

# CONFIRMATION OF THOMAS B. McCABE

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## HEARINGS

BEFORE THE

## COMMITTEE ON BANKING AND CURRENCY

## UNITED STATES SENATE

EIGHTIETH CONGRESS

SECOND SESSION

ON

CONFIRMATION OF NOMINATION OF THOMAS  
BAYARD McCABE, OF PENNSYLVANIA, TO BE  
A MEMBER OF BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

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MARCH 3, 10, 11, 24, AND 30, 1948

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# CONFIRMATION OF THOMAS B. McCABE

WEDNESDAY, MARCH 3, 1948

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to call, at 10:30 a. m., in room 301 Senate Office Building, Senator Charles W. Tobey, chairman, presiding.

Present: Senators Tobey (chairman), Buck, Flanders, Cain, Bricker, McCarthy, Maybank, Taylor, Fulbright, Robertson, and Sparkman.

Also present: Senator Myers.

The CHAIRMAN. The committee will come to order.

Gentlemen of the committee, we have met here this morning to consider the nomination of Mr. Thomas B. McCabe as a member of the Board of Governors of the Federal Reserve System. We will insert in the record at this point a biographical sketch of Mr. McCabe.

(The sketch is as follows:)

Birth and background: Born in Whaleyville, Md., July 11, 1893. Son of William Robbins McCabe and Beulah Whaley McCabe. Father: banker, speaker of Delaware's House of Representatives, and banking and insurance commissioner of State of Delaware.

On maternal side seven generations resided in Maryland. On paternal side several generations settled and resided in Delaware.

During boyhood resided in West Norfolk, Va., and Selbyville, Del.

Education: Wilmington Conference Academy, Dover, Del., 1907-10. Swarthmore College, Swarthmore, Pa., A. B. in economics 1915; honorary LL. D. 1947.

Marital: Married Jeannette Everett Laws of Swarthmore, Pa., 1924. Three sons, Thomas Jr., Richard Whaley, and James Laws. Home, 607 North Chester Road, Swarthmore, Pa.

Business Career: With Scott Paper Co., Chester, Pa. since 1916, salesman, 1916-17; assistant sales manager 1919-20; sales manager 1920-21; director since 1921; secretary and sales manager 1922-27; vice president 1927; president since 1927.

Company's plants are located in Chester, Pa., Glens Falls, N. Y., Fort Edward, N. Y., Marinette, Wis., Coos Bay, Oreg., Anacortes, Wash., Brunswick, Ga., (half interest), Hoboken, N. J., and Sandusky, Ohio.

Federal Reserve: Class C director, Federal Reserve Bank of Philadelphia since 1937, deputy chairman 1938, and chairman of the board and Federal Reserve agent since 1939. Former chairman of the chairmen's conference of the Federal Reserve System. Chairman of special committee for 2 years to study executive officers' positions and salaries in the 12 Federal Reserve banks.

Government service: Member of Business Advisory Council for the Department of Commerce since 1940, chairman 1944-45.

1940: Executive assistant to E. H. Stettinius, Jr., Advisory Commission to Council for National Defense.

1941: Deputy Director, Division of Priorities, Office of Production Management.

1941-42: Deputy Lend Lease Administrator.

1945: Army-Navy Liquidation Commissioner.

1945-46: Special assistant to the Secretary of State and Foreign Liquidation Commissioner.

1946: Awarded Medal for Merit.

Military service: First World War, served as private, advancing to captain, United States Army 1917-19.

Other public service: Committee for Economic Development, trustee and member Research and Policy Committee. International Chamber of Commerce, United States Associates Council member, and delegate to first Postwar Congress at Montreux, Switzerland, 1947. Community Chest campaign, Chester, Pa., chairman, 1947. Swarthmore College, board of managers, Swarthmore Presbyterian Church, formerly member of board of trustees.

The **CHAIRMAN**. The position is one of great importance, especially in view of the fact that President Truman has signified his intention to name Mr. McCabe as Chairman of the Board of Governors of the Federal Reserve System.

I have received many fine recommendations, from many sources, of Mr. McCabe, urging that I support this nomination.

On the other hand, several persons, including three United States Senators, have brought to my attention matters that, if proven, would tend to reflect on Mr. McCabe's record as a public servant.

I consider it my duty as chairman of this committee to present these matters to this committee, and to give Mr. McCabe ample opportunity to explain them when the presentation is through, in order that we may vote advisedly on his confirmation. I, for one, shall be glad to move his confirmation if his public record bears the test.

With this brief introduction, I will ask the clerk, Mr. Bowles, to read the statement that I have prepared, and I would say for the benefit of the committee, I have a letter which is very unusual, from a gentleman in New York, in tribute, and I would like to put that in the record in all fairness.

After the hearing this morning, hearings will be resumed this afternoon, with evidence from other witnesses, oral evidence, at 2:30 this afternoon. I will ask permission from the Senate that the committee may sit while the Senate is in session.

Now, Mr. Clerk, will you read?

Senator **SPARKMAN**. I wonder if we may know from whom the letter is.

The **CHAIRMAN**. I will be glad to read it. It is from a lawyer in New York. I may say that I put this letter in to lean over backward in giving all the evidence that I can in favor of a man. His name is Greenman, of the firm of Greenman, Shea, Lane & Sandomire, 46 Cedar Street, New York. [Reading:]

DEAR SENATOR TOBEY. I do not have the pleasure of knowing you personally, but if you will speak to Senator Saltonstall or Congressmen Judd, Coudert, or Javits, I am sure they would be willing to tell you that you may rely on my veracity as well as my judgment.

This letter is written so that you have first hand information about Mr. Thomas B. McCabe, of Philadelphia, from one who like yourself claims to be a liberal Republican. My claim to that designation rests on my devotion to Theodore Roosevelt, my record when, in 1936, I was the Republican candidate for Congress in the Seventeenth Congressional District New York (formerly represented by Bruce Barton and later by Joe Baldwin and now by Fred Coudert), my service to Wendell Willkie in 1940 as one of the leading assistants to the eastern campaign manager, and my record as the Republican leader of the Seventh Assembly District in New York in 1942.

I came to know Mr. McCabe in April 1945, when he was appointed Army-Navy Liquidation Commissioner. Judge Patterson, then Under Secretary of War, prevailed upon me (I was then a lieutenant colonel in the Judge Advocate General's Department stationed in Washington) to accept an assignment as general counsel to Mr. McCabe. The only thing I knew about him was that he came from Phil-

adelphia, was the head of Scott Paper Co., and chairman of the board of the Philadelphia Reserve Bank. Early in my career as a lawyer, I had had some experience with Philadelphia lawyers and bankers in which I took some positions adverse to them (ultimately sustained at least in part by the Supreme Court) which had left with me the thought that perhaps my ideas and those of Philadelphians did not jibe. So I wrote to Mr. William A. Schnader (a good friend of mine in Philadelphia and Republican candidate for Governor in 1934) and asked him what sort of person Mr. McCabe was, and he replied promptly that I would find him a liberal, and a businessman with a heart. He predicted I would enjoy working under him and would become devoted to him.

I served under him for nearly 8 months, first while he was Army-Navy Liquidation Commissioner and subsequently as Foreign Liquidation Commissioner. I was closely in touch with him on almost every day when both of us were in Washington. He had a strong sense of responsibility and he had an enlightened view of how our surpluses abroad could be utilized to promote international good will and alleviate suffering and distress abroad. But he never lost sight of the fact that he was disposing of public property and that advantage must accrue to the United States from any disposition. He was a practical idealist who could make both ends meet and who certainly was careful in the use of Government funds. During all the time I was with him, I did not inquire as to his politics, nor he as to mine. I was an Army officer and my service ended as a colonel on February 21, 1946, when I went on terminal leave. I did not know what his politics were until the newspapers announced his nomination to the Federal Reserve Board. I have had no relations with him since my return to civilian life and have seen him but once since then.

There seems to be a great deal of confusion today as to what a genuine liberal is. To me, a genuine liberal is one who, within the American free enterprise system, advocates justice for all and particularly measures for the improvement of the economic, social, and political welfare of the common man.

I might say that the Republican Party could not do any better in its platform in Philadelphia than to put that as the No. 1 principle as to where the Republicans stand in the present election. [Reading:]

To conform with that definition, it has always seemed to me necessary that one advocate the maintenance of fiscal policies which will at the same time keep the country solvent and enable it to live within its means. Judged by this standard, Mr. McCabe is a liberal whether he is a member of the Union League Club or not.

I sincerely hope you will find him worthy of confirmation, which I strongly urge. I should be pleased to appear as a witness before your committee, or to come to Washington at my own expense to discuss the matter with you.

Hoping to have the pleasure of seeing you, I am

Sincerely yours,

FREDERICK F. GREENMAN.

Senator BRICKER. I might say that I agree with his idea about keeping the country solvent.

The CHAIRMAN. Do you agree about the common man?

Senator BRICKER. Yes, absolutely, because I am in that class.

Mr. Chairman, just one thing besides the lightness of this; I have several letters in my office, and if you want them put in the file, I will. Also I have one from Secretary Patterson, one from Fred Lazarus, at home, and two or three others than I would like to make part of the file.

The CHAIRMAN. That will be done, and the other Senators will have the same privilege.

I now ask the clerk to read.

Mr. BOWLES (reading):

On December 28, 1944, the Secretary of War and the Secretary of the Navy, in a joint letter, created the Office of Army-Navy Liquidation Commissioner to exercise the powers of surplus property abroad and the settlement of claims. Mr. Thomas B. McCabe assumed office as Army-Navy Liquidation Commissioner on April 15, 1945. Since that time and at least until March 22, 1946, the date of the Report on the Investigation of the National Defense Program (Rept. No. 110,

79th Cong., 2d sess., pt. 6) by the Special Committee Investigating the National Defense Program, pursuant to Senate Resolution 71, Seventy-seventh Congress; Senate Resolution 6, Seventy-eighth Congress and Senate Resolution 55, Seventy-ninth Congress, Mr. McCabe and his organization had continued to be responsible for the disposal of surplus property abroad.

However, on September 27, 1945, by Executive Order No. 9630, the State Department was designated the disposal agency abroad. Certain functions over disposal of unconsumed lend-lease property, which had theretofore been claimed by the Foreign Economics Administration, and the disposal of the United States surplus property, which had previously been vested in the Army-Navy Liquidation Commission, were consolidated in the State Department.

This change was attended with some confusion, principally in administration and in bookkeeping, in the shift from one executive department to another. However, the personnel charged with the disposal of surpluses remained the same, since Mr. McCabe and his organization were taken into the State Department and continued the same functions as before, together with added duties which had theretofore been vested in the Foreign Economic Administration. (Cf. p. 15, Rep. No. 110, 79th Cong., 2d session.) Mr. McCabe resigned on September 20, 1946.

There can be no doubt that Mr. Thomas B. McCabe was the official who was mainly responsible for the sale of surplus property abroad which I shall now discuss.

Of the \$315,823,000,000 worth of war production, it was estimated that approximately \$100,000,000,000 worth was shipped abroad for the use of our troops and \$46,517,289,000 worth of goods and services were furnished to the Allies under lend lease. (Cf. p. 2, Rept. No. 110, 79th Cong., 2d sess., pt. 5.)

As of December 31, 1945, it was estimated that out of 14½ billion dollars worth of supplies abroad, \$11,000,000,000 worth was civilian type property. (Cf. p. 7, Rept. No. 110, 79th Cong., 2d sess., pt. 5.) The ultimate estimated (March 22, 1946) grand total of overseas surpluses was \$12,831,030,187. (Cf. p. 5, Rept. No. 110, 79th Cong., 2d sess., pt. 5.)

Mr. Thomas B. McCabe was charged with the ultimate responsibility of disposing of this \$12,000,000,000 worth of overseas surpluses on terms favorable to the United States as possible. Let us look at the record and see whether he measured up to the responsibility which he assumed upon accepting office under law.

Let us first take a look at the sale of surpluses to the United Kingdom and the lendlease settlement with the United Kingdom.

On December 6, 1945, an agreement was concluded with the Government of the United Kingdom to sell to it:

1. All surplus property of the United States forces located in the United Kingdom, with certain minor exceptions.
2. All unconsumed items which had been furnished to the United Kingdom on lend lease, and
3. The amount of lend lease in the pipe line as of VJ-day.

For the first two categories of items, namely, surplus property and unconsumed lend-lease materials, the United States Government was to receive a total of \$532,000,000, for the third category, \$118,000,000.

The total sum to be received was \$650,000,000, which was a firm figure, subject only to minor adjustments as to pipe line lend-lease. This sum of \$650,000,000 was not to be paid in cash, but was to be paid on the same terms as provided for the repayment of the then proposed loan of \$3,750,000,000 which was negotiated concurrently with the sale and settlement above outlined. These terms provide for the payment of interest of 2 percent, commencing in 1951, and principal payments over a 50-year period commencing with 1951, with the proviso that under certain conditions the interest for any year will be waived and the unpaid interest will not accumulate.

It was also agreed that no cash or other tangible consideration would be paid for lend-lease materials furnished by us to the United Kingdom consumed during the war, costing approximately 20½ billion dollars, nor for reciprocal aid furnished by the United Kingdom to us amounting to 4½ billion dollars. The net balance in our favor of lend-lease over reciprocal aid was \$16,000,000,000. For the cancellation of this balance, the United Kingdom agreed, as we did, to join with other nations in a conference to discuss ways and means of eliminating or minimizing international trade barriers and controls. The British, in general terms, agreed to support the position taken by State Department

experts in the draft of proposals for expansion of world trade and employment.

The sale of our surpluses, the sale of unconsumed lend-lease items; the payment for pipe line lend-lease and reciprocal aid and the net amount of claims; and the cancellation of the consumed lend-lease credit balances in our favor are lumped together as the "settlement of the war account."

Unlike the loan, no congressional approval was required for the settlement of the war account, which was negotiated by the State Department under the authority of the Lend-Lease Act and the Surplus Property Act of 1944 (p. 23, Rept. No. 110, 79th Cong., 2d sess., pt. 5).

On the face of it, does it appear that Mr. McCabe was a very able salesman? Let us listen to the Special Committee Investigating the National Defense Program.

The CHAIRMAN. From here on the testimony is taken directly from the files of the War Investigating Committee which was first headed by Mr. Truman and Mr. Mead and is now headed by Senator Ferguson, and it is verbatim from the testimony and many of these items have never seen the light of day. Proceed.

Mr. BOWLES (reading):

This committee states in its report:

"The bulk sales to the United Kingdom in December 1945 was a far poorer bargain for the United States than the bulk sale to France after the last war in July 1919.

"The benefits received from the United Kingdom for the cancellation of the consumed lend-lease balance in our favor are nebulous and require the United Kingdom to do no more than it ought to be willing to do anyway." (P. 2, Rept. No. 110, 79th Cong., 2d sess., pt. 5.)

Let us study some of the causes which led to this result.

Was there a tendency in some of our "big hearted" surplus salesmen to treat our surplus property abroad as mere rubbish, as having little real value?

In a hearing before the Special Committee Investigating the National Defense Program, on February 22, 1946, Mr. McCabe, speaking of a surplus property inventory in the United Kingdom, stated:

"It will be apparent from a review of this inventory that a very substantial portion of the items included are of little or no civilian utility and must be appraised at a fraction of original cost." (P. 16709, pt. 33, Hearings Before a Special Committee Investigating the National Defense Program—U. S. Senate—Pursuant to S. Res. 55, 79th Cong.)

Could a salesman of surplus property, who had such a low estimate of the goods he was hired to sell, obtain anything near a fair return for the product?

What was the truth of the matter? Were the goods comparatively of little value? The Special Committee Investigating the National Defense Program found the following facts to be true:

"There is a tendency to look upon Army and Navy supplies as having a present market value much lower than their cost, since they were originally designed for Army and Navy use, rather than for the civilian market. However, it should be remembered that in this country we devoted the best of our materials and the best of our productive ability to the creation of these supplies, and that they were purchased in high quantities at manufacturer's cost. In this latter connection, the committee has been advised by the War Department that the cost figures furnished the committee are based not upon early wartime costs, but upon the most recent prices at which such articles have been procured by the War Department and after our manufacturers had gained experience and had absorbed some of the initial costs incident to starting up production.

"Nor should we be led into the thought that these civilian type articles are not in urgent demand in foreign areas, where civilian production has either been disrupted by actual combat operations or has been diverted to the production of military items as much or more than has been the case in our country. The committee, therefore, disagrees with those who seek to treat our surpluses abroad as having little real value" (p. 6, Rept. No. 110, 79th Cong., 2d sess., pt. 5).

I have already pointed out that a large portion of our overseas surplus property consisted of critically short civilian type surpluses abroad. Export quotas could have taken account of this, more of these critical items could have been

kept in this country and such a policy would have assisted in stabilizing our economy.

Early in October 1945, the International Adjustments Committee of the Office of War Mobilization and Reconversion, composed of representatives of the War Production Board, War and Navy Departments, Foreign Liquidation Commissioner and other interested agencies, met for the purpose of formulating a uniform policy relative to the control of critically short civilian type surpluses abroad. As a result of the action of this committee, J. D. Small, Chief of Staff of the War Production Board, issued a directive to the Foreign Liquidation Commissioner, instructing him to notify the War Production Board or its successor of any sales abroad of the following materials: Automotive maintenance equipment, coal, construction machinery, Diesel and gasoline engines (60 to 200 horsepower), lumber, plumbing fixtures, rotenone, rubber footwear, shoes, galvanized sheet steel, textile products (and items and cloth), tires and tubes, and trucks.

The purpose of this directive was to enable the Civilian Production Administration to take into account the surplus sales of these items abroad in establishing and revising United States export quotas on these materials.

Note that Mr. McCabe and his organization, in the words of the committee report, were responsible for the disposal of surplus property abroad (p. 15, Rept. No. 110, 79th Cong., 2d sess., pt. 5). Did Mr. McCabe as a faithful public servant comply with that directive? Here are the findings of the Special Committee Investigating the National Defense Program upon this matter:

"However, from the date of the issuance of this directive through February 1946, the Foreign Liquidation Commissioner took no steps to follow the instructions set forth in the directive. As a result, some of the above-listed materials were sold abroad by the Foreign Liquidation Commissioner. In only one instance, involving the sale of tires and tubes to the French Government, was the Civilian Production Administration notified, so that some adjustments could be made in export quotas" (p. 8, Rept. No. 110, 79th Cong., 2d sess., p. 5).

Do not forget that Thomas B. McCabe was then Foreign Liquidation Commissioner. These are findings of a special committee of Congress that has accomplished its mission of findings the facts, and has done it well.

Was another cause that led to the "giving away," in practice, of our surplus property abroad, the pricing policy which was established by the Foreign Liquidation Commissioner? Would not one have expected that Mr. McCabe would have attempted to obtain a price which was fair to the American people, by obtaining the maximum return out of the sale of their goods which was consistent with other objectives set by the Surplus Property Act of 1944. Was that done? Let us look at the record.

The Foreign Liquidation Commissioner employed an appraisal company to work out a formula which established prices for various categories of surpluses based upon their condition. For example, class 45, according to the Standard Commodity Classification Index, which is motor vehicles, would be priced as follows: If new and good, 90 percent of cost; if new and fair, 65 percent of cost; if new and poor, 35 percent of cost; if used but good, 75 percent of cost; if used but fair, 50 percent of cost; if used but poor, 25 percent of cost.

On July 3, 1945, the policy was established by Mr. James S. Knowland, then field commissioner in Europe, as to all sales within his jurisdiction, that the price computed by the foregoing formula would be the "ceiling price." This meant that no offers to purchase at prices above this amount would be accepted. That is a strange policy, indeed, and certainly not one which was destined to obtain the maximum return out of the sale of surpluses abroad.

Did Mr. McCabe rescind this order of his subordinate? Indeed not. He approved the field commissioner's order and defended it before the Special Committee Investigating the National Defense Program.

Let us look at the record. Here is what the special committee thought of Mr. McCabe's ceiling-price philosophy:

"The policy is said to be based upon the desire of our Government not to gouge foreign governments or foreign nationals by taking advantage of the extremely short supply of items which we are selling. As a basis for this philosophy, it was stated in the subcommittee's hearing in Paris on January 30, 1946, that British trade in the future would suffer from the fact that the British surpluses in Iran had been sold by the British for several times what they had cost the British Government.

"The committee disagrees with this 'ceiling' pricing philosophy. First, the committee believes that the disposal agency was set up to merchandise and not to do a lot of other things. Second, once sold, our control over the goods is lost and there is nothing to prevent those who purchase our goods from reselling at market prices, thus realizing a handsome profit on turning over our surpluses. This is true whether purchasers be foreign governments or whether they be private individuals. Third, the establishment of controls to prevent inflation are peculiarly the responsibility of local foreign governments and it is an interference with their self-determination for us to decide that they need an Office of Price Administration.

"Certainly, any local regulations governing ceiling prices on goods should be observed in our sales abroad. In the absence of such regulations, however, the committee believes it is beyond the authority of our sales agents abroad to establish artificially low ceiling prices, since it encourages speculators to traffic and profit in goods which, after all, belong to the American people. Realizing that the criterion of 'fair price' established by the Surplus Property Act of 1944 vests a wide latitude of discretion in sales agents, the committee, nevertheless, believes that it should be the principal objective of our agents selling our surpluses abroad to obtain a price which is fair to the American people, by obtaining the maximum return out of the sale of their goods which is consistent with other objectives set by the act.

"The matter of fair value may well come into play where there is a strong competing demand for extremely scarce items, in which case it might be necessary to allocate on an equitable basis as between competing bidders.

"The committee is not impressed with Mr. McCabe's explanation for this pricing policy, that the pricing policy is academic for the most part, since it is only rarely that our ceiling price is bid first, because if it is advertised that we will not accept more than a fixed amount, any bidders aware of the fact are not likely to offer more, and second, if the ceiling prices are always above the market price, there is no point in having a ceiling price.

"The committee is of the opinion that the Foreign Liquidation Commissioner, in establishing this pricing policy, has gone far afield from his principal function and has sought to advance some nebulous theory of international good will and generosity at the expense of the American people, which is far beyond the duties of his office as contemplated by the Surplus Property Act and the regulations issued thereunder" (pp. 20 and 21, Rept. No. 110, 79th Cong. 2d sess., pt. 5; Special Committee Investigating the National Defense Program).

That is not yet the whole of the story pertaining to the sale of our surpluses to the United Kingdom.

One would think that Mr. McCabe would have assured himself that his subordinates would take a serious inventory of our surpluses abroad and make at least a fair appraisal of them. Should not Mr. McCabe have checked upon the type of inventory taken by the persons who constituted the sources of his information? Let us turn to the record to see what he did in this respect.

This is the simple recital of the fact as found in the Report of the Special Committee Investigating the National Defense Program, from which I quote:

"Mr. Robert Leland, a special assistant to the Foreign Liquidation Commission, made a visit to England in early November and spent 10 days or so, both in England in Paris, which is the central headquarters of the Foreign Liquidation Commissioner in the European theater. Mr. James M. Brittain, who had been the Foreign Liquidation Commission's representative in London from June 8, 1945, until November 28, 1945, returned to Washington in the middle of November and participated in the negotiations for the bulk transfer, as did Mr. Leland.

"Mr. Brittain testified that he made no study while in England of the market in England for the products which had been and were to be declared surplus; that he was familiar with the fact that the United Kingdom had price ceilings on its products, similar to our Office of Price Administration system, but that he made no examination of ceiling prices set by this system, nor any examination of market prices in the United Kingdom. Mr. McCabe testified that neither he nor anyone on his staff in Washington had consulted the catalogs or data available in Washington, either in the Bureau of Domestic and Foreign Commerce or elsewhere, bearing upon the ceiling price at manufacturers' level of the market value of the inventory of surpluses which he was in the process of selling. Mr. McCabe and Mr. Brittain testified on this point as follows, at the committee's hearing on Monday, February 25, 1946:

"Mr. MEADER. What study did you or your office here, or your agent in the United Kingdom, make of the market conditions in the United Kingdom?"

"Mr. McCABE. Well, we couldn't market there.

"Mr. MEADER. No. What study did you make of what items were bringing that you had to sell—for instance, electric wire? Did you know what electric wire was bringing in the British market?

"Mr. BRITAIN. I would be responsible for that, but it never occurred to me to do that, for the simple reason that you had to sell through the British Government, and it would not be useful to try to tell them what they needed or what they didn't need because they were very clear on that, as to what was a critical item for them.

"Mr. MEADER. In other words, the answer is that no study was made of what things were bringing on the British market.

"Mr. BRITAIN. You could know from being there that they were very short of practically everything, and there was a great demand. They had told me repeatedly that were they in funds, they would be delighted to buy it all, but they couldn't afford it.

"Mr. MEADER. And no study was made in Washington of the British market conditions on these items, that you had to sell?

"Mr. McCABE. Why, it didn't seem practical to do it. If we had made the study, I didn't see any useful purpose in it.

"Mr. MEADER. Well, you asked, as item No. 2 in your cable of November 26, 'Weight the factor of British market conditions,' Mr. McCabe.

"Mr. McCABE. As I say, as far as our making a general study, we didn't; I put that in there, yes, as a factor.

"Mr. MEADER. Among other items, 'What the British might realize or are realizing for similar goods to their nationals,' but now you and Mr. Britain say that wasn't of any importance. You asked General Strong to have that in mind, though.

"Mr. McCABE. As a factor, I didn't put it in as a most important item, I will put it that way."

On November 26, 1945, at 8 p. m., London time, Mr. McCabe, Foreign Liquidation Commissioner, in a teletype conference, requested Gen. F. S. Strong, who had been commanding general of the United Kingdom Base Section since August 6, 1945, to give his opinion as to the minimum asking price for United States surpluses in Great Britain. On Wednesday, November 28, 1945, at noon, a day and a half later, General Strong gave his reply. The knowledge General Strong had about factors bearing upon the value of our surpluses is disclosed in the following testimony at the committee's hearing on Monday, February 25, 1946:

"Mr. MEADER. Yes. I will read a passage from the TWX of November 26:

"From: McCabe.

"To: Strong, Brittain, and Fox.

"After you read British memo of November 5, and British report referred to earlier, if they show it to you, please cable me immediately your combined views and comments and your recommendations as to fair price we should seek in our negotiation with British for all factors: weight (1) what British might realize or are realizing for similar goods to their nationals; (2) cost of guarding property; (3) what we might realize if property sold elsewhere; (4) deterioration, pilferage, and so forth, which tends to decrease total value of property. There is wide divergence of opinion here between British offer and our value ideas and if bulk sale is desirable, there must be compromise. Therefore, send your recommendations of lowest compromise price for all United States surplus property, AAF, ASF, Navy, scrap, and fixed installations. Need tabulation by 11 a. m. our time Tuesday. Send immediately if clear by highest priority cable. Recommendations requested should reach us by Wednesday p. m., at latest."

"That is the cable on which you based your judgment?"

"General STRONG. That is right.

"Mr. MEADER. What did you know, General Strong, about what was being realized out of sales in Great Britain of property similar to that which you had on inventory?"

"General STRONG. I really didn't know anything at all. I think in the course of the TWX, you will notice there that I indicated that it was practically an impossible thing to do, but we had to give them something.

"Mr. MEADER. The second item, the cost of guarding property, did you know how much that was?"

"General STRONG. I could guess at that a little bit from our pay rolls, and so forth.

"Mr. MEADER. What was that?"

"General STRONG. I think our figure, of course, for the ASF, was about half a million a month, something of that sort.

"Mr. MEADER. Do you know about what we might realize if the property was sold somewhere else?

"General STRONG. I didn't.

"Mr. MEADER. And then what did you know about the amount of deterioration and pilferage?

"General STRONG. I could only guess at that.

"Mr. MEADER. That was your guess at what that was?

"General STRONG. I guessed a figure of 5 percent a month for everything, that is, obsolescence, the fact that it is a wasting asset, and when we get back into production all over the world, these things wouldn't be much good, the longer you kept them, the less value they probably had. I just struck a flat figure, as I recall it, of 5 percent a month on it.

"Mr. MEADER. For deterioration and pilferage?

"General STRONG. For every kind of thing, obsolescence or whatever you want to call it, losing your market, and the whole business.

"The committee (the Special Committee of the Senate Investigating the National Defense Program) is of the opinion that no adequate appraisal of the property was made by anyone upon which to base a fair judgment as to the price we should receive for it. According to the testimony previously quoted, no study of market conditions was made.

"The committee is of the opinion that altogether too little effort and attention was devoted to developing the facts concerning the nature and condition of our surpluses and their market value in the United Kingdom. These facts are the pertinent and controlling facts in establishing price in any commercial transaction. That they were deemed to be unimportant by the Foreign Liquidation Commissioner in conducting his negotiations with the British is an indication of the casual fashion in which these public assets were handled" (pp. 26, 27, and 28, S. Rept. No. 110, 79th Cong., 2d sess., p. 5; Special Committee Investigating the National Defense Program).

Did Mr. McCabe quote figures recklessly before the special committee of the Senate? The following excerpt from the committee report raises that question:

"Mr. McCabe testified to the committee that he was informed that the cost of guarding United States surpluses in Great Britain ran \$2,000,000 a month.

"It has been impossible for the Army to segregate the cost of guarding and storing surpluses from its operating expenses for other activities, and the best it has been able to do is to furnish rough estimates, which are not at all reliable. Therefore, it is impossible for anyone to say how much would have been expended in the handling of our surpluses if a longer period of disposal was necessary" (pp. 21 and 22, S. Rept. No. 110, 79th Cong., 1st sess., pt. 5; Special Committee Investigating the National Defense Program).

Was the final cause of our obtaining but a fraction of the cost of our surpluses in the United Kingdom Mr. McCabe's policy of making bulk transfers of our foreign surpluses to the governments of the countries where they were located? Did Mr. McCabe surrender easily to the cartel movement? It would seem that the United States would stand to make much more from sales to individuals than from a bulk sale to a foreign government.

For instance, Mr. McCabe, on December 21, 1945, and on February 22, 1946, in his testimony before the Special Committee Investigating the National Defense Program, spoke in glowing terms of a "very splendid recovery" made in surplus sales in Iran, where surplus property of this Government at original cost of \$186,000,000 had been sold to Iran for a total of \$31,000,000, of which less than \$3,000,000 was in credit, less than \$6,000,000 in local currency, and the balance in United States dollars, according to preliminary estimates.

Recovery shown on marketable fixed installations amount to 7.5 percent of original cost. Included in declarations were substantial values assigned to a highway, which is not regarded as marketable. On the movable goods costing \$33,000,000 originally, \$28,000,000 was recovered.

Mr. McCabe was brought to an abrupt halt, however, by the chief counsel, Mr. Meader, who asked him the following question:

You were not restricted in Iran from selling to individuals, as you were in the United Kingdom, were you?

Mr. McCabe had to answer:

No; not the same restrictions that we had in the United Kingdom.

On that same day, Mr. McCabe was reminded by Mr. Meader of a sale made by the Army in New Guinea of about \$20,000,000 worth of supplies that we had

there and which were sold for practically 100 percent of their original cost to the United States (pp. 16791 and 16792, pt. 33, hearings, Senate Special Committee Investigating the National Defense Program, pursuant to S. Res. 55 79th Cong.)

Even in the United Kingdom, before the bulk-sale agreement, a few private sales were made to individuals, and the United States realized a far greater percentage of the cost of the goods than under the bulk-sale agreement. The Office of Foreign Liquidation sold to United Kingdom nationals goods with a declared value of \$1,140 for a realization of \$750, and to other than UK nationals goods with a declared value of \$1,081,484 for a realization of \$400,566. (See p. 17570 of the Senate Special Committee hearings cited above.)

Those returns on our surplus in the United Kingdom were realized despite the fact, as Mr. McCabe testified, "that the first surpluses that we had declared had very little civilian appeal." (See p. 16793 of Senate Special Committee Hearings cited above.)

Mr. McCabe tried to justify the bulk sale of surplus to the United Kingdom on the ground that everybody of importance he talked to favored a transfer to the British in one lot and that the British were forced to a bulk-sale deal because of their lack of foreign exchange. (See p. 16709 of Senate Special Committee Hearings cited above.) There is nothing in the record that would indicate that Mr. McCabe tried, or attempted, to cause the State Department to use its good influence to have the United Kingdom change its policy in that regard and allow sales to private individuals.

The Senate Special Committee Investigating the National Defense Program referred to the bulk sale to the United Kingdom as "a far poorer bargain for the United States than the bulk sale to France after the last war in July 1919."

The special committee criticized Mr. McCabe's work as follows:

"The committee observes a trend toward the bulk transfer of our foreign surpluses to the governments of the countries where they are located. Considering the expense and difficulty of transporting our surpluses out of the countries where they are located and the prohibition against selling them to private individuals in such countries, foreign governments are in position to acquire our surpluses at a fraction of their cost. These sales are likely to be on credit.

"With all the time which has been available to have studied and worked out these problems, and with all the bargaining power which the committee conceives was ours at the cessation of hostilities, the committee is disappointed that we stand to realize so little on the value of our surplus property abroad" (pp. 2 and 3, Rept. No. 110, 79th Cong., 2d sess. pt. 5, Special Committee Investigating the National Defense Program).

This special committee of the Senate concluded:

"The committee believes that the restrictions, limitations, and conditions imposed upon us by foreign governments in the disposal of our surplus property abroad have thrown an additional burden of war cost upon the American people. The amount of this additional burden can be measured by the reduced return which we will receive because of our inability to sell our war surpluses abroad in an advantageous market. Not only have we been saddled with a huge public debt, fraught with economic repercussions, but our national resources have been depleted at a rapid rate. If these resources are not replenished, we will be weaker economically than we were before the war. Other governments were able to impose these restrictions on surplus sales because our representatives were not able to overcome the strong positions taken by the representatives of other governments. \* \* \*

"The committee's study of the quality of performance of agents who represented the United States in connection with bulk sale to the United Kingdom and other negotiations abroad has convinced the committee that a better job of representing the United States is feasible if only the expert ability existing in various branches of our executive department is fully marshaled and organized in order to develop the facts upon which a sound and fair position can be asserted for the United States and placed in effect" (pp. 38 and 39 of the Senate special committee report cited above).

In other words, the special committee found Mr. McCabe and his organization specifically responsible for the disposal of surplus property abroad. (See p. 15 of special committee report cited above.) I have quoted verbatim from the special committee report, which again and again finds fault with the policies and actions of Mr. McCabe as the man in charge of the sales of our surpluses abroad.

What is the request that is made of us at that time? Are we asked, simply, to confirm the nomination of a man to be a member of the Board of Governors of the Federal Reserve System, or are asked to reverse the finding of the Special Senate Committee Investigating the National Defense Program? These men studied Mr. McCabe's public record and apparently found him wanting in many respects as a public servant.

Who were these fellow Senators? Here is a list:

James M. Mead, chairman.		
Tom Connolly.	Hugh B. Mitchell.	Joseph H. Ball.
Harley M. Kilgore.	Frank Parks Briggs.	Homer Ferguson.
James M. Tunnell.	Owen Brewster.	William F. Knowland.

Did Mr. McCabe favor bulk sales as a fixed policy? Let us turn to India. Did he have a chance to obtain a fair return for our surpluses in that theater? An agreement had already been negotiated under which the United States would have realized that fair return. The Department of State had already ratified that agreement. Before the agreement was implemented, and while the Commissioner who had negotiated this favorable agreement was absent, did Mr. McCabe send his deputy to India to undercut the agreement by making a bulk sale on credit to the Government of India, with terms, inventory, and condition of goods to be determined later, all at a loss to the United States of millions and millions of dollars?

Mr. Walter B. Schleiter, central field commissioner, India-Burma theater for the Office of Foreign Liquidation Commission, negotiated, between the months of August and December of 1945, an agreement between the Foreign Liquidation Commission and the Government of India whereby the Foreign Liquidation Commission would be permitted to sell to private individuals and companies in India.

Previously the Government of India had officially gone on record to the effect that all disposals in that country would be handled by the Indian Disposals Branch. Schleiter negotiated this agreement on October 2, 1945, and ratification by the Executive Council for the Government of India was accomplished on the 10th of October 1945.

Seventeen days later, on the 27th of October 1945, the United States Department of State ratified the agreement.

On the 31st day of October 1945 the Government of India received a cable from Lord Halifax in Washington completely ignoring the existence of the Schleiter agreement and proposing negotiations contemplating a bulk-sale agreement.

The result of this cable was to nullify Schleiter's agreement. In Mr. Schleiter's words, in a hearing before the Special Committee Investigating the National Defense Program:

"After Lord Halifax's message, the Government of India obviously was sitting on the agreement and not allowing us to implement it" (p. 17, Disposal of Foreign Surplus: Special Committee Investigating the National Defense Program, U. S. Senate, Wednesday, November 13, 1946, Washington, D. C.).

Twenty-three days later, on the 23d of November, the Government of India called Schleiter into conference, revealed the existence of the Halifax cable, and suggested that Field Commissioner Schleiter turn over to them everything they wanted on memorandum receipts. This Schleiter refused to do but continued to sell to the general public some \$4,821,000 in surplus goods, up until December 8, 1945.

On the 10th of December 1945, Schleiter left India for a Christmas vacation in the United States and to report to Mr. McCabe upon his sales in India. One week later General Connolly, then Deputy Commissioner to Thomas McCabe, arrived in India, unknown to Mr. Schleiter, and on Christmas Eve negotiated a bulk deal for all surplus in India. This action killed the Schleiter deal. Schleiter claims that Connolly's action cost the United States \$300,000,000.

When Schleiter got back to Washington, neither McCabe, his superior, nor his assistants wanted to see him or to read his report. Schleiter heard of Connolly's bulk deal for the first time through the newspapers. Schleiter resigned in protest.

A further explanation of these strange doings was obtained by the Senate Subcommittee on Surplus Property on September 23, 1947. On that day Brig. Gen. W. O. Reeder, former field commissioner, India-Burma theater, Foreign Liquidations Commission, explained to the committee that he was sent home on the 16th of December 1945 by General Terry, the theater commander, to go to

Washington and get Mr. Schleiter fired. General Reeder went to Mr. McCabe, and Mr. McCabe talked to him and asked him a number of questions. When General Reeder next saw Mr. McCabe, the bulk sale to India had come out (pp. 8 and 9, transcript of hearings, Subcommittee on Surplus Property of Committee on Expenditures in the Executive Departments, Tuesday, September 23, 1947: Vol. 1, Negotiation by Walter B. Schleiter of Surplus Disposal Agreement With the Government of India).

On September 23, 1947, Maj. Gen. Donald H. Connolly, the Foreign Liquidation Commissioner, admitted that he had made the negotiations for the bulk sale. He stated that "Mr. McCabe wired him in Iran to go over to India." (See p. 25, transcript of Subcommittee on Surplus Property, cited above.)

Senator Ferguson, chairman of the subcommittee, properly scolded these individuals appearing as witnesses that day. On page 24 of that transcript he states:

"You see here you were interfering with what we know as free enterprise. He [Schleiter] wanted to sell to individuals and to firms, and he had a deal made for that. Then you kick it over and say: 'You have to sell it to the Indian Government.' That is 'statism.' That is what it amounts to."

