United States and certain other nations, and (b) no longer considers such treaty as obligatory upon the Government or citizens of the United States.

SEC. 2. The President is hereby requested (a) to call upon all other parties to such treaty to take such action as may be necessary to relieve the Government of Italy of its obligations to such parties under such treaty, (b) to invite such parties to join with the United States in an effort to negotiate a new treaty of peace with Italy, and (c) to join with such parties as may accept such invitation in negotiating such new treaty.

Mr. WATKINS. Mr. President, we are now engaged in debate on a manpower bill which has for its purpose the raising of an army to protect not only our own liberties but also the liberties of the Atlantic Pact powers of Europe. The joint resolution which I have introduced, for myself and on behalf of the Senator from New Hampshire [Mr. BRIDGES], the Senator from Nebraska [Mr. WHERRY], the Senator from Nevada [Mr. MALONE], the Senator from Idaho [Mr. DWORSHAK], and the Senator from Missouri [Mr. KEM], if passed, will relieve one of the nations of liabilities which it is under at the present time, and which prevent it from taking an effective part in the defense of liberties of Western Europe and of the democratic nations of the world.

Denunciation of the Italian Peace Treaty will open the way for Italy to build up her own defenses against Communist aggression. It will clear the way for an effective Italian contribution of the defense of the whole of Western Europe. This will help to ease the burdens which other nations are being called upon to bear. It should substantially reduce the number of ground troops which the United States may be required to send to Europe. That is one of the questions we have been discussing recently before committees, and one of the questions we are discussing in this body at the present time, in connection with the pending bill.

There are 21 signatories to the treaty. Among these are the Union of Soviet Socialist Republics, the Byelorussian Soviet Socialist Republic, the Ukrainian Soviet Socialist Republic, and the Peoples Federated Republic of Yugoslavia. China, which has since fallen into the Communist fold, also was a signatory of the treaty, as were Czechoslovakia and Poland, which have since fallen behind the iron curtain.

The Italian Peace Treaty was negotiated in a spirit of harshness and revenge. The treaty levied severe economic and territorial tribute on Italy. It deprived Italy of its armed strength and gave it in most part to Russia and her friends. Thus the Italian Peace Treaty weakened Italy and strengthened the military potential of the forces of communism. I may say at this point that, in making those statements, I am not reflecting upon the United States and other members of the Atlantic Pact who were inclined to be more lenient with Italy in view of the record which she made in the latter part of the late war, when she turned against the Axis powers and aided the Allies. But it seems to me that we yielded to the pressures of the communistic nations, and became to that extent parties to what I think was a very unfair and vicious treaty.

The Italian Peace Treaty deprived Italy of certain territory along its borders and placed the inhabitants of that territory under the sovereignty of other nations without consulting the will of the people concerned. This was a violation of the spirit and the letter of the Atlantic Charter.

The Italian peace treaty placed severe limitations on the number of men Italy may have in her army, navy, and air force and constabulary. Thus Italy is deprived of the means of building up her own defenses in relation to present realities in Europe and is prohibited from making an effective contribution to the defense of Western Europe.

In 1938, when Italy was on the side of the Axis Powers, she had a standing army of 917,991; a standing navy numbering 55,836; and a standing air force numbering 103,555. It is very important to note that this was backed up by 6,441,117 army reserves and 331,428 navy reserves. Thus, in 1938, Italy's armed forces, including reserves, totaled 7,882,927. The treaty of 1947 puts a present ceiling of 250,000 on Italy's armed forces.

In 1942, Mussolini considered Italy unprepared for a large-scale conflict. Italy then had a total of 2,860,000 men in her army. These were backed up by some 2,555,000 army reserves plus a standing air force of 265,340 and an air force reserve of 105,550. I do not have

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