The acquisition cost of the property in India that was sold amounted to \$650,000,000. What we got in return for it was the cancellation of \$40,000,000 debt we owed the Indian Government (their estimate), the end of lend-lease, and reciprocal trade to the closing of the theater. The Indians were to sell the surplus goods up to \$50,000,000 and keep the proceeds, and then split 50-50 for whatever sales they make over and above that amount. (See pp. 11-14, same transcript cited above.) The looseness of the whole deal is obvious when we consider that we have not even retained the right to look at the books kept by the Indian Government upon surplus-property sales. We originally had an agreement which General Reeder had provided for, whereby we did have general supervision and authority to look at their books.

At the hearing on September 23, 1947, Chairman Ferguson asked General Connolly, then the Foreign Liquidation Commissioner, the following question:

"Senator FERGUSON. But did you ever look at their books?"

"General CONNOLLY. No, sir. Because when the over-all sale was made—their feelings were hurt that we doubted their word, and that provision that General Reeder had in was wiped out here." (See p. 17, transcript of hearings of September 23, 1947, cited above.)

That was the deal which had its inception when Mr. McCabe personally engineered the undercutting of Schleiter's agreement.

An effort was made by officials of the Foreign Liquidation Commission to excuse this undercutting of the Schleiter agreement on the grounds that Schleiter was taking too much time to sell to private individuals, but Schleiter successfully refuted that statement by proof that the State Department and others had delayed his sales. Schleiter was never given an opportunity to prove that he could make sales rapidly under his negotiated agreement. (See p. 26, Disposal of Foreign Surplus: Special Committee Investigating the National Defense Program, U. S. Senate, Wednesday, Nov. 13, 1946.)

A brief excerpt from these same hearings will show us what foreigners think of such doings.

"Mr. SCHLEITER. I would like to add one more thing to this record as far as I am concerned. I mentioned the name of Sir Archibald Rowlands, whom I liked and admired very much, and I went over to England this summer on my own business, and I had a note from Archie Rowlands stating he had shaken the dust of India from his feet and now was the permanent head of the Ministry of Supply in England told to look him up when I got there. So I ran in to see him one afternoon, and I said: "Archie, there are a couple of things I would like to ask you about the surplus disposal question.' He said, 'Walter, that is all finished. Let's not talk about that.' I said, 'Let's talk about surplus.' He laughed and sat back and said, 'What do you want to know?' And I said, 'Archie, what did you think when you heard I wasn't coming back?' He said, 'Well, I will pay you a great compliment. We were very relieved.'

"Then I asked him some other questions and he said, 'Let's put it this way.' I said, 'The deal I made with you was fair, otherwise you never would have approved it (speaking of the Schleiter agreement).' He said, 'Yes, it was very fair for you and it was fair for us, but we thought we could make a better one if we used other methods.'"

Senator Ferguson, at that point, in the hearings, aptly remarked: "I think that expresses it." (See pp. 33 and 34 of transcript on Disposal of Foreign Surplus cited above—Wednesday, November 13, 1946.)

Then Mr. Schleiter continued:

"There is one other thing about Rowlands that I would like to put in, if I may, that is amusing and I think also has some bearing on it. One night I was at his club in London for drinks, and he introduced me to a retired British general named Jones with whom he was obviously on very friendly terms, and the general was kidding him about this and turned to me and said, 'How well do you know this fellow?' And I said, 'I know him very well indeed. He stole \$300,000,000 from me,' and Rowlands then said, 'Well, Walter, I didn't steal it from you personally. It was for the Ryots, the peasants of India, and the United States could well afford it.'" (See pp. 34 and 35 of transcript on Disposal of Foreign Surplus cited above—Wednesday, Nov. 12, 1946.)

At that point in the hearings, the chairman aptly remarked "I think that tells the story."

Yes, that tells the story of the bulk sales of surplus to India. Mr. Schleiter had made a fair deal for the American people as well as for other parties involved. Did Mr. McCabe have to show greater "generosity" at the American taxpayer's expense? The British admitted the Schleiter deal was fair, but they thought they could make a better one for themselves if they used other methods. According to Mr. Schleiter, the net loss to the United States was \$300,000,000 in one deal alone.

Let us now turn to Iran. We have already mentioned that a better return was obtained from this theater, where we were not restricted from selling to individuals, as we were in the United Kingdom (see p. 12 above). When Mr. McCabe wired Maj. Gen. Donald H. Connolly to go over to India to undercut the Schleiter agreement in December of 1945 (see p. 24 above), was Mr. McCabe choosing a man who had a kindred "generous streak" with the American taxpayers' money?

Again, let us turn to the record.

On September 23, 1947, General Connolly, then Foreign Liquidation Commissioner, appeared before the Subcommittee on Surplus Property of the Committee on Expenditures in the Executive Department, Senator Homer Ferguson, chairman of the subcommittee, presiding.

General Connolly explained that, at the time of the refund on the material sale in the Iran area which we are now discussing, he was under Mr. McCabe. (See p. 2, Transcript of Hearings; Subcommittee on Surplus Property of Committee on Expenditures in the Executive Department, U. S. Senate—Tuesday, September 23, 1947—Refund on material sale in Iran area.)

Then followed this amazing tale. A contract known as W-AML (P6C-1) 211 was executed on December 5, 1945, for the payment, in what was known as a bulk sale, of \$7,000,000, of which \$2,500,000 was in currency of the United States, and \$4,500,000 in Iranianials rials.

The contract ran from the Government of the United States to a man known as Mehdi Namazee, an Iranian merchant, who allegedly acted for or fronted for a large group of natives; and in connection with him in that transaction was one Meyer Abdullah, who allegedly was the executive officer of the syndicate.

Abdullah, more or less, according to rumor, acted as spokesman for this organization, and was very much involved in the execution of the contract, and also involved in the offering or asking for return of money through claims for alleged shortages, and spoilage of the property which they bought.

A colonel in the Army, Col. John D. Stetson, Jr., was acting as field commissioner for the Office of Foreign Liquidation Commission and he negotiated with the natives in connection with the sale of certain property located at a United States Army depot at Khorram Shahr. Considerable negotiation went on for several weeks, because the natives or the purchasers of this property claimed that there were shortages, pilferages, and losses, all of which, it appears, took place after they entered into the contract. The sale was made on a written contract in which there was a specific clause providing that the property would be bought as is, where is, and no refunds under any circumstances would be made.

It later appeared that a refund was made, in the amount of \$1,565,524.85, on or about the 15th of December 1946, through the direction of the field commissioner, John B. Stetson, Jr., with the concurrence of Gen. Donald H. Connolly, then Deputy Foreign Liquidation Commissioner. The refund was made about 2 months after Mr. McCabe's resignation, but the negotiation for the refund had been conducted by Mr. McCabe's agents prior to his resignation.

The field commissioner, John B. Stetson, Jr., estimated that the value of the goods sold was \$16,700,000. (See p. 29, Hearings on Refund on Material Sale in Iran Area, cited above.) Nevertheless, the contract price was \$7,000,000. Obviously, the contract price was made low in view of the fact that the Army was

about to retire from the area and because of the following fact: The contract stated that there would be attached thereto catalog B, and supplemental lists which would tell what property was sold. One of the obvious factors in fixing this low consideration was the fact that the Iranian syndicate was buying a list of material which might be inaccurate and the further fact that the field commissioner was not in a position to warrant the accuracy of the list. That appeared, for instance, in the following colloquy on page 44 of the hearings cited above:

"Senator FERGUSON. They were buying what was on the grounds.

"Mr. KENDALL (general counsel, Foreign Liquidation Commission, State Department, Washington, D. C.). They were buying a list of material which might be inaccurate. And we were not in a position to warrant its accuracy, because we knew it would not be accurate. Accordingly, the following clause was made a part of the contract:

"The seller agrees to and does hereby sell to the buyer "as is" and without any warranty except as to title, and subject to the conditions hereinafter set forth, and the buyer agrees to and hereby does purchase from the seller that certain property listed in catalog B and supplemental list attached hereto, and made a part of this agreement. It is agreed by both the buyer and seller that the quantities set forth in the attached catalog B and supplemental list may be inaccurate and therefore the buyer expressly agrees to the seller not to make any warranty as to quantity." (See p. 44 of hearings cited above.)

That clause could not be more clear. In spite of it, here is what took place. The Iranians were given possession of the goods for a whole month before they claimed there were shortages. (See p. 29 of hearings cited above.) The sequel appears from the following exchange on page 30 of the hearings cited above:

"Senator FERGUSON. How much did you reduce this contract?

"Mr. STETSON. We reduced it a million and a half, on the basis of the shortages, the list of shortages which they (the Iranian syndicate) gave to us.

"Senator FERGUSON. Well, did you take their word?

Mr. STETSON. Yes, sir."

Now, this Mr. Stetson was not as naive as his answer would imply. On page 35 of the hearings cited above, in answer to a question put to him by Senator Ferguson, as to why they could not have hired local people to guard the property, he stated that the Iranians could not be trusted to do that. In fact, upon the very subject of this deal, Mr. Stetson had written a memorandum on June 13, 1946, which read, in part, as follows:

"The situation is made extremely difficult, due to our inability to prove delivery, lacking the necessary Army records to that effect. I have, however, been disturbed by rumors to the effect that the syndicate was using a strategy of claiming shortages to offset losses due to falling markets. It seems to me that we are entirely at the mercy of the syndicate, being unable to prove that the goods they claim were short had actually been delivered." (See pp. 30 and 31 of hearings cited above.)

Mr. Stetson was, in that part of the memorandum, overlooking the very important fact that the Iranians had taken possession of the goods "as is, where is" under a contract that expressly denied the existence of any warranty as to quantity. The low consideration received for the goods already reflected that situation.

At page 43 of the hearings, Senator Ferguson asked the question:

"How do you know the Persian Government didn't remove them (the goods claimed to be missing)?"

Mr. Kendall, Chief Counsel for the Foreign Liquidation Commission, replied:

"We don't know that, sir."

Was that a clear violation of the law? The original contract was binding upon the Government of the United States and upon the Iranian syndicate. Did Mr. Stetson, with the concurrence of Gen. Donald H. Connolly, both of whom were acting under Mr. McCabe, give away to the Iranian syndicate 1½ million dollars of the American people's hard earned money?

It is true that Mr. Stetson and General Connolly tried to defend their action before the Senate Subcommittee on Surplus Property, but their excuses appeared quite lame to me. Their main excuse was the claim that Mr. Stetson had agreed orally, before the signing of the contract, that the clause in the contract with reference to a denial of warranty as to quantity would not be binding. You do not have to be a lawyer to know that this is no defense to a written contract, and that you cannot vary the terms of a written instrument through

proof of a contrary contemporaneous agreement upon the terms thereof. Both Mr. Kendall, general counsel, Foreign Liquidation Commission, and General Connolly, tried to justify Mr. Stetson's action upon the ground that Mr. Stetson's authority to make the refund was involved in the general "authority to sell, lease, exchange," in the Surplus Property Act.

When asked by committee counsel whether there was anything in the regulations which authorized a field officer to make a refund, Mr. Charles H. Kendall, general counsel for the Foreign Liquidation Commission, answered:

"No, the authorization to make a refund is in the power to dispose of the surplus property, you see." (See p. 66 of the hearings cited above.)

Of course, nothing in the Surplus Property Act gives power to a field commissioner nor anyone else to rescind a binding contract and give away money rightfully paid to the Government of the United States.

As Senator Ferguson aptly remarked: "If this procedure is correct, this Government is at the mercy of any particular individual, absolutely." (See p. 46 of the hearings cited above.)

Senator Ferguson summarized the whole deal succinctly in this colloquy: "This boils down to the fact that the United States Government" (and I interpolate that Mr. McCabe was the "Government" in this case) "sent one man over there and allowed him to deal in millions and millions of dollars' worth of goods as he saw fit. Is that not a fact?"

Mr. STETSON. That is pretty nearly the picture." (See p. 41 of hearings cited above.)

Finally, let us turn to China to see how Mr. McCabe performed his duty in that theater.

I first quote from an article by Mr. Herbert M. Bratter which appeared on pages 49 and 56 in Nation's Business in December 1947. The article is entitled "China's Job Begins at Home." I read:

"\* \* \* On the surplus property deal, China got the boodle, the American taxpayer the bill.

"The first batch of ships we disposed of to China—valued for disposal purposes at \$3,000,000—was handed over without our even getting an official receipt.

"Later, 18 tankers were turned over, the first four being delivered before the contract was signed. Then, while the Chinese held the four tankers as a pawn, our officials tried to get them to sign a contract for all 18, and finally succeeded only after writing down their value by almost \$200,000 each. That's only part of the story.

"Before the sale of these tankers to China, The Texas Co. (China) Ltd. had bid \$350,000 each for two of them. After we sold the 18 tankers to China, the Chinese offered some of them to The Texas Co. at \$400,000 each.

"The tanker deal enabled the Chinese Government to prohibit by law old-established United States oil firms from continuing in the up-river oil distribution business in China. United States ships had to be registered under the Chinese flag if they were to continue in this trade.

"Here is another case: In keeping with congressional policy, we had sold some surplus drum steel in Shanghai to two United States firms, the Texas Co. and the Standard Oil Co., for \$95,000. Half of the money had already been paid.

"Then the Chinese decided they wanted the steel. So they got the contract canceled and bought the steel for themselves for \$57,000. Nor is that all. Later we reduced the price to the Chinese to only \$19,000. The Chinese then sold the steel on the open market at a fat profit.

"Through the press, the American public has heard something about the disposal of Army surplus in Okinawa, one result of which was that Red Cross blood plasma—estimated to have been donated by 200,000 Americans to help win the war—ended up, in part at least, in China's drug trade. Among other surplus medical supplies so sold, narcotics found their way into illicit use in China.

"What the American public does not know is that this operation involved the Reliance Corp., financed by T. V. Soong's Fu Chung Corp.

"Prominent in the medical supplies deal was J. H. Powell Khoong who, according to Brig. Gen. Bernard A. Johnson of the Office of Foreign Liquidation Commissioner, was an agent of T. V. Soong. American officials witnessed in a Shanghai warehouse the intermeshing private interests and official interests. In this warehouse were stacked medical supplies and plasma bought by Khoong's company, and also surplus candy bought by the Chinese Government. Three

persons were allocating the distribution of these goods, an American Army officer, Khoong, and T. L. Soong. \* \* \*

The article which I have just read raises serious doubts as to whether our sales of surpluses in China were handled in the interest of the United States. The same holds true when we consider the circumstances surrounding our bulk sale to China of our surpluses located there and on 17 islands or bases. The cost price of these surpluses was estimated at \$824,000,000. (See Report to Congress by Department of State in January 1948, p. 11.) What did we get in exchange for these goods? The Chinese extinguished all except \$30,000,000 of the Yuan debt. The Yuan debt was a supposed obligation on the part of the United States to pay a debt which ranged in the neighborhood of \$150,000,000. They extinguished \$120,000,000 of that debt. We still owed the Chinese \$30,000,000 which we earmarked under the bulk sale contract for shipping and services in connection with transporting this surplus from the various islands and bases in China. (See pages 22969 and 22970 of part 39, Investigation of the National Defense Program, Special Senate Committee Investigating the National Defense Program, U. S. Senate, 80th Cong., S. Res. 46.) In addition we received other consideration estimated at \$50,000,000. We thus received an estimated total consideration of \$170,000,000, or 20 percent of the cost price of the goods.

To this day, it has never been clear just how we came to owe China \$150,000,000. Appearing before the Special Senate Committee Investigating the National Defense Program on September 27, 1946, Maj. Gen. Donald H. Connolly, then Foreign Liquidation Commissioner, tried to explain the Yuan indebtedness as "money during the war, local currency, furnished the Army for their expenses over there—for the pay of troops, for the purchase of supplies, services, and everything else." (See p. 22970 of the Investigation of the National Defense Program, pt. 39, cited above.)

Mr. Lane, Deputy Foreign Liquidation Commissioner, before the same Senate Special Committee, explained how Mr. McCabe took the Yuan indebtedness at face value, as follows:

"We had only to know from the Treasury how much did the United States, in the Treasury's judgment, owe China, and that figure we received from the Treasury. \* \* \* The decision that this was an obligation of the United States to China was made years ago by the War Department and by President Roosevelt as part of the conduct of the war. That was a decision over the dam. We had no judgment to exercise whether we owed China." (See p. 22971 of Investigation of the National Defense Program, p. 39, cited above.)

McCabe went personally to China to negotiate this bulk sale deal. It will be testified here that Navy Capt. Ferris N. Luboshez, chief counsel for the Central Field Commissioner for Manila, whose office had nominal jurisdiction over China, made an emphatic recommendation that Brigadier General Johnson, whom McCabe had sent as Commissioner to China, be barred from participation in the China bulk sale negotiations. McCabe's reaction to this was to leave Luboshez cooling his heels in his hotel room while Johnson took part in the negotiations with Chinese Premier T. V. Soong.

This was done in spite of the fact that one of the most serious charges against General Johnson was to the effect that Johnson had been actively negotiating with Soong, over a period of months, for a job with the Chinese Government as a sales manager for resale of United States surplus all over the world as soon as the bulk deal was made. The charge was to the further effect that Johnson's salary was to be \$35,000 (United States dollars) a year plus house, car, servants, and a commission bonus on sales.

Mr. McCabe did not believe those charges, in spite of the fact that he had been repeatedly warned of what was happening in his China office by two successive attorneys and a compliance officer for FLC, China, and in spite of the fact that his own compliance officer had provided him with evidence (through his executive, Colonel Starr and his counsel, Charles Kendall) of gross irregularities and mismanagement by his Commissioner for China, Brig. Gen. B. A. Johnson.

It will be testified here that Mr. McCabe's agents made known to General Johnson the details of evidence held against Johnson, and that the effect of this unwarranted procedure was virtually to sabotage the investigation before it was started.

It will be testified that the Inspector General, Colonel Dougherty, complained bitterly of this disclosure to Johnson, but in spite of it, was able to develop 17

charges against Johnson and the recommendation that the general be held for court martial, a recommendation that was endorsed by the theater commander. However, to this day the court martial has not taken place.

It was in this unwholesome atmosphere that the China bulk deal took place. The bulk deal agreement with China bears the signatures of Thomas B. McCabe, Foreign Liquidation Commissioner, and of T. V. Soong, president of the Executive Yuan, for the Government of the Republic of China.

A conspicuous loophole in the agreement appears under article 5, warranties. "That the United States warrants title to the property sold and that in lieu of any other warranty or undertaking as to the kind, size, weight, quantity, quality, character, value, description, condition, or fitness for use of the property sold, it is understood that if a material disparity is found to exist between the property sold to China hereunder and consideration given therefor by China, hereunder, the two Governments will consult together to fix an appropriate adjustment in the price paid."

Testimony will be given here which would indicate that gross irregularities existed in the Chinese theater. For instance, the first witness whom I shall call will produce evidence to the effect that General Johnson, Mr. McCabe's Commissioner in China, sold 11 operable B-25's with very low flying hours to a private Chinese firm owned by T. L. Soong, brother of Premier Soong. Testimony will be adduced that when the newspapers broke the story on this deal, Mr. McCabe, with no authority whatever for such action, ordered destruction of these bombers by cutting the tails off. Evidence will be presented to the effect that Mr. McCabe admitted that his objective was to forestall bad publicity at home. It will be testified that in the process of carrying out Mr. McCabe's order, another Army B-25 (which cost \$243,000 new) and which had not been declared surplus, was destroyed by Mr. McCabe's agents.

All of these charges deserve the grave consideration of this committee before action is taken upon the nomination of Mr. McCabe to the high office of member of the Board of Governors of the Federal Reserve System.

The CHAIRMAN. We will reconvene at 2:30 this afternoon.

(Thereupon at 11:50 a. m., a recess was taken until 2:30 p. m., the same day.)

#### AFTERNOON SESSION

(Pursuant to the taking of the noon recess, the committee resumed at 2:30 p. m.)

The CHAIRMAN. The committee will come to order, please.

Senator BRICKER. May I, before you proceed, just place in the record along with the letter that you did this morning, one from Mr. Fred V. Geier, president, Cincinnati Milling Machine Co., Mr. Fred Lazarus, one of our outstanding businessmen, as is Mr. Geier also, in Ohio, one from Mr. George Crabbs, and one from Secretary Patterson.

The CHAIRMAN. Does it say anything about liberal Republicans?

They may be included in the record.

Senator BRICKER. Nothing at all; nothing at all.

THE CINCINNATI MILLING MACHINE Co.,  
Cincinnati 9, Ohio, February 26, 1948.

Senator JOHN W. BRICKER,  
Senate Office Building, Washington, D. C.

DEAR JOHN: While I was in the West I read the wonderful news that Tom McCabe had been nominated as Chairman and Director of the Federal Reserve Board.

Having gotten to know him and having worked with him in recent years, I could not help but feel how fortunate it will be for the country and the economy to have him serve in this important post. I hope that you can help to make sure that his nomination is promptly confirmed.

Tom is one of those rare men in who people instinctively have trust and confidence. His experience in the Federal Reserve System, as a businessman and in Washington, his calmness and levelheadedness, and the gift he has of

working with others makes him a fortunate choice for the broad responsibilities involved.

With all good wishes,  
Sincerely yours,

FRED.

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FEDERATED DEPARTMENT STORES, INC.,  
*Cincinnati 2, Ohio, February 11, 1948.*

Senator JOHN W. BRICKER,  
*Senate Office Building, Washington, D. C.*

DEAR JOHN: I understand that you are a member of the committee that will pass on Thomas B. McCabe's appointment as Chairman of the Federal Reserve bank.

I have known Tom for several years. He has been an active member of the Committee on Economic Development, and also a member of the Advisory Committee to the Secretary of the Department of Commerce. In my judgment he is a very able citizen. I trust that you can see your way clear to participate in the confirmation of his appointment.

With all good wishes, I am  
Sincerely,

FRED LAZARUS, Jr.

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THE PHILIP CAREY MANUFACTURING Co.,  
*Cincinnati 2, Ohio, February 20, 1948.*

Senator JOHN W. BRICKER,  
*Senate Office Building, Washington, D. C.*

MY DEAR SENATOR: Just a word in connection with the confirmation of Mr. Thomas B. McCabe as Governor of the Federal Reserve Board.

I have been associated with Mr. McCabe as a trustee of the Committee for Economic Development and think very highly of his character and ability, and sincerely trust you will give his confirmation your careful consideration.

With all good wishes, believe me,  
Sincerely yours,

GEORGE D. CRABBS.

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PATTERSON, BELKNAP & WEBB,  
(CURTIS & BELKNAP),  
*New York 5, N. Y., January 30, 1948.*

Hon. JOHN W. BRICKER,  
*United States Senate, Washington, D. C.*

DEAR JOHN: I am told that the nomination of Thomas McCabe is to come before the Senate Banking and Currency Committee next week.

I know Mr. McCabe very well and have the utmost confidence in his character, ability, and qualifications.

In the early part of 1945 I persuaded him to take charge of disposal of Army-Navy surplus overseas. He did the work with marked success and at a heavy personal sacrifice. He is a splendid citizen.

With warm regards, I am  
Sincerely yours,

ROBERT P. PATTERSON.

The CHAIRMAN. The first witness is Mr. Hubert R. Moody.

Hold up your right hand. You do solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MOODY. I do.

The CHAIRMAN. This is Mr. Moody, who is presently employed as investigator for the United States Senate Subcommittee on Surplus Property, Homer Ferguson, chairman, and Senator Ferguson very kindly made him available to me with all records, and so forth. He has a statement to read and as he reads, I wish to conduct a direct

examination on certain points he makes. I would respectfully ask the committee if they would let him conclude his statement and my direct examination, and then the witness will be the committee's.

You may proceed.

**TESTIMONY OF HUBERT R. MOODY, INVESTIGATOR, UNITED STATES SENATE COMMITTEE ON EXPENDITURES, SUBCOMMITTEE ON SURPLUS PROPERTY, WASHINGTON, D. C.**

Mr. MOODY. My name is Hubert R. Moody. I am an investigator for the United States Senate Committee on Expenditures, Subcommittee on Surplus Property. Before being employed by the committee, I was a field compliance officer for the Foreign Liquidation Commissioner (FLC), Department of State and its predecessor agency, the Army-Navy Liquidation Commissioner, which was attached to the office of the Under Secretary of War. I came to the office of the Army-Navy Liquidation Commissioner in September 1945, from the office of the Secretary of War. There I had been an investigator for the Civilian Personnel Division during the war.

As a field compliance officer for the Office of Foreign Liquidation Commissioner it was my duty to investigate violations of the Surplus Property regulations, FLC directives and certain personnel matters in overseas field offices. I conducted surveys in the FLC central field office for the European Theater at Paris, the field office at Rome, the central field office for the Middle East at Cairo, the central field office for India-Burma at New Delhi, the central field office for the Philippines and western Pacific at Manila and the field office for China and eastern Asia at Shanghai. Although my field investigations were made in the year 1946, I was the first compliance officer from the home office of FLC in Washington to survey the field offices at Cairo, New Delhi, Manila, and Shanghai.

The CHAIRMAN. Would not regulation 15 under the Surplus Property Act specifically provide that a compliance organization be established to investigate violations of the Surplus Property Act?

Mr. MOODY. It does, sir, so provide.

The CHAIRMAN. I will ask to be inserted in the record regulation 15, Surplus Property Act issued under the Surplus Property Act, marked as "Exhibit A."

(Exhibit A is as follows:)

(SPA Reg. 15)

PART 8315—COMPLIANCE

Sec.	
8315.1	Definitions.
8315.2	Scope.
8315.3	Responsibility of Government agencies.
8315.4	Agency compliance organizations.
8315.5	Functions of agency compliance organizations.
8315.6	Extent of investigations: referral to other Government agencies.
8315.7	Records.
8315.8	Regulations to be reported to the Administrator.

Authority: 8315.1 to 8315.8, inclusive, issued under the Surplus Property Act of 1944, 58 Stat. 765, 50 U. S. C. App. Sup. 1611, and under Pub. Law 181, 79th Cong., 1st sess.

8315.1 *Definitions.* Terms defined in the Surplus Property Act of 1944 shall in this part have the meaning given to them in the act.

8315.2 *Scope.* This part applies to all disposal agencies authorized by or pursuant to the Surplus Property Act of 1944 to dispose of surplus property. This

part shall also apply to the War and Navy Departments and to all owning agencies which are designated by the Administration as disposal agencies. This part is directed to the operations of such disposal and owning agencies in disposing of surplus property under the act in the continental United States, its territories and possessions, and in foreign areas. Nothing in this part shall be deemed to affect the jurisdiction of the military services over their own personnel or any arrangement between such services and the Department of Justice concerning the handling and prosecution of criminal matters.

**8315.3 Responsibility of Government agencies.** Subject to the supervision and direction of the Surplus Property Administrator, each agency shall be charged with the responsibility of insuring that its disposal activities are in full compliance with the provisions of the act and with all regulations, orders, directions, and policy statements of the Administrator.

**8315.4 Agency compliance organizations.** To assist in carrying out its responsibilities relating to compliance, each agency shall establish, if not already established, and maintain a compliance organization adequate to carry out its functions hereunder.

**8315.5 Functions of agency compliance organizations.** Subject to the provisions of 8315.6 hereof requiring referral of criminal matters to the Department of Justice, the compliance organization of each agency shall perform such investigatory functions as are necessary to insure compliance with the provisions of the Act and with the regulations, orders, directions, and policy statements of the Administrator including:

(a) Periodic surveys of field unit disposal operations, to prevent or correct irregularities in the disposition of surplus property;

(b) Such special investigations as the agency or the Administrator may consider necessary to insure the observance of prescribed disposal procedures.

(c) Investigations upon the receipt of complaints or information from any source indicating irregular or improper disposal or surplus property.

**8315.6 Extent of investigation: referral to other Government agencies.** All information indicating violations by any person of Federal criminal statutes, or violations of section 26 (b) and section 27 of the Act, including but not limited to fraud against the Government, mail fraud, bribery, attempted bribery, or criminal collusion, shall be referred immediately to the Department of Justice for further investigation and disposition. Each agency shall make available to the Department of Justice, or to such other governmental investigating agency to which the matter may be referred by the Department of Justice, all pertinent information and evidence concerning the indicated violations; shall desist from further investigation of the criminal aspects of such matters except upon the request of the Department of Justice; and shall cooperate fully with the agency assuming final jurisdiction in establishing proof of criminal violations. After making the necessary referral to the Department of Justice, inquiries conducted by agency compliance organizations shall be limited to obtaining information for administrative purposes. Cases involving unfair trade practices shall be referred promptly by the agency to the Federal Trade Commission. Where irregularities reported or discovered involve wrong-doing on the part of individuals holding positions in Government agencies other than the agency initiating the investigations, the case shall be reported immediately to the Administrator for an examination in the premises.

**8315.7 Records.** Each agency shall prepare and maintain such records as will show full compliance with the provisions of this part and with the applicable provisions of the act. A written report shall be made of all compliance investigations conducted by each agency compliance organization. Each agency shall maintain centralized files of all such reports at its respective departmental offices. Until otherwise directed by the Administrator, there shall be transmitted promptly to the Administrator one copy of any such report which contains information indicating criminality on the part of any person or indicating non-compliance with the act or with the regulations, orders, directives, and policy statements of the Administrator. In transmitting such reports to the Administrator the agency shall set forth the action taken or contemplated by the agency to correct the improper conditions established by the investigation. Where any matter is referred to the Department of Justice or to the Federal Trade Commission, a copy of the letter of referral shall be transmitted to the Administrator.

**8315.8 Regulations to be reported to the Administrator.** Each agency shall file with the Administrator copies of all regulations, orders, and instructions of

general applicability which it may issue in furtherance of the provisions, or any of them, of this part.

This part shall become effective November 16, 1945.

W. STUART SYMINGTON, *Administrator*.

NOVEMBER 16, 1945.

The CHAIRMAN. Did not Mr. McCabe assume office as Army-Navy Commissioner on April 15, 1945?

Mr. MOODY. I believe that is correct.

The CHAIRMAN. When were investigators first sent overseas to perform compliance surveys?

Mr. MOODY. The first investigators, Captain Burk and Captain Smith were sent overseas, I believe, in March of 1946.

The CHAIRMAN. That was about 11 months after Mr. McCabe took office?

Mr. MOODY. That is right.

The CHAIRMAN. Does that mean that investigators were not appointed until that time?

Mr. MOODY. No, sir. These investigators had been on the pay roll for several months.

The CHAIRMAN. Proceed.

Mr. MOODY. There were indications of serious irregularities at Manila. However, before my investigation could get well under way there, I was ordered to proceed to Shanghai with Lt. Arthur Duffy, USNR, Fiscal Examiner for FLC Washington. The orders to proceed to Shanghai resulted from letters and a radiogram from Mr. W. F. McKenna, the newly appointed legal counsel to the field commissioner for China and eastern Asia, no relation to the counsel of this committee, incidentally.

The CHAIRMAN. Do you know whether Mr. W. F. McKenna, the legal counsel to the field commissioner of China and eastern Asia brought to Mr. McCabe's attention any irregularities in that theater?

Mr. MOODY. Yes, there were two letters to the Commissioner. One of them was sent during June of 1946, which disclosed a number of irregularities, not too well established, not too well proven, and 30 days later a second letter was sent by Mr. McKenna, which had strong evidence of irregularities in the China field office.

There was not a reply to either of these letters, and it was not until Mr. McKenna sent a cable through the offices of Mr. Monnett Davis, the consul general at Shanghai, before an investigation was ordered, before the letters were transmitted to me, and I was ordered to proceed to Shanghai.

The CHAIRMAN. Did Mr. McKenna state in that letter that he was asking for time so that FLC could clean its own house?

Mr. MOODY. In the second letter, yes. Consul General Davis had offered to step in and take direct action. However, Mr. McKenna asked for a little time so that FLC would have a chance to clean its own house first.

Before leaving Manila I was briefed by Navy Captain Ferris Luboshez, the general counsel for the FLC central field office, who had just returned from Shanghai where he had been talking with Mr. McKenna, the legal counsel for FLC, China. Captain Luboshez was particularly careful not to prejudice my investigation. He did, however, relate that there was: 1. Strong evidence that the field commissioner for

China and eastern Asia, Brig. Gen. Bernhard A. Johnson, while in charge of sales of American surplus property in the Far East was, at the same time, negotiating for jobs for himself and certain members of his staff with the Chinese Government to resell the same property for the account of the Chinese Government. The report of investigation by the Army Inspector General's Office was later to say of this negotiation:

Deliberate planning by him (General Johnson) for his employment with the Chinese Government subsequent to his relief from FLC duty, which could have the natural tendency of causing him to make decisions in favor of the Chinese Government at the expense of the United States.

The CHAIRMAN. Do you know whether Mr. McCabe was advised of General Johnson's negotiation before Mr. McCabe went to China?

Mr. MOODY. In my brief conversation with Mr. McCabe, he informed me that he had known about that sometime before. I believe it was about the last of June, at least near the 1st of June. Mr. McKenna's letter had so informed him.

The CHAIRMAN. Did Mr. McCabe advise you that he had known of an offer to General Johnson, and that General Johnson had himself advised him of such an offer?

Mr. MOODY. He stated that; he also stated that he had advised him not to accept it.

The CHAIRMAN. Was that simply an offer to Johnson, or was that a negotiation?

Mr. MOODY. Further evidence, as disclosed later, established pretty clearly that General Johnson was definitely negotiating for a job.

The CHAIRMAN. A job in China.

Mr. MOODY. A job with the Chinese Government.

The CHAIRMAN. While he was also negotiating the sale of goods to them.

Mr. MOODY. At the very same time.

The CHAIRMAN. There were two Johnsons in one person; one Johnson who was acting for the nominee, as the commissioner, and the other the Johnson who had ambition to get a job in China.

Mr. MOODY. Evidently, sir. As a matter of fact, Lt. Albert Diehl, one of the officers who worked for the Shanghai office, was offered, through General Johnson, a proposition with the Chinese, and at the time he discussed this, he showed Lieutenant Diehl what he was asking for in the way of a salary and compensation; as an example, he had scribbled on a piece of paper \$35,000 a year, plus house, automobile, and chauffeur, and other considerations.

There was some discussion and some evidence to prove that some other members of FLC who were to accompany General Johnson, were even to get a commission on sales of American surplus sold all over the world.

The CHAIRMAN. I see. Would you call those men patriots?

Mr. MOODY. Well, it would hardly seem so.

The CHAIRMAN. Proceed, please.

Mr. MOODY. 2. That the first attorney assigned to General Johnson by the Washington office of FLC, Maj. Lawrence E. Mullally, had been dismissed on Johnson's request because he had objected to a sale of medical supplies since proved to have included blood plasma donated to our armed services by Americans during the war which, along with

quantities of medical narcotics, found their way into the Chinese black market, and because Attorney Mullally had objected to General Johnson's policy of turning over great quantities of the most valuable property without contracts or price agreements.

The CHAIRMAN. By whom was Major Mullally dismissed?

Mr. MOODY. At the request of General Johnson by Mr. McCabe's Washington office.

The CHAIRMAN. Did Major Mullally explain to Mr. McCabe that blood plasma was included among the medical supplies?

Mr. MOODY. According to Major Mullally, he could not get an audience when he came back to Washington. He tried in vain to get appointments with Mr. McCabe, with Deputy Chester Lane, with his attorney, Mr. Ben O. Smith, all without avail. Nobody seemed to be interested.

The CHAIRMAN. Was not that incident almost an exact parallel of the treatment accorded Mr. Walter B. Schleiter, the field commissioner for India, upon his return from India?

Mr. MOODY. Very similar; yes, sir.

The CHAIRMAN. Was Mr. McCabe's Washington office notified by the Red Cross of the report of sale of blood plasma by FLC Shanghai before Mr. McCabe left for China?

Mr. MOODY. Yes. Mr. McCabe's office was notified on the 7th of August 1946, of the existence of this blood plasma, in a letter from the Red Cross, which urged immediate action to check and find out the status of this and find out whether it was true.

The compliance officers, including the chief of compliance, were not notified of that. As a field compliance officer, I had no notice of that. However, later, in September, Mr. McKenna and myself ran into this blood plasma in a warehouse in Shanghai and wired the Washington office of the existence of that, and urged action to be taken.

There was no reply from that cable either.

The CHAIRMAN. Did not the press get hold of this story of the sale of this blood plasma?

Mr. MOODY. Yes; but that was not for several months. To be exact, I believe it was about the 15th of November 1946 that the press broke the story all over the world as a result of an advertisement that the Chinese themselves had put into Chinese papers.

The CHAIRMAN. That was 4 months after Mr. McCabe's office had been notified of the illegal sale by Red Cross officials.

Mr. MOODY. Yes.

The CHAIRMAN. How much has been included in the sale to the Chinese black market?

Mr. MOODY. There was 160 measurement tons.

The CHAIRMAN. Do you have any estimate of the approximate number of Americans who donated this blood?

Mr. MOODY. I do not. The United Press estimated that it was the donation of more than 200,000 Americans, but I would have no way to verify that.

The CHAIRMAN. Did Mr. McCabe know that General Johnson had sold this blood plasma before Mr. McCabe had made his decision that General Johnson should continue to conduct negotiations with the Chinese on the bulk sale?

Mr. MOODY. That I cannot say, but his office certainly was notified by letter from—

The CHAIRMAN. The Red Cross letter?

Mr. MOODY. Yes, the Red Cross.

The CHAIRMAN. So he was put on notice through the Red Cross.

Mr. MOODY. Yes.

The CHAIRMAN. Proceed.

Mr. MOODY. 3. That General Johnson's policy of turning over property to the Chinese without contracts, price agreements, and in some instances without even receipts was continuing at that time over the objections of Mr. McKenna, the second attorney assigned to General Johnson by the FLC Washington office.

4. That 151 airplanes, including military aircraft, were sold in direct violation of instructions from Washington as "salvage" and that subsequently a number of them had been flown off the field. Of this transaction the Inspector General's report found, quote:

Making a sale of 151 aircraft under W-FLC (CH) Contract 458 at \$500,000 which was far below the established world-wide price of \$2,730,000 without having obtained prior Washington approval.

And—

Permitting 11 bombers (B-25's) to be included in the sale of 151 aircraft under W-FLC (CH) Contract 458 contrary to the existing policy of the United States Department of State which resulted in unfavorable world-wide publicity toward the United States Government by the press.

The CHAIRMAN. Was there not a flyable Army B-25 nonsurplus bomber destroyed in the process of carrying out an illegal order of Mr. McCabe?

Mr. MOODY. Yes, sir. Serial No. J-44-31140. The B-25 was destroyed in the process of carrying out Mr. McCabe's orders.

The CHAIRMAN. That was not a surplus aircraft.

Mr. MOODY. It was not. It was flyable.

The CHAIRMAN. Do we have a picture here of that?

Mr. MOODY. Yes.

The CHAIRMAN. I would like to display to the committee at this time that picture.

A bomber, B-25, serial J-44-31140, was not a surplus aircraft. It was flyable. Nevertheless it was destroyed in the process of carrying out a direct but illegal order of Mr. Thomas B. McCabe; is that correct?

Mr. MOODY. That is correct.

The CHAIRMAN. Press reports in Shanghai papers on August 28, 1946, revealed the inclusion of 11 B-25 bombers all readily flyable and with low flying hours, which had been included among 151 aircraft sold to a private Chinese air line.

Such sale was prohibited by law, was it not?

Mr. MOODY. That is right.

The CHAIRMAN. According to the Inspector General's report, Mr. McCabe ordered the destruction of these bombers to offset the bad publicity although as a State Department official he had no right to order the destruction of Army property.

Charles Kendall, legal counsel for Mr. McCabe was present when Mr. McCabe gave this order, and in fact urged Lieutenant Colonel Bell to proceed with the destruction as quickly as possible. Colonel Bell, then commandeered a junior officer and some enlisted men who

were ordered to mutilate the control surfaces on the 11 B-25's, and cut the tails off with acetylene torches, is that correct?

Mr. MOODY. That is correct.

The CHAIRMAN. Did you ever hear the story of Little Bo-Peep who lost her sheep and finally they came home leaving their tails behind them. Was that the inspiration of this thing?

Mr. MOODY. It may have been. I cannot say.

The CHAIRMAN. What is the value of this bomber?

Mr. MOODY. I understand, according to the air inspector, that the cost of this bomber was \$243,000.

The CHAIRMAN. Mr. McCabe's order to destroy these bombers was carried out in the afternoon of August 28, 1946, is that correct?

Mr. MOODY. I believe that is right, sir.

The CHAIRMAN. Will the clerk kindly read an excerpt from the North China Daily News, dated August 28, 1946, pertaining to the sale of B-25's, and have it inserted in the record as an exhibit?

Mr. BOWLES. This is entitled "Alleged Sale of B-25's to Commercial Line."

(Exhibit B is as follows:)

[The North-China Daily News, Wednesday, August 28, 1946]

#### ALLEGED SALE OF B-25'S TO COMMERCIAL LINE

Ten American B-25 (Mitchell) bombers in operable condition were turned over to the Central Air Transport Corp., by the Shanghai office of FLC in apparent direct violation of Federal regulations prohibiting sale as surplus of combat equipment except on specific authorization of the State Department and the Joint Chiefs of Staff, it was learned by the United Press yesterday.

Deliveries of the bombers, made several months ago, came to light when CATC revealed it had applied to the Chinese Ministry of Communications for authority to turn the bombers over to the Chinese Air Force, "which has machine guns and bombracks to fit them for combat," in a formal presentation ceremony.

On inquiring where a commercial aviation concern obtained Mitchell bombers, the United Press was told by CATC's operations department that they were purchased from the Shanghai office of FLC in a lot of approximately 150 planes.

CATC operations manager, Capt. Moon Chin, in an interview with a Chinese newspaperman boasted that some of the B-25's received from FLC had less than 700 flying hours logged against them and went on to explain that such planes are not considered old until they have flown 3,000 hours. He described some of the planes as B25-D's—manufactured late in the war.

#### NEED ONLY GUNS AND RACKS

His office explained that the Chinese Air Force has plenty of machine guns and bombracks (the only combat equipment missing from the planes) to outfit them as war planes.

Disclosure of the apparently illegal sale of the bombers came in the midst of Communist protests to the United States Government against a purported "huge secret deal" which the Communists said is being worked out for the sale of surplus United States war material to the Nanking Government and directly on the heels of the disclosure that alleged irregularities in the conduct of the Shanghai FLC office are under investigation.

The Communist New China News Agency yesterday claimed negotiations for a bulk sale of surplus United States war material was under discussion in "secret" conferences between Executive Yuan President T. V. Soong and Assistant Secretary of War Howard C. Peterson. Communist spokesman Wang Ping-nan said in Nanking that a written, formal protest has been drafted for presentation to Presidential Envoy Gen. George C. Marshall with the request he transmit it to Washington. He charged the alleged intended sale would "encourage reactionaries and prolong the Chinese civil war."

## PETERSON NOT TALKING

Efforts of American correspondents in Shanghai to reach Peterson for a statement on the Communist charges and protest were unavailing.

However, responsible quarters were emphatic that the known case of transfer of war planes to CATC was without sanction of the State Department or Joint Chiefs of Staff. While unable to speak for Peterson they were most skeptical of the Communist claims that some United States \$500,000,000 (M) of surplus war material would be sold China, as claimed by the Communists.

FLC, it was pointed out, has been negotiating for a "bulk sale" of remaining surplus in the Pacific area, but this, it was said, would be done under usual FLC rulings prohibiting sale of usable war material.

Meanwhile, published statements by Capt. Moon Chin and direct communication with the CATC operations office confirmed United Press reports that millions of dollars worth of serviceable aircraft had been sold CATC for an unusual small sum. CATC officials said 150 planes—including the 10 B-25's, 90 C-46's, two C-87's (Liberator bombers converted for cargo use) and 40-odd C-47's—were obtained on a contract which United Press learned totaled approximately United States \$500,000.

## A BARGAIN PRICE

The average cost thus would be something over United States \$3,000, only a little more than is charged in Shanghai for a commercial-type jeep.

Foreign Liquidation Commissioner Thomas B. McCabe said there is a "world-wide, standard price," for serviceable aircraft of such character, of approximately United States \$20,000 each.

On the question of the serviceability of the planes purchased, the China Press of July 11 quoted Captain Chin as saying, soon after the deal was completed:

"Some of the engines have as low as 20 flying hours. We learned that such engines may turn over 600 hours before being changed."

The newspaper added that China's (sic) "waxing enthusiastic over his outfit purchases, pulled out a sheet of paper and pointed out that his company is really getting some fine planes."

## WASHINGTON SILENT

WASHINGTON, August 25.—AFP.—The State Department has refused to make any comment on the irregularities discovered in the sales of surplus United States Army stocks in China.

However, it is learned that an inquiry will be opened shortly.

It is understood that the main irregularity lies in the unauthorized sales of arms to Chinese Nationalists, notably that of 10 bombers in perfect condition.

The CHAIRMAN. Proceed.

Mr. MOODY. 5. That a contract to sell sheet steel to American oil companies for \$95,000 cash was canceled unilaterally by Commissioner Johnson after half the price had been paid in United States dollars, in order that the Commissioner could resell to the Chinese with whom he was negotiating for his proposed job. In the resale to the Chinese General Johnson reduced the price to \$57,000 credit; terms of payment not agreed to. A few days later this price was further reduced to less than \$20,000 also on credit. The Chinese were admittedly buying for purpose of resale. It was reported that the Chinese offered part of this sheet steel back to the American companies who had originally contracted for it, but at a huge mark-up.

The CHAIRMAN. Did you ever discover any evidence of the sheet steel being offered to American companies at huge mark-ups?

Mr. MOODY. We did, sir. One of the officials of the Texas Co. stated to Mr. McKenna and myself that the Chinese had offered part of the sheet steel back to the Standard Oil Co. at a very high mark-up.

The CHAIRMAN. Go ahead.

Mr. MOODY. 6. That General Johnson had directed the United States Army to cease collecting cash for sales to a corporation controlled by Chinese officials of critical airplane spare parts, but to continue making

the deliveries. When the Army declaration forms showing most of this surplus property to be in new and good condition were sent to the FLC offices for pricing purposes, the forms were stamped "Salvage" by FLC and the price on over \$200,000 worth of property was in this manner reduced to about \$7,000.

The CHAIRMAN. This is the man Johnson doing this at that time who on evidence was seeking a job from the Chinese Government at this large salary with other increments and was representing the United States Government. He sold these planes for practically nothing and kept reducing the price, did not try to collect any cash, and let them have the goods, all while he was negotiating for a job in China to sell these?

Mr. MOODY. It was one of the men; he was a lieutenant colonel, Bell, answering to General Johnson, who was actually responsible for stamping these forms "Salvage," but evidence points to the fact that General Johnson was aware of the transaction.

The CHAIRMAN. All right. Go ahead.

Mr. MOODY. Even this price was reduced to less than a thousand by the assignment of claims of the United States against another air line, which that other air line was ready and willing to pay to the United States. The report of investigation of the Army Inspector General's Office was later to refer to this stamping by the FLC as having, quote:

a view toward falsifying the Foreign Liquidation Commission sales records.

The CHAIRMAN. Was this irregularity pertaining to the deal with the Hong Kong Government ever brought to the attention of Mr. McCabe?

Mr. MOODY. The Hong Kong Government transaction had to do with the next item that I am about to take up, Senator.

The CHAIRMAN. All right. Thank you. Proceed.

Mr. MOODY. 7. That shipping charges of over \$10,000 had been incurred by the United States Government when the Chinese refused to accept cargo which General Johnson had ordered shipped from Guam to Shanghai, as usual without contract. To pay this shipping bill, over \$10,000 of money received from sales of surplus, which money was the exclusive property of the United States Treasury, was paid out in cash by Commissioner Johnson. An attempt to cover this payment was made later by reducing the price when the goods were finally sold.

The CHAIRMAN. I repeat the question. Was this irregularity pertaining to the deal with the Hong Kong Government ever brought to the attention of Mr. McCabe?

Mr. MOODY. Yes, sir. I called it to Mr. McCabe's attention personally in my brief conversation with him the last of August, and I pointed out that this was one example to prove that General Johnson's word could not be depended upon.

I particularly pointed out that the wire which was sent to Mr. McCabe by General Johnson stating that the debt had been incurred by mistake was in itself a misrepresentation of the facts. I pointed out to Mr. McCabe that General Johnson had attempted to recover this \$10,000 by writing down the contract, and that he had again been warned that that was not possible, nor was it legal.

As I understand that transaction has not been settled yet.

The CHAIRMAN. Did the Inspector General later affirm that General Johnson misrepresented the facts in this case?

Mr. MOODY. He did so affirm.

The CHAIRMAN. Proceed.

Mr. MOODY. No. 8. That Mr. McKenna, the newly appointed FLC legal counsel at Shanghai, had informed the Washington office of FLC of these and other irregularities by a radiogram sent through the United States consul general at Shanghai, and was insisting on an immediate investigation.

9. That contributing to the urgency of the situation was the fact, recently discovered by the FLC legal counsel at Shanghai, that the Criminal Investigation Division of the United States Army in China had been receiving reports of these irregularities since the preceding April, some of which had been furnished by American newspaper correspondents, with an increasing probability of unfavorable publicity, and

10. That the consul general at Shanghai had been receiving repeated complaints from the American business community in Shanghai and from representatives of American business interests.

The CHAIRMAN. Who was the American consul general at Shanghai at that time?

Mr. MOODY. That was Mr. Monnett Davis.

The CHAIRMAN. I have here an editorial which appeared in the Shanghai Evening Post and Mercury on August 27, 1946. It is entitled, "Surplus Sales Need a Housecleaning."

It will be inserted in the record at this point as exhibit C, but I want to read one paragraph which reads as follows:

The best object lesson thus far recorded was in the case of the "China Dodges," originally intended for the Burma Road. Thousands of these vehicles were sold by the American Government to the Chinese Government and charged against the cost of building American airfields for Chinese defense, which was regarded as a 100-percent American expense. The trucks were acquired primarily for resale, but as they are not fitted to this part of the country, customers were few. Therefore, as the American Government had placed no conditions whatever on its sale, the Chinese Government clamped down an embargo on the commercial import of other trucks in order to put American and other dealers out of business and leave the Chinese truck selling organization a monopoly of the field.

(Exhibit C is as follows:)

#### THE SHANGHAI EVENING POST AND MERCURY

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[Shanghai, August 27, 1946, Vol. 65, No. 199]

#### SURPLUS SALES NEED A HOUSECLEANING

Investigation has been ordered concerning allegations of serious irregularities in the handling of United States Foreign Liquidation Commission contracts in Shanghai.

We strongly endorse this action. For months there has been all too much of rumor and dissatisfaction in this connection. Let the facts be brought out

into the open. If these facts justify disciplinary or punitive action, let there be no pulling of punches on what is clearly an issue of the utmost gravity.

But we propose something more.

We say that this investigation will be incomplete and unfair if it does not take in a second, broader aspect of the foreign liquidation question.

That aspect has to do with the fundamental policies under which American surplus is supposed to be sold. It is quite apart from the question of irregularity in the sense of dishonesty, for personal gain. It has to do with the rules of the game, and we advocate inquiry under this head, because we feel that the rules of surplus sale in China have been bad—designed to effect disposition of surplus goods on a completely short-sighted basis, penny-wise and pound-foolish.

To say that Foreign Liquidation Commission policy was to sell at any price would be an exaggeration, but not much of an exaggeration. Whatever care has been taken, so far as we could see, was merely to insure that a few easy dollars were gained by such sale—at whatever cost to American trade and traders.

Up to the present time the efforts of individuals and committees from such representative groups as the Shanghai American Chamber of Commerce and the National Foreign Trade Council have received little if any attention. There seemed a prevalent conviction that such representations were necessarily devoted to selfish rather than the national interest. It appears that at last there is some disposition to give a more open-minded hearing; and, in our opinion, this attitude is overdue.

If there have been personal irregularities in Shanghai, involving dishonesty for official gain, this detached and superior attitude higher up may well deserve some solid portion of the discredit.

The warning signals of a mistaken over-all American policy have been plain. Even the most superficial investigation would readily disclose that Chinese officialdom, which has received a top purchasing priority over several other categories (in which American businessmen ranked toward the bottom), has been very little concerned over what Washington has complacently presumed must be its first consideration—the acquiring of relief and rehabilitation goods to enable China to recover from war wounds.

What Chinese officialdom has clearly wanted was something, anything, that could be sold. Simply that and virtually nothing more. Let the most cursory inquirer look, as an example, at UNRRA-furnished road-building equipment rusting on open lots around Shanghai instead of being put into use on the frightfully devastated China highways. At the same time, there have been eager purchases of every sort of goods, ranging from luxury items to necessary replacements needed by American public utilities and other big firms, so that these could be sold at a profit.

The best object lesson thus far recorded was in the case of the "China Dodges," originally intended for the Burma Road. Thousands of these vehicles were sold by the American Government to the Chinese Government and charged against the cost of building American airfields for Chinese defense, which was regarded as a 100-percent American expense. The trucks were acquired primarily for resale. But as they are not fitted to this part of the country, customers were few; therefore, as the American Government had placed no conditions whatever on its sale the Chinese Government clamped down an embargo on the commercial import of other trucks in order to put American and other dealers out of business and leave the Chinese truck-selling organization a monopoly of the field.

Does this not suggest that for the preservation of American exports, and existing American commercial representation in China, it should instantly become the policy of the United States Government to sell no more surplus equipment to China without safeguarding clauses to prevent the extension of such practice? Yet nothing of the sort has been done; and, in fact, responsible quarters have advanced the argument that it would be an infringement of Chinese sovereignty to ask such a thing.

Yet Uncle Sam is the seller. No one can force him to sell. And if he sells it is his privilege to make such conditions as he feels called on to make. Who would suggest that he could not set the selling price? Is it not the height of silliness to think only in terms of sales price and to ignore the perhaps far greater price we may be paying?

If American trade with China in future is to be choked, that is a price. If representatives of American goods in China are to be starved out, that is a price. If China is to be encouraged along the practices of totalitarian states, that is a price. If by encouraging the greed of Chinese officialdom we in effect

connive at corruption of American officials, that is a price. All those things add up to a stupendous total against which it is childish to set a pitiful small heap of dollars gained by quick sale.

We have no desire to prejudge the Foreign Liquidation Commission people in China; and they naturally deserve, and will get, a square deal. It is to be hoped that everyone approached will tell the whole story without being disposed to hold back for fear of consequences.

It is time for a thorough, drastic overhaul of this whole surplus-property disposal problem in its every aspect. Just which parts of it smell worst is a matter for the investigators to find out. That it smells—bad—is beyond doubt.

The CHAIRMAN. There will also be inserted a report of the American Chamber of Commerce in Shanghai, dated May 31, 1946. It is a report of the committee on trade practices of the Chinese Government.

The first paragraph reads:

Your committee recommends that the American Chamber of Commerce bring to the attention of General Marshall and Consul General Davis, by personal interview, the concern of American businessmen resident in China with respect to the trend toward the creation of Chinese state monopolies in the field of private enterprise.

And then:

Your committee invites attention to an outstanding example of this detriment to private enterprise, viz, the transactions relating to surplus-property disposal. The problem presented by these transactions, because of the volume of material involved, and its availability, calls for particular consideration of the method by which such property is distributed. The disposal of surpluses if not properly supervised can result in the impairment of the reputation of the manufacturers of those products which comprise these surpluses: it can disrupt the economy of the country in which they are received in quantity; and, in the final analysis, can stifle the efforts of reputable companies established in China. A specific example of these effects is the recent arrangement by the Chinese Government to secure large supplies of trucks, the sale of which is forced in China by the prohibition of the importation of trucks by private companies. The fact that the original embargo, as embodied in customs order No. 51, has been somewhat modified, should not be construed as a rejection of the principle involved, since the small number of trucks which may be imported in the future is limited to those for which United States funds are available in the United States.

(Exhibit D is as follows:)

#### AMERICAN CHAMBER OF COMMERCE

##### REPORT OF COMMITTEE ON TRADE PRACTICES OF CHINESE GOVERNMENT

Your committee recommends that the American Chamber of Commerce bring to the attention of General Marshall and Consul-General Davis, by personal interview, the concern of American businessmen resident in China with respect to the trend toward the creation of Chinese state monopolies in the field of private enterprise. This trend is contrary to the stated aims of the Chinese Government, which, as recorded in the resolution of the Supreme National Defense Council on December 28, 1944, indicated that state monopolies would be limited to:

- (a) Postal service and telecommunications.
- (b) Arsenals.
- (c) Mints.
- (d) Principal railways.
- (e) Large-scale hydraulic power developments.

That this limitation is not being adhered to is evidenced by the action of the following governmental and quasi-governmental agencies operating in the United States or in China:

1. The Chinese Supply Commission.
2. The National Resources Commission.
3. The Central Trust of China.

4. Universal Trading Corp.
5. National Industrial Association.
6. China National Relief and Rehabilitation Administration (CNRRRA) (insofar as certain developments relating to rehabilitation are concerned).
7. Miscellaneous entities not yet identified.

These organizations have operated in conjunction with the following agencies in the United States Government to bypass established American companies in China:

1. United Nations Relief and Rehabilitation Administration (UNRRA).
2. Foreign Liquidation Commission (FLC).
3. Export-Import Bank of Washington.
4. Unidentified entities in Washington.

In combination with one or more of the above agencies, the Chinese Government can, and does, exert controls over private enterprise by utilizing its prerogatives as a sovereign power to acquire or purchase raw materials and finished products advantageously and then to protect its position by imposing restrictions, such as embargoes, on trade.

Your committee invites attention to an outstanding example of this detriment to private enterprise, viz, the transactions relating to surplus-property disposal. The problem presented by these transactions, because of the volume of the material involved and its availability, calls for particular consideration of the method by which such property is distributed. The disposal of surpluses, if not properly supervised, can result in the impairment of the reputations of the manufacturers of those products which comprise these surpluses; it can disrupt the economy of the country in which they are received in quantity; and, in the final analysis, can stifle the efforts of reputable companies established in China. A specific example of this is the recent arrangement by the Chinese Government to secure large supplies of trucks, the sale of which is forced in China by the prohibition of the importation of trucks by private companies. The fact that the original embargo, as embodied in customs order No. 51, has been somewhat modified should not be construed as a rejection of the principle involved, since the small number of trucks which may be imported in the future is limited to those for which United States funds are available in the United States.

To avoid the ill effects of the controls summarized above, your committee recommends that representations be made to our Government to consider the following:

(1) That sales by the United States Government to the Chinese Government of surplus supplies be limited to materials required for the use of the Chinese Government only. In cases where the quantities purchased involve an excess, such excess to made available to private buyers, it being a prerequisite of the sale to the Chinese Government that provision be made for the disposal of such excesses through recognized dealer organizations.

(2) That Chinese Government buying agencies in the United States, both governmental and semigovernmental, be limited in their activities to purchases for the direct use of the Chinese Government.

(3) That the Export-Import Bank include in its activity provision for the financing of private enterprise in China and not limit its loans to the Chinese Government only. In this connection it should be noted that, according to the program of the Export-Import Bank, "foreign applicants other than governments or their agencies may apply directly to the bank, but the support of their governments will ordinarily be required before a credit can be negotiated."

Under the present restrictions on private enterprise in China, this requirement of the Export-Import Bank effectively confines loans to the Chinese Government only.

(4) That the FLC consider the desirability of supplying material to recognized private agencies already established in China, fixing a maximum resale selling margin, in order to protect the legitimate agent or manufacturer's representative against unfair competition imposed by speculation resulting from scarcity. It should be recognized that the reliability of the firms charged with the resale of surplus properties should be an important consideration and that the guiding principle involved in the price structure should be to obtain a fair price for the materials, based on replacement cost less fixed rates for depreciation, and not necessarily to favor the highest bid. Such action on the part of FLC will accomplish the following:

(a) It will assure the ultimate purchaser a fair price for the commodities purchased, thus minimizing black-market operations.

(b) It will uphold the prestige of United States manufactured products in that they will be properly distributed and serviced by agencies responsible to their principals.

(c) It will enable established American companies to survive in China during this period when only limited shipments are available from the United States.

This whole issue revolved around the question as to whether or not Chinese economy is to follow a Soviet or an American pattern. Your committee does not believe that the United States Government proposed to cooperate in the creation of a Chinese Amtorg, the pattern of which is now distinctly discernible, and it is already clear that, if the present trend continues, such an outcome is inevitable. In its present stage of development and for any foreseeable future period, this development must of necessity operate contrary to the interest of private enterprise.

It is obvious to those who have been associated with the existing Chinese Government agencies that none of them are equipped to undertake the responsibilities involved in the purchase, distribution, installation, and servicing of the products which they propose to handle. With untrained, inexperienced, frequently shifted personnel they cannot possibly cope with the multiplicity of technical details involved in serving the needs of either their own Government or private industry as effectively or as efficiently as these requirements can be met by well-established concerns in China. The activities of these governmental agencies to date are more in the nature of "buy and sell" ventures rather than being part of a properly organized effort to industrialize China.

Operating in this manner, with an overhead that may be obscured or submerged by governmental whitewashing, dealing with United States Government agencies unfamiliar with the industrial customs and trade practices of China, and being subject to no responsibility for the application, distribution, and servicing of American products, they can eventually destroy the established reputation of those products.

In the interests of the Chinese users of United States products, the reputation of which is the foremost responsibility of the American concerns established here in China, your committee feels that representations should be made to General Marshall, Consul General Davis, and other responsible United States Government officials, looking to their cooperation in discouraging this monopolistic trend on the part of the Chinese Government, which, if not checked, will seriously impair the future of American business in China.

Shanghai, May 31, 1946.

The CHAIRMAN. Is this Mr. Monnett Davis the one who has just been appointed Ambassador to Panama?

Mr. MOODY. Yes, sir.

The CHAIRMAN. Do you know whether such complaints were made to Consul General Davis?

Mr. MOODY. I know from Mr. Davis himself that repeated complaints were made by the American business community, and that it was on this basis that he was willing to take direct action.

I further understand that he was present at a rather stormy meeting of the American Chamber of Commerce, which was attended by several prominent members of the American business community, who protested to Mr. McCabe, who was more or less the guest of honor at that meeting, that United States business interests had been seriously and in many cases permanently damaged by the maladministration of surplus property in China.

These businessmen made an emphatic plea that safeguards be provided in the bulk sale which would put an end to discrimination against American business.

According to the several businessmen who attended this meeting, and to whom I talked later, Mr. McCabe's answers were a bit vague and noncommittal. His parting remark was reported to have been,

"Well, gentlemen, there are obviously many things that you do not understand about surplus property disposal."

The CHAIRMAN. The safeguards so urgently requested were not provided in the bulk sale, which contained a single ineffectual clause to the effect that American business would be treated on a nondiscriminatory basis.

Mr. MOODY. That was certainly the opinion of the American businessmen whom we talked to later, who thought the abuses were continuing in spite of the bulk sales.

The CHAIRMAN. And it was several days later, on the 29th of August, to be exact, when the bulk-sale contract was signed by Mr. McCabe and T. V. Soong.

Mr. MOODY. It was several days after this chamber of commerce meeting, yes.

The CHAIRMAN. Proceed.

Mr. MOODY. I arrived in Shanghai on August 11, 1946. Three days' intensive investigation and study of accumulated evidence, with the full cooperation of the Army Criminal Investigation Division under the leadership of Capt. George Plotkin, resulted in my request to Consul General Monnett Davis for assistance from a qualified investigative agency of the United States Government.

Negotiations were commenced for further Army assistance in investigating what appeared to be criminal offenses. FLC directives required that in such instances the Department of Justice be informed.

Since the head of the Foreign Liquidation Commission, Mr. Thomas B. McCabe, was due in Shanghai later that week, I planned to relate the full facts to him in order that he could transmit them to the Department of Justice. On the FLC organization chart, the control office where I was located as field compliance officer, reported directly to Mr. McCabe.

The consul general, Mr. Monnett Davis, requested that he be permitted to advise Mr. McCabe first of the seriousness of the situation. On Mr. McCabe's arrival, I was unable to obtain an appointment with him, but a consultation was arranged between Col. Ed Starr who was Mr. McCabe's executive officer, myself, Navy Captain Luboshez, Mr. McKenna, the legal counsel at Shanghai, and Mr. Ward and Lieutenant Duffy, both of the FLC Fiscal Office.

The full facts then in our possession were related to Colonel Starr. Captain Luboshez attested to his examination of the evidence at hand and, as a result, of his strong opinion that General Johnson should take no further part in the negotiations with the Chinese. Colonel Starr stated his disagreement with Captain Luboshez's position.

I concluded my recitation of the facts with a request that the FBI be called into the case pursuant to Surplus Property Regulation 15 since, in my opinion, there was no doubt that there was strong evidence pointing to criminal transgressions, and because the FLC roster included military, naval, and civilian personnel, and FLC itself was a civilian agency of the Government.

General Johnson himself was on terminal leave at the time but was occupying the job of Commissioner as a civilian. Navy Captain Luboshez and Mr. McKenna, the only lawyers present, stated that, in their respective opinions, FLC was legally bound to report the matter to the Department of Justice immediately.

The CHAIRMAN. Did not regulation 15, issued under the Surplus Property Act of 1944, and which has already been inserted in the record, provide that such cases should be reported to the Department of Justice?

Mr. MOODY. It did, sir.

The CHAIRMAN. And section 8315.6 of that regulation provides as follows:

8315.6. *Extent of Investigation. Referral to other government agencies.*—All information indicating violations by any person of federal criminal statutes or violations of Section 26 (b) and Section 27 of the Act, including, but not limited to, fraud against the government, mail fraud, bribery, attempted bribery, or criminal collusion, shall be referred immediately to the Department of Justice for further investigation and disposition. Each agency shall make available to the Department of Justice, or to such other governmental investigating agency to which the matter may be referred by the Department of Justice all pertinent information and evidence concerning the indicated violations; shall desist from further investigation of the criminal aspects of such matters except upon the request of the Department of Justice; and shall cooperate fully with the agency assuming final jurisdiction in establishing proof of criminal violations. After making the necessary referral to the Department of Justice, inquiries conducted by agency compliance organizations shall be limited to obtaining information for administrative purposes. Cases involving unfair trade practices shall be referred promptly by the agency to the Federal Trade Commission. Where irregularities reported or discovered involve wrong doing on the part of individuals holding positions in government agencies other than agency initiating the investigations, the case shall be reported immediately to the Administrator for an examination in the premises.

You understood that.

Mr. MOODY. That is right, and that is the basis on which I asked Consul General Monnett Davis for assistance.

The CHAIRMAN. Proceed.

Mr. MOODY. Colonel Starr replied that he would not call in the FBI because the FBI were, and I quote, "a bunch of publicity hounds." He said he would ask General Johnson to request an investigation by the local office of the Army Inspector General and that if General Johnson refused, he would insist.

Gen. Donald H. Connolly has since testified before the Senate Subcommittee on Surplus Property that Mr. McCabe himself requested the United States Army Inspector General's Department to conduct the investigation.

A considerable animosity on the part of the higher officials of the FLC toward those who had reported the unpleasant facts of the Shanghai office quickly became evident. Lt. Col Coleman Cook had borne the brunt of the resistance to the mismanagement in the office between the time of the departure of the first legal counsel, Maj. Lawrence Mullally and the arrival of Mr. McKenna. Colonel Cook was repeatedly refused permission to speak directly with Mr. McCabe, and both he and his wife were subjected to personal abuse.

Navy Captain Luboshez and Mr. McKenna, the attorneys appointed by Washington for the central field office at Manila and the China office, respectively, understood that they were removed from the bulk sales negotiations with the Chinese Government because of their criticism of the conduct of the Shanghai office, and of the field commissioner's private negotiations for employment with the Chinese.

Although Mr. McCabe announced publicly that two investigations were under way; one by the Inspector General and one by FLC, that by FLC presumably under my direction, obstacles were placed in the

way and I was not permitted to report to Mr. McCabe, or even to talk with him, except for a 10-minute conversation on Saturday, August 31, the day before Mr. McCabe was to leave China.

The CHAIRMAN. Do you remember generally what you told Mr. McCabe in that 10-minute conversation on Saturday, August 31, the day before Mr. McCabe was to leave China?

Mr. MOODY. In general, I related that to Mr. McCabe, that I had seen sufficient evidence to indicate that General Johnson himself was deeply involved in the irregularities in the Shanghai office, and I had found General Johnson quite willing to misrepresent the facts to clear himself.

I cited General Johnson's taking of the unappropriated funds to pay an unauthorized shipping charge in spite of instructions to the contrary from the Washington office, and also of Johnson's outright misrepresentation of this in his cable, which was quoted to Mr. McCabe to illustrate my point.

I further pointed out that evidence indicated General Johnson was continuing to negotiate with the Chinese for a job in spite of the fact that he, Mr. McCabe, had advised him against such action.

I believe that letter from Mr. McCabe was June 30, 1946.

Mr. McCabe replied that he had planned, he planned to relieve General Johnson in the near future, stated that was in accordance with General Johnson's earlier request that he be relieved from the duty upon consummation of the bulk sale.

Mr. McCabe more or less defended Johnson's record on the basis of his percentage of recovery as compared to other areas, but asserted that Johnson's weakness lay primarily in his poor public relations.

In my reply to Commissioner McCabe, I pointed out that such matters as turning over vast quantities of property to the Chinese without contract, acting as an agent of the Chinese Government to resell surplus ships to American firms, and cancellations of contracts already executed and partially paid for by American firms, and later turning this property over to the Chinese at nearly 80 percent discount on credit, could hardly be just considered bad public relations, but outright violation of the law, and regulations as laid down by Congress.

Mr. McCabe, as I recall, did not attempt to reply to this. Our conversation ended rather abruptly.

Although Mr. McCabe could not find time to talk to me, I say that until I demanded an interview, he did find time, however, to call in Mr. McKenna, the legal counsel for FLC in China, and ask him why he had not in his capacity as legal adviser to General Johnson forestalled the irregularities now under investigation.

Mr. McKenna replied that he had exhausted every resource in this direction before asking for help from the Washington headquarters. But his efforts, like those of his predecessor, had been in vain.

The CHAIRMAN. Proceed.

Mr. MOODY. Colonel Dougherty, who was in charge of the investigation by the Inspector General, complained that every bit of evidence had been revealed in detail to General Johnson, thereby severely prejudicing the investigation. Later Col. Ed. Starr admitted that he had advised General Johnson of the specific evidence held against him.

Mr. McCabe's answer to Navy Captain Luboshez's recommendation that General Johnson be barred from taking further part in the official negotiations with the Chinese, in view of his admitted personal nego-

tiations, was to project General Johnson into a prominent part in the discussions, but to eliminate Captain Luboshez for making the suggestion.

The CHAIRMAN. Was Captain Luboshez acquainted with the problem involved in the bulk sale to China?

Mr. MOODY. He was very definitely involved in that. He had taken part in the earlier negotiations with T. V. Soong and other high Chinese officials, and it appeared at that time that his absence from those negotiations was rather conspicuous.

The CHAIRMAN. All right. Proceed.

Mr. MOODY. Mr. McKenna flatly refused to continue as legal counsel to FLC in China, so FLC sent Mr. Allan Coker to serve as legal counsel for their Shanghai office. Within 10 days after his arrival, Mr. Coker refused to serve further.

The CHAIRMAN. Do you know why Mr. Coker refused to serve further?

Mr. MOODY. He came up very much sold on the China office. Within 10 days he quit and refused to serve further. I know that he prepared a wire, whether he sent it or not, stating in effect that no legal council could work for FLC Shanghai.

The CHAIRMAN. Proceed.

Mr. MOODY. There is no point in my going further into the detailed results of the investigation. They are in the files of the Senate Surplus Property Subcommittee.

Col. Joseph S. Dougherty, a man of unusually long experience in the Inspector General's Department and equally pronounced courage, persisted in his investigation.

The following is the summary, prepared by Colonel Dougherty, of his findings:

1. (a) Conclusions by the investigating officer against Col. (former Brig. Gen.) Bernhard A. Johnson, O166223:

(1) The unauthorized approval of a refund to CATC on W-FLC (CH) Contract 136 amounting to \$38,000.

(2) Making a sale of 151 aircraft under W-FLC (CH) Contract 458 at \$500,000 which was far below the established world-wide price of \$2,730,000 without having obtained prior Washington Approval.

(3) Permitting eleven medium bombers (B-25's) to be included in the sale of 151 aircraft under W-FLC (CH) Contract 458, contrary to the existing policy of the U. S. Department of State which resulted in unfavorable world-wide publicity toward the U. S. Government by the press.

(4) Accepting the opinion of Lt. Col. John E. Bell of the Sales Division, an unqualified aircraft inspector, as to the condition of the 151 aircraft sold under W-FLC (CH) Contract 458 who declared said aircraft unflyable and suitable only for cannibalization which opinion was not in agreement with their condition as declared by the Army Air Forces.

(5) Having approved W-FLC (CH) Contract 771 covering the sale to Central Air Transport Corp. of surplus property costing the U. S. Government \$212,995.96 of which \$197,090.73 was declared as salvage by Lt. Col. John E. Bell of the Sales Division with a view toward falsifying the Foreign Liquidation Commission Sales Records.

(6) Causing a shipment to be made of canned foodstuffs from Guam to Shanghai prior to securing a written contract of sale which resulted in an expenditure by the U. S. Government of \$10,752.87 in connection with W-FLC (CH) Contract 337.

(7) Falsely reporting to the Washington Foreign Liquidation Commission Office by radio on 14 May 1946 in a request for funds to cover the incurred indebtedness mentioned above, that the said local transportation and temporary storage charges were incurred as a result of "inadvertent off-loading at Shanghai, cargo consigned to Hong Kong," in that the shipment was not originally consigned to Hong Kong.

The CHAIRMAN. There will be inserted in the record as exhibit E a copy of the telegram from General Johnson to Mr. McCabe upon this subject.

(Exhibit E is as follows:)

## DEPARTMENT OF STATE

[Incoming telegram]

5366. Yokohama via War. Undated.

*Rec'd 8:43 a. m., May 15.*

Secstate.

Priority. Unnumbered, undated.

For McCabe, FLC:

CFB 01162. Local transportation and temporary storage charges of \$11,622.16 U. S. dollars incurred by this office as result of inadvertent offloading at Shanghai cargo consigned to Hong Kong. Contract was with Hong Kong Government payment of which was made to London and Washington leaving no unpaid balance to offset charges against. Requested that such amount be made available this office either by permitting our paying invoice from local sales receipts or draft on U. S. Bank with branch Shanghai.

JOHNSON.

The CHAIRMAN. Proceed.

Mr. MOODY (reading):

(8) Establishing an unauthorized "Contingency Fund" by means of withholding cash receipts from sale of surplus stock rather than turning them promptly into the Army Finance Office on regular collection vouchers.

(9) The payment of the aforementioned charges (par. 1a (a)) from the proceeds of local sales receipts specifically unauthorized for such payment, which resulted in an actual cash loss to the U. S. Government of \$10,752.87.

(10) The covering up of the said unauthorized payment by rewriting W-FLC (CH) Contract 337, inserting that the said expenditures were to be paid by the purchaser and reducing the original selling price of the items by an equal amount.

(11) Failure to insure that an actual inventory was made of items received in Shanghai on the "S. S. Hook Hitch," and failure to cause an actual inventory of the same items to be made as they were purchased on the 'E-Wing' and "Wing Sang" for the Hongkong Purchasing Commission, which resulted in the U. S. Government having to accept the count of the purchaser after the arrival of the foodstuffs in Hongkong, showing a considerable shortage of items, and therefore an additional loss to the U. S. on W-FLC (CH) Contract 337.

The poor administrative procedures in his office, which, in regard to W-FLC (CH) Contracts 369 and 512 resulted in embarrassment to the U. S. Government by reflecting that its policies favored foreign governments over American business interests.

(13) His local priority policy which in the above instance caused a cash loss of \$95,000 to the U. S. Government and prevented the highest bidder, an American firm, from making the purchase.

(14) Failure to have sold two T-1 tankers to the Texas Company (China) Ltd., for \$700,000 cash when renegotiating his original agreement with the China Board of Supplies thereby making a credit sale of the said tankers at \$420,000.

(15) His policy in charging the Shanghai Office of the United Nations Relief and Rehabilitation Association, largely financed by the U. S. Government, higher selling prices than on FLC sales to the Chinese Government.

(16) His policy in offering U. S. Government surpluses to the Chinese Government at prices considerably less than stated to other purchasers.

(17) Causing delivery to be made of a concrete barge to the China Board of Supplies prior to a written agreement, which error resulted in a credit loss to the U. S. Government of \$10,000 on W-FLC (CH) Contract 221.

(18) Authorizing delivery of surplus property to CNRRA prior to a written agreement with the ultimate purchaser, UNRRA, under W-FLC (CH) Contract 1198 which after considerable delay and difficulty was corrected without loss to the U. S. Government.

(19) Deliberate planning by him for his employment with the Chinese Government subsequent to his relief from FLC duty, which would have the natural

tendency of causing him to make decisions in favor of the Chinese Government at the expense of the U. S.

(Excerpt taken from Confidential ltr CSOIG 333.9 Foreign Liquidation Comm 12/2/47.)

An illustration of the attitude of FLC topside officials toward the whole investigation is the following comment by Maj. Gen. Donald Connolly in a telephone conversation between himself and Col. Ross Hunter of the Inspector General's staff on May 2, 1947, recorded with General Connolly's consent, regarding a request from the Office of the Foreign Liquidation Commissioner for information as to the status of the Inspector General's report of investigation of FLC China and when it could be expected:

Colonel HUNTER. The last paragraph of your letter is this: "The Office of Foreign Liquidation Commissioner, Department of State, desires to take appropriate action based on the findings of the Inspector General. It would be appreciated if a copy of the Inspector General's report in this matter could be forwarded to this division as promptly as practicable for use of the Foreign Liquidation Commissioner."

General CONNOLLY. Oh, Christ, no.

The CHAIRMAN. There will be inserted as Exhibit F a transcript of this conversation between General Connolly and Colonel Hunter on May 2, 1947.

(Exhibit F is as follows:)

TRANSCRIPTION OF TELEPHONE CONVERSATION BETWEEN GENERAL CONNOLLY, FOREIGN LIQUIDATION COMMISSIONER, AND COLONEL HUNTER, IGD, MAY 2, 1947

Colonel HUNTER. Well, I'll record it if you want me to, General.

General CONNOLLY. Uh?

Colonel HUNTER. Well, I'll record it if you want me to, General, since you're doing it. We received two communications, both of them are from Jack D. Neal, Chief, Division of Foreign Activity Correlation, of the State Department.

General CONNOLLY. Division Foreign?

Colonel HUNTER. Activity Correlation.

General CONNOLLY. Correlation; yes?

Colonel HUNTER. Of the State Department to the Liaison Officer of the War Department with the State Department. One of these is the request for the report of investigation in the Far East matter, of which you are aware, and the other is a request for the report of the investigation in that Belgium matter. You know that matter?

General CONNOLLY. Uh—I think that's the one of the—really, it's the sale to the British.

Colonel HUNTER. That's the one.

General CONNOLLY. Yes.

Colonel HUNTER. Well, now—

General CONNOLLY. Gaylord and somebody.

Colonel HUNTER. Yes, that's the one.

General CONNOLLY. Gaylord and Edwards.

Colonel HUNTER. Yes, that's the one. Gaylord Edwards, I think. Well, as you know, General, we are quite anxious to cooperate and give you anything we can.

General CONNOLLY. Sure.

Colonel HUNTER. And my idea was that perhaps you didn't know about these and Mr. Moody—you know who he is?

General CONNOLLY. Yes.

Colonel HUNTER. He has been over here several times inquiring about that investigation from the Far East.

General CONNOLLY. Well, it's none of Mr. Moody's business, I don't think he is with us any more. (I had gone to the IG office in Pentagon at the request of my superior, Travis Fletcher, Chief Compliance Officer, FLC.)

Colonel HUNTER. Well, he's with something in the State Department.

General CONNOLLY'S SECRETARY. He's with us still, General Connolly.

General CONNOLLY. He is.

Colonel HUNTER. Is he still with you?

General CONNOLLY. I—I—

SECRETARY. I think only for a very short period.

General CONNOLLY. Well, don't give him anything.

Colonel HUNTER. Well, he's been asking for these and came over here a couple of weeks ago and I told him the only way you can get any reports or official War Department documents is for the Secretary of the State to make a request to the Secretary of War and the matter will then be given appropriate consideration.

General CONNOLLY. Yes.

Colonel HUNTER. And a couple of weeks after I told him that, in come these two communications and I just didn't think you knew anything about it.

General CONNOLLY. I didn't—and I don't like it.

Colonel HUNTER. Now, I can tell you for your own information—we'll take No. 1, the Far East one. I know Mr. Moody's relationship with that and it was my idea you weren't particularly anxious for him to see that.

General CONNOLLY. We were not.

Colonel HUNTER. And I didn't know whether you were asking this or someone was asking it for him. As I say, that's your business and not mine.

General CONNOLLY. Well—

Colonel HUNTER. But I thought I would just call it to your attention.

General CONNOLLY. Yes, just skip him. Thank you very much.

Colonel HUNTER. Well, as to that, I'll tell you the story on it. We were advised by cable that they had completed the investigation, the report would be submitted the last few days of April and we should get it shortly thereafter. Do you wish an answer on that?

General CONNOLLY. An answer to what—to the State Department?

Colonel HUNTER. Yes.

General CONNOLLY. You let me look that up and find out how it started.

Colonel HUNTER. All right, now that's one. Now the other one is on this Belgium matter we were talking about. We do have that report. It's a copy that was sent over at the request of somebody in the War Department and it wound up here. We have one copy of it—it was apparently investigated for the FLC.

General CONNOLLY. Well, I got by cable the other day the gist of that over there so that it will come to our people, and I think the only thing that we wanted to look at—I think the Inspector General found that these matters were under the Army depots, these people let the equipment go.

Colonel HUNTER. That's right.

General CONNOLLY. Although, we hadn't told them that the other people had paid and hadn't paid. We had to go out and gold-dig them in the entire matter, and collected \$1,200,000 or something like that.

Colonel HUNTER. That's right.

General CONNOLLY. But I think that report says one of our men was derelict too. That was the only thing that we were interested in seeing.

Colonel HUNTER. Yes.

General CONNOLLY. Now—

Colonel HUNTER. Would you like me to send this report through channels to you, or would you rather look the matter up first.

General CONNOLLY. Let me look that up first, too.

Colonel HUNTER. Give me a call and we'll be glad to do anything you want done.

General CONNOLLY. Well, thank you very much. And now that one on the Far East. We turned that over to you at Shanghai.

Colonel HUNTER. That's right.

General CONNOLLY. And we were very grateful for the fact that you took it, because we did not want to investigate ourselves, because we wanted an outside agency over which we had no control—so it wouldn't look like any whitewash—we didn't think there was much to it, but we wanted to have it done outside. The thing that came up about that recently was that Mr. Patterson called me up and he said that a Senator from Tennessee was asking about this colonel—what's the gentleman's name out there?—there was one man that they were holding?

Colonel HUNTER. I forget his name, but I know that whole circumstance.

General CONNOLLY. And he said—

Colonel HUNTER. Fact I was up with the chief on that. I know that whole story.

General CONNOLLY. All Patterson's part was either release the officer or prefer charges against him; that you've had enough time to make up your mind.

Colonel HUNTER. That's right. Now that's where we got the information that the investigation had been completed, in response to a cable that we sent immediately following Mr. Patterson's conversation. Let me read you the last part of the letter we got from the State Department. By the way, it's dated April 22, 1947, and in the upper left-hand corner, in reply refer to FC:D.

General CONNOLLY. FC what?

Colonel HUNTER. FC with a colon and D—that's F for Frank, C for Charlie, the colon, and D for dog.

General CONNOLLY. Yes.

Colonel HUNTER. The last paragraph of your letter is this: "The Office of Foreign Liquidation Commissioner, Department of State, desires to take appropriate administrative action based on the findings of the Inspector General. It would be appreciated if a copy of the Inspector General's report in this matter could be forwarded to this division as promptly as practicable for use of the Foreign Liquidation Commissioner."

General CONNOLLY. Oh, Christ, no.

Colonel HUNTER. However, you'll call me up.

General CONNOLLY. Yes; we'll call you and let me look that up.

Colonel HUNTER. Righto.

General CONNOLLY. All right, thank you very much for calling, Hunter.

Colonel HUNTER. Don't mention it.

General CONNOLLY. O. K. Goodby.

The CHAIRMAN. Proceed.

Mr. MOODY. Upon his return from China, Mr. McCabe resigned as the Foreign Liquidation Commissioner. I have no reason to believe that his resignation had anything to do with the developments, but am convinced that it was long planned. General Johnson was replaced as field commissioner for China and eastern Asia on October 15, 1946. His successor, assigned by Mr. McCabe, was removed for cause 3 months later.

The CHAIRMAN. What is the name of this successor to General Johnson who was removed for cause 3 months later?

Mr. MOODY. That was Mr. Donald Davis.

The CHAIRMAN. He was appointed by Mr. McCabe as FLC commissioner for China?

Mr. MOODY. Yes.

The CHAIRMAN. What kind of work had he done before his appointment?

Mr. MOODY. He was an UNRRA representative at Manila.

The CHAIRMAN. What kind of a record did Mr. Donald B. Davis make as an employee of UNRRA?

Mr. MOODY. I understand that Mr. Davis' record later, after he had been appointed Foreign Liquidation Commissioner, showed up some definite irregularities.

The CHAIRMAN. Did Mr. McCabe appoint Mr. Donald B. Davis as FLC commissioner for China in spite of his record with UNRRA?

Mr. MOODY. I do not believe, Senator, that Mr. McCabe had any knowledge of Mr. Donald Davis' record, but I do not believe that it had been investigated.

The CHAIRMAN. When Mr. Davis was removed for cause 3 months after his appointment, was the reason for his removal stated to be the shortage in his UNRRA accounts? Was that the reason given?

Mr. MOODY. I believe not. I believe the reason for his removal was stated as misrepresentation on the Form 57, application for employment.

The CHAIRMAN. Falsification of his experience record?

Mr. MOODY. Falsification of his previous experience.

The CHAIRMAN. Proceed, please.

Mr. MOODY. I understand that a special committee of the Department of State on inspecting the operation of FLC in the Far East recommended that Navy Captain Luboshez be placed in charge as field commissioner to salvage as much as possible for the interests of the United States Government and that this appointment was made.

The CHAIRMAN. That concludes the statement of Mr. Moody, and my examination of him. He is turned over now to the committee for any questions they wish to ask.

Senator CAIN. I would like to ask several questions, because of my total lack of familiarity with the background of this subject.

How many individuals, if any, have gone to the penitentiary as the result of criminal misconduct?

Mr. MOODY. I do not believe that any person has in the history of FLC been convicted of any irregularity. I do not believe that with the exception of Colonel Bell and General Johnson that any of them have even been indicted.

Senator CAIN. The charges, however, which you have related before this committee, you turned over to the responsible authorities in the course of your official duties?

Mr. MOODY. That is right, sir.

Senator CAIN. Every instance of what you consider to be criminal misconduct was passed by you to responsible superiors?

Mr. MOODY. That is right, to the inspector general, who was in charge of the investigation.

Senator CAIN. Would you mind satisfying my curiosity by describing the nature of the personal abuse which covered a particular lieutenant colonel and his wife?

Mr. MOODY. Yes, sir. Colonel Cook was the original person who began to take exception to the many irregular practices in the Shanghai office. Colonel Cook was quickly made the butt of the whole investigation by General Johnson; all sorts of threats were made against him. These are available in the records of the Inspector General.

The other persons in the Shanghai office were advised that very serious charges were pending against the Cooks, and were even advised not to speak with them. Many of the Cooks' privileges were withdrawn from them, and their efficiency ratings, which had been excellent, were marked down to the lowest rating possible without having to reclassify them.

Senator CAIN. And Colonel Cook was on the staff of General Johnson?

Mr. MOODY. He was on the staff of General Johnson.

Another incident, I asked that Colonel Cook and Mr. McKenna be assigned either to the higher echelon which would be Manila or to the Washington office, and in Mr. McKenna's case, he was assigned to China from Washington. This was refused, and these persons were required all during the investigation to report directly to General Johnson every day, which made a very unpleasant situation, to say the least.

Senator CAIN. Just several other brief questions, please.

You mentioned in your testimony that evidence pointed to General Johnson knowing that the planes you had been discussing had been marked "Salvage." What did you mean by evidence pointing? What was that evidence? Was it conclusive, or what?

Mr. MOODY. Probably in examining the evidence of the Inspector General's files, it probably could not be proven conclusively that General Johnson knew that these airplanes, spare parts, it was, Senator, were stamped "Salvage," but there is certainly strong evidence to prove that he was well aware of what was going on.

In the first place, he only had a handful of officers to report to him. He is to be given credit for that. He did not build an empire. He had a very small group.

Senator CAIN. The plasma problem, the next question, that aroused my interest, particularly. You mentioned that someone had wired to Mr. McCabe, as I understood, concerning the existence of this plasma in warehouses somewhere; no response to that wire.

Mr. MOODY. I personally sent that wire.

Senator CAIN. You personally did?

Mr. MOODY. Yes.

Senator CAIN. What follow-up steps did you take? Did you just send one wire advising the Commissioner, and then drop it, despite the fact that you did not get an answer, or did you do something else?

Mr. MOODY. Our future wires asked for reply to previous wires, and before many days the Shanghai Red Cross Bureau got in touch with the office, because it had become known to them at that time that the Chinese were selling it, and they demanded and were very vigorous in their pursuit of the blood plasma supplies, which resulted finally in their return.

Senator CAIN. You mentioned the two letters had been directed from Manila to Mr. McCabe, which letters had never been answered.

I wonder if you would know whether or not Mr. McCabe ever saw those letters personally.

Mr. MOODY. I cannot be sure of that. I do not recall whether I mentioned that to or discussed it with Mr. McCabe, but they certainly were of a very serious nature. As a matter of fact, Mr. McCabe's counsel, Mr. Benno Schmidt, had specifically instructed Mr. McKenna to report back to him within 30 days because there was evidence of irregularities as brought out by Mr. Mullally.

Senator BRICKER. Who was originally responsible for the appointment of General Johnson?

Mr. MOODY. I believe that General Johnson was appointed by Mr. McCabe. I cannot be sure of that.

Senator BRICKER. You stated nobody had been indicted except General Johnson and Colonel Bell.

Mr. MOODY. There have been no indictments as such, Senator. The recommendation of the Inspector General was for the court martial of all three persons, I mean specifically.

Senator BRICKER. Who were those?

Mr. MOODY. General Johnson, Lieutenant Colonel Bell, and Lieutenant Colonel Hern. The case was remanded to the United States for three reasons, the first being that there were not a sufficient number of

officers to try these men in China of rank and grade; second was that the political situation there might be very much upset by such a court martial in China at that time, and third, the fact that most of the witnesses were here in the United States.

Following that the case was referred to the Sixth Army at San Francisco, and the Sixth Army found insufficient evidence to court martial General Johnson and Lieutenant Colonel Bell.

After the Surplus Property Subcommittee began to be particularly active in this case, the Sixth Army, I understand, have reconsidered and have decided to court martial Colonel Bell, and, I believe, allow General Johnson to resign for the good of the service.

Senator BRICKER. Who was in command of the Sixth Army at that time?

Mr. MOODY. I believe that is Gen. Mark Clark.

Senator BRICKER. Where is General Johnson now?

Mr. MOODY. I understand that General Johnson was allowed to go back to Tokyo; he had gotten back into the Army after he was released from the Army and from FLC. He was taken back into the Army as a colonel in charge of transportation at Tokyo.

Senator BRICKER. The contract then with the Chinese Government that he was attempting to get was not consummated.

Mr. MOODY. It was not consummated; yes, sir.

Senator BRICKER. Where is Colonel Bell at the present time?

Mr. MOODY. I understand he is in San Francisco awaiting action on his court martial.

Senator BRICKER. And General Johnson is now in command of transportation in Tokyo?

Mr. MOODY. He was the last time we had any information on it, Senator.

Senator BRICKER. Who is the other colonel, now?

Mr. MOODY. A Lieutenant Colonel Hern, who is now a civilian. The Sixth Army found that since Colonel Hern had been released from Army jurisdiction that he was no longer subject to Army discipline on that case. I am not sure whether that has been turned over to the Department of Justice, but I understand it has.

Senator BRICKER. Do you know the basis upon which the Army decided that they would not proceed with the court martial of General Johnson and would proceed with the court martial of Colonel Bell?

Mr. MOODY. The statements that we get through the Army liaison office were to the effect that the Sixth Army felt there was insufficient evidence to hold a court martial.

Senator BRICKER. They had all of the evidence you have brought to us?

Mr. MOODY. That is right, and in spite of the fact that the commanding general of the theater involved had agreed with the Inspector General's findings and had recommended that these men stand court martial.

The CHAIRMAN. The fact remains that this man Johnson, we will call him Johnson and leave out the military titles, who had connived in a dual effort, like the Greek god Janus, facing both ways, to get himself a job and dispose of the property—and for some reason he

has not been court-martialed—has not even had his wrist slapped. He is now in Tokyo representing the United States Army. Is that the picture?

Mr. MOODY. That is right.

Senator CAIN. General Johnson was a career soldier, I take it.

Mr. MOODY. No; he was formerly a captain in the Civilian Conservation Corps. He worked up from that to the position of general. He was made a general by the present Commissioner, Maj. Gen. Donald Connolly, in the Persian Gulf. It may be that General Connolly was responsible for securing his appointment as FLC Commissioner in China.

Senator CAIN. You had an excerpt from a conversation which included a brief reply by the gentleman in question, General Connolly. Is there some more of that conversation, because I did not get very much from what you said in that one phrase.

Mr. MOODY. There is. You will find one rather significant thing as to the attitude of the organization toward the whole matter.

Senator CAIN. Is the whole conversation available in the record?

Senator BRICKER. Is it in the record?

Senator TAYLOR. Yes; Mr. Moody, from your experience investigating these things all over the world, practically, do you think that there was a great deal of these irregularities going on in nearly every theater?

Mr. MOODY. There was evidence in almost every theater, Senator, of such irregularities.

Senator TAYLOR. It would seem that it would be very possible for these Army officers and others in disposing of surplus property in reducing prices, and these other reprehensible practices of enriching themselves. Do you think that that happened?

Mr. MOODY. There certainly was the possibility of it, and in the overseas theater, Senator, you have great difficulty in checking, because naturally you cannot put the people on the stand, foreign nationals on the stand, as you can Americans, and about the only control you have over a particular American civilian is to lay them off.

Our courts in most cases no longer have jurisdiction, so it is far more possible in my opinion for irregularities to go by unpunished than it would be in this country where they are constantly under surveillance.

Senator TAYLOR. There is no way then we can get at these people and bring them back to justice?

Mr. MOODY. There definitely is in the case of military personnel. As to what the status of General Johnson, who was both serving as United States Army officer, and as an officer on terminal leave, which I understand is still a man in the Army until he is released from that. There definitely is a recourse through your courts martial.

However, findings in other cases have denied that officers on terminal leave or officers reenlisted in the Army are subject to that.

The CHAIRMAN. In that twilight zone, it is not possible to have a court martial?

Mr. MOODY. I cannot say.

The CHAIRMAN. Let me ask you something: It seemed to me as you testified in some of these situations where goods were sold at a price, and then that price was marked down, and no cash was collected by specific instructions, and the sale was made on credit, and the mark-

down finally was to four or five thousand dollars from 40 to 50 thousand, that if a man was so minded there was a great opportunity by collusion with some of the natives over there for one hand to wash the other, and an entente cordiale with the two, and each benefit; that could be done.

Mr. MOODY. In our experience and in our opinion from the experience we have had overseas, there is very substantial opportunity for persons so inclined to turn public interests into their own private interests, and unfortunately rather inadequate controls over them.

Senator CAIN. The witness mentioned at one stage that he had begun as I understood a thorough examination in Manila.

Mr. MOODY. That is right.

Senator CAIN. You had only been there about 30 days when you were ordered off to Shanghai. Was that examination ever completed in the Manila area by people either under your supervision or by other investigative officers, to your knowledge?

Mr. MOODY. That is a good question, Senator. We did return from Shanghai about 2 months after we proceeded there. I had only been in Manila a matter of a week or so when my orders came to proceed to Shanghai. I did return a month or so later and conducted further investigation there, and I understand there was at least one inspector general's investigation launched subsequently.

I do not believe anything particularly was developed, although the Philippine picture was a rather sordid one.

Senator CAIN. You mean exactly what? Do you mean to say in that instance you say it was a rather sordid picture in Manila, but you did not develop anything conclusive.

Mr. MOODY. Yes, sir; I did that purposely. I can quote one instance. The American officer in charge of the sales was at the same time operating his own company with some foreign nationals, Filipino nationals, where he was in direct position to benefit from the sale of surplus property.

Senator CAIN. What was done about it?

Mr. MOODY. I understand nothing was done about it.

Senator CAIN. That was not in your jurisdiction?

Mr. MOODY. It was not, because I was removed from the Asiatic theater and brought home.

The CHAIRMAN. There is more than one Meyers in the United States Army, is there not?

Mr. MOODY. I cannot say as to that.

Senator BRICKER. Do you know who recommended General Johnson to Mr. McCabe?

Mr. MOODY. I do not, sir. I have understood that General Connolly, who raised General Johnson to the rank of brigadier, was the person who recommended him as the field commissioner.

Senator BRICKER. General Connolly; is he a Regular Army man?

Mr. MOODY. Yes; I am sure he is.

Senator BRICKER. A West Pointer?

Mr. MOODY. I believe he is.

Senator BRICKER. Do you know what General Johnson's experience was before he went into the CCC?

Mr. MOODY. Yes; he was engaged in some sort of an investment business in Minneapolis, before he went into the CCC.

Senator BRICKER. Are the B-25's used today in the Army?

Mr. MOODY. Yes; I understand that the B-25, the medium bomber, is the most desirable of bombers for the Chinese type of mission.

Senator BRICKER. I mean in our Army.

Mr. MOODY. In our Army I believe that some of them are. I see some of them here, but I could not say definitely.

Senator CAIN. In all of your experience, did you ever find a unit of this surplus-property division that was run from your point of view correctly, books balanced, and everything was in perfect order and shape?

Mr. MOODY. That, perhaps, Senator, would be a very large order to answer. There were some divisions that were in comparatively very good shape. One division that I did not inspect, I understand, was in particularly good shape and that was Australia. I think it was General Butler who had charge of that.

Senator FLANDERS. I would like to get clear the nature of some of these transactions in relation to aircraft on page 2, Mr. Moody.

At the foot of the page, making a sale of 151 aircraft at \$500,000, far below established world-wide price of \$7,230,000, and so forth.

What were those aircraft, and for what purpose were they sold? Were they sold for commercial use or were they aircraft which were useful for commercial use?

Mr. MOODY. Yes, sir; the aircraft included in this sale were C-46's, which although they are not licensable in this country, are very desirable in China, and very much used there. C-47's, which is our standard DC-3 of the American airlines, and some of these, Senator, were undoubtedly included for their value as salvage, as spare parts.

Senator FLANDERS. Were they actually put into service, commercial service, so far as you know, when they were sold?

Mr. MOODY. Yes, sir; we have actual records of that. We know that a number of them were flown off the field and subsequently put into service by Central Air Transport Corp.

Senator FLANDERS. At this point, perhaps I could find it by referring later, but at this point in your testimony you do not state whether these had been certified as being flyable aircraft or whether they had been surplus flyable aircraft, or whether they had been certified for cannibalization, or what they had been certified for.

Mr. MOODY. When they are declared surplus, the Army makes no determination of that. In some cases they may declare aircraft to be suitable for scrap, but most of these aircraft required only slight, a great number of them, only slight modification in order to make them flyable as proof of which is the fact that they flew them off the field, a number of them were flown off the field.

Senator FLANDERS. Was there any State Department policy with regard to the sale of flyable aircraft to China at this time?

Mr. MOODY. The only State Department policy which would bar any sales, Senator, was in the sale of combat aircraft. There was a secret agreement which has nothing to do with this, which you have read about recently in the paper, but the Foreign Liquidation Commissioner was specifically enjoined from selling any combat material without specific authorization from the Joint Chiefs of Staff and the State Department.

Senator FLANDERS. Would these C-46's and C-47's be considered as combat aircraft?

Mr. MOODY. No, sir; neither one; both transport craft.

Senator FLANDERS. So that the sale, the only thing that is being criticized in this sale is the price obtained for them.

Mr. MOODY. The price obtained and the inclusion of the combat aircraft.

Senator FLANDERS. There was inclusion of what, yes, that is the next page, the 11 bombers.

Mr. MOODY. The 11 B-25's, yes, sir.

Senator FLANDERS. And they were included, and that was against the State Department policy at the time.

Mr. MOODY. Definitely, sir.

Senator FLANDERS. It may be that later on in this summary of Colonel Dougherty that he is referring to the same thing. Yes, item 2 is the same thing, and item 3. You just stated it was permitting the 11 medium bombers to be included in the sale.

Item No. 5 does not state what that surplus property is. Is that parts, or what?

Mr. MOODY. Yes, that was airplane spare parts, and I might call your attention, Senator, to the fact that nothing was more scarce or more desirable than airplane spare parts. In other words, it would be no surplus product. There would be less excuse for stamping them "Salvage," because every air line badly needed surplus parts.

Senator FLANDERS. In other words, what you are saying is that this stuff could have been returned to the States and used here.

Mr. MOODY. It could have been used either in the States or used to render flyable the aircraft that were available overseas, or there are large amounts of aircraft in Manila, for example.

Senator FLANDERS. Are you referring now to Government or to privately operated aircraft in Manila? I am trying to find out—

Mr. MOODY. To both.

Senator FLANDERS. Who is the user of this.

Mr. MOODY. The Army at the time I left China was still using a number of C-46's in the Asiatic theater. It was the standard transport plane of the air lines. They used that and the C-47, which as I said before is the DC-3.

One of the air lines that had specific need for these parts was the Pan American affiliate, CNAC, China National Aviation Co.

Senator FLANDERS. Where does the case of the mutilated tails come in?

Mr. MOODY. The contract 458, which included the B-25's, under paragraph 3, Senator. They were included reputedly as salvage, although they were in—

Senator FLANDERS. This is the 11 medium bombers?

Mr. MOODY. That is the 11 bombers.

Senator FLANDERS. That got their tails cut off?

Mr. MOODY. That is right.

Senator FLANDERS. All right.

The CHAIRMAN. I hold here a copy of the Washington News of February 28, headed "United States Supplying China with 1,071 Airplanes; Secret Military Pact Revealed," which is what you referred to, and put out by Acting Secretary Symington, and it says already 936 planes have been delivered from United States surplus war stock presumably to be used against the Communist forces in north China.

I merely interpolate that with that secret contract, to protect the national interest, at the same time that is happening, we are cutting the tails off planes that could be used right on the spot there.

Senator CAIN. Mr. Witness, to your knowledge was it the policy of the China theater for the military services to destroy large numbers of aircraft, as was actually the case in Europe, namely, they would blow their motors out, or blow the noses out, rather than bring them back here or to sell them to anyone else?

Mr. MOODY. I did not hear of many instances of that sort, Senator, and I could not verify that. I know of two or three cases where it was reported. It was not a general policy.

Senator CAIN. You did not see junk yards yourself as a good many of us have seen them in Europe.

Mr. MOODY. That is true.

The CHAIRMAN. Any other questions?

If not, the situation is this, gentlemen. We have sat here until 4 o'clock. We have put in the evidence in the case that I have on hand on Mr. McCabe's appointment.

As I told Mr. McCabe, in a sense of fairness which is characteristic of the committee, he will be given ample opportunity to make such reply and defense as he deems best, and all of the time he wishes to prepare that, that you wish to present to the committee. Can you give me some idea about when you will be ready to do that? It would help out in making the committee arrangements.

Mr. McCABE. I will do it just as quickly as I possibly can. I would like to get this cleared up just as quickly as I can.

The CHAIRMAN. Would you be willing, when you have your statement ready, which I assume will be a prepared statement, to supply the committee with it 36 hours ahead? That is under the reorganization rule now pending in the Congress here, so the committee may have it to process it.

If you will do that, just send down the statement in advance to the committee, kindly, here.

Do you think you will be ready to do it this week, or would you rather wait until next week, Wednesday?

Mr. McCABE. I think by the end of the week I will have it, sir.

The CHAIRMAN. By Friday?

Mr. McCABE. I will try to do it by Friday.

The CHAIRMAN. If you find that you can or cannot, let us know. Let us have it in our hands 24 hours ahead—your prepared statement.

Mr. McCABE. I doubt if I could notify you tomorrow that I would have it ready, because there are a good many points here.

The CHAIRMAN. Why not make it next Wednesday, then? Is that agreeable—a week from today?

Mr. McCABE. Yes. If it can be done sooner, I will do it.

The CHAIRMAN. You will let us know.

Mr. McCABE. Yes.

The CHAIRMAN. The session now stands adjourned subject to call. (Thereupon at 4 p. m. the committee recessed, to reconvene subject to call of the Chair.)

# CONFIRMATION OF THOMAS B. McCABE

TUESDAY, MARCH 10, 1948

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to call, at 11:25 a. m., in room 301, Senate Office Building, Senator Charles W. Tobey (chairman) presiding.

Present: Senators Tobey (chairman), Buck, Capehart, Flanders, Cain, Bricker, Maybank, Fulbright, Robertson, and Sparkman.

Also present: Raimond Bowles, clerk.

The CHAIRMAN. This session of the committee is in order.

This is a continuation of the hearings on the nomination of Thomas B. McCabe to be a member of the Board of Governors of the Federal Reserve System for a new term.

Mr. McCabe, you have prepared statement, and you may proceed, if you will.

## STATEMENT OF THOMAS B. McCABE, PHILADELPHIA, PA.

Mr. McCABE. With the chairman's permission, I would like to ask the clerk if he will read this statement.

The CHAIRMAN. Yes.

Mr. BOWLES (reading):

Mr. Chairman and members of the committee, I want to express my appreciation of the committee's courtesy in giving me an opportunity to reply to the detailed and critical testimony given before the committee at the opening day of the hearings on my nomination as a member of the Board of Governors of the Federal Reserve System. It was certainly a great surprise to me that the evidence presented to the committee should have dealt exclusively with just one of the several activities in which I have done my best over many years to render public service. As you know, I have been entirely separated from the task in question since September 1946; and for this reason, as well as because of the unavailability of some of the people mentioned in the testimony, I am at a slight disadvantage in replying to the minutiae of many of the accusations which have been presented.

I may confess that it has also come to me as a surprise—and a distinct shock—to hear testimony exclusively devoted to picking holes in such a tremendous and difficult operation as our surplus disposal overseas, without any comment on or expression of the magnitude and extent of the job done. I feel strongly that all public activities such as those of the Office of the Foreign Liquidation Commissioner should be subject to the closest scrutiny, and that criticism should be expected and even welcomed; but each criticism should be considered in its proper relation of the whole undertaking.

In this connection I am concerned especially about my former associates—people of ability and distinction in their own communities, who gave themselves unsparingly and at great personal sacrifice for a difficult and often disheartening Government task. In fairness to them, I must ask the committee to

consider in some detail just what the tasks and accomplishments of the Office of the Foreign Liquidation Commissioner have been.

You must remember that when our organization was first set up early in 1945, the war was still going on all over the world and we had to plan a program for what has been popularly called a global fire sale. Never before in our history had we been faced with a surplus problem of such gigantic proportions.

To assist in the formulation of plans, I was able to enlist the part-time services of a few of the country's well-known men in the fields of industry and finance, both domestic and international. I brought together a consultative group of industrialists who met with me from time to time to check our plans and offer suggestions. I also had regular meetings with high officials of State, Treasury, OWMR, Army, Navy, and the Surplus Property Board. In this manner we were able to secure the aid of many of the most experienced and best minds in the country.

In the beginning, we knew that when the war ended we were going to have tremendous quantities of surplus to dispose of, in every quarter of the globe; but we could not tell what those quantities would be, where the supplies would be, what they would consist of, or how they could be sold. We could only be fairly sure that the property we would have to handle would be everything that a modern Army and Navy needed for conducting a war of such gigantic proportions, and that we would be required to handle approximately 4,000,000 items—enough to fill more than 50 Sears-Roebuck catalogs.

Unfortunately, the property could not be listed or displayed as attractively as in a Sears-Roebuck catalog, because we were dealing primarily with battle-worn and obsolete material, scattered all over the islands of the Pacific and in battle areas elsewhere.

It has been mentioned that our experience in dealing with the surplus problem in France after World War I might have been a better procedure for us to follow, but in that instance there was only one country to consider, whereas here we had the problem of dealing all over the world.

To you gentlemen, now considering our accomplishments long after the event, it must be extremely difficult to visualize clearly just what we were faced with when the dam did break. The war ended suddenly in Europe. While I was over there in the summer of 1945 the war ended equally suddenly in the Pacific. I rushed back to Washington and we moved into action with what seems to me now to have been amazing speed. We had made our plans for organization during the last few months of hostilities, and within just a few weeks of their cessation we had in each major area where American troops were located a well-equipped team of officials.

Generally, at the head of each field office we had a civilian, carefully selected for his broad-gage experience as a business executive, particularly in merchandising. The civil-service salaries of these men were only a fraction of their earnings at home.

Our field commissioners were flanked and supported by the best experts we could find for them in the various important fields, such as accounting, engineering, law, economic analysis, and Army and Navy procurement and property methods. To a large extent, our field staffs were drawn from the armed services. This was natural, since only there could we find the necessary detailed knowledge of Army and Navy procurement and supply.

But these Army and Navy experts were supplemented by the best commercial and legal talent we could find in civilian life—and let me tell you it was a job to find that talent, when the fighting was over and the problem was only one of liquidation. The lure of postwar foreign service in war-torn countries was not very great.

However, we did find talent, and we got together as fine an organization as I can imagine for a task of almost incredible difficulty. And if my own statement may seem naturally biased, perhaps you will let me quote from a letter written to me by Mr. Patterson, the Secretary of War, on September 13, 1946, on the occasion of my resignation from my post. He said:

“DEAR TOM: On the eve of your departure I want to say again what I have already told you many times: That I shall never forget the great work that you have done in directing the disposal of Army equipment overseas.

“You came here a year and a half ago on my urgent plea. You had to blaze your own trail. You succeeded in recruiting a group of unusually qualified men, and this at a time when everyone was leaving the Government. I still do not know how you did it. Those men did invaluable work, both here and overseas, but you were still the one who carried the heavy load.

"Now that we are over the hump, I want to express my wholehearted appreciation for the tremendous assistance you have given the War Department. You have taken a great burden from us and have done your part in making our operations a success.

"With best regards, always, I am,

"Sincerely yours,

"ROBERT P. PATTERSON, *Secretary of War.*"

The Navy also expressed appreciation, as indicated by another letter written to me a few days later by Mr. Forrestal, the Secretary of the Navy:

SEPTEMBER 17, 1946.

DEAR TOM: I know that the Secretary of War has already written to you on the occasion of your resignation as Foreign Liquidation Commissioner, and I wish to join with him in expressing the sincere appreciation of the War and Navy Departments for your accomplishments as Foreign Liquidation Commissioner.

While your work was performed within the Department of State, it was of great importance to the Army and Navy because the efficient disposal of the vast quantities of surplus property all over the world has relieved us of countless burdens.

The Nation is indebted to you for your services, and on behalf of the Navy Department I wish to thank you for the completion of difficult negotiations on its behalf.

Sincerely yours,

JAMES FORRESTAL.

And I should like also to quote three paragraphs from the letter of transmittal by which the Secretary of State, Mr. Byrnes, transmitted to the Congress the quarterly report of foreign surplus disposal for the quarter ending October 31, 1946, just following my resignation as Commissioner:

"(a) By September 30, 1946, surplus property with original cost to the United States of approximately \$5,870,000,000 had been sold for about \$1,400,000,000. Of the total realization, approximately \$375,000,000 represented sales for cash dollars, or their equivalent, including the cancellation of United States dollar obligations to foreign governments. Sales made for authorized foreign currencies or commitments to pay such currencies accounted for \$125,000,000, and property valued at \$33,000,000 was exchanged for real estate for use by the United States Government. Funds totaling \$30,000,000 have been specifically earmarked for cultural exchanges under provisions of the Fulbright Act, and the \$100,000,000 transfer authorization provided by the Philippine Rehabilitation Act has been fully utilized. The remainder of the sales has been for dollar credits.

"The figures on sales are exclusive of direct transfers to UNRRA made under Section 202 of the UNRRA Participation Appropriation Act. All property disposed of represents about 85 percent of the total made available to the Foreign Liquidation Commissioner for disposal.

"(b) The return which has been obtained for overseas surplus, while it necessarily represents only a fraction of the original procurement cost of the property sold, has already far exceeded the total realization hoped for at the beginning of the overseas disposal program. In addition, it has been possible to effect this realization on terms which will result in a substantially greater direct and immediate benefit to the American taxpayer than we had believed possible."

Now let me refer specifically to one or two of the criticisms of our performance made in the opening day's testimony. The implication given was that I, or my organization, or both, made no serious attempt to secure for the American taxpayer the best possible return for the surplus goods which had cost so many billions of dollars. I am sure that anyone studying our efforts with sympathetic understanding of the difficulties we had to face will find this implication unfounded.

Of course we were trying to get the best possible return of the American taxpayer. This was one of the important objectives of the Surplus Property Act stated in its preamble, although, it is true that the preamble to the Surplus Property Act states 19 other objectives as well. We tried to reconcile these objectives as best we could, all in the direction of doing the most good for the American taxpayer. The most good, we thought at the outset, could be done by selling all over the world, wherever possible, for American dollars at prices which fairly reflected the actual current fair value of the property we were selling in terms of the usefulness of that property in a postwar civilian economy.

Undoubtedly our fair value price often came nowhere near the original procurement cost of the property. I need hardly quote figures to establish the obvious proposition that of our 10 or 12 billion dollars worth of foreign surplus, a tremendous proportion consisted of purely military items, which would have been of no civilian utility at all except as scrap. Of the nonmilitary property, much again had relatively no civilian utility. A huge Army truck, built for Army transport purposes, was totally uneconomical for use by small farmers in France or Great Britain. And even of that portion of our surpluses which were intrinsically useful for civilian purposes, a large amount was naturally worn or damaged, and of reduced value for that reason. Of the thousands of motor vehicles which we had for sale, we found that a very high percentage were inoperable.

Nevertheless, for months we concentrated on the effort to secure dollars, at a fair price, for everything we had to sell. As was mentioned in the opening day's testimony, we retained an outstanding American firm of industrial engineers to help us devise a formula for establishing the fair value price of the major categories of surplus being made available to us in Europe depending upon the age, condition, and so forth, and the particular item.

This formula was applied in Europe not only to establish a fair value, but also to establish the catalog of offering price of the goods. This policy was designed to facilitate offering and expedite the receipt of bids, and was no more designed to limit our recovery than the same policy applied by Sears-Roebuck or Montgomery Ward is designed to reduce their profits.

I do not say this policy was the only way to sell, but it was thought to be the best policy for use in Europe by James S. Knowlson, president of the Stewart-Warner Co. in Chicago, and my Central Field Commissioner for Europe, an outstanding and highly respected American businessman. I necessarily gave to all our field commissioners broad discretion to work out their own disposal problems in the light of the special circumstances in their own territories. Without delegation of this type of authority, successful administration of so wide-flung an enterprise would have been impossible.

However, it should be noted that this policy was not applied in other areas, and even in Europe the policy was applied to catalog offerings and not to all sales. The principal reasons for utilizing fixed price were summarized in the April 1946 report to Congress, and I have always felt that the criticism advanced by the Mead committee report and repeated here last week were based on a misunderstanding of the policy which originated when one of our officers explained the policy incorrectly at a hearing in Europe early in 1946.

Surpluses did not move rapidly under the policy of selling for dollars. During these months we had relatively little made available to us which could have attracted a dollar-paying public in any large volume. An army does not naturally turn over first for disposition as surplus its newest and most useful civilian-type equipment. It is not surprising that most of what we got from the Army for disposal in the early months of the program was material for which there was little demand.

But our dollar-disposal program ran into an even more serious obstacle. It is easy enough to say that we were the sellers, and could charge what we liked. The truth is that, as sellers, we were less in the driver's seat than one might think. Surely every member of the committee can recall the tremendous wave of demand that arose in late 1945 and early 1946 to bring the boys home again as rapidly as possible. It was natural as a demand; but it was certainly not conducive to holding our surpluses for the best buyer. As a practical matter, the moment a military or naval mission was completed in a particular area, no power could have kept the personnel on duty merely for the purpose of guarding surplus property, or of reconditioning it in the hope of better sales market, or of moving it to somewhere else where there might be a buyer. And our potential customers knew this, and knew that they could afford to wait.

Finally, there was the overriding fact that, in the areas in which we had most surplus for disposal, there just were not dollars available to buy them from us. Anyone who concerns himself at all with postwar economic affairs knows this is a truism that the lack of dollars in the hands of the major foreign countries in the world, or of their nationals, is one of the inescapable facts to be reckoned with in readjusting the world economy.

Whether we like it or not, we had to come to the conclusion that there was no substantial dollar market except in a few South American countries and very scattered parts of the world. And the real problem was to get the buyers to the point of sale because of lack of traveling and hotel facilities in Europe and the Pacific.

The suggestion was made in the Mead committee report and repeated in the chairman's opening statement that we should have insisted on the right to sell to British individuals. As was explained to the Congress in the April 1946 report, the British position was based on a lack of dollar exchange which was well recognized by our Government. Certainly this committee with its understanding of international monetary and foreign exchange problems will realize that sales to British nationals for dollars obviously presented the same problems as sales to their government. Events since then have shown conclusively that the British position as regards dollar exchange was and still is precarious.

What kind of market, then, could we find? The suggestion has often been made that in view of the desperate need of so many foreign countries to rehabilitate their civilian economies with just such civilian type goods as we had for sale, we might have sold for raw materials of kinds urgently needed in this country. Of course, we did not neglect this possibility, but we soon found it amounted to just about the same thing, since the countries we dealt with knew perfectly well that their critical raw materials represented a source of dollars, and they therefore looked upon barter of this type in the same light as purchase for dollars.

At least within limitations, another potential market was the foreign currency market—that is, in any given country, we could sell for the currency of that country. Of course, if the currency were freely convertible to dollars, the problem from the point of view of the purchaser was the same as a purchase for dollars, and subject to the same limitations and the extent to which we could accept foreign currencies for defined uses was limited.

Foreign currencies were useful to our Government for diplomatic expenses, procurement abroad, the acquisition of Embassy buildings, special fellowships, and the like, but the number of expenses of this kind for which we might need foreign currencies was sharply limited.

After a considerable struggle, extending over many weeks, we finally secured authority from the Treasury Department to accept limited amounts of foreign currencies for our surpluses: but the inherent limitations of this avenue of disposal are too clear to require discussion.

At this point, I should like to mention with appreciation the activities of Senator Fulbright, in sponsoring the amendment to the Surplus Property Act which is generally identified with his name. This amendment was designed to enlarge the amounts of foreign currencies which we could take for surplus, by authorizing the use of such currency to finance the interchange of educational opportunities between Americans and the peoples of the other countries of the world.

Here again, the total volume of surplus which could be sold through this avenue was limited, but I fully agree with Senator Fulbright that the sales made possible by this bill will create advantages to the United States out of all proportion to the value of the surplus property involved.

The result of all I have said is that before long we were driven to the conclusion that the only way in which we could dispose of the vast bulk of our surpluses—good, bad, and indifferent—was by bulk sales to the countries in which the surpluses were located, generally on a long-term dollar credit basis. Such dollar credits were in every instance extended on the basis of authorizations received from the National Advisory Council. I have mentioned the burden of care and handling, and the policy against keeping our soldiers and sailors on duty merely for custodial purposes, when their military missions had been accomplished. Even more important from our point of view were the over-all political considerations involved. As Foreign Liquidation Commissioner I could be, and was, told that high political considerations required that the Army evacuate a given country within a stated period of days or weeks, and that I must arrange for complete disposal of all surpluses within that period.

Moreover, I could be, and was, told that there would be no time within which the Army or the Navy could prepare any adequate inventory of the property to be sold.

Obviously, in such emergency cases, and there were many of them, all that could be done was to negotiate a bulk sale to the Government in whose territory the property lay, at the best price and on the best terms we could get. To start our negotiations, we would have an estimate from the Army or Navy as to the value, at at least the procurement cost, of the property they intended to leave behind, with very little opportunity on our part to verify the estimate, whether as to procurement cost or as to kind or quality.

Considering the difficulties encountered by a seller, when so little was known about exactly what he had to sell and when the buyer knew the seller must

sell immediately, I think that even those of our bulk sales which were made on an emergency basis were by and large made on terms remarkably favorable to the United States.

I do not mean to be talking too much of the difficulties which we faced. It is our accomplishments that I think are the important thing. However, there is one more phase of our difficulties which I have not mentioned, and should. From our inception, new duties were constantly handed on to us. We started as a disposal agency just for Army and Navy nonmaritime surplus abroad. Ship disposals were left to the Maritime Commission. Before long I concluded that our work necessarily involved such important diplomatic features that it could only be handled effectively within the State Department; and as a result I made every effort to have the job transferred from the Army and Navy Departments to the State Department.

This was finally done, but at the time of the transfer, to my surprise and somewhat against my will, the lend-lease functions of the Foreign Economic Administration were also placed under the jurisdiction of the Foreign Liquidation Commissioner in the State Department. Shortly, the Maritime Commission concluded that it was not equipped to handle certain maritime disposal overseas, and with great reluctance I accepted the responsibility for such disposals.

Still later there arose the problem of reparations from Germany, and again the problem was assigned to us. At every point, just when we thought we were beginning to get under way, some new job would be given to us and a new set of problems thereby created.

It is against this background that the committee should consider the foreign surplus-disposal problem if it is to appreciate properly the value of the testimony which was given on the opening day of the hearing. I do not want to try to answer in detail every specific charge or unfavorable inference which has already been put into the record. Viewed against the true background of what we were doing, many of them become a very small part of a large picture. Others lose their critical quality when they are looked at in the light of surrounding circumstances.

Let us take, for instance, the bulk sale to Great Britain. That has been treated in the record so far as a completely distinct surplus-property disposal operation, in which the Foreign Liquidation Commissioner had no idea what he was selling, made no effort to determine its value to the buyer, and in effect casually or recklessly gave away vast quantities of American property "as mere rubbish, as having little real value."

What has been neglected in this discussion is the fact that our bulk sale to Great Britain was merely one aspect of the much larger negotiations for settlement of all our mutual wartime obligations, including lend-lease surplus property and war claims and damages. These were inextricably woven together with the terms of the proposed postwar loan to Great Britain. These negotiations were conducted by a special committee headed by Mr. Vinson, Secretary of the Treasury, and included as its members, apart from myself, Mr. Clayton, Assistant Secretary of State for Economic Affairs; Mr. Wallace, Secretary of Commerce; Mr. Eccles, Chairman of the Federal Reserve Board; and Mr. Martin, Chairman of the Export-Import Bank.

This committee approached the negotiations, which looked among other things to the sale of all our surplus property to the United Kingdom, from the point of view of determining the largest possible amount which could be asked from Great Britain, with safety to her economic stability as well as that of the rest of the world.

The final figure of \$650,000,000 agreed upon for all of our mutual wartime obligations, including surplus property, was substantially higher than the figure originally advanced by the United Kingdom representatives as their top limit. And it was only after this figure of \$650,000,000 had been agreed upon that any determination was made of the amount which should be allocated as the purchase price of the surplus property involved.

When the determination was made, and it was a unilateral determination, made only on the American side, it was made not just by me as Foreign Liquidation Commissioner but unanimously by the special committee I have mentioned.

Now let us take India. The charge there seems to be, not that the deal we finally made was not a fair one but that the Foreign Liquidation Commissioner arbitrarily abrogated a much more favorable arrangement already made by a previous field commissioner.

In answering this assertion I should like to quote a paragraph from a letter which I addressed on February 11, 1946, to Senator Mead in answer to a similar

charge which had been called to his attention as chairman of the Special Committee Investigating the National Defense Program. Answering the assertion that by abrogating the original agreement in favor of a bulk sale I had caused a loss of several hundred million dollars to American taxpayers, I pointed out that the assertion rested on the sheerest speculation, since there was no way of estimating what would have been sold under the Schleiter agreement and at that time the final return under the proposed bulk sale had not been yet settled. In my letter, I said:

"Under the original agreement where there was no assurance that anyone would buy anything, and it was more than probable that after the best items had been siphoned off by priority purchasers we would be faced with a long-drawn-out and necessarily desultory campaign of merchandising the less desirable types of property.

"Moreover, although 'cash' in the sense of Indian rupees was to be paid, questions as to the method, time, and rate of conversion of these rupees into United States currency or into property or rights valuable to the United States were left unsettled.

"The original agreement was still an improvement on the earlier situation when the Indian Government had been insisting that we effect our disposal through the medium of the established Indian disposal mechanism, but a categorical assertion that it assured to the United States any given return for its surplus property, or that the return under it would have been more favorable than would be the case under an agreement where the amount of return has not yet been decided on, is nothing short of ridiculous."

Whatever might have been the return under the Schleiter agreement, if it could have been carried out, is unimportant, for it could not have been carried out. Within a very few months it became necessary to evacuate our troops from India in extremely short order. I was explicitly informed by the Secretary of War that because of threatened widespread civil strife the timetable for evacuation had been set and must be carried out.

It was obvious that the dangers of our involvement far outweighed in financial and other respects any possible disadvantage from a decreased realization for our surpluses. In such circumstances a bulk sale to the Government of India was absolutely essential if we were to hope to realize anything more from them. The so-called, Schleiter agreement, had it been in effect, with its long-drawn-out and speculative program of individual sales, would have fallen to the ground in the face of considerations of higher policy.

So with Iran, another bulk sale mentioned last Wednesday. There we were faced with an even shorter and more emphatic timetable. Again, we were told by the Secretary of War that the urgent need for evacuation of our forces within approximately a month far transcended any question of the precise return which we might get for our surplus property; and that while we should get as much as we could, we must realize that time was of the essence. In these circumstances, it is surprising to me that we got as much as we did.

Obviously, our final return was diminished by the refund given by Colonel Stetson. While Colonel Stetson's action in this respect was taken well after my resignation, nothing which I then knew, or which has since been called to my attention, seems to me to justify the criticism which has been leveled at the refund. Colonel Stetson was the man on the spot. He was the only man in a position to know the facts and the basic understanding which had been reached between him and the Iranians at the time of the bulk sale. If I had been Foreign Liquidation Commissioner at the time the refund was proposed, I have no doubt whatsoever that I should have been guided by his judgment and should have supported whatever action he had decided, after full consideration of all the circumstances, should be taken.

Now, let us come to the Chinese bulk sale. For many months, in the face of contracting naval bases throughout the Pacific, we had been working against time to dispose of our Pacific surplus to individual purchasers, or in individual lots to such purchasers as UNRRA or the Chinese Government. Our record through this period, both in volume of disposals and in rate of realization, was good. The fantastic conditions of deterioration in the Pacific, however, coupled with the decreased size of our naval garrisons, were rapidly making bulk sales unavoidable.

Add to this that General Marshall, then the President's special representative in China, had expressed the most urgent desire that his mission in China be aided by turning over as rapidly as possible to the Chinese Government the largest possible amount of surplus in the Pacific having any conceivable civilian value. General Marshall talked to me of this in most earnest terms on the

two visits I had with him in China, as well as on a visit which he made to Washington; and he lost no occasion to make the same point repeatedly in correspondence and cables.

As a result, the President on August 2, 1946, issued a directive to me to proceed to China at the head of a mission to conduct on-the-spot negotiations for a sale of our uncommitted Pacific surpluses to the Chinese Government. In his directive he referred expressly to his conviction that General Marshall's mission in China was of tremendous importance to our national welfare and that considerations affecting the success of General Marshall's mission should be paramount in any decision whether and how to sell our Pacific surpluses.

Our China bulk sale was made in response to this directive. The sale was made in large part in consideration of the cancellation of a direct debt from the United States to China incurred and acknowledged by the United States Government as a part of its conduct of the war at its most acute phase. The Treasury advised with us regarding the amount of the debt, while the Army and Navy fixed for us, as nearly as they could determine, the value of the surpluses available for turn-over to the Chinese. The deal was, I firmly believe, a wise one from all points of view and as favorable to the United States as it was to China.

I take it that the testimony concerning alleged irregularities in the Shanghai office of FLC has been made a part of this committee's record on the theory that it reflects upon my administrative judgment. I shall, therefore, address myself to that consideration first.

Brig. Gen. B. A. Johnson had served with Maj. Gen. Donald H. Connolly in the Persian Gulf theater during the war, and his chief thought that Johnson had done a good job. When I joined the Office of the Army-Navy Liquidation Commissioner, General Johnson was already associated with it as Assistant Commissioner in Italy, and his services there were good. After his duty in Italy, General Johnson requested release and assignment by the Army to a troop command being activated for service in the Pacific. After VJ-day I requested his reassignment to FLC, upon the recommendation of the men with whom he had earlier worked, and he was assigned as field commissioner for China, where he served throughout the period under discussion.

The field commissioner for China reported directly to the central field commissioner for the Pacific area at Manila, who, in turn, reported to me at Washington. During Johnson's service at Shanghai I was able to secure successively, for the important post of central field commissioner at Manila, Wendell Endicott, whose excellent reputation as a businessman is well known; John K. Howard, a prominent attorney of Boston; and Edward Vogelback, a public utilities executive of Chicago.

Each of these men was of proved capacity and integrity, and I am proud that I was able to get them to serve. They kept me advised as to the progress of the disposal program in that part of the world, and their reports indicated that progress in the China theater was satisfactory.

There came to the attention of my general counsel in April or May of 1946 a difference of opinion between General Johnson and the lawyer originally assigned to his office, Captain Mullally, it appearing that in Captain Mullally's opinion the field commissioner was unwilling to make full use of legal counsel and slow to accept legal advice. Mr. Schmidt, my general counsel, promptly sent a new lawyer to Shanghai, with instructions to report back concerning the basis of this criticism. This new lawyer was Mr. William F. McKenna, and he did report back by letter in late June, to the effect that one subordinate official accused another subordinate official of improper conduct but that the facts were not yet sufficiently established to justify any other action than the assignment of a field-audit team to Shanghai for a review of accounting and administrative procedures.

Such a team was assigned to the task. Meanwhile I had received about the 1st of June from General Johnson a letter stating that an official of the Chinese Government had asked Johnson if he would accept employment by the Chinese Government to assist in marketing the bulk surplus property to be purchased by that Government from FLC. Johnson stated in his letter that he had discussed the matter with the central field commissioner, Mr. Howard, who was opposed to it, and that he had discussed the matter with General Marshall, who expressed agreement with the need of the Chinese for such help as Johnson would be able to give but said he was not sure of the legal aspects of such employment.

I replied promptly to this letter, advising General Johnson that I thought such employment would not be proper; and at the same time General Connolly asked General Farthing, who was then about to leave for the Far East, on a mission for us, to determine whether this offer of a position had progressed to the point of negotiation or had otherwise compromised the field commissioner or rendered him less useful as a representative of the United States. The response to this was a letter from Johnson dated July 12, 1946, which read as follows:

"I had a long talk with General Farthing in Manila about 10 days ago, and after I explained my position and what I had done, he asked that I write you.

"I never really seriously entertained the offer from Dr. Soong for a number of reasons. Some weeks ago, I told the Chinese that under no circumstances would I go to work for the Chinese Government. There are a number of good reasons for this, all of them obvious. I told General Farthing that I had turned the deal down and that I was going to stay with FLC until some time late this fall, when I was reasonably certain that the over-all deal was properly organized and that the Chinese had an organization that could handle the surplus property.

"I hope to be relieved in the late fall, as I have promised Sis to be home for Christmas and then a vacation. If FLC wants me in any capacity after April 1, 1947, and I can help out, I should be glad to do so, but I must get a 3 or 4 months' rest before then. If I don't soon get some rest, I will be worthless for any job."

Mr. McKenna had indicated in his letter to my general counsel that he would continue to gather facts and make further reports. It was on July 24, 1946, that he sent a cable setting forth certain transactions which appeared to him to be irregular and requesting an investigation. On July 30 an outgoing cable from Washington advised that Mr. Hubert Moody, last week's witness before this committee, was en route with instructions to make a complete investigation.

I myself left for China via Manila on August 7, arriving in Shanghai the 15th. Mr. Moody and the audit team were already on the scene and at work; the investigation had progressed sufficiently to disclose the possibility of misconduct, but it was reported to me that it was too early for conclusions on that score. Accusations were many and varied, and the charges and countercharges involved at least a half dozen persons in the office.

I found General Johnson completely tired out, physically and mentally. Regardless of the truth of the charges being made, it was apparent to me that Johnson could not effectively carry on for long, and I determined to replace him and to have a thorough and impartial investigation made of every aspect of the conduct of his office.

Much has been made of the fact that I asked the Army to make this investigation rather than the FBI. The fact is that the FBI does not have personnel or funds to conduct investigations around the world, and we had been so advised by the Department of Justice. The matter was double checked in this particular case with Mr. Tamm, Assistant Director of the FBI, and he advised us that this investigation could not be conducted by the FBI. The Army command in China was independent of me, and it had a trained investigation staff on the scene.

For these reasons I thought, and I still think, that the request to the commanding general was the most appropriate possible action. This view was concurred in by the appropriate members of my staff, including Mr. Moody. I am informed that the investigation by the Inspector General in China was made with extraordinary thoroughness and that his report was reviewed by both the War Department in Washington and by the commanding general of the Sixth Army in San Francisco, General Mark Clark, and that, upon full consideration, it appeared that there was insufficient evidence to warrant further proceedings against General Johnson. Nevertheless, the report of the Inspector General was furnished the Department of Justice for its consideration.

The point was also made in last week's testimony that I acted arbitrarily and unwisely in not excluding General Johnson from our negotiations with the Chinese in Shanghai. Here again, the matter was discussed with members of my staff, and I decided that in the circumstances it would be a mistake to exclude General Johnson, as his specific knowledge of certain matters was required.

However, General Johnson was only one of many advisers, for I was assisted in the negotiations with the Chinese Government by Mr. Howard Petersen, Assistant Secretary of War; Colonel Heiss, his aide; Admiral Cotter; Mr. Adler, representative of the Treasury Department; Captain Smith of the Mari-

time Commission; Admiral Wellings; Mr. Kendall and Colonel Starr of my office; and Mr. Vogelback, then central field commissioner for the Pacific.

General Marshall and Consul General Davis were kept apprised of the developments in the negotiations and were consulted from time to time. I might add that in retrospect there is no question but that General Johnson was very useful in the negotiations.

General Johnson's replacement arrived in Shanghai shortly after my departure from China on September 1. Thus the total elapsed time from our first word as to possible irregularities in the Shanghai office to the replacement of the field commissioner was barely 2 months.

I am not going to undertake to discuss all the criticisms of operations that were made before the committee last week. For example, if I recall correctly, it was testified that General Johnson gave a certain lieutenant colonel and his wife who were in our Shanghai office lower efficiency ratings than they deserved. If General Johnson gave these persons or any of his subordinates lower efficiency ratings than they deserved, I am genuinely sorry. However, jurisdiction over efficiency ratings for Army personnel is exclusively in the War Department, and lay entirely outside my control.

I do want to discuss in some detail the transaction involving the sale of aircraft to the Central Air Transport Corp. of China in June 1946, because of the special emphasis given that matter at last week's hearing. The aspect of this transaction which has received the greatest attention in the press relates to the action taken to render unflyable the 11 B-25 bombers included in that sale. Although this has been made to appear as wanton destruction of Government property, this interpretation is wholly unwarranted and based upon a complete misunderstanding which I should like to correct.

To begin with, as the members of the committee doubtless know, the B-25 type aircraft are tactical aircraft and as such come under the definition of combat matériel. As was pointed out in the report to the Congress in April 1946, from which I quote:

"It is the policy of this Government not to sell combat matériel in a non-demilitarized form. Theater commanders are operating under standing instructions not to declare as surplus to the Foreign Liquidation Commissioner for disposal any combat matériel until it has been demilitarized and rendered useless for war purposes. Specific exceptions authorizing departure from this standing procedure are required in every case before either declaration or disposal."

The operating directives which were in effect at the time of this transaction required the Army to demilitarize tactical aircraft before declaring it surplus to us, and our field commissioners were instructed that in the absence of special instructions to the contrary they should not accept tactical aircraft for disposal until it had been demilitarized.

Therefore, under the policies and directives in force at the time of this transaction, the Army should have demilitarized the B-25's in question before declaring them surplus to FLC. This procedure was followed all over the world and thousands of combat aircraft were demilitarized, rendered unflyable, and disposed of either as salvage or for nonmilitary purposes.

The point has been made that some of these planes had been flown but a few hundred hours. In this connection I would like to emphasize that my office has never had any control over the decision of what property is declared surplus to the needs of the Army or Navy. The armed services have full control over this decision, and combat aircraft, excess to the needs of the services, was required to be demilitarized before being declared surplus, regardless of the age or condition of the aircraft.

In this case the Army had removed the guns from the aircraft and had apparently assumed that that was adequate demilitarization. However, when the suggestion was made in the Chinese press that these aircraft might be used as combat aircraft by the Chinese Army, immediate action was taken to demilitarize them completely by rendering them unflyable. I do not recall, if I ever knew, who gave the demilitarization order. I have no recollection of giving it myself; but the order was proper both under the policy and instructions in force by our Government and under the terms of the contract of sale, which provided that the aircraft were being sold only as parts and not as flyable aircraft.

Therefore, the only thing unusual about the demilitarization of these combat planes is the fact that it was completed after the planes had been disposed of as surplus demilitarized aircraft rather than before their declaration, as should have been the case.

This transaction has also been criticized because of the price received. As stated in the testimony last week, the sale included C-46's, C-47's, and C-87's, as well as the B-25's, and the total price received was \$500,000, as compared with approximately \$2,700,000 which would have been received on the basis of the established world-wide prices if all the planes had been flyable and if it had been possible to sell them as flyable aircraft.

However, that was not the case. Some of the planes later proved flyable, but they were disposed of in bulk as nonflyable aircraft for the recovery of the parts. This bulk disposal was determined by the field commission to be necessary (1) because there was no Army personnel available to guard, maintain, or move the aircraft; (2) attempts to sell the aircraft at higher prices to other buyers had been made without result; and (3) the Army was overdue in its commitment to return the Kiangwan Airfield where the planes were located.

Therefore, General Johnson, after discussing the matter with the central field commissioner for the Pacific area and obtaining his concurrence, made a bulk disposal for the best price which he could get, and provided in the contract of disposal that the planes were being sold for their parts and not as flyable aircraft.

I have no question that this judgment was well founded, for Mr. Vogelback, the central field commissioner, had been in charge of our Aircraft Division in Washington, and thus was familiar with aircraft values all over the world.

Then there is the matter of blood plasma, said to have been sold in China on the black market. This originated in a quantity of materials stored in the open on Okinawa and damaged by typhoon. Owing to its damaged condition it was declared surplus by the Navy under a general heading of "miscellaneous medical supplies," and was marked and valued and sold as such.

In such matters we had throughout the world to rely on the information given to us on the declaration, for at no time did we or could we attempt to set up a separate force to check the work of the supply officers of the armed services. The fact that these "miscellaneous medical supplies" contained plasma was not discovered until some time after the sale. When it was discovered, prompt and effective action was taken by our Shanghai office, with the cooperation of the Navy, and as a result 88 percent was recovered and returned to the Red Cross.

When Johnson authorized the offloading of a Government-owned cargo from a ship at Shanghai and paid for that offloading from Government funds not appropriated for the purpose, he did so in what he thought to be in the interests of the Government to avoid the accrual of a daily charge of over \$2,000 for the charter of the vessel, and I have heard no suggestion that he intended or attempted to enrich himself by such action. He subsequently sold the cargo for some \$300,000, and it remains for the General Accounting Office to determine whether the costs of offloading are properly payable from the proceeds of that sale.

I do not think that I am justified in taking any more of the committee's time in discussing these issues, if they remain issues. There have doubtless been mistakes, and human frailties. In the nature of such a job this would have been inescapable. Certainly criticisms, both justified and unjustified, were to be expected. I subscribe to the statement of Howard Bruce in his special report on surplus property on April 9, 1946, when he said, "There is no panacea for the disposal problem—the act cannot be administered without waves of criticism \* \* \*."

Nevertheless, I desire to emphasize to the committee my conviction that a task of enormous complexity and difficulty has been carried on effectively. Foreign surplus disposal has been well handled, and I am confident that any impartial examination of the record will support my assertion.

The CHAIRMAN. Do you wish to put on some witnesses, Mr. McCabe?

Mr. McCABE. If the chairman will permit, sir, I would like to call on Mr. William Clayton, former Under Secretary of State, to whom I reported as Foreign Liquidation Commissioner.

When I was transferred from the Army and Navy as Army and Navy Liquidation Commissioner to the State Department, I reported direct to Mr. Clayton. I know of no one other than Judge Patterson who is in a position to judge the nature of our work better than Mr. Clayton.

The CHAIRMAN. Mr. Clayton?

**STATEMENT OF WILLIAM L. CLAYTON, FORMER UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, WASHINGTON, D. C.**

Mr. CLAYTON. Mr. Chairman and gentlemen, I have no prepared statement, but I would like to make a short verbal statement.

By way of background, I would say that I was appointed Administrator of the Surplus War Property Administration in February 1944. This administration was set up by Executive order of President Roosevelt. I served in that capacity until the latter part of November or the first part of December 1944.

At that time, or about that time the Congress passed an act, to set up a statute to deal with the disposal of surplus property. Believing I would be unable to do a good job under that act, I resigned my job as Administrator of the Surplus War Property Administration and informed the President I would not be a candidate for selection or nomination on the Board which the Congress set up.

Shortly thereafter, I was appointed Assistant Secretary of State for Economic Affairs, and later Under Secretary of State for Economic Affairs.

Mr. McCabe was selected, if I remember correctly, in the early part of 1945, as the liquidation commissioner of the Army-Navy Munitions Board Liquidation Administration, which they set up at that time in consultation with me, and Mr. McCabe's selection as liquidation commissioner was in consultation with me.

Subsequently, after the end of the war it developed that practically all disposal abroad had to take place in bulk sales for numerous reasons that I can give you, and that these negotiations had to be conducted with foreign governments. We found the State Department, of course, naturally taking a very active part in those negotiations, and for that reason and other reasons, it was decided after numerous conferences and decided with great reluctance on the part of the Secretary of State and myself that the OFLC, Office of Foreign Liquidation Commissioner, would be transferred to the State Department.

We did so on the understanding, of course, that Mr. McCabe would continue as liquidation commissioner. Secretary Byrnes said that he took this action with the greatest reluctance, because he knew it was an extremely difficult job, and that in the end there was going to be a great deal of criticism, regardless of the kind of job that was done.

He said that he would do it in the understanding that Mr. McCabe would come to the State Department and continue in the position as liquidation commissioner, which Mr. McCabe reluctantly consented to do until, I think, the end of the year.

As a matter of fact, he stayed until well into the following year, after most of the property which had been declared surplus by the Army and the Navy had been disposed of.

As Mr. McCabe has told you, he operated in that capacity under me and reported to me. Looking back upon the work that he did and the results that were obtained, I have no hesitation in saying that in my opinion Mr. McCabe did a complete job. He acted with great intelligence and industry and patience and did a very patriotic and selfless job.

I do not pretend to have at my fingertips any of the details of these transactions, but no important transaction was made without referring to me. I mean no important transaction was finally closed

until Mr. McCabe came to me with the details of the matter, and we were almost in daily consultation about these matters.

I remember particularly, Mr. Chairman, the disposal of the surplus property in the United Kingdom to the United Kingdom Government. That, as you will recall, was part of a larger negotiation between the United States and the United Kingdom that took practically 3 months to negotiate. It started on the 11th of September 1945, and ended on the 6th of December of that year. It involved what we call the Anglo-United States financial agreement, which covered a loan to the United Kingdom and the settlement of all of our financial and economic problems growing out of the war.

It was a very big negotiation. It was conducted on the part of the British by Ambassador Halifax and Lord Keynes and a distinguished group of economists and public servants from England, and on our part, as Mr. McCabe has told you, by Secretary Vinson, and Mr. Marriner Eccles, the Chairman of the Export-Import Bank, and myself.

We settled there for the consideration of \$650,000,000 for surplus war property in the U. K., for the lend-lease inventory in the U. K., and for all other problems with the U. K. arising out of the war.

We had great difficulty in coming to a final agreement with the U. K. on that amount. Lord Keynes told me several times that the negotiations were going to break down on this one thing, that they would not pay any sum, but we stuck to it, and we finally got their agreement for \$650,000,000.

The CHAIRMAN. How was that paid; in dollars?

Mr. CLAYTON. It is a long-term obligation of the United Kingdom in dollars, with interest at 2 percent.

The CHAIRMAN. How long?

Mr. CLAYTON. I think it runs for 30 years.

Mr. Chairman, I think that is all that I want to state at this time unless some of you gentlemen have some questions you want to ask me.

I will just mention this: Some of these biggest trades were with the U. K., France, Italy, and China. They are the biggest lump sales of surplus abroad. Although at the time we did not realize it and we traded the hardest we knew how and we got every last dollar we could get for this country for this surplus, under all the circumstances, we do see in retrospect that if possibly we could have gotten 50 or 100 million dollars more for the whole business from these particular countries that I have named, since that time we have aided all of these countries very materially with loans and grants and other financial aid of one kind or another.

We have before the Congress now another bill, ERP, for Europe, and another bill for aid to China. So if we had been able for the moment out of their slender resources and reserves of dollars to have gotten a few million dollars more, we would have had to give it back to them since in one way or another, because they just have had to have that much more financial aid from this country than they have gotten.

Senator BUCK. Mr. Clayton, suppose there was surplus in a country such as India, who would buy war surplus from India?

Mr. CLAYTON. Senator Buck, we soon found out from the hard way of experience that the only way to dispose of these huge sur-

pluses abroad was to sell them in bulk to the governments of the country where they were located.

Senator BUCK. The Government did not want them in all probability.

Mr. CLAYTON. Many of them they did not want, did not care anything about them. They were not suited to their needs. We just had to make the best trades we knew how. Mr. McCabe and I are businessmen, and I want to assure you that we traded just as hard as we knew how, because we were trying to discharge our duties to the Government and the public, and do the best we could, although I do have to tell you, as referred to in Mr. McCabe's statement, that there are so many other objectives stated in the Surplus Property Act than that of getting the last dollar that the Administrator could for the surplus property, that sometimes it seemed to me that in view of all the preferences and the allocations and the objectives stated otherwise, and the money objectives, that the money objectives in the minds of the Congress had receded away down the line, that there were other things which were much more important.

That is one reason, Mr. Chairman, I resigned in the first place, because I didn't believe that I could administer the act and really do a good job, not only on account of the Board which was set up by the Congress in the first place.

Later, that was changed, and a single administrator was selected. The law was changed, as you will recall. Not only on that account, but on account of so many objectives and priorities and preferences that were set up, it seemed to me it would be almost impossible to administer.

The CHAIRMAN. Was there a state of mind in a degree on the part of yourself and those administering this administration, knowing the European situation, that we had to take care of those people anyway by gifts and grants, that this was only aiding and abetting that process by giving them this stuff at practically a sacrifice price, and charging it as part of the income they are receiving as part of our program of gifts?

Mr. CLAYTON. Mr. Chairman, I can assure you that was not the case. If it were done today, we might thoughtlessly have that in the back of our minds, but at that time, we didn't realize, nobody realized, that the situation in Europe was as desperate as it has since turned out to be. These countries, many of them, did have dollars, did have reserves left over from the war.

We traded just as hard with them as we could. I assure you we did.

Senator MAYBANK. Mr. Chairman, I would like to ask Mr. Clayton a question.

You said you traded as hard as you could and conditions are worse over there now than anyone dreamed they would be. Is it not a fact that now, during the last year, we have shipped more than a million bales of cotton to Japan to be manufactured into cotton cloth in Japan, and even with able administration by General MacArthur, most of that cloth is right in Japan today, and we cannot sell it?

Mr. CLAYTON. I don't know that I can say that most of it is, but I know that the amount that is stacking up there is a big quantity.

Senator MAYBANK. And cannot be sold for dollars anywhere?

Mr. CLAYTON. They are having great difficulty selling it for dollars.

Senator MAYBANK. So the condition of even some of these properties that could be held, so far as dollar exchange with the United Kingdom or France or anybody else, is that you could not get it today; could you?

Mr. CLAYTON. I do not think you could. The dollars do not exist unless we furnish them.

Senator CAPEHART. Mr. Clayton, I wonder if you see much difference between the Surplus Property Board giving away millions of dollars worth of materials to these foreign governments, and the Congress of the United States giving away millions of actual dollars?

Mr. CLAYTON. Yes, Senator Capehart.

Senator CAPEHART. What is the difference, and which is to be criticized the most severely, if either is to be criticized?

Mr. CLAYTON. I see a good deal of difference. I always took the position when I was Surplus Property Administrator that in my job under the Executive orders—I operated under an Executive order, not a law or a statute—that tub ought to stand on its own bottom.

What anybody else did was all right, but my job was to sell that stuff for the very last dollar I could get, and try to get the money out of it.

I operated on that basis. I believe Mr. McCabe and I operated on that basis also after the change.

Senator CAPEHART. In any event, whatever you did receive for it, if and when you receive it, it will come from loans that we made to those foreign countries.

Mr. CLAYTON. Almost entirely; yes, it will.

Senator CAPEHART. The final end result is that it is all given away. I am not saying whether it should or should not be, and I am not criticizing.

Mr. CLAYTON. A great deal of it; that is true. But we did not recognize that at that time.

Senator CAPEHART. I am not saying that you did, but I am simply trying to say that we have the Congress giving away dollars and you, trying to run the Surplus Property Board, in turn were trying to sell and in many instances were giving away.

At least, as far as the original valuation was concerned, it was 10 or 15 cents on the dollar.

My point is that both the Congress and the administration are in the same category.

Mr. CLAYTON. I say yes, in retrospect, we see now, if we possibly could have gotten any more, it would just have come into one pocket and gone out the other in loans.

Senator CAPEHART. If you had gotten an extra million, they would have borrowed an extra million from the Congress to pay for the million that you sold it for.

Mr. CLAYTON. They would have had to have that much more help.

Senator ROBERTSON. Mr. McCabe had read to us a 24-page statement in which he explains or answered, whichever you wish to call it, the criticism that was made of his administration of the disposal of surplus war property.

You heard that statement read?

Mr. CLAYTON. Yes.

Senator ROBERTSON. Are you thoroughly familiar with all of the items included in the charges against Mr. McCabe and with all the explanation that he gave in that 24-page statement?

Mr. CLAYTON. I have read the statement, myself; I heard it read here again today. I was not familiar with all of the things at the time, for example, cutting the tails off the B-25 bombers.

I just recall now that something arose in connection with it, but I am not thoroughly familiar with that.

I know that planes were supposed to be sold in demilitarized condition.

The CHAIRMAN. They were.

Mr. CLAYTON. Yes.

The CHAIRMAN. They cut their tails off.

Mr. CLAYTON. I don't say you have to cut their tails off, but they were supposed to be sold in demilitarized condition.

The CHAIRMAN. It is a pretty serious thing to cut a tail off, you know.

Mr. CLAYTON. These particular planes, Senator Tobey, were sold for scrap or spare parts.

The CHAIRMAN. They had flown 200 hours only.

Mr. CLAYTON. You know, Senator Tobey, in setting up the Surplus War Property Administration after I was appointed, one of the first things we gave attention to was airplanes. I got the best man I knew to head that department of my administration. The thing that we all agreed on, after thorough checking, with the Army and Navy, was that we were going to have so many airplanes that we would never be able to get anything for the military airplanes, that the conversion costs to transport planes would be so great that we could not sell them for that purpose, and we didn't want to sell them for military use, for the simple reason that the Army and Navy had so many transport planes that would need very little conversion.

We had more of those than we needed; therefore, the bombers and the fighters were just so much scrap, that is, those that the Army and Navy didn't want to keep.

The CHAIRMAN. At that time we were giving planes to the Soviet and other countries around the world; were we not?

Mr. CLAYTON. I don't recall that. That would not be in my department. I just don't know about that.

The CHAIRMAN. I might point out to you, sir, that the facts in this investigation are with regard to Mr. McCabe's fitness to be Governor of the Federal Reserve Board. The chairman of this committee was waited upon by some Senators of the United States, three in number, who felt that Mr. McCabe's nomination should be gone into very thoroughly.

He went into it very thoroughly, he found millions of dollars were given away for a song. It will stand close inspection and examination as to the man's fitness for the job.

All this evidence was in the hearings held by the Committee on War Investigation, and their findings were made after hearing all the evidence. So this is not some fly-by-night ephemeral thing or figment of the imagination of any one Senator to persecute any one man.

It is a matter of Senate hearings, sworn testimony, after making these statements. I want you to know the genesis of it; that is all.

Mr. CLAYTON. Senator Tobey, I would not for a moment indicate that it is a frivolous matter. I certainly do not think that. I have just come here to state my experience.

The CHAIRMAN. If I were in Mr. McCabe's position, I do not know anyone I would look upon with more satisfaction than Will Clayton.

Senator ROBERTSON. I would like to ask a question.

The CHAIRMAN. I thought you did, sir; pardon me.

Senator ROBERTSON. To the best of your knowledge and belief, having heard the statement made this morning by Mr. McCabe, do you think that the explanations that he has given us of the manner in which he handled the disposal of surplus war property are correct?

Mr. CLAYTON. Yes, I do; and I am thoroughly familiar with most of the substance of the statements.

There are a few little details that I would not be able to testify on of my own knowledge.

Senator ROBERTSON. One apparently serious phase of the charge was that one of his key men, a General Johnson, had agreed to take employment at a big salary with the Chinese Government and made improper concessions to the Chinese Government on that account. A letter was quoted here from General Johnson in which he said that he did get the offer, but that he turned it down.

It is a fact, is it not, that he never accepted that employment?

Mr. CLAYTON. I can't speak from my own knowledge, Senator Robertson. I am not familiar with that.

The CHAIRMAN. I might say that General Johnson has been called back to this country by the War Department in the last few days.

Senator ROBERTSON. They investigated General Johnson over there in the Orient. They also investigated him again on the Pacific coast and made two reports that they did not have enough evidence to convict him of criminal action or misconduct.

We are not trying General Johnson.

This statement says that within a week, 6 days, to be correct, after Mr. McCabe got notice that General Johnson might be doing some finagling over there, a cablegram was sent to Shanghai to have the matter thoroughly investigated, that within 3 weeks after Mr. McCabe got notice that maybe something was going wrong in Shanghai, he was in Shanghai.

In less than 2 months, although the investigation had not been completed, Mr. Johnson was out of the picture. During the interim period of less than 2 months when Mr. Johnson was still in the picture, he was only one of numerous others who were advising Mr. McCabe in his dealings with the Chinese Government.

Mr. CLAYTON. I would just like to say, on the question of personnel, that one of the things that impressed me particularly about Mr. McCabe's administration of his job and handling of it, was his ability to surround himself with very able men. In a job that was thankless, a liquidation job. I was greatly impressed with that.

He did surround himself with a group of very able businessmen and lawyers, one or two lawyers and several businessmen.

Senator ROBERTSON. He refers to the employment of Mr. William Knowlson of Chicago.

Mr. CLAYTON. Jim Knowlson.

Senator ROBERTSON. Who has a summer home only 45 miles from where I live.

Mr. CLAYTON. Yes.

The CHAIRMAN. That will not hurt his testimony any.

Senator ROBERTSON. I want to say Mr. Knowlson is an outstanding businessman and he is a man that Mr. McCabe had every reason to rely on, because I have known Mr. Knowlson myself for a number of years.

The CHAIRMAN. I might say for the benefit of the Senator that I wish he would withhold his judgment until he hears the testimony of other witnesses produced in rebuttal.

Senator FULBRIGHT. In your association with Mr. McCabe, Mr. Clayton, did you form any views about his knowledge of the Federal Reserve Banking System?

Mr. CLAYTON. Well—

Senator FULBRIGHT. That is the job he has been nominated for.

Mr. CLAYTON. Senator Fulbright, Mr. McCabe has been chairman of the Federal Reserve bank for a long time in Philadelphia. He is a successful businessman, and I have felt that he would be certainly competent to hold the job as chairman of the Federal Reserve Board.

Senator FULBRIGHT. You have no knowledge of any particular fitness of his for that function of one kind or another?

Mr. CLAYTON. No, sir; but I have worked pretty intently with Mr. McCabe since 1940. We both came here about the same time, when France fell in the summer of 1940.

I have worked pretty intently with him throughout the war, so I have had an opportunity, I think, to form a good judgment of his ability and his character and the man as a whole.

I have the greatest respect for him as a man, as a businessman, and as an able, patriotic citizen.

Senator ROBERTSON. Is he a member of the Advisory Committee of the Department of Commerce?

Mr. CLAYTON. Business Advisory Committee of the Department of Commerce.

Senator ROBERTSON. He is what?

Mr. CLAYTON. He is a past chairman. He was chairman of the Business Advisory Council.

Senator ROBERTSON. Who picks the members of that Advisory Council?

Mr. CLAYTON. They have a small membership group of the council who picks them.

Senator ROBERTSON. Is it composed of what are supposed to be the outstanding businessmen of the country?

Mr. CLAYTON. Yes; it is.

The CHAIRMAN. Were you one of the men, Mr. Clayton, who recommended the gentleman for the position he has been nominated to?

Mr. CLAYTON. Yes, Senator Tobey; I was asked about it.

The CHAIRMAN. Who asked you about it?

Mr. CLAYTON. Must I answer that question?

The CHAIRMAN. I would like to have you answer it. There is nothing secret about it, is there?

Mr. CLAYTON. I do not know that there is. The Secretary of the Treasury asked me.

The CHAIRMAN. Mr. Snyder?

Mr. CLAYTON. Yes.

The CHAIRMAN. Do you think Mr. Snyder was one of the major geniuses who suggested the gentleman to the President?

Mr. CLAYTON. I do not know.

The CHAIRMAN. Mr. Snyder asked you about it.

Mr. CLAYTON. He knew I had been very closely associated with him.

The CHAIRMAN. Did he say to you he was going to suggest him to the President?

Mr. CLAYTON. No; he just asked me about Mr. McCabe, among several others.

The CHAIRMAN. Thank you very much.

Senator SPARKMAN, did you have a question?

Senator SPARKMAN. Mr. Chairman, I wanted to ask somewhat along the line that Senator Fulbright started.

I do not believe he got through with what he was going to ask.

Senator FULBRIGHT. I think he practically finished with my point. You are quite willing to recommend him as a man of fine character and integrity, but you really don't know whether he has had much experience in the banking system?

Mr. CLAYTON. No. I only know that he has served as chairman of the Federal Reserve Bank of Philadelphia.

Senator FULBRIGHT. That is not engaging in the active management of the bank?

Mr. CLAYTON. I think that is right.

Senator FULBRIGHT. He is primarily a fine businessman, as I understand your testimony.

Mr. CLAYTON. Yes.

Senator FULBRIGHT. That is all.

Senator SPARKMAN. Mr. Clayton, you have been in business a great many years yourself?

Mr. CLAYTON. Yes.

Senator SPARKMAN. During the 8 years that you have been associated with Mr. McCabe, you have seen him engaged in business transactions, business negotiations?

Mr. CLAYTON. Yes.

Senator SPARKMAN. You have been impressed with his general knowledge of business matters and his ability and his character and his integrity?

Mr. CLAYTON. I have, sir.

Senator SPARKMAN. And based upon that, you have no hesitancy in recommending his confirmation?

Mr. CLAYTON. Yes; that is right.

Senator SPARKMAN. All right.

The CHAIRMAN. Now, Mr. McCabe, kindly, there is a decision to be made. I see Mr. Patterson sitting over there. I know he is a busy man and an important man. The Senate is in session. We are not legally sitting in session until we get permission to sit in session after 12 o'clock.

To be perfectly frank, as one fellow to another, would it handicap you—I know you want to go back to New York—if we put you on as the first witness at 2:30? You have to eat somewhere. Would it handicap you materially if you did not come on until 2:30?

Mr. PATTERSON. I have an unbreakable appointment for 3:30 here in the Senate. But I will be through before that.

The CHAIRMAN. If it meets with your approval and with Mr. McCabe's, this committee will now stand in recess until 2:30 o'clock.

Is that all right, Mr. McCabe?

Mr. McCABE. Yes.

(Whereupon the committee recessed at 12:40 p. m. until 2:30 p. m. of the same day.)

#### AFTER RECESS

(The committee reconvened at 2:30 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will come to order.

Mr. Patterson, please. We would be glad to hear from you, sir, in your own way and your own time.

#### STATEMENT OF HON. ROBERT P. PATTERSON, FORMER SECRETARY OF WAR

Mr. PATTERSON. I would like to place on the record my opinion as to the high character, integrity, and ability of Mr. McCabe—Thomas McCabe—and particularly my opinion as to the remarkable record he made as head of the Foreign Liquidation Commission.

I spoke to Mr. McCabe about taking that post in February 1945. I had known him in 1941 and 1942, when he was deputy to Mr. Stettinius in the Lend-Lease Administration. I was then Under Secretary of War, the post I had also in February 1945. I became Secretary of War in September 1945 and continued as Secretary of War until July 1947.

When I had known Mr. McCabe in 1941 and 1942, when he was with the Lend-Lease Administration, I formed a very high opinion of his capacity and business ability because he reorganized that office and worked very effectively with the War Department in speeding up procedures for getting lend-lease materials actually under way. I knew that he was Chairman of the Federal Reserve Bank in Philadelphia and was a successful businessman also in Philadelphia.

When I urged him to take that post in February 1945, I told him that it was a very difficult post indeed. The war was not yet over, even in Europe. He said he would take it. He committed himself for 1 year, but he stayed until September 1946, about a year and a half—6 months beyond his commitment.

I said a moment ago that we had foreseen that it would be a post of great difficulty and complexity. If you will bear with me I will point out in a moment the factors that made that such a difficult post.

We had in the Army and in the Navy overseas equipment running into the billions that became surplus as hostilities ceased, first to Europe and then to the Pacific. He had to build his organization from scratch. He came at a time when most civilians in the war agencies were leaving. The war was seen to be drawing to its close and the trend was all out of Washington. I felt particularly indebted to Mr. McCabe for coming in at the time when the current was running the other way.

The CHAIRMAN. As an anticlimax.

Mr. PATTERSON. I thought it was a remarkable display of public spirit and patriotism.

He had the same difficulty in recruiting his staff, the current all running out of Washington, with men leaving to attend to their own private affairs. But he did recruit his staff and I thought did a very remarkable job at getting the men of such ability and efficiency as he got. I think the name of James S. Knowlson was mentioned this morning.

I know Mr. Knowlson very well. He went over to Paris to be the field commissioner for Mr. McCabe over there. He had a great many men of that type that he was able, by strong personal effort, to recruit. He spent months at the job of building up his organization and recruiting. He impressed me with his executive ability, and his organizing ability.

Then we had, in the fall of 1945, some difficulties due to the fact—I guess it was the summer of 1945—difficulties due to the fact that the Foreign Economic Administration which then had charge of the lend-lease program was more or less in competition with Mr. McCabe and the Army-Navy Liquidation Commission. He had surplus goods over in Europe—Army and Navy surplus, used goods—and at that time the Office of Lend-Lease and the Foreign Economic Administration had competing programs. Foreign countries were over here trying to get stuff on lend-lease for postwar purposes, on what they called cash. It was not cash; it was credit. They were supposed to pay, but they had a lot of credit there.

I discussed that very often with Mr. McCabe. It seemed to me that the two organizations had to be put together to stop this business of representatives of foreign countries ringing different doorbells around Washington and trying to make different trades with them, more or less in competition with one another.

The upshot of that was that the Army-Navy Liquidation Commission was transferred over to the State Department—wisely, I think—and the Office of Lend-Lease Administration was taken from FEA and put there, too. I think at that time the Foreign Economic Administration began to liquidate and close its doors.

Mr. McCabe was then transferred over to the State Department in charge of what we called the Office of Foreign Liquidation Commission. A third factor that made it very difficult, after the Japanese surrender, was the great pressure put on his Office for rapid settlements so as to get the soldiers home, particularly in the Pacific. The carrying of property there resulted in rapid deterioration, especially in the tropical lands of the Pacific.

It was also the heavy overhead in maintenance and care of the property, troop pay, troop maintenance, and the severe pressure that the War Department was under here to demobilize and get the soldiers home. Those factors I brought to the attention of Mr. McCabe, and pressed him all the time for rapid liquidation to dispose of the property as promptly as possible.

Take the case of Iran. We were bound by treaty there to get out of Iran at a certain fixed date. I think it was March or April, or something like that, of 1946. We even had to send General Connolly over there as a special man to get us out. We had to furnish ships to take up any remnants that might be there. We had a deadline we had to get out of there.

India was another case. I pressed the Office of Foreign Liquidation as hard as I could to close out in India—close up shop so that all

military personnel could get out of India. We not only had the pressure of getting the soldiers home from there; we were advised by military intelligence at the time that civil strife would break out in India and that both factions would try to get control of the supplies that we still had there, and our troops would get embroiled in the civil strife in India between the two rival factions there.

Mr. McCabe cooperated thoroughly and effectively. He kept the post until September 1946 which, as I say, was months over his engagement.

Roughly, using round numbers, he took declarations of surplus of Army and Navy, of a cost figure—original cost figure—of around  $7\frac{1}{2}$  billion dollars. During his time in office he disposed of about \$6,000,000,000 of that, or about four-fifths of it. And he realized on that, my recollection is, around a billion and a half dollars—somewhere between 20 and 25 percent of original cost. I thought that a remarkably good record under all of the conditions.

When he left I gave him as warm commendations as I possibly could, being very deeply impressed with the excellence of the job done, and with the ability, the foresight, and the executive capacity that he had displayed in handling that task. I thought it as good a job as had been done by any of the agencies in war and postwar days—the job that he had turned in as head of the Office of Foreign Liquidation Commission.

Senator BUCK. May I ask a question?

The CHAIRMAN. Certainly.

Senator BUCK. Mr. Patterson, did you appoint Mr. McCabe Foreign Liquidation Commissioner?

Mr. PATTERSON. I either appointed him or I induced Mr. James F. Byrnes to appoint him. I take the responsibility for inducing him to take the post.

Senator BUCK. You must have discussed the matter with him.

Mr. PATTERSON. Yes; I did discuss it with him.

Senator BUCK. Did you have any trouble—

Mr. PATTERSON. It was at my instance and due to my urgent pleas that he took the post.

Senator BUCK. Was he reluctant to take it?

Mr. PATTERSON. I think he was, a little. But when I explained the importance of it, and the urgency of it, as a matter of public importance, he said readily enough he would take it. I think he was reluctant to; yes. But he took it.

I thought it was a very patriotic service and I still think so.

Senator BUCK. I cannot think of a more distasteful job.

Mr. PATTERSON. I think he had no illusions at all as to the difficulties of the post. I had none. Although they turned out, the difficulties turned out, to be greater than I had foreseen, that was due largely to this rush to demobilize, the impact of which he felt in his post.

Senator BRICKER. Mr. Chairman, I have one question.

You heard the discussions this morning, Mr. Secretary, about the surplus aircraft that were dismantled for war purposes, and "part of them had the tails cut off," I think was the expression used. That was done at the orders of the Army?

Mr. PATTERSON. I believe so. I think that the policy was to demilitarize the planes so that they could be used only for scrap—the planes overseas.

Senator BRICKER. Were those planes, the particular ones, B-25's?

Mr. PATTERSON. I believe so.

Senator BRICKER. Were they at that time usable or useful for military purposes?

Mr. PATTERSON. It would be for military purposes. They were medium bombers. They would not be for commercial purposes.

Senator BRICKER. Are they being used now by the United States Army, do you know?

Mr. PATTERSON. I think they are, in small numbers.

Senator BRICKER. Would they have been valuable to our services here in this country?

Mr. PATTERSON. No. We had plenty here.

Senator BRICKER. There are plenty of them now?

Mr. PATTERSON. Yes.

Senator BRICKER. They were really surplus in the true sense?

Mr. PATTERSON. They were indeed. And so declared by the War Department.

Of course, Mr. McCabe's job was simply to take what the Army or Navy declared surplus.

Senator BRICKER. And he had nothing at all to do with the demilitarization of them or cutting off the tails?

Mr. PATTERSON. No, sir. He did not. He had nothing to do with the decision as to whether they should be surplus or not. As we declared things surplus, dropped them into his lap—

Senator BRICKER. Then it was his job to dispose of them?

Mr. PATTERSON. Yes, sir. Right.

The CHAIRMAN. Suppose Mr. McCabe had realized that the round figure of 500 planes that the Army had acted negligently and foolishly in declaring about 500 planes surplus that were not surplus and were able to be used, would it have been within his province to write to you as Secretary of War or to your subordinates and say, "This is a peculiar ruling, Mr. Secretary of War; these planes can be used. What is the use of calling them surplus? They can be sold; they can be used." Would that have been within his purview to do that?

Mr. PATTERSON. No, sir. I do not think so.

The CHAIRMAN. Why not?

Mr. PATTERSON. It was up to him to take the Army's word for it.

The CHAIRMAN. "Theirs not to reason why; theirs but to do or die." The Army said so, "Thus saith the Lord." Could not a man in his position question the Army?

Mr. PATTERSON. He could, I suppose.

The CHAIRMAN. Would his head come off, or what would be the trouble?

Mr. PATTERSON. That was not in his province.

The CHAIRMAN. As an American citizen would it not have been his job to catch a gross mistake?

Mr. PATTERSON. I do not think a gross mistake was made.

The CHAIRMAN. Here were planes usable, sold to Chinese enterprises according to sworn testimony.

Mr. PATTERSON. Sold as junk.

The CHAIRMAN. They were usable and after they had been used then they cut the tails off after that. Why did they cut the tails off?

Mr. PATTERSON. I suppose to comply with the Army rule that they should not be usable as flying planes.

The CHAIRMAN. And we were supplying China with planes, to combat the Communist menace at that time?

Mr. PATTERSON. Not then, I think.

The CHAIRMAN. How close a time to that? Had that not been the policy of this Government for 2 years past?

Mr. PATTERSON. I do not think so. Let us see; General Marshall went out there as special representative in December 1945, I believe. And he was still there all of 1946. I do not think we were furnishing them any military equipment at that time. I do not think so, Senator.

The CHAIRMAN. I may be wrong.

In a statement of a gentleman before us, on confirmation or rejection of Mr. McCabe, he said:

In this case the Army had removed the guns from the aircraft and had apparently assumed that that was adequate demilitarization. However, when the suggestion was made in the Chinese press that these aircraft might be used as combat aircraft by the Chinese Army, immediate action was taken to demilitarize them completely by rendering them unflyable.

I suppose that was by cutting the tails off. Was that your understanding?

Mr. PATTERSON. I suppose so. I knew nothing of that instance.

The CHAIRMAN. Did you know General Johnson?

Mr. PATTERSON. I do not think I ever heard of him before. There were many Generals Johnson in the Army.

The CHAIRMAN. There was a play once, "Too Many Johnsons." That may be the case here. But let me say that I do not expect you in your capacity to know all the generals, because their names are legion, of course.

But he stands out in this particular situation by the testimony given by reputable agents of Mr. McCabe's own department, and so naturally I raised the question.

Mr. PATTERSON. I do not think I know him.

Senator CAIN. May I ask a question?

The CHAIRMAN. Yes, Mr. Cain.

Senator CAIN. Judge Patterson, is the very high opinion you hold of the job that was done by Mr. McCabe, based largely on your personal respect for Mr. McCabe, or partly for that reason, and partly because you were pretty thoroughly familiar with the substance and details of the job which Mr. McCabe was undertaking?

Mr. PATTERSON. Both factors, Senator Cain. I had a very high opinion of him when he took the post at my request. And I had contacts with him, I suppose, several times a week, all the time that he was in office.

And that enhanced my opinion, and I was certain we had made no mistake in selecting him for that post and inducing him to take it.

Senator CAIN. You had a continuing opportunity to watch his work.

Mr. PATTERSON. I would say several times a week. I would exclude

the times he was overseas, making trips. He went a number of times overseas, in connection with the discharge of his duties.

Senator CAIN. But these continuing meetings with you and Mr. McCabe gave you a singularly good opportunity to watch the development of the disposition job?

Mr. PATTERSON. I thought he did a remarkable job, as I said, starting from scratch. I do not know of a better job in Washington.

Senator CAIN. Thank you, sir.

Senator MAYBANK. Mr. Secretary, I would like to ask you this question. Was it not in 1945 or 1946 that you made the trip around the world, as I remember, including Japan, and was it at that time that you saw such great pressure to move the boys back home, so to speak?

Mr. PATTERSON. Yes.

Senator MAYBANK. And to abandon those islands?

Mr. PATTERSON. Yes. I went to all island overseas areas in December 1945 and January 1946 and there was enormous pressure at that time to get the soldiers home.

Senator MAYBANK. And to abandon all these installations.

Mr. PATTERSON. Yes. Abandon them all. The pressure back here was to do that. We could not do that. It made it all the more important to dispose of that property in order to expedite and return the people.

I saw mountains of equipment in Japan, Okinawa, Shanghai, and the Philippines, and lesser quantities but still plenty, in India, Iran, Egypt, Italy, all areas.

I was heartily in favor of the policy finally pursued by Mr. McCabe, of bulk sales. We could not possibly have disposed of it in any other fashion.

The CHAIRMAN. Mr. Patterson, I want to read to you from your Army Inspector General's report written, I assume, while you were Secretary of War on the investigation of the condition of the B-25's made before their destruction by Maj. Raymond C. Pierce and First Lt. Raymond H. Grant. I quote the verbiage:

The actual destruction was accomplished by the request of Lt. Col. John E. Bell who requested Maj. Howard Detrick AC O-914872 to mutilate the B-25's with acetylene torches. Major Detrick asked his supply and transportation officer, First Lt. Warren E. DeLoch, AC, 711151 who, with three men cut the tails off those B-25's pointed out by Bell who stated that Mr. Thomas B. McCabe gave direct instructions to Brig. Gen. B. A. Johnson (retired) in the presence of his executive officer, Col. Edward Starr, Jr., O-900561 and his legal adviser Charles H. Kendall that these B-25's be mutilated so that he might counteract the unfavorable newspaper publicity by issuing a press release. Lieutenant Colonel Bell said he was then ordered by Mr. Charles H. Kendall, Mr. McCabe's aide, to carry out Mr. McCabe's wishes.

That is from the Inspector General's report of this instance.

Mr. PATTERSON. I do not know anything about the report, or about the instance, either.

Mr. McCabe was directing operations of a very far-flung character. I was myself in the War Department at that time. I would hate to be charged, myself, with every single bit of ill-advised action taken by Army officers all over the world, without my knowledge.

The CHAIRMAN. I would too. But here are two officers of the Army who state that Mr. McCabe gave the direct orders to do this to avoid

unfavorable publicity. That is their testimony, in your Inspector General's report.

Mr. PATTERSON. I would not believe a word of it.

The CHAIRMAN. Then you are indicting your own Inspector General.

Mr. PATTERSON. I do not care about that. I would not believe a word of it, that he did it to avoid ill-advised publicity, or bad publicity, or whatever it was.

The CHAIRMAN. I only say what is in the Inspector General's report.

Mr. PATTERSON. That is only quoting some witness or other, I suppose. You could say anything like that.

Senator BRICKER. Do you have any knowledge, Judge Patterson, about a law enacted in France about the time that you were disposing of this property, that any property left on French soil and not disposed of within a year, or a fixed date, should become the property of the French Government.

Mr. PATTERSON. No. If I have known it, I have forgotten about it.

Senator BRICKER. Did you hear of any similar laws or attempt of that kind?

Mr. PATTERSON. Iran was a case. That was an instance where we had a dead line. We just had to get out, had to remove all troops. We did not want to leave any property lying around there without any personnel to watch it. So we just had to get everything out of there.

Senator BRICKER. I have not checked that at all. But one of the disposal officers in France told me of such an enactment.

Mr. PATTERSON. I would not be surprised. We were under pressures like that in all places. My interest being to get military personnel overseas consolidated, into our forces of occupation, Germany, Japan, Korea, I was doing everything I could to close out the minor theaters.

One of the jobs I had when I visited all the Army areas at that time was to turn the heat on the local commanders to get their Army personnel out, out of India, out of Egypt, out of Iran, all over. So that the men could either be discharged out of the Army or else, if they were low-score men, sent to the more active theaters. That made difficulties for Mr. McCabe, no question about that.

Senator BRICKER. I was told that this also held up any possibility of sale to individuals of the property that was left in France. If they knew where it was they inspected it, and nobody would offer a bid on it because they knew ultimately it would be sold in bulk to the French Government, or ultimately they would take it over.

Mr. PATTERSON. That was substantially the situation, unquestionably, and was a major factor in inducing us to launch the policy of bulk sales to the government involved.

The CHAIRMAN. Any other questions of the former Secretary and judge?

Mr. PATTERSON. Also former judge.

The CHAIRMAN. Once a judge, always a judge.

Thank you for coming, Judge.

Mr. PATTERSON. Thank you.

The CHAIRMAN. Is Mr. Walter B. Schleiter here?

Your name is Mr. Walter B. Schleiter?

**TESTIMONY OF WALTER B. SCHLEITER, VICE PRESIDENT OF  
MULLER PHIPPS ASIA, LTD., NEW YORK, N. Y.**

Mr. SCHLEITER. Yes, sir.

The CHAIRMAN. Do you solemnly swear that the testimony that you are about to give in the matter pending before this committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SCHLEITER. I do.

The CHAIRMAN. And your present address?

Mr. SCHLEITER. My address is 116 East Sixty-eighth Street, New York City.

The CHAIRMAN. What is your present business?

Mr. SCHLEITER. I am vice president of Muller Phipps Asia, Ltd., exporters, of New York.

The CHAIRMAN. Mr. Schleiter, will you tell us something of—

Senator BRICKER. I did not get the last answer.

Mr. SCHLEITER. I am vice president of Muller Phipps Asia, Ltd., a New York export firm, in New York City.

The CHAIRMAN. Mr. Schleiter, will you kindly tell us something about your work in India, your background there?

Mr. SCHLEITER. I lived there 16 or 17 years as managing director of our Indian subsidiary company. We were sales agents for various American and a number of British manufacturers in that territory.

The CHAIRMAN. You said that you were quite familiar with the situation there as to the demand and supply of goods, among Indian businessmen?

Mr. SCHLEITER. Yes, sir.

The CHAIRMAN. Mr. Schleiter, is it not a fact that under your agreement you actually did sell \$5,000,000 worth before December 10, 1945, and is not that an indication that the Indians would buy?

Mr. SCHLEITER. That is a fact, and I think it was a strong indication that they would buy.

The CHAIRMAN. Mr. McCabe, who is being considered by this committee, stated that it is more than probable that after the best items had been siphoned off we would be faced by a long drawn out campaign of merchandising the less desirable types of property. What do you say as to that?

Mr. SCHLEITER. I think that is entirely probable. It was my thought that we would sell as rapidly as possible the more desirable types and realize as much cash as possible under our agreement, and if necessary, we could abandon the "cats and dogs" and let them go later on.

The CHAIRMAN. Were you aware of the natural desire of the Army to deactivate the India-Burma theater as promptly as possible at the time it was entered into?

Mr. SCHLEITER. Very much so. I heard General Hill, who was the head of the Transportation Section of the Army in India, tell that story on a number of occasions. To the best of my recollection there were 250,000 men in India on VJ-day and the maximum rate of evacuation was 30- to 35,000 per month. So that it did not seem to me possible that by the most rapid means they could get the men out of there until May or June of 1946.

The CHAIRMAN. Was it your plan of operations, and your business intelligence and acumen that the thing to do would be to sell the more desirable goods and then the balance in bulk sale?

Mr. SCHLEITER. We considered that. We wanted, however, to have a true bulk sale if it was possible to do so; that is, with an exact inventory, a definite price for the different items, and agree upon a sales contract.

I would like to say at this moment, if I may, that I came here under your express instructions from St. Louis, breaking a business trip to come here, and I came with some reluctance because I worked with Mr. McCabe, I was very grateful to him for the opportunity he gave me. I think we always got on quite well, with the exception of certain details of this India deal.

I have great respect for him and when at his invitation I listened to a broadcast at the time of his resignation I congratulated him after I heard this summary, on what I thought was an over-all job very well done.

The CHAIRMAN. Is it your opinion that a much higher rate of return would thus have been obtained over your agreement, Mr. Schleiter?

Mr. SCHLEITER. That is my opinion. An opinion can always be argued in the light of afterthought. But I still think so, after seeing the rate at which goods were being sold during the brief period that that agreement of ours was in existence.

The CHAIRMAN. Now, as Central Field Commissioner for the India-Burma theater, were you consulted about the change of policy in cancellation of your agreement in favor of the bulk sale to India?

Mr. SCHLEITER. I did not know about it until I came back here in December 1945.

The CHAIRMAN. So you had arranged for the bulk sale on advantageous terms in comparison to what happened later, in bulk to India, and then you came back here and found that had been canceled? Is that right?

Mr. SCHLEITER. I had arranged an agreement whereby sales would be made to individuals, and then I found that it was turned into a bulk-sale agreement.

The CHAIRMAN. So your work went for naught. Is that right?

Mr. SCHLEITER. I suppose so.

The CHAIRMAN. Mr. McCabe stated:

That although cash in the sense of India rupees, questions as to the time, method, and rate of conversion of these rupees into United States currency, or to the property were left unsettled.

Is that right?

Mr. SCHLEITER. These were left unsettled because that was completely out of my jurisdiction or province. The Government of India, as such, at that time had no dollars; they were all controlled in Britain. So necessarily any deal that we made was for local currency and the determination of that local currency would have to be the function of the United States Treasury.

The CHAIRMAN. What bearing has this on the matter of our percentage of return for the goods?

Mr. SCHLEITER. I do not know that I quite understand the question, Senator.

The CHAIRMAN. You just said that we took these Indian rupees and left that matter as to property unsettled. Of course, rupees were an uncertain factor, were they not, as to what we would eventually obtain from that sale under the form you put through. What is your judgment?

Mr. SCHLEITER. My theory was that it was better to have cash of some kind rather than no cash at all, and a nebulous agreement, which the bulk agreement was.

The CHAIRMAN. Mr. McCabe stated on page 14 of his testimony:

A categorical assertion that it assured to the United States any given return for its surplus property or that the return under it would have been more favorable than would be the case under an agreement where the amount has not yet been decided on.

Does that make sense to you?

Mr. SCHLEITER. I asked General Reeder who, at the time I was in India, was the head of G-4, what supplies the United States Army had in India, and he said he had no idea of the dollar value, but they had 1,000,000 tons. The accepted opinion of the Army was that that amount of supplies was worth approximately \$650 a ton. I certainly felt that a reasonable estimate would be two or three hundred million dollars, a reasonable estimate of the amount of return that we could get for those goods if they were sold in an orderly manner to individual purchasers.

The CHAIRMAN. That is the figure, \$300,000,000 that you accuse Sir Archibald Rowlands of stealing from you, facetiously?

Mr. SCHLEITER. That was more or less humorous.

The CHAIRMAN. But it is a grim joke, accusing a man of stealing \$300,000,000 from you.

Mr. SCHLEITER. That is what I had thought he had done. And he more or less admitted it, Senator.

The CHAIRMAN. Did he?

Mr. SCHLEITER. He did.

The CHAIRMAN. Did he pay for the lunch?

Mr. SCHLEITER. He paid for the drink.

The CHAIRMAN. On page 14 of Mr. McCabe's statement, he said:

Within a very few months it became necessary to evacuate our troops from Indian in very short order.

Mr. McCabe then explained that the timetable for evacuation had to be followed. Was the evacuation timetable taken into consideration by you in entering into the agreement?

Mr. SCHLEITER. Yes, sir; I think I have already answered that question.

The CHAIRMAN. Pardon me.

You do not feel that it was impossible, in 6 months, that you could have sold \$200,000,000 worth of cream, do you?

Mr. SCHLEITER. I felt reasonably certain that we could, based on my personal experience in India, and the hundreds and hundreds of letters and personal inquiries with which I had been deluged during the short period I was in Delhi and for the year 1945.

The CHAIRMAN. Any questions of Mr. Schleiter?

Senator MAYBANK. I would like to ask him a question.

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. You made a statement that you had sold approximately \$5,000,000 worth of goods.

Mr. SCHLEITER. That is right.

Senator MAYBANK. That was not in dollars, was it?

Mr. SCHLEITER. No, sir. That was rupee equivalent of dollars.

Senator MAYBANK. You made the statement that any agreement you made could not be an agreement so far as dollars were concerned be-

cause the British, as we know, controlled the rupee, therefore you had no agreement as far as dollars were concerned.

Mr. SCHLEITER. That is right.

The CHAIRMAN. Any other questions, gentlemen?

Senator CAIN. I should like to ask a question.

During the course of Senator Tobey's questioning he used the phrase "so all your work went for naught." Your response was "I suppose so." Would you explain precisely what you meant by that?

Mr. SCHLEITER. Yes. A good deal of my work which Mr. McCabe has always given me credit for, in various communications of his that I have seen, was the negotiation with the Government of India of an agreement which permitted us to handle our surpluses. So that was of some value, I think you will agree, and that therefore I could not say that the work had gone completely at naught.

Senator CAIN. You had done a considerable amount of work to Mr. McCabe's satisfaction, and then you came back to this country to find that a policy decision had changed the course of your work. What was your reaction in working for those on a higher level when you determined that they had seen fit to change the policy without discussing it with you?

Mr. SCHLEITER. Well, my main reaction was that it was a mistake that would reflect no credit on the Foreign Liquidation Commission. I did not care personally because I had my own business to go back to, and my agreement with Mr. McCabe was that I would go back in the maximum period of 6 months from the time I joined the Liquidation Commission.

Senator CAIN. Had there been other instances during the course of your work where your superior had laid down policy decisions covering your endeavors without first discussing it with you?

Mr. SCHLEITER. Not that I am aware of.

Senator BRICKER. You are a civilian employee?

Mr. SCHLEITER. That is right.

Senator BRICKER. Under Mr. McCabe?

Mr. SCHLEITER. That is right.

Senator BRICKER. You are not connected with the Army, as such, in any way?

Mr. SCHLEITER. I was an employee of the Army, I believe. I had an AGO card, a green card, but I was a civilian employee.

Senator BRICKER. That was for convenience in your conduct of sales?

Mr. SCHLEITER. So I understand.

Senator BRICKER. What export products are you engaged in handling now?

Mr. SCHLEITER. We have quite a wide range. Products like the Quaker Oats Co., H. J. Heinz Co., Gillette Co., General Foods, and a number of very large lists of products of top-flight American manufacturers.

Senator BRICKER. That had been your business likewise before you became connected with the War Assets disposal program.

Mr. SCHLEITER. That is right. I was on leave of absence to do this job.

Senator CAIN. Have you an opinion, Mr. Schleiter, as to how long it would have taken you to dispose of some two or three hundred, or a million tons of surplus property through individual sales?

Mr. SCHLEITER. All I can say about that is that I strongly felt that we could sell, minimum, \$200,000,000, long before the remainder of the goods became an embarrassment to the evacuation program of the Army. So that it would have been all right to abandon the rest, which would not have been of a great deal of value anyway.

The CHAIRMAN. Mr. Maybank?

Senator MAYBANK. To get back to \$200,000,000, this is the point that I want to get clear on. You still say that that \$200,000,000 that we are talking of, if you had sold it, it would have been sold in rupees?

Mr. SCHLEITER. Yes, sir.

Senator MAYBANK. And the British Government set the price on them?

Mr. SCHLEITER. No; we set the price on that.

Senator MAYBANK. I am talking about the value of the rupee in exchange for the dollar.

Mr. SCHLEITER. I do not know whether the British Government set that price.

Senator MAYBANK. The Treasury Department. So whatever the money would have been in dollars would have been whatever was decided by the Treasury and the British Government?

Mr. SCHLEITER. Yes, sir.

Senator MAYBANK. Long before the war the rupee was not worth very much, was it?

Mr. SCHLEITER. The rupee was fixed to the pound sterling ever since I remember, and my memory goes back 20 years.

Senator MAYBANK. But it fluctuated quite extensively prior to that.

Mr. SCHLEITER. Only as the pound sterling fluctuated.

Senator MAYBANK. Of course, it did. That is what prevented the barter agreement with Germany prior to the war.

Mr. SCHLEITER. I am not aware of anything about barter arrangements with Germany.

Senator MAYBANK. You know that they did a lot of bartering. You would not say they did not barter, would you? Marks against rupees, and so forth, and so on.

Mr. SCHLEITER. I do not believe the Germans tried with India very considerably except on an item that I know a good deal about, and that was razor blades.

Senator MAYBANK. What about cotton and jute?

Mr. SCHLEITER. That is not my business.

Senator MAYBANK. That was there. Whatever dollars you got for this, or whatever dollars you were going to get for it were not actual dollars, whether they be from private firms or bulk sales themselves. But the money had to be determined later on on an exchange basis from dollars through the Treasury Department, pounds sterling, and the British Government.

Mr. SCHLEITER. Yes, sir.

The CHAIRMAN. The fact remains however, that what we were going to get was \$200,000,000 value in rupees?

Mr. SCHLEITER. That is right. At the going rate of rupees.

Senator MAYBANK. Did you say the going rate?

Mr. SCHLEITER. Going rate of rupees.

Senator MAYBANK. Did the Treasury and the British Government agree to that?

Mr. SCHLEITER. The Treasury did. The Treasury agreed to this agreement before it could be ratified.

Senator MAYBANK. They did not agree to it.

Mr. SCHLEITER. I beg your pardon?

Senator MAYBANK. The Treasury did not agree to the present rate if they did not agree to go along with your agreement.

Mr. SCHLEITER. All I know is that the Treasury was well aware, was made aware by Mr. McCabe's office here in Washington, of the details of the agreement which included acceptance of rupees and the question of dollars to be determined later on.

Senator MAYBANK. But they did agree to that?

Mr. SCHLEITER. Yes.

Senator MAYBANK. The Treasury did.

Mr. SCHLEITER. That is what I am informed.

The CHAIRMAN. Then we having made the arrangement that you made as to the sale of goods, you came back here after that and you found this had been canceled and it had been sold in different form?

Mr. SCHLEITER. Yes.

The CHAIRMAN. Mr. Robertson?

Senator ROBERTSON. Is it true that the Army did move its troops out of India as soon after the war was over as possible?

Mr. SCHLEITER. We made every possible effort to move them as rapidly as we could.

Senator ROBERTSON. Suppose you had stayed in India, and you were in charge, and the Army moved all its personnel out, how would you handle it then?

Mr. SCHLEITER. I tried to make plain that I do not think the entire million tons could have been sold on that proposed basis for a very long period. I think that the cream could have been sold rapidly so that when it became a problem to guard the remainder of the surplus, a deal could have been entered into with the Government of India for a very low price for what was left, or for outright abandonment.

Senator ROBERTSON. Then it is a question of judgment plus a large element of speculation.

Mr. SCHLEITER. I suppose it is a question of judgment.

Senator ROBERTSON. You could not handle a million tons over there without any Army personnel, could you?

Mr. SCHLEITER. No, sir.

Senator ROBERTSON. Certainly not. And if you were there, and you got orders that we are taking the personnel out, you would have to move fast, would you not?

Mr. SCHLEITER. Yes.

Senator ROBERTSON. That is all.

The CHAIRMAN. The point, Mr. Robertson, before you came in, is this: The witness testified that he could have sold \$200,000,00 worth of the cream of this stuff that belongs to the American taxpayers, forthrightly, readily, pronto, and then left a lot of junk which could then be cleaned up in what is called a rummage sale.

Is that the size of it?

Mr. SCHLEITER. Yes, sir.

Senator ROBERTSON. I was here when he started.

The CHAIRMAN. You recall that testimony, do you not?

Senator ROBERTSON. He said he sold \$300,000,000 and if he could have handled it the way he wanted to, he could have got it up—

The CHAIRMAN. Is there any question in your mind that the witness wants to get over to this committee that if he had carried through the plan he had made, and had been allowed to, and had not been knocked on the head after he got back here, that he would have sold \$200,000,000 worth of cream very readily in a short time, long before evacuation, and that when evacuation came there would have been a lot of junk on hand that he could have sold in lump formation in a rummage sale?

Senator ROBERTSON. No, sir.

The CHAIRMAN. That is his testimony. He just said that was his testimony.

Senator ROBERTSON. He said that was at that time his best guess on the subject, but he could not establish it, and he did not know how long he was going to be there; he did not know how many rupees they had; he did not know for how much they could change the rupees into dollars, and at the time he left there it was his judgment that it might have worked out; and that is all he did say.

The CHAIRMAN. That is what he was sent over for in the first place, after 16 years of living in India and knowing business conditions.

Senator ROBERTSON. I will say it is my best judgment.

The CHAIRMAN. And knowing the program in detail.

Senator ROBERTSON. We might inquire of Mr. McCabe's viewpoint about whether he plans any major reversal of policies of the Federal Reserve Board, but we are wasting time on issues of the rupees and what happened in India.

The CHAIRMAN. Of course, whether we are wasting time or not is a matter of opinion. Mr. McCabe is before us. Three United States Senators said, "Go into it fully. It is worth going into. You will be amazed at what you find." That is just what we propose to do.

We have witnesses, businessmen in charge of these operations, before us for examination. It is not very long. It is not endurance. I think the testimony is germane. The chairman so rules.

Any questions?

Senator CAIN. How many months after you started to dispose of this surplus property did the American troops remain in India?

Mr. SCHLEITER. I left, in December 1945, and I do not know how long they remained after that.

Senator CAIN. Perhaps Mr. McCabe has an answer.

Mr. McCABE. My recollection is it was May.

Senator CAIN. What?

Mr. McCABE. May 1946.

Senator CAIN. How many months would that have been from the beginning of the program until the troops were withdrawn?

Mr. SCHLEITER. Approximately 8.

Senator CAIN. Eight months?

Mr. SCHLEITER. Yes, sir.

Senator CAIN. You were of the opinion that in 8 months, through individual sales, you could have sold \$200,000,000 worth of merchandise?

Mr. SCHLEITER. Yes.

Senator MAYBANK. For rupees?

Senator CAIN. I understand that.

But you yourself were not in active charge in that operation for 8 months because the policy was changed somewhere after it had just gotten started.

Mr. SCHLEITER. That is right.

The CHAIRMAN. Any other questions?

(No response.)

The CHAIRMAN. Thank you for your kindness.

Mr. SCHLEITER. Thank you.

The CHAIRMAN. Mr. Bruce Smith?

Mr. Smith, will you kindly tell the stenographer your name and present occupation?

### TESTIMONY OF BRUCE M. SMITH, PRESIDENT OF MARK L. MOODY FEDERAL, INC., SHANGHAI, CHINA

Mr. SMITH. My name is Bruce M. Smith. I am president of Mark L. Moody Federal, Inc., Shanghai, China. I have been president of the American Chamber of Commerce for the last 2 years. I am not now. I was until the end of 1947.

The CHAIRMAN. That is in Shanghai?

Mr. SMITH. Shanghai, China.

The CHAIRMAN. Are you acquainted, Mr. Smith, with efforts of Americans in China to purchase surplus from FLC?

Mr. SMITH. Yes; to a certain extent I am.

The CHAIRMAN. In the course of your being in China at the time I am speaking of now, what were you told of the priority list for FLC sales in China?

Mr. SMITH. I might state that I arrived back in China in February 1946 and at that time the American business community were very much disturbed by the fact that they were not able to purchase war surplus materials from War Surplus. General Johnson, I think, was in charge at that time, and the American business community—this is just before I arrived—had submitted a list of their firm names, and what they were interested in, in order to try to arrange a fairly large bulk purchase, because the War Surplus said they were not interested in small retail deals.

I understand that some of the offers were contemplated by the American business community and ran up to about a million dollars on several items.

I might add that in my own case, I am in the automotive business, and I needed a lot of equipment because we had been stripped by the Japanese. I was told that the priorities were first Chinese Government, and then semiofficial Chinese groups, and other groups, and that the American business people were at the bottom of the list, and that if I waited for clearance of all the other groups I might be able to buy something after 6 or 12 months. I could not wait, so I had to order directly from the United States.

The CHAIRMAN. Some of those goods were on the basis of a million-dollar purchase?

Mr. SMITH. I understand certain medical supplies were on the basis of a million-dollar purchase.

The CHAIRMAN. During the period before September 1, 1946, were sales made from individual lots to Chinese or others by FLC?

MR. SMITH. I believe that the Chinese were fairly successful in getting individual lots.

The CHAIRMAN. And were they made to Americans, some of those sales?

MR. SMITH. Americans, a few, but under great difficulty. We were somewhat discouraged because of the priority list. As a matter of fact, I gave up, myself, after I was told what the priority list was.

The CHAIRMAN. Do I understand—and perhaps I am wrong in my assumption, and you correct me if I am wrong, kindly—the way the thing worked out was this: It was sold to the Chinese Government and then by them sold to the American businessmen?

MR. SMITH. That was the case in a certain number of cases. That is correct.

The CHAIRMAN. Did you approve of that policy?

MR. SMITH. No. I think the Americans should have had the first whack at it.

The CHAIRMAN. One would naturally think so, would you not?

MR. SMITH. That is correct.

The CHAIRMAN. Were United States business interests given an equal opportunity to purchase these things sold in these lots?

MR. SMITH. That is the opinion of the American business community, that they were not given an equal opportunity, that they were not furnished with lists. The Chinese seemed to have lists of what was available before we ever heard about them.

The CHAIRMAN. And you as president of the chamber of commerce in Shanghai would probably know the pulse of the American businessman in China.

MR. SMITH. That is right. The worst headache was early in 1946, before I got there. But I heard plenty of it after I got there.

The CHAIRMAN. Would you be good enough to discuss the bulk sale in September 1946 and its effect on the United States business interests there?

MR. SMITH. That bulk-sale proposition, I think, was everybody's headache, including Mr. McCabe's. We were not in a position as a group there to take over the whole bulk-sale proposition. There was too much junk. At the same time we felt that we should have an opportunity to buy what we could use, and resell, or use for our own use.

The CHAIRMAN. Pick and choose.

MR. SMITH. Pick and choose; and then the rest would go as bulk.

I believe the surplus, Mr. McCabe's committee felt that they had to sell the whole thing at once. The proposition was that we would be somewhat protected by a clause in the agreement that the Chinese would give us fair treatment as sales to Americans versus Chinese—

The CHAIRMAN. For a consideration?

MR. SMITH. I do not think we had a chance on that. There was no way of enforcing it. We who have lived throughout a long time do not have much confidence in that type of agreement.

The CHAIRMAN. So the net result is that the Chinese bought these surplus goods with their business acumen, and turned around and sold to America citizens who paid for these as part of the taxpayers of the country at advanced price. Is that correct?

MR. SMITH. That is correct, except that they sold to the Chinese also.

The CHAIRMAN. But they sold to Americans, too.

Mr. SMITH. Yes.

The CHAIRMAN. And speaking of the American businessman in China who wanted to buy these goods, he was barred by the bulk sale, but the Chinese bought them and turned around and sold them to them at advanced prices.

Mr. SMITH. That is right. We could not buy much out of the total. But the cream of the surplus, bottled beer and sweet chocolate, the Chinese got early in the game and did very well on it.

The CHAIRMAN (quoting):

That for ways that are dark,  
And for tricks that are vain.

Mr. SMITH. That is correct.

The CHAIRMAN. Where could the United States Government get sound advice for redistribution of aid to China?

Mr. SMITH. I think they could have gotten it from the one source they did not try to get it from, and that was right on the spot, from the American authorities, either the consul general or the American commercial attaché. You have a man out there who has been in China for 20 years, Mr. Blanhalder. He really knows his stuff. But he is very seldom—his recommendations are very seldom followed.

The CHAIRMAN. Was he consulted in this case?

Mr. SMITH. I do not know, sir.

The CHAIRMAN. To what extent was this advice that they could have obtained sought by Mr. McCabe?

Mr. SMITH. I think Mr. McCabe came a little late into the picture. A good part of the damage was done before we knew that Mr. McCabe was in charge of surplus.

The CHAIRMAN. What were the market conditions in Shanghai in 1946, particularly for surplus goods?

Mr. SMITH. If you have ever heard of a gold rush boom, that was it. It was an intense speculation, with very high prices. You could sell anything.

The CHAIRMAN. What do the two councils represent in the Far East America Council of Commerce and Industry, Inc., and the National Foreign Trade Council, Inc.?

Mr. SMITH. The National Foreign Trade Council is a group of people interested in foreign businesses. It is a very old-established organization in this country and we consider it about the best, I mean for trying to get facts and putting them before the State Department and other groups here. The Far East America Trade Council was more or less of a social group, to start with, and we have not felt that it had its feet on the ground to the extent that the National Foreign Trade Council did, although in the last 6 months, I believe the Far East Council has become far more useful to American business people.

The CHAIRMAN. Would you say that these councils representing influential American firms in China, found fault with the one clause in the bulk-sale agreement that could be interpreted as an attempt to protect our American interests in China?

Mr. SMITH. Would you repeat that, please?

The CHAIRMAN. Would you say that these councils which you just enumerated, representing influential American firms in China, found fault with the one clause in the bulk-sale agreement with China?

Mr. SMITH. I think the National Foreign Trade Council would have done so. I am not sure about the other.

The CHAIRMAN. At this point I wish to insert in the record an extract from page 57 of the Joint Memorandum of the Far East America Council of Commerce and Industry, Inc., and the National Foreign Trade Council, Inc., which were submitted to the Department of State, June 17, 1947.

## SURPLUS SALES SITUATION

## UNITED STATES GOVERNMENT POLICY

The United States Government, in an attempt to safeguard American interests operating in China, incorporated in the surplus sales agreement the following paragraph:

"ARTICLE 4. *Distribution.*—That China shall utilize to the greatest extent possible established commercial distribution channels for the resale of property sold hereby and that United States distributors established in China shall have an equal opportunity to bid for and to obtain such property. That China shall recognize normal distribution practice including the marketing wherever practicable of name brand products through the established agencies for such products."

Apparently the hope was that the foregoing provision would at least provide an entering wedge for American business firms, and that what evolved after that would be largely a matter of the nature and extent of their interest and the measure of their insistence with regard thereto. However, the extent to which the Agreement has been implemented and projected in the interests of American business has been to all intents and purposes practically negligible.

The two councils feel that the surplus-sales program represented an additional opportunity for close cooperation and collaboration as between Government and business in relation to American interest, an opportunity which has now been lost in the wake of the insistence of the Chinese Government agencies in establishing such regulatory measures and controls as to make it impossible for American firms to enter the field profitably on their own behalf. The only occasion for citing it in this memorandum is in relation to the expressed hope of the two councils that future developments in China having a bearing on American trade interest will be worked out in closer collaboration between Government and business and that business will not be confronted with a fait accompli with no alternative other than to suffer the consequences no matter how adverse they may be in relation to private-enterprise interest.

Those are all the questions I have.

Senator BUCK. Do I understand that the testimony that you are giving is that the things that happened were not to your liking, that they happened before Mr. McCabe reached China?

Mr. SMITH. As far as I understand, most of it was before Mr. McCabe came to China. When he was there we did object to this final agreement for the final disposal, where we did not feel we were getting any protection that was worth anything, on equal treatment of Americans to buy what was still available.

Senator BUCK. You did not think Americans had priority?

Mr. SMITH. No. We did not think so because you go out there, new, and the Chinese can easily convince you that a certain thing will be done. But if you have been there a long time you are very skeptical that they will actually do it, that they have the power to do it.

Senator BUCK. Did you have the power to buy any good amount of this surplus?

Mr. SMITH. Personally, I only had a desire to buy a small amount. But I do know of American firms there that were interested in fairly large amounts.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. What explanation do you have of the fact that the Americans in charge of the disposal of this surplus property would favor Chinese over American firms doing business in China?

Mr. SMITH. The Chinese were able to take over, to make an agreement to take over the whole lot. Now, we knew there were lots of junk on the islands and all around which nobody could hope to use, although recently it has turned out that the Bethlehem Steel Co. were very much interested in some of the scrap.

Senator BRICKER. You know of no other reason why they would favor them?

Mr. SMITH. No. Except that if you negotiate any agreement with the Chinese, they are expert negotiators; they are very smart people, and they sometimes will lead you to think that a certain thing will be done from a political or high-level angle and they cannot enforce it themselves.

Senator BRICKER. Do you know of any such holding out in this case?

Mr. SMITH. No. I do not particularly, except in the case of all these former FEA lend-lease trucks, 15,000 were bought by the United States Government to turn over to China for lend-lease and at the time the war ended only 3,000 had been delivered, about 6,000 in India and 6,000 in the United States unshipped.

The agreement, the consul general, Mr. Davis, was very keen that we cooperate with the Chinese on disposal as an automotive group, all companies, all manufacturers get together and market the stuff in an orderly way. We approached the Chinese as a group, the automotive group of Americans, mainly Americans, some Chinese, approached the Chinese Government on these trucks and they said that if we would guarantee to sell 5,000 of these big ones, in 6 months, that they would let us have them at cost, but we could only add 5 percent on to the cost price for profit and expenses.

Well, in the automotive business your overhead is a minimum of 10 percent. We figured we would have to have 10 percent to do it. So the deal was all off. Later we renegotiated with them on spare parts, about \$80,000,000 worth of spare parts. We wanted to see that the people who bought the trucks got spare parts at a fair price. We offered to do it on a 10 percent basis. The Chinese turned it down again.

It is very difficult to make an orderly operating arrangement with the Chinese Government.

The CHAIRMAN. Why is it difficult to say no to a Chinaman any more than it is to anybody else?

Mr. SMITH. Perhaps they are more persuasive. You can say no, but they make you think they are going to do it.

The CHAIRMAN. Do they use men or women?

Mr. SMITH. They use men. Madame Chiang Kai-shek is the only woman I have ever known of who negotiated anything in this country.

Senator BRICKER. You left the inference here a moment ago that the American agents who were disposing of surplus property were favoring the Chinese firms, rather than the American firms.

Mr. SMITH. That is our impression.

Senator BRICKER. Is there any other factor outside of the sale by bulk, and by portions, that entered into that favorable attitude, or consideration of the Chinese?

Mr. SMITH. I do not know. We were very disturbed by that. That was done before the bulk sale proposition came up.

Senator BRICKER. You left the impression here that they did favor the Chinese as over the Americans. How do you explain that?

Mr. SMITH. I do not, except by the fact that the people, the Americans in charge of it, were doing it. That is the impression of the whole American business community. I might say that was before Mr. McCabe appeared on the scene. I think before he was even in surplus.

Senator BRICKER. You have no explanation that you have given us to my satisfaction, at least, except that the Chinese were better bargainers and better buyers than the Americans were.

Mr. SMITH. If I had any other ideas, sir, I have no way of proving it, so—

Senator BRICKER. Have you any other ideas? You do not have to prove it. I just want to know for my own thinking. If you have any other ideas of what entered into this consideration, and final determination to favor the Chinese over the Americans.

I would like to know what it is, even if it is rumor, gossip or anything else.

Mr. SMITH. That is a tough question.

Senator BRICKER. No. It is a simple question. You know what they talked about. You were over there. If there was talk about something else, what was it?

Mr. SMITH. I would not name any names. I will not say any more about it. But the impression was that perhaps certain people in the American Government who were handling it were perhaps receiving something on the side.

Senator BRICKER. In other words, they were bribed into a contract?

Mr. SMITH. That is the impression in Shanghai.

Senator BRICKER. Was that merely talk and gossip or—

Mr. SMITH. I do not know. I have nothing to prove it.

Senator BRICKER. You do not know of any names bandied around in connection with it?

Mr. SMITH. No. I cannot say anything more than that.

Senator BRICKER. That was all before the bulk sales determination was made, I think here at the Washington office?

Mr. SMITH. That is right.

The CHAIRMAN. Did you know General Johnson?

Mr. SMITH. Yes, sir.

The CHAIRMAN. Did you know him pretty well?

Mr. SMITH. No; not well.

The CHAIRMAN. Did you know him at the time he was negotiating with the Chinese Government for a job, working for them?

Mr. SMITH. I heard that rumor sometime afterward.

The CHAIRMAN. Did you know the terms of that job?

Mr. SMITH. Well, only by rumor.

The CHAIRMAN. Somebody told you so?

Mr. SMITH. That is right.

The CHAIRMAN. Any other questions?

Senator FULBRIGHT. What was the nature and character of the goods you were interested in, besides trucks?

Mr. SMITH. We were interested in spare parts and machinery, and equipment for service stations and assembly plants.

Senator FULBRIGHT. What were the other desirable items of this property?

Mr. SMITH. There were medical supplies, large amounts; there was beer, chocolate.

Senator FULBRIGHT. What?

Mr. SMITH. Medical supplies.

Senator FULBRIGHT. Beer? Large quantities of beer?

Mr. SMITH. I believe very large quantities of beer. The Army had it stored in various places.

Senator FULBRIGHT. Do the Chinese like beer?

Mr. SMITH. They certainly do.

Senator FULBRIGHT. Chocolate?

Mr. SMITH. And Coca-Cola.

Senator FULBRIGHT. Did we ship Coca-Cola from here?

Mr. SMITH. I do not know. I think the Army had their own bottling plants out there. I do not think it was given away. It was sold.

The CHAIRMAN. Did they sell the Coca-Cola back to American citizens?

Mr. SMITH. No. I do not know anything about buying any Coca-Cola back. There was lots of sweet chocolate around.

Senator FULBRIGHT. What?

Mr. SMITH. Sweet chocolates.

Senator ROBERTSON. I would like to ask a question off the record, in view of the question asked by the Senator.

(Thereupon, there was a discussion off the record.)

The CHAIRMAN. Mr. Cain?

Senator CAIN. Mr. Smith, were you the president of the chamber of commerce at the time the rumors were going around that some Americans were being paid off for this preferential treatment of the Chinese?

Mr. SMITH. I came in about 2 months after. I was made president about May 1946.

Senator CAIN. How many business firms, and heads of firms, were represented in the business community to which you have referred?

Mr. SMITH. We have membership in the chamber of commerce there of about 140 firms which comprise practically all of the important firms.

Senator CAIN. Do you know of any single step that that business community took to prove or disprove these allegations and rumors that bribes were perhaps being paid to Americans?

Mr. SMITH. No. That is a thing that the chamber of commerce stayed out of.

Senator CAIN. Yet you had a tremendous interest, as a business community, in endeavoring to get preferential rights for yourselves.

Mr. SMITH. As a group we go through the American consulate general on our problems, the commercial attaché, and sometimes directly to the Chinese, and in any legitimate way that we can.

Senator CAIN. To your knowledge did you make any representations to the American consul that you had reason to believe that the Americans were being bribed to keep you from getting what you thought was right?

Mr. SMITH. No. I believe we made representations that we did not feel that we were getting a fair deal.

Senator CAIN. And you let it go at that?

Mr. SMITH. I let it go at that.

The CHAIRMAN. Thank you for your kindness in coming. We appreciate it very much.

Mr. SMITH. Thank you.

The CHAIRMAN. Mr. Walter G. Rundle?

Will you kindly hold up your right hand?

Do you solemnly swear that the testimony that you are about to give in the matter pending before this committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RUNDLE. I do.

#### TESTIMONY OF WALTER G. RUNDLE, FORMER MANAGER OF THE UNITED PRESS IN SHANGHAI, CHINA

The CHAIRMAN. Mr. Walter G. Rundle, formerly manager of the United Press in Shanghai.

Mr. Rundle, what caused you as a newspaperman to be particularly interested in FLC, Shanghai?

Mr. RUNDLE. Well, it was a cumulative interest. As Mr. Smith just outlined, there was a continual complaint at the American business community there that they were not getting a square deal; they were not able to make purchases; that the Chinese were being favored. I heard quite a bit of that and was interested because it was a news factor.

My interest in the FLC, however, was considerably stimulated when, in June, I think it was, 1946, I read a minor story about some complaints about the handling of FLC surplus jeeps in sales to veterans. I was quite surprised that Gen. B. A. Johnson was then the field commissioner, and he reacted so strongly to that that by the time it was in print he called me by phone and made personal threats against me.

The CHAIRMAN. For telling the truth?

Mr. RUNDLE. He did not challenge the truth of it. He primarily wanted to know where I got the information and told me that I had better get on his handwagon or he would pillory me. I do not know what he meant by that. It struck me as quite surprising that so small a story would make quite such a stir.

Having heard some other rumors around, including one that he had been in some difficulty in the Persian Gulf Command before he came to China, I went to the CID and asked them if they had any knowledge of what was wrong over there; what was going on; what was underlying this. They told me that they had heard complaints, and some rumors, and we exchanged information on what we knew about it. I asked them if they were planning an inquiry and they said they were not at that time; that they would be interested in knowing anything that I turned up that was out of order. And they would keep me informed if they found anything that they thought I might be interested in following up. Over a period of some time there was an exchange of information on that basis.

Also, about that time, there was a story in the Time magazine claiming there were irregularities in the handling of medical supplies from Okinawa. There was quite a bit of interest in all of Shanghai at the time. That I followed up somewhat.

I think it was about early August that I was told that an FLC field examiner was coming out to look into this thing and I was asked if I would be willing to talk to him when he came. I said I would.

Mr. Moody subsequently showed up, I think on August 11, 1946, and I was called down to the CID offices that day. I was asked to tell him what information I had gathered. By that time quite a bit of it congealed.

I gave him both what I considered to be pretty well-established facts, quite a bit that I had heard that I had not had time to check on, and I told him further the names of various people that I thought might be of interest to him, in following up his investigation.

The CHAIRMAN. You heard Mr. Smith's testimony?

Mr. RUNDLE. In part.

The CHAIRMAN. Would you confirm that China, through its business ability—rather uncanny business ability—did buy these American supplies and then sell them back to American citizens at a profit?

Mr. RUNDLE. Yes. I knew of two or three established cases of that fairly early in the game. The people who were victims of that did not seem to think that it was particularly the bargaining arrangement; they felt it went deeper than that. Specifically, Texaco had made bids and deposited half payment on certain sheet metal that they wanted. That contract that they had drawn was canceled, and I believe it was later sold at about 20 percent of the price Texaco agreed to.

The CHAIRMAN. Sold to China?

Mr. RUNDLE. Sold to Chinese interests.

The CHAIRMAN. At 20 percent of the price which Texaco agreed to pay for it?

Mr. RUNDLE. Yes. And on which they had made one-half payment.

The CHAIRMAN. Then if the contract had been entered into, and they had made a partial payment, how was it annulled?

Mr. RUNDLE. That, sir, I do not know. I am not expert on that.

The CHAIRMAN. Did it strike you as strange?

Mr. RUNDLE. It seemed to strike the Texaco people as strange and it certainly did me. I think I should have felt very much as they did—that it was a rather raw deal.

The CHAIRMAN. I think you are putting it pretty mildly.

Will you tell us some of the information you turned over to Mr. Moody, former FLC compliance officer, for his use in the investigation?

Mr. RUNDLE. I told him about the complaints of the business communities, specifically the one I just mentioned, from Texaco. I cannot recall all that I gave him. I had heard about some sales of planes at a very low price. As a matter of fact, the Chinese had boasted about a deal they put over on the sale of approximately 150 planes and it was in the newspaper sometime before.

That appeared on the surface to be unusual, and their chortling over it made it of interest. I suggested he might want to follow up on that.

Also the bulk sale of medicines from Okinawa. And I remember specifically that I told him to go to one Mr. E. Roman, who was the manager of the Commercial Express Warehouse. The reason I suggested that he do that, a prominent Army official, other than an FLC official, had told me sometime earlier that Mr. Roman had reported that B. A. Johnson and Powell Khoong, a Chinese purchaser of FLC supplies, had been through his warehouse looking at the supplies that came in from Okinawa and he had commented to this Army officer that General Johnson seemed to have quite a proprietary interest

for the material for one who had just concluded the sale. I suggested that Mr. Moody follow up on that.

Those were among the things that I told him about.

The CHAIRMAN. Any further significance to this warehouse, the name of which you gave Mr. Moody?

Mr. RUNDLE. Yes. The warehouse people were quite interested later on—considerably later. It proved to be one of several warehouses in which American Red Cross blood plasma was stored, which was being sold in the mails as a male rejuvenator.

The CHAIRMAN. Blood plasma?

Mr. RUNDLE. Yes, sir. That is, the essence of it.

The CHAIRMAN. We live and learn, gentlemen.

Mr. RUNDLE. It proved that that warehouse was one of several in which large quantities were stored.

The CHAIRMAN. In previous testimony it was stated that the sale of blood plasma and narcotics was an oversight. Do you know anything about that?

Mr. RUNDLE. I have quite a little information on that, because I checked that to a considerable extent. That was an obvious—a medical—claim that was made. It had been made repeatedly ever since the Okinawa medical supply sales first came into prominence.

In the course of the stories that were run, and the check-ups that I made, a refugee drug salesman in Shanghai came to my office and he said he had read these stories with considerable interest because he was a drug salesman and he had known about this. He brought me a very tattered, typewritten sheet, which he said had been given to him by Powell Khoong, in May of 1946. I have that, by the way, if the committee is interested. The sheet he identified to me—and I have no reason to believe that he would distort it—as an invoice of the material that was on Okinawa, and not yet moved from Okinawa, which was sent to Powell Khoong, and from which they made up a list to be given to drug salesmen for advance sale of these supplies before they were brought to Shanghai.

The CHAIRMAN. I will ask you to insert that in the record.

(The information is as follows:)

1-005	Acacia.....	1 lb. bot.
1-010	Acetone.....	1 lb. bot.
1-015	Acetophenetidin.....	1 oz. bot.
1-020	Acid, Acetic, Glacial.....	1 lb. bot.
1-025	Acid, Acetylsalicylic.....	1 oz. ctn.
1-030	Acid, Benzoic.....	4 oz. ctn.
1-035	Acid, Boric (powd.).....	1 lb. ctn.
1-040	Acid, Citric.....	1 lb. ctn.
1-045	Acid, hydrochloric.....	¼ lb. bot.
1-050	Acid, Molybdic.....	50 gm. bot.
1-055	Acid, Nitric.....	¼ lb. bot.
1-060	Acid, Oxalic. C. P.....	100 gm. bot.
1-065	Acid, Phosphoric.....	100 gm. bot.
1-070	Acid, Salicylic.....	¼ lb. bot.
1-075	Acid, Sulfanilic.....	5 gm. bot.
1-080	Acid, Sulfosalicylic.....	1 lb. bot.
1-085	Acid, Sulfuric.....	¼ lb. bot.
1-090	Acid, Tannic.....	¼ lb. bot.
1-095	Acid, Tartaric (powd.).....	¼ lb. bot.
1-100	Acid, Trichloroacetic.....	1 oz. bot.
1-110	Alcohol.....	½ gal. tin.
1-115	Alcohol (dehydra).....	½ pt. bot.

1-120	Alum	1 lb. ctn.
1-130	Ammonium Chloride	1 lb. bot.
1-135	Ammonium Sulfate	1 oz. bot.
1-140	Amyl Nitrite 5 Minim	12 in bot.
1-145	Antimony and pot : Tart	1 oz. bot.
1-150	Atropine Sulfate	15 gr. vial
1-155	Balsom Peruvian	¼ lb. bot.
1-160	Barium Dioxide, c. p	1 oz. bot.
1-165	Bismuth Subsalicylate	2 oz. bot.
1-170	Bismuth Subcarbonate	1 lb. ctn.
1-175	Bismuth Subnitrate	¼ lb. bot.
1-180	Caffeine, Citrated	1 oz. ctn.
1-185	Calamine, Prepared	1 lb. ctn.
1-186	Calamine, Prepared	1 lb. ctn.
1-190	Calcium Gluconate	amp.
1-195	Calcium Hydroxide	vial.
1-200	Camphor	¼ lb. bot.
1-205	Capsules, No. 00	box.
1-210	Capsules, No. 0	box.
1-215	Capsules, No. 1	box.
1-225	Carbon Tetrachloride	¼ lb. bot.
1-235	Chalk, Precipitated	½ oz. bot.
1-240	Chloral hydrate	1 oz. bot.
1-245	Chloroform (anesthes)	¼ lb. bot.
1-250	Chloroform USP	1 lb. bot.
1-255	Cocaine Hydrochlor	⅛ oz. bot.
1-260	Codeine	⅛ oz. bot.
1-270	Codeine Sulfate	1 oz. bot.
1-280	Creosote Carbonate	1 oz. bot.
1-285	Cupric Sulfate	2 oz. bot.
1-290	Dextro-se Anhydrous	1 lb. bot.
1-295	Dextrose 50-percent sol	55 cc. amp.
1-300	Water for injection	10 cc. amp.
1-305	Ephedrine, Inbalent	4 oz. bot.
1-310	Ephedrine Sulfate	¼ oz. bot.
1-315	Ephedrine Sulfate	amp.
1-325	Ether (anesthes.)	¼ lb. bot.
1-330	Ethyl Chloride	100 gm. tube.
1-335	Ethylmorphine HCL	⅞ oz. bot.
1-345	Eugenol	1 oz. bot.
1-350	Ferric Ammonium Alum	50 gm. bot.
1-355	Ferric Chloride	50 gm. bot.
1-369	FL. EXT. Cascara Sagrada	1 pt. bot.
1-370	FL. EXT. of Ipecac	4 oz. bot.
1-365	FL. Ext. Glycyrrhiza	1 pt. bot.
1-375	Glycerin	2½ lb. tin.
1-380	Glycerin	10 lb. tin.
1-385	Homatropine	5 gm. vial.
1-395	Ichthammol	1 oz. bot.
1-400	Iodine	1 oz. bot.
1-405	Jelly, Lubricating	4 oz. tube.
1-410	Jelly of Tannic Acid	4 oz. bot.
1-415	Jelly of Tannic Acid ¼-oz. tube	2 in pkg.
1-420	Liniment, Camphor and Soap	1 pt. bot.
1-425	Liniment (powd.)	1 qt. tin.
1-430	Magnesium Carbonate	2 oz. bot.
1-435	Magnesium Oxide Heavy	1 lb. ctn.
1-440	Magnesium Sulfate	2½ lb. pkg.
1-445	Menthol	1 oz. bot.
1-450	Mercuric Oxide, Yellow	1 oz. bot.
1-460	Mercurous Chloride, Mild	500 gm. bot.
1-470	Mercury, Ammoniated	2 oz. bot.
1-475	Methenamine	1 lb. bot.
1-485	Methyl Salicilate	5 lb. bot.
1-500	Neearsphenamine	0.6 gm. amp.
1-505	Neearsphenamine	0.9 gm. amp.

1-510	Oil, Castor	1 qt. Tin.
1-515	Oil, Cod Liver	1 pt. bot.
1-520	Oil, Cottonseed	1 qt. tin
1-525	Oil, Peppermint	1 oz. bot.
1-530	Oil, Theobroma	2 oz. bot. A.
1-540	Ointment, Boric Acid	2 oz. tube.
1-545	Oint. Mercurial, Strong	½ lb. jar.
1-550	Oint., Mer. Cl., Mild, Compound	tube.
1-555	Oint. Sulfur	1 lb. jar.
1-560	Oint., Yel., Mer. Oxide	1 dr. tube.
1-565	Ointment, Zinc Oxide	1 lb. jar.
1-570	Opium, Powdered	2 oz. bot.
1-575	Petrolatum, Liquid	1 qt. tin.
1-580	Petrolatum, Liquid	1 gal. tin.
1-585	Petrolatum, White	1 lb. can.
1-590	Phenol	1 lb. bot.
1-595	Phenolsulfonphthalein	amp.
1-600	Phenol Salicylate	½ lb. bot.
1-605	Physostic, Salicylate	1 gm. tube.
1-610	Potassium Acetate	¼ lb. bot.
1-615	Potassium and Sod. Tart	1 lb. bot.
1-620	Potassium Bitartrate	¼ lb. bot.
1-630	Potassium Chromate	1 oz. bot.
1-635	Potassium Dichromate	1 oz. bot.
1-640	Pot. Dichromate, Tech	1 lb. bot.
1-645	Potassium Iodine	½ lb. bot.
1-650	Potassium Nitrate	10 gm. bot.
1-655	Potassium Oxylate	1 oz. bot.
1-660	Potassium Permanganate	¼ lb. bot.
1-665	Potassium Sulfoeyanate	50 gm. bot.
1-670	Procine Hydrochloride	5 gm. bot.
1-675	Procaine Hydrochlor	100 mg. amp.
1-680	Procaine Hydrochlor	150 mg. amp.
1-685	Procaine Hydrochlor	250 mg. amp.
1-690	Quinine Hydrochloride	1 oz. bot.
1-695	Quinine Sulfate	1 oz. bot.
1-700	Resorcinol	1 oz. bot.
1-705	Silver Nitrate	1 oz. bot.
1-710	Silver Nitrate, tough	1 oz. bot.
1-715	Silver Protein, mild	1 oz. bot.
1-720	Silver Protein, strong	1 oz. bot.
1-725	Soap, hard, castile	1 lb. pkg.
1-730	Soap, soft	2 lb. jar.
1-735	Soda Lime, coarse	5 lb. bot.
1-745	Sodium Bicarbonate	1 lb. ctn.
1-750	Sodium Borate	1 lb. ctn.
1-755	Sodium Bromide	¼ lb. bot.
1-760	Sodium Carbonate	1 lb. bot.
1-765	Sodium Chloride, c. p.	¼ lb. bot.
1-770	Sodium Citrate	¼ lb. bot.
1-775	Sodium Citrate, 2½ percent sol.	vial.
1-780	Sodium Hydroxide	¼ lb. bot.
1-785	Sodium Iodide	¼ lb. bot.
1-790	Sodium Nitrate	1 oz. bot.
1-795	Sodium Nitroprusside	10 gm. bot.
1-800	Sodium Perborate	¼ lb. bot.
1-805	Sodium Phosphate	1 lb. bot.
1-810	Sod. Phosphate, Monobasic	¼ lb. bot.
1-815	Sodium Pyrophosphate	1 oz. bot.
1-820	Sodium Salicylate	¼ lb. bot.
1-825	Sodium Sulfate, anhydr	1 oz. bot.
1-830	Sodium Tetraiodophenolphth	4 gm. bot.
1-835	Sodium Thiosulfate	¼ lb. bot.
1-840	Sodium Thiosulfate, 1 gm. amp.	5 in pkg.
1-845	Sod. Tungstate, reagent	1 oz. bot.
1-850	Sol. Cresol, Saponated	1 qt. tin.

1-851	Solyion Disinfectant.....	1 pt. bot.
1-855	Sol. Epinephrine, HCL.....	1 oz. bot.
1-860	Sol. Epinep. HCL 1; 1000.....	1 cc. amp.
1-865	Solution Formaldehyde.....	1 lb. bot.
1-870	Sol. Posterior Pituitary.....	1 cc. amp.
1-875	Sol. Potassium arsenite.....	¼ lb. bot.
1-880	Spirit of Ammonia Arom.....	¼ lb. bot.
1-885	Spirit of Ammonia tube.....	4 in pkg.
1-890	Spirit of Ethyl Nitrate.....	¼ lb. bot.
1-895	Spirit of Orange, COMP.....	2 oz. bot.
1-900	Starch, Soluble.....	1 oz. bot.
1-905	Strychnine Sulfate.....	1 gm. bot.
1-910	Sulfur, Precipitated.....	1 lb. bot.
1-915	Atropine Sulfate.....	20 in tube.
1-920	Cocaine Hydrochloride.....	20 in tube.
1-930	Emetine Hydrochloride.....	20 in tube.
1-935	Epinephrine Bitartarate.....	20 in tube.
1-940	Glyceryl Trinitrate.....	20 in tube.
1-945	Morphine Sul. 0.008 gm.....	20 in tube.
1-950	Morphine Sul. 0.032 gm.....	20 in tube.
1-955	Morphine & Atrop. Sul.....	20 in tube.
1-960	Scopolamine Hydrobrom.....	20 in tube.
1-965	Strychnine Sulfate.....	20 in tube.
1-970	Acetophenetidin.....	100 in bot.
1-975	Acid, Acetylsalicylic.....	100 in bot.
1-980	Acid, Acetylsalicylic.....	1000 in bot.
1-985	Alkaline and Aromatic.....	100 in bot.
1-990	Calcium Lacytate.....	100 in bot.
1-1010	Digitalis Leaves.....	100 in bot.
1-1015	Extract Cascara Sag.....	100 in bot.
1-1020	Ferrous Sulfate.....	100 in bot.
1-1025	Ipecac and Opium.....	100 in bot.
1-1030	Mercurous Chloride.....	100 in bot.
1-1035	Mercury Bichloride.....	100 in bot.
1-1040	Opium and Glycyrrhiza.....	1,000 in bot.
1-1045	Phenobarbital .0324.....	100 in bot.
1-1055	Procaine Hydrochlor.....	100 in bot.
1-1058	Quinine HCL 0.324 gm.....	100 in bot.
1-1059	Quinine HCL 0.194 gm.....	100 in bot.
1-1060	Quinine Sul. 0.194 gm.....	100 in bot.
1-1061	Quinine Sul. 0.324 gm.....	100 in bot.
1-1063	Quinine HCL 0.324 gm.....	1,000 in bot.
1-1065	Quinine Sul. 0.194 gm.....	1,000 in bot.
1-1066	Quinine Sul. 0.324 gm.....	1,000 in bot.
1-1070	Soda Mine 0.324 gm.....	100 in bot.
1-1075	Soda Mint 0.324 gm.....	1,000 in bot.
1-1080	Sodium Chloride .85 gm.....	100 in bot.
1-1085	Sodium Chloride .648 gm.....	5,000 in bot.
1-1090	Sodium Salicylate.....	100 in bot.
1-1095	Sodium Salicylate.....	1,000 in bot.
1-1100	Throid 0.032 gm.....	100 in bot.
1-1105	Throid 0.064 gm.....	100 in bot.
1-1115	Talc, purified.....	1 lb. ctn.
1-1120	Tar, Coal, crude.....	1 oz. bot.
1-1125	Terpin Hydrate.....	1 oz. bot.
1-1130	Thymol.....	1 oz. bot.
1-1135	Thymol Iodode.....	1 oz. bot.
1-1140	Tincture of Aconite.....	4 oz. bot.
1-1145	Tincture of Belladonna.....	4 oz. bot.
1-1150	Tinc. of Benzoin.....	4 oz. bot.
1-1160	Tinc. of Ferric Chloride.....	4 oz. bot.
1-1165	Tinc. of Fer. Citrochloride.....	1 pt. bot.
1-1170	Tinc. Gentain Compound.....	1 pt. bot.
1-1175	Tinc. Hyo-cyamus.....	4 oz. bot.
1-1180	Tinc. of Iodine.....	2 oz. bot.
1-1185	Tinc. Iodide, Milk, vial.....	3 in pkg.

1-1190	Tinc. Myrrh	4 oz. bot.
1-1195	Tinc. Opium	4 oz. bot.
1-1200	Tinc. Opium, Camphor	1 pt. bot.
1-1205	Tragacanch, powdered	1 lb. bot.
1-1210	Tryphrsamide	3 gm. amp.
1-1215	Urease	1 oz. bot.
1-1220	Vanillin	10 gm. bot.
1-1222	Water for Injection, USP	50 cc. vial.
1-1225	Wax, White	1 lb. pkg.
1-1235	Wool Fat	1 lb. tin.
1-1240	Xylol	100 cc. bot.
1-1245	Zinc Acetate	1 oz. bot.
1-1250	Zinc Oxide	1 lb. ctn.
1-1255	Zinc Sulfate	2 oz. bot.
S1-010	Acid, Acetic, 5 percent w/v Sol.	one.
S1-015	Acid, Nicotinic, 100 mgm.	10 cc. amp.
S1-020	Acid, Phosphotungstic	25 gm. bot.
S1-040	Aluminum Hydroxide	6 oz. bot.
S1-060	Ammonia Inhalant	10 amp. in bot.
S1-065	Ammonia Water, reagent	1 pt. bot.
S1-070	Atabrine Dihydrochlor.	0.2 gm. amp.
S1-080	Azochloramid, buff, sal.	1 oz. bot.
S1-100	Axochloramid in triacet.	1 qt. bot.
S1-120	Barium Chloride	50 gm. bot.
S1-130	Benedict's Sol. Qual.	500 cc. bot.
S1-133	Benzedrine Inhaler	one.
S1-135	Benzyl Benzolate	1 lb. bot.
S1-1945	Serum Albumin Human	25 gm. pkg.
S1-2290	Brandy	2 oz. bot.
S1-2295	Caffeine, 0.5 gm.	2 cc. amp.
S1-2300	Calcium Oxide 100 gm.	100 gm. bot.
S1-2320	Casein, 5 gm.	5 gm. bot.
S1-2345	Chrysarobin	1 oz. bot.
S1-2365	Coramine, 25 percent sol.	1.5 cc. amp.
S1-2366	Cream, protective burn	2 oz. tube.
S1-2370	Detergent Emulsion	1 pt. bot.
S1-2385	Dichloramine, T in Tri.	1 pt. bot.
S1-2400	Digitalis Injection	1 cc. amp.
S1-2420	Dilatin, .0972 gm. cap.	100 in bot.
S1-2440	Dimethyl-amino-Azo-Benzene	bot.
S1-2460	Emetine HCL 0.0648 gm.	1 cc. amp.
S1-2465	Enzy. Hydro. Casein, Pork Pan.	can.
S1-2466	Enzy. Hydro. Casein, Pork Pan.	case.
S1-2470	Ephedrine Tartrate, .082 gm.	sy.
S1-2480	Epinephrine, .002 gm., oil.	1 cc. amp.
S1-2490	Ergon vine Maleate Inject.	amp.
S1-2560	Fluid Extract of Ergot	4 oz. bot.
S1-2598	Faudin (parenteral use)	5 cc. amp.
S1-2601	Fluorescein Soluble	10 gm. bot.
S1-2602	Gas Carbon Dioxide, 250 gal.	one.
S1-2612	Gas Nitrouse Oxide, 250 gal.	one.
S1-2614	Gas Oxygen, Pure, 80 gal.	one.
S1-2618	Gas Oxygen, Pure, 1650 gal.	one.
S1-2619	Gold Sodiumthiosulfat, 25 mgm.	amp.
S1-2645	Hexylresorcinol, 2 gm.	5 in bot.
S1-2650	Hydrogen Peroxide, 8 percent cws.	pt. bot.
S1-2660	Iodobismitolbenocaine.	2 cc. amp.
S1-2745	Jelly Tannic Acid, 1 qu. ctn.	pkg.
S1-2746	Jelly Tannic Acid	1/2 gal. pkg.
S1-2760	Lard Benzoinated	1 lb. tin.
S1-2780	Laedacetate	1/4 lb. bot.
S1-2620	Liver Extract dry NNR	vial.
S1-2840	Liver Extract Paren	10 cc. vial.
S1-2880	Mapharsen NNR	0.6 gm. amp.
S1-2900	Mapharsen NNR	0.06 gm. amp.

S1-2920	Mercuric Chloride	¼ lb. bot.
S1-2960	Mercury Oxycyanide	1 oz. bot.
S1-2980	Mersalyl Theophyllin 10 percent	1 cc. amp.
S1-3000	Merthiolate cream 1:1000	tube.
S1-3020	Merthiolate Sol. 1:1000	1 pt. bot.
S1-3040	Merthiolate Tinc. 1:1000	1 pt. bot.
S1-3100	Metacresylaceta Cresatin	oz. bot.
S1-3220	Maphthylamine Hydrochlor	5 gm. bot.
S1-3225	Naphuride	1 gm. amp.
S1-3240	Neo Prontosil. 2.5 percent sol	5 cc. amp.
S1-3245	Neotibosan	amp.
S1-3205	Morphbtartrate, .032 gm sol	pkg.
S1-3250	Neostigmin Methsulf, 1:4000	amp.
S1-3255	Neostigmin Methsule, 1:2000	amp.
S1-3260	NeoSynephrin HCL, 1 percent sol	4 oz. bot.
S1-3280	Neo-Synephrin HCL, 1 percent	5 cc. vial.
S1-3300	Neo-Synephrin HCL, Jel	tube.
S1-3310	Nikethamide, 25 percent sol	1.5 cc. amp.
S1-3320	Nupercaine	5 gm. bot.
S1-3330	Oil of Cade	1 lb. bot.
S1-3335	Oil, Olive	1 pt. bot.
S1-3355	Ointment, Anesthetic	1 oz. tube.
S1-3361	Ointment, Bal.	½ oz. tube.
S1-3362	Ointment, Boric Acid	4 oz. tube.
S1-3363	Ointment, Boric Acid	2¾ oz. pkg.
S1-3364	Ointment, Boric Acid	1 lb. pkg.
S1-3365	Ointment, Butyn 2 percent	drum tube.
S1-3372	Ointment, Merthiolate, OPh	tube.
S1-3375	Ointment, Protective	3 oz. tube.
S1-3378	Ointment, Sulfadiazine	4 oz. jr.
S1-3381	Ointment, Sulfathiazole, OPH	tube.
S1-3420	Paraffin Wax Compound	½ lb. pkg.
S1-3425	Paraldehyde	¼ lb. bot.
S1-3430	Pentnucleotide, NNR	10 cc. vial.
S1-3440	Pentobarbit. 1½ gr. cap	500 in bot.
S1-3450	Pentothal Sodium	0.5 gm. amp.
S1-3480	Phenyl Mercuric Nitrate	4 oz. bot.
S1-3500	Phenyl Hydrazin HCL	10 gm. bot.
S1-3520	Phloroglucin	10 gm. bot.
S1-3530	Plasma normal human, dried	pkg.
S1-3531	Plasma human dried	500 cc. pkg.
S1-3540	Potassium Bicarbonate	½ lb. bot.
S1-3560	Potassium Ferrocyanide	25 gm. bot.
S1-3565	Powder Bleaching hype	ctn.
S1-3600	Propadrine HCL ¾ gr. cap	bot.
S1-3640	Prostigmin Methyl 1:4000	cc. amp.
S1-3660	Prostigmin Methyl 1:2000	cc. amp.
S1-3665	Protective Cream Burns	4½ oz. can.
S1-3670	Quinine Dihydrochloride	5 gm. amp.
S1-3720	Sodium Acetate	25 gm. bot.
S1-3740	Sodium Amytal, 3 gr. cap	bot.
S1-3770	Aod Formal Sulfoxylate	10 gm. amp.
S1-3780	Sodium Morrhuate, 5 percent sol	5 cc. amp.
S1-3783	Sodium Sulfadiazine	5 gm. amp.
S1-3785	Sodium Anesthetic	1 oz. bot.
S1-3790	Sol. Dextrose 5 percent in Saline	case.
S1-3791	Sol. Dextrose 5 percent Dist. Water	liter.
S1-3795	Sol. Normal Saline (6-1-Quart jar)	6 case.
S1-3797	Solution of coal tar	pt. bot.
S1-3803	Spermaecti	lb. pkg.
S1-3805	Sulfadiazine (powered)	lb. bot.
S1-3807	Sulfadiazine 2-2 gm. tablets	pkg.
S1-3808	Sulfadiazine 24-1 gm. tablets	pkg.
S1-3810	Sulfanilamide (powered)	¼ lb. bot.
S1-3811	Sulfanilamide (powdered)	1 lb. bot.
S1-3812	Sulfanilamide (powdered)	5 gm. pkg.

S1-3813	Sulfanilamide (powdered)-----	5 gm. pkg.
S1-3815	Sulfathiazole (powdered)-----	½ lb. bot.
S1-3820	Sulpharphenamine-----	0.6 gm. amp.
S1-3840	Apomorphine 0.003 gm-----	20 in tube.
S1-3880	Pantopium Hcl .0216 gm-----	20 in bot.
S1-3968	Acid Ascorbic 50 mgm-----	100 in bot.
S1-3970	Acid Nicotinic 50 mgm-----	100 in bot.
S1-3975	Aminophyllin 0.079 gm-----	1,000 in bot.
S1-3980	Ammonium Mandelat 486 gm-----	200 in bot.
S1-3990	Amphetamin Sulfate 5 mgm-----	100 in bot.
S1-3991	Benzedrine Sulfate-----	tab. vial.
S1-4000	Amytala 0.0972 gm-----	40 bot.
S1-4010	APC tablets-----	100 bot.
S1-4011	APC tablets-----	1,000 bot.
S1-4020	Atabrine 0.1 gm-----	100 in bot.
S1-4021	Atabrine 0.1 gm-----	1,000 bot.
S1-4030	Azochloramide 0.5508 gm-----	100 bot.
S1-4050	Calcium Mandelate .486 gm-----	200 bot.
S1-4060	Carbarsone 0.25 gm-----	25 in bot.
S1-4080	Chinifon 0.259 gm-----	50 in bot.
S1-4100	Colchicine 0.00054 gm-----	100 in bot.
S1-4210	Dehydrochloride Acid-----	.243 gm. bot.
S1-4150	Gentian Violet 0.0324 gm-----	100 in bot.
S1-4170	Menholy Bromid. 0.2 gm-----	24 bot.
S1-4180	Mercurour Chlorid .006 gm-----	500 bot.
S1-4260	Plasmochim .02 gm-----	25 bot.
S1-4261	Plasmochim 0.02 gm-----	100 bot.
S1-4280	Potassium Chloride-----	100 bot.
S1-4285	Potassium Permanganate-----	bot.
S1-4300	Santonin 0.032 gm-----	100 bot.
S1-4310	Silver Protein 0.299 gm-----	100 bot.
S1-4311	Silver Protein 0.150 gm-----	100 bot.
S1-4312	Sodium Alurate 0.115 gm-----	100 bot.
S1-4315	Sodium Bicarb. 0.648 gm-----	100 bot.
S1-4316	Sodium Bicarb. 0.648 gm-----	1,000 in bot.
S1-4335	Sulfadiazine 0.5 gm-----	500 bot.
S1-4336	Sulfadiazine 0.5 gm-----	100 bot.
S1-4337	Sulfaguanidine 0.5 gm-----	1,000 bot.
S1-4338	Sulfaguanidine 0.5 gm-----	100 bot.
S1-4350	Sulfanilimide 0.324 gm-----	1,000 bot.
S1-4351	Sulfanilimide 0.423 gm-----	100 bot.
S1-4360	Sulfapyradine 0.5 gm-----	1,000 bot.
S1-4380	Sulfathiazole 0.5 gm-----	500 bot.
S1-4381	Sulfathiazole 0.5 gm-----	100 bot.
S1-4390	Theobromide 0.194 gm-----	1,000 bot.
S1-4420	Thiamin Chloride 5 gm-----	50 bot.
S1-4440	Thyroid 0.0162 gm-----	100 bot.
S1-4448	Vioform 0.25 gm-----	100 bot.
S1-4450	Tetrachlorethylene-----	1 cc. cap.
S1-4460	Theophylline Ethylene DI-----	oz. bot.
S1-4480	Theophylline Sodium Acet-----	oz. bot.
S1-4500	Thiamin Chlor. 25 mg. cc-----	5 cc. vial.
S1-4560	Tincture Nux Vomica-----	¼ pt. pot.
S1-4580	Tribromethanol Solution-----	1 oz. bot.
S1-4600	Thio Bismol 0.2 gm. amp-----	12 in bot.
S1-4623	Vioform-----	¼ lb. bot.
S1-4630	Vitamin A & D in oil-----	50 cc. bot.
S1-4633	Vitamines, Multiple-----	100 bot.
S1-4680	Wine Champagne-----	½ gal. bot.
S1-4790	Zephiran Chlorida Sol. (con.)-----	bot.

Mr. RUNDLE. The material is interesting because it lists, on one of its pages, "human dried plasma" and "human normal plasma." It also lists 15 items of various kinds of narcotics.

After receiving this list I went to the United States Navy headquarters in Shanghai and ask them if they had a medical supply cata-

logue. They did. The numbers that run down the left-hand side of this sheet, that this refugee salesman gave me, turned out to be the identical numbers for the same items in the Naval Supply Catalogue as of the same day.

The CHAIRMAN. That is confirmatory.

Mr. RUNDLE. It was quite apparent, unless this junkman was distorting facts, and he had no reason to, that it was well known what these supplies contained, not only before the plasma and other things came to light, but before the material was ever moved off Okinawa, and as Mr. Smith said, the Chinese were getting advance information that the Americans could not get.

In that connection, if your committee is interested, UNRRA personnel said that they had been offered the same medical supplies from Okinawa, on the basis of "take it or leave it" in 24 hours, and they had inquired what it included, and they said it was "a mystery stock pile, all we know is that it contains distilled water."

The CHAIRMAN. But the Chinese knew what it contained, according to the list.

Mr. RUNDLE. That is right.

The CHAIRMAN. But we did not know?

Mr. RUNDLE. Apparently not.

The CHAIRMAN. It has been testified here that this blood plasma, which was testified to by Mr. Moody, and told about here, was recovered and 80 percent of it got back to the Red Cross. The question in my mind is, if that is true—and I have no reason to believe it is not, whether that happened after the sword of Damocles was held over somebody's head, and the fear that something punitive might come down, and therefore they gave it back as quickly as they could, and the Red Cross got 80 percent of it.

Do you know anything about the efforts to get back the blood plasma?

Mr. RUNDLE. Yes. In following up the story I made quite a bit of inquiry into that. I went to Mr. Moody, whose first name I do not have, who at that time was head or director of the Red Cross in Shanghai. I showed him copies of this Chinese language advertisement, offering human plasma for sale, which had been run in Chinese-language papers, and asked him if he was aware of it. He said that he was, and had been for some months, and that he had made protests to the FLC, and requested that they get the plasma back.

I asked him what luck he had in that and he said that there had been no apparent effort that he could see, that he had talked to the company that had the stuff for sale, and that the only visible result was that the ad, which reads in English, as you see it here, "Human normal plasma," had been changed from the Chinese language papers to "red and white corpuscles."

The CHAIRMAN. Red and white corpuscles being the characteristic of component parts of blood in varying degrees, depending on how much anemia you have.

Mr. RUNDLE. It took off the sting of the human plasma being advertised in the papers. He was considerably displeased that nothing more had happened at that time.

I then went to Mr. Monnett Davis, who was then in charge of FLC. He told me that they had made some efforts, and they were continuing them, but the Chinese were quite reluctant to return the plasma.

You mentioned that you thought the sword of Damocles was hanging over them and they gave it back. That is not the case. They sold it back to the United States.

The CHAIRMAN. At the same price they bought it?

Mr. RUNDLE. No; the impression was that it was at a considerably higher price. I tried very hard to find out at what price we bought that back. The FLC was not very obliging and refused to give us any information. So far as I know there never was any information made available.

The CHAIRMAN. You never found out at what price it was bought back?

Mr. RUNDLE. No, sir.

The CHAIRMAN. The net result is that human blood, given by people for war work, was over there in large quantities, the Chinese found it out, got hold of this blood plasma which is human blood, bought it, and then later on sold it back to Americans at an advance price. Is that right?

Mr. RUNDLE. That is right.

The CHAIRMAN. In other words, that is traffic in human blood, is it not?

Mr. RUNDLE. It would appear so to me.

The CHAIRMAN. How successful were the efforts to secure the return of this plasma?

Mr. RUNDLE. I also followed up on that, as late as May of 1947, shortly before I left China. That would have been a good 6 or 8 months after it was supposed to have been returned. I had Chinese friends of mine inquire in the drug trade whether or not human plasma could be obtained. They found that it could be. I said I wanted to know whether it could be obtained in large enough quantities to make it worth while to ship it out into the country. They assured me—the drug companies that had it—that it was available in large enough quantities to make it worth while.

The price, however, had jumped from \$25 a unit, at which it was advertised at the time this first came out, to \$35, there being the impression created, of course, of a much shorter market since most of it had gone back to the Americans.

The CHAIRMAN. So we had, to use an American phrase, a "bull" market in blood?

Mr. RUNDLE. That would describe it; yes.

The CHAIRMAN. How successful were the efforts to secure the return of this plasma?

Mr. RUNDLE. I have just described that.

The CHAIRMAN. Did you know about any narcotics or surgical dressings used in this sale?

Mr. RUNDLE. The narcotics are listed in that sheet that was placed in evidence. I also went into that because it was pretty obvious if they had sold a large quantity of bulk medical supplies anyone should have been able to figure out that there must have been bulk narcotics there.

I never saw any such lists in the war that were not inclusive of narcotics. I went to several people in FLC and asked if that was the case. They said they had not made a check but believed it was true.

Later it was announced that it was true, but that the material had

been so widely dispersed there was no effort going to be made to recover it.

The CHAIRMAN. Did you talk to Mr. McCabe about FLC Shanghai irregularities?

Mr. RUNDLE. Yes; I had quite a long conversation with Mr. McCabe.

The CHAIRMAN. What was the nature of the conversation, please?

Mr. RUNDLE. Well, probably, to put it in proper perspective, I should give you a little of the background.

The CHAIRMAN. Take your own way.

Mr. RUNDLE. As I told you, I had gone to first see CID, and later to Mr. Moody with the information I had. In late August, a great many of the things that I had been working on had pretty well jelled as fact, at least to my satisfaction. At the same time I found out that other correspondents were by then on the story, and were starting to dig into it.

So on August 24, I believe it was, I called Mr. Moody and told him that I felt that I could no longer hold the story, that I was going to use it, that I was satisfied of the information that I had, and I wanted to tell him that I was going to use it. He said that he would like to have me go to Consul General Monnett Davis with him and tell him what I had, and what I was going to do, because he felt that the American interest was concerned.

I agreed with that and went with Mr. Moody and Mr. McKenna, who was the compliance officer for FLC, and Col. Coleman Cook, who was an FLC officer, and went to see Mr. Davis. I told him what information I had turned up and why I felt that the story had to be broken. He said he had been aware of the situation, that there was apparent irregularity and that he had discussed it with Mr. McCabe and he would like for me to tell Mr. McCabe the information that I had.

I told him that I had tried a time or two through the FLC office to reach Mr. McCabe without success, but if Mr. McCabe wanted to see me I would be very happy to see him.

At about 10 o'clock Sunday night, the 25th, I think that would be, I got a telephone call requesting that I come to Consul General Davis' residence. I arrived there to find Consul General Davis, Mr. McCabe, and probably a half dozen others in the room and I went in sincere good faith to present the information that I had, to see if it was of interest, and should have been of interest to Mr. McCabe and to others of FLC, and I found a rather cold reception. They asked me in general terms what I had and I was given the little boy treatment, "You should not become excited about this thing."

After it became more detailed and I went into more detail, and finally read the story that I had prepared for release, I was told by Mr. McCabe that in all probability these things represented honest errors of judgment; that it was a very large, widespread operation which certainly I recognized; that I should not get excited.

The CHAIRMAN. That is one of the reasons you were interested, as to whether it was a large operation.

Mr. RUNDLE. Yes, sir, it was one that made it a news-worthy story.

So the impression was very strong, not only from Mr. McCabe, but from others who were present, that I should not use this material, primarily because they seriously doubted it.

I told them that I had about 20 years of newspaper experience; that I had checked this material very thoroughly; and that I felt quite confident of my facts.

I then went into considerable detail on this error of judgment angle, pointing out that one of the colonels in the FLC had a large house in Shanghai which was a considerably expensive item, a mistress that obviously was an expensive item also, and I later learned he also had automobiles, a speedboat, and an airplane, all in his own name, and suggested that that appeared to me, at least, to imply more than errors of judgment; that there must be something greater than that involved.

The CHAIRMAN. And also required a larger salary than a colonel would receive, would it not?

Mr. RUNDLE. I presume that would be true, yes.

Again I was told that I probably did not know my facts. By this time it was 1 a. m., and I think I rather lost my temper. I had been needed for about 3 hours. I recall having told Mr. McCabe that if he thought I was exaggerating, if he considered that I was lying, if he thought I did not know my facts, any way he wanted to put it, if he would make another statement, write it, give it to me, I would carry it parallel with the story that was going to be run the following day, at which point he told me that I misunderstood the situation, that if there were irregularities, of course, they would be checked upon.

I told him that I hoped that was true, and wished that I could believe it was true, and departed. That was the last contact I had with Mr. McCabe directly.

The CHAIRMAN. I understand that you originated press dispatches regarding the sale of B-25's. Would you tell what you know about this sale?

Mr. RUNDLE. Yes. That followed very closely on the other one. I had known about the sale of B-25's to the Chinese for quite some time and had a good many people that were well informed in Shanghai. I had discussed that matter also with Consul General Davis, who had pointed out that it was quite embarrassing; that they knew of its existence; and that an attempt was being made by the FLC at that time to find a way to get those planes back without further embarrassment; that they should not have been sold.

He requested that, pending their efforts to get those planes back, I do nothing about the story.

It was also pointed out that General Marshall was at that time in Nanking negotiating with the Communists and the Nationalists, attempting to find a political solution, and that indications that we were delivering operational planes to one side of a civil war could be very embarrassing, to all of which I agreed.

Mr. Davis also said that he was going to discuss that with Mr. McCabe. I do not recall the exact sequence of dates, but it was a day or so later that the Chinese-language newspaper carried the story, saying that the Chinese Air Transport Corps, CHC, which has possession of the planes, was going to have the formal presentation of those planes to the Chinese Air Force and had invited Chinese newspapermen to be present for that.

I took the translation that was given me by my interpreter and I went to Davis with it and said: "I think it is quite obvious that this

story is coming out into the open, and therefore, since I have spent some time in gathering the facts, I am going to use it." He agreed that was perfectly justified and again said he was going to inform Mr. McCabe of the circumstances.

I did use the story, and the following morning the planes were destroyed.

The CHAIRMAN. How?

Mr. RUNDLE. They were cut apart by acetylene torches, I understand. I was not permitted on the field personally to see. I tried to go out that morning but was kept off. Later we were permitted to go out and take pictures.

The CHAIRMAN. And there was one large new bomber that was cut up by mistake.

Mr. RUNDLE. Yes. There was a sheep that got in with the goats, apparently.

The CHAIRMAN. Did Mr. McCabe have any knowledge of the sale of these B-25's before the news broke?

Mr. RUNDLE. I cannot say personally that he did; no. Although it was one of the very ticklish issues that everyone connected with FLC was aware of. People in the consulate were aware of it. The CID was aware of it. And Monnett Davis had told me that he had discussed it. I do not know beyond that.

The CHAIRMAN. He told you that he had discussed it with Mr. McCabe?

Mr. RUNDLE. That he would, on two occasions.

The CHAIRMAN. Do you know of any reason for such generous terms in those surplus sales?

Mr. RUNDLE. That touches upon the same matter that Mr. Smith discussed. I do not have any personal knowledge of why. Well, it was a matter of common knowledge in Shanghai, I think you can say, that Gen. B. A. Johnson was negotiating for himself, and for members of his staff, for very lucrative jobs with the Chinese purchasers, to whom he was currently selling the FLC property. That was no secret, because members of the staff had discussed it quite openly.

The CHAIRMAN. They talked about his negotiations?

Mr. RUNDLE. At the American Club in Shanghai.

The CHAIRMAN. He was looking ahead?

Mr. RUNDLE. Yes. That was the impression.

The CHAIRMAN. Did you ever hear the terms under which he sought this job—his remuneration?

Mr. RUNDLE. I heard various terms talked of. I do not know of any of them specifically; \$35,000 a year, a house, maintenance, and so on. It sounded quite good. Whether that is true or not I do not know, on the exact figures.

The CHAIRMAN. You were in China at the time of the bulk sale, were you not?

Mr. RUNDLE. That is right; yes, sir.

The CHAIRMAN. Would you consider the bulk sale extended to the Chinese the same kind of generous terms given by General Johnson, or would you consider the bulk sale a pretty solid deal?

Mr. RUNDLE. That is a question that remains in my mind, and I think remains in the minds of all Americans who were out in China during the war, and particularly newspapermen. We all tried to find out what that bulk sale actually meant.

I think, as I recollect the terms, we got approximately \$200,000,000 for around \$800,000,000 worth of goods. However, about \$150,000,000 of that \$200,000,000 was in writing off the charges of the Chinese Government against the United States.

The CHAIRMAN. That is the war claims?

Mr. RUNDLE. Yes.

The CHAIRMAN. Did you ever hear that those war claims were intangible?

Mr. RUNDLE. Very much so. They were on a "no rate" account.

The CHAIRMAN. Under a figment of the imagination, possibly, on the credit side of the ledger?

Mr. RUNDLE. If I may try to draw a parallel, it impressed me a good deal like sitting in a poker game where you put cash into the kitty and are given chips in return but are not told what the chips are worth until the end of the game and find out whether you win or lose. It did not look sound.

The CHAIRMAN. I do not know poker.

Mr. RUNDLE. Well, in any event, I was out in west China during a large part of the war, and I was at air installations where three-hole Chic Sale arrangements built out of mud and bamboo were costing the United States Government around \$15,000.

The CHAIRMAN. Apiece?

Mr. RUNDLE. Apiece.

The CHAIRMAN. Let us get this straight. A Chic Sales three-hole outfit—we all know what that is—and it is presumed there was one for children a little smaller, that those were built out of mud and something, and they cost the Government \$15,000 apiece.

Mr. RUNDLE. That is what the Army officials told me.

The CHAIRMAN. Did the Chinese sell those back to Americans at an inflated price?

Mr. RUNDLE. Presumably, that is one of the things that no one has been able to find out; that and other material went into this bulk-sale settlement, and we must have agreed to pay at some price, outhouse or not.

If they had made the price \$30,000 instead of \$15,000, it would have looked much better on it.

The CHAIRMAN. Would you call those intangible assets?

Senator CAPEHART. Where were these Chic Sales located?

The CHAIRMAN. In China.

Senator CAPEHART. China is a big place.

Mr. RUNDLE. You want to know from me where it is?

Senator CAPEHART. Yes.

Mr. RUNDLE. This particular one I am speaking of and of which I had specific information, because it was new construction of which the base was quite proud, was at Yunnanyi, in southwest China. In the same place we learned a very low grade of tile roofing was made out of a very soft mud—you could crumble it in your hands—and was selling at \$1.50 per tile.

Senator CAPEHART. Did the Chinese Government build these Chic Sale houses originally?

Mr. RUNDLE. I don't know what the arrangement was. Chinese labor built them. I presume the Chinese provided the material, which was mud out of the paddy fields nearby.

Senator CAPEHART. Did the \$15,000 include land?

Mr. RUNDLE. We had no title to any land.

The CHAIRMAN. It would not take more than 3 or 4 feet, would it, a three-hole apparatus?

Mr. RUNDLE. Not more than that.

The CHAIRMAN. Sixteen square feet of land. A mud hut with holes in it, \$15,000. Talk about inflation.

Mr. RUNDLE. I didn't explore them very well.

However, having used a few of them, I can assure you they were not worth the price.

Also, at Guaylin, included in such items, I was told that second-hand bicycles which the Army wanted were sold us by the Chinese at the book value on the exchange of around \$1,370 each.

The CHAIRMAN. Are there any Chinese inscriptions on the inside of this Chic Sale house?

Mr. RUNDLE. It was a new construction.

The CHAIRMAN. I would suggest one, if they had not: "What suckers the Americans are."

Senator CAPEHART. Did they have Sears Roebuck catalogs?

Mr. RUNDLE. No.

The CHAIRMAN. Did they have any Scott tissue there?

Mr. RUNDLE. No.

The CHAIRMAN. You have made a very interesting witness; and although the newspapermen are geniuses in their understanding and perception and are go-getters, I would like to compliment the United Press on your perspicacity, sir. Are you still with them?

Mr. RUNDLE. I am at present on leave of absence taking a year of graduate work.

The CHAIRMAN. You are a fellow at Harvard, which is a high honor for a newspaperman and conclusive of your ability, I should say.

Any questions, gentlemen?

Senator BRICKER. Were all these operations you have been talking about conducted under the Army in China?

Mr. RUNDLE. Which operations, sir?

Senator BRICKER. The buildings you have been describing.

Mr. RUNDLE. Yes. They and a good many others. There was a considerable disagreement between General Stilwell, for instance, and the Chinese Government over an operation known as the WASC, War Area Service Command, which provided billeting and food for American forces in China. The Chinese put in a bill for the food at some figure that General Stilwell considered quite outlandish. It was \$2 or \$3 per man, American dollar equivalent, per day. It was very miserable food, I assure you.

General Stilwell protested on that and stalled until the Chinese Government said: "We will not set a rate. We will just include this in the over-all settlement," which I presume, again, was included in the bulk settlement.

To a newspaperman it was very interesting having seen all that—that no one could ever find out what all this finally was settled for.

In other words, what did the American taxpayer pay for Chic Sales or a meal of water-buffalo meat and boiled potatoes?

Senator BRICKER. Was it that difficulty that later led to General Stilwell's dismissal?

Mr. RUNDLE. That was one of the contributing factors. He had a great many disagreements with the Chinese Government on a great many issues. Yes, sir.

Senator BRICKER. He stood out against the sort of manipulations that you are talking about?

Mr. RUNDLE. He did. It was always my impression that General Stilwell was a very good American, who had American interests primarily at heart, both in the war effort and in the protection of the American taxpayers' interest, insofar as it could be protected in a situation of that kind.

Senator BRICKER. For that he was dismissed?

Mr. RUNDLE. For insisting too strongly; yes.

Senator BRICKER. At the insistence of the Chinese high officials on account of his persistence in trying to maintain some reasonable costs.

Mr. RUNDLE. Reasonable costs and getting a reasonable result for the money expended.

Senator BRICKER. The only way that that enters into this bulk-sales negotiation would be that it would inflate the value, or the book value, of the things that were sold; is that right?

Mr. RUNDLE. Yes. It certainly would if those items were put in at that.

By the way, I understand, also, that the Chengtu air bases, which were one of the largest installations we built, or that the Chinese built for us, were not included in that. Perhaps Mr. McCabe can tell you, but the impression was that they were not, and we would never be able to find out whether they were or were not included.

Senator BRICKER. If they were, the only effect would be to increase the \$800,000,000, or whatever the book value, whatever the cost, amounted to.

Mr. RUNDLE. Yes.

Senator BRICKER. You mentioned a moment ago that blood plasma was sold back. Did you hear the testimony this morning of Mr. McCabe in regard to the blood plasma?

Mr. RUNDLE. No; I did not.

Senator BRICKER. Do you know yourself, or is it fully based upon rumor, that it was sold back at a higher price than the Chinese got?

Mr. RUNDLE. Chinese who were very well in the know told me that they got a much better value on what they got than the original blood plasma, and it was not done on a dollar basis, but Navy, I believe, turned over to them certain other supplies in exchange for the plasma.

Senator BRICKER. The question of the reasonable value of the supplies that were exchanged?

Mr. RUNDLE. That is right. The relative value.

Senator BRICKER. Do you know how much of the blood plasma they did get back as soon as they had found out it had been sold?

Mr. RUNDLE. No. I heard someone mention earlier 88 percent, which quite possibly might be true. It is pretty obvious with over 200,000 units for sale in a place like China where your patronage for a male rejuvenating nostrum is rather low, was a little too much.

The CHAIRMAN. Do they not need it over there?

Mr. RUNDLE. There are not very many that can afford it at \$25 a throw.

Senator BRICKER. One further question. All the details you have now enumerated were a result of Army effort. Mr. McCabe had the responsibility of disposing of these things. When the General Johnson incident was called to his attention, did he or his organization move on it promptly to get General Johnson out of that responsible position and replace him or not?

Mr. RUNDLE. General Johnson remained in there for some time. I have forgotten the date. However, he did request, I understand, under advice, that an Inspector General's inquiry be made into the situation.

Senator BRICKER. General Johnson was removed?

Mr. RUNDLE. He was eventually removed; yes.

Senator BRICKER. You do not know how long after that?

Mr. RUNDLE. I don't recall exactly. It ran into a period of a month or more, maybe 2 months.

Senator BRICKER. Two months was the testimony that I remember from this morning.

Mr. RUNDLE. I do not have all my notes with me since I left a lot of them in storage.

Senator BRICKER. Do you feel that Mr. McCabe is responsible for any of the errors that you have detailed?

Mr. RUNDLE. I know very little about Mr. McCabe's responsibilities prior to this arrival in Shanghai. I had never met him. As a matter of fact, prior to the night I saw him I never had met him. I have heard a very great deal of quite complimentary comment on his activities. I did feel from my own standpoint that there was very little effort made to follow up on the information that was given.

At least, it was not obvious to me. I was not one who should be taken into confidence on all those matters, I know.

Senator BRICKER. Of course, you got an unfavorable impression that night when you were called over.

Mr. RUNDLE. Considerably so, because every effort was made to brush the idea off.

Senator BRICKER. Your feeling now is that Mr. McCabe did not follow up fast enough on the information that he had in regard to cleaning up the situation, particularly in regard to General Johnson.

Mr. RUNDLE. I would not say it was a matter of fast enough. So far as I know, nothing has ever come of that.

Senator BRICKER. He was dismissed.

Mr. RUNDLE. He was dismissed and rehired. He was out as a general and was back in as a civilian, was out altogether, I understand. This is out of my particular knowledge, but I think he was retaken into the Army while still under investigation, as a colonel, and as far as I know, is still in Tokyo as a colonel.

Senator BRICKER. That was the testimony here last week, that he is now in command of transportation in Tokyo with a commission as colonel in the Army.

The chairman said this morning he had been recalled to this country most recently. During all that time, did he have any further connection with Mr. McCabe's organization that you know of?

Mr. RUNDLE. It was my understanding that despite the fact that he appeared to be in some difficulty, he participated in the bulk sale

negotiations and did continue to operate the office for quite a time after that.

I know a little bit about the efforts that were made to investigate that situation. I think the fact that he was there, that he was in charge of the office, and that he had command over people who were expected to bring in testimony, probably hampered that investigation. It would seem natural to me that it would.

Senator BRICKER. You heard Mr. Smith's testimony in regard to why the Chinese were favored over American business concerns?

Mr. RUNDLE. Yes.

Senator BRICKER. Is it your feeling, also, that there was some rivalry in connection with that?

Mr. RUNDLE. That is something that is extremely hard to establish. I don't believe that anywhere, most particularly in China, you can very well establish that rivalry. That is something that is handled pretty discreetly. I don't know of any of my own knowledge. I do know of the fact that people who were supposedly representing the United States in the sale and at the same time were negotiating with the people to whom they were selling for jobs to handle that again on resale after they got out of the Army probably were not too cautious of American interests there.

Senator BRICKER. Did you read the testimony of Mr. McCabe in regard to General Johnson and his notifying the American Army authorities of the offer of the job in China?

Mr. RUNDLE. Yes. I did see that.

Senator BRICKER. Do you know whether or not that is factual?

Mr. RUNDLE. I don't have any way of knowing.

Senator BRICKER. If it were factual, would that explain the subsequent events that took place?

Mr. RUNDLE. It might in part.

Senator BRICKER. His dismissal, I mean.

Mr. RUNDLE. It might in part. I don't have any knowledge of that.

Senator BRICKER. You know nothing about the court martial that was ordered of General Johnson?

Mr. RUNDLE. No. A great deal of time has elapsed since all this came about. Most of this transpired in August of 1946. I left Shanghai in May of 1947. Up to that time nothing had come of it, and I haven't been in very close contact with it since.

Senator BRICKER. Is there anything in any of these misdeeds that you have called to our attention that are directly attributable to Mr. McCabe, in your judgment?

Mr. RUNDLE. No, I would not say that they were directly attributable to him. I have no feeling one way or the other about Mr. McCabe or his qualifications. I was called down here as Mr. Smith was called.

Senator BRICKER. We appreciate that.

Mr. RUNDLE. And asked to give what information I had.

Senator BRICKER. We are considering Mr. McCabe's nomination, however, and we want to know if any of this reflects upon him in any way, shape, or form, in your testimony.

Mr. RUNDLE. The only thing that I could see is that if there was not—and that is something that your committee could establish, I could not—if there was not proper follow-up on the information and proper effort made to clear up the situation and to bring to account the

people who were responsible, that would be the only thing that I could see. I don't know how far in advance of his arrival in Shanghai Mr. McCabe was aware of any of this. I am not qualified to comment on it.

Senator BRICKER. You really do not know how soon he acted on it after he had the information?

Mr. RUNDLE. No, I do not.

Senator BRICKER. I think that is all, Mr. Chairman.

The CHAIRMAN. This is the sequence, Senator Bricker, of the events. Mr. McCabe was notified by cable from Mr. McKenna, his Chinese counsel, in the middle of July 1946, of Johnson's irregularities. Mr. McCabe resigned as commissioner on September 20, 1946, 2 months later. General Johnson was allowed to resign on October 14, 1946, and I point out that General Johnson was allowed to resign after Mr. McCabe had resigned from his office.

May I ask you a question? Here is the question I ask: Was the Red Cross Commissioner, Mr. Moody, notified about this blood plasma?

Mr. RUNDLE. By whom?

The CHAIRMAN. By anybody. Did he know this transaction took place?

Had he been consulted about it before the sale?

Mr. RUNDLE. Before the sale? No. His first intimation of it came, as mine did, from this advertisement which was carried in the Chinese papers and was called to his attention. When he checked up on it and found it was American Red Cross blood plasma he said that he went to the FLC and made his complaints at that time.

The CHAIRMAN. As a matter of fact, that would be a violation of the Surplus Property Act, would it not, to dispose of blood plasma which had been processed by the American Red Cross without first consulting with the American Red Cross?

Mr. RUNDLE. I believe that is true, although I am not familiar with that act. I do know the Red Cross felt that it was a very definite violation of their understanding on what would be done with the blood plasma not used in combat areas.

The CHAIRMAN. Any questions, gentlemen?

Senator CAPEHART. To whom was the blood plasma sold? Was it sold to the Chinese Government or to private interests?

Mr. RUNDLE. It was sold to a private company, Powell Choong Co. After this matter came to light and there was quite a bit of furor raised about it, it was transferred by means that are not quite clear to Lindah Exporting Co., which was supposed to have been a subsidiary of the other one.

Senator CAPEHART. Among other things they purchased this blood plasma?

Mr. RUNDLE. That is right.

Senator CAPEHART. Do you have any idea of the dollar value?

Mr. RUNDLE. The dollar value of the total supplies?

Senator CAPEHART. That this particular firm purchased, in which they received the blood plasma?

Mr. RUNDLE. No; I don't have that information.

Senator CAPEHART. It was a private concern?

Mr. RUNDLE. It was a private concern.

Senator CAPEHART. It was not the Chinese Government?

Mr. RUNDLE. As a matter of fact, somewhere in the clippings that I have—maybe I could find it if I have time—there was a letter from

General Johnson which he wrote to the Shanghai Evening Post and Mercury, a local English-American-owned newspaper there, in protest of the story that had been carried by Time magazine applying to this. His letter said, in part, of these drugs:

They are not being held for the black-market operation, the purchaser having agreed with the Foreign Liquidation Commission on the manner in which they will be distributed in the China market, and the average mark-up at which they will be sold.

I missed part of it. The letter was dated June 17, 1946. [Reading:]

The supplies were shipped from Okinawa to the customer, a reputable Shanghai business firm, and the supplies are now in process of going through customs.

Which, incidentally, should have revealed the narcotics and blood plasma.

Senator CAPEHART. That is part of the Chinese Government?

Mr. RUNDLE. To anyone who was interested enough to inquire.

Senator CAPEHART. The customs?

Mr. RUNDLE. They were going through Chinese customs.

Senator CAPEHART. The Chinese should have known.

Mr. RUNDLE (reading):

They are not being held for black market operations—  
which was what Time magazine had indicated—

the purchasers having agreed with the Foreign Liquidations Commission on the manner in which they will be distributed in the Chinese market and the average mark-up at which they will be sold.

The price was \$25 per unit, American dollars. It was estimated it was somewhere around 50 cents per unit that they were purchased.

The CHAIRMAN. Referring to my question, I now read from the Red Cross statute covering the case:

No surplus property which was processed, produced, or donated by the American Red Cross for any Government agency shall be disposed of except after notice to and consultation with the American Red Cross. All, or any portion of such property may be donated by the American Red Cross upon its request solely for charity purposes.

That is the statute. That is what prompted my inquiry to you, sir.

Senator CAPEHART. It is not quite clear to me where the blood plasma came from. How did it get out from under the control of the Red Cross?

Mr. RUNDLE. I believe, and I am not clear on this myself, that the Red Cross turned that over to hospital units. There had been a large hospital unit at Okinawa, a portable one, that had been put ashore. There had been a typhoon and some damage, although people who saw it said there was very minor damage to this particular part. It was the complete equipment for a hospital, and the medical supplies.

Also, on another list were surgical instruments, X-ray equipment, all sorts of stuff. It was a complete hospital unit, to which the Red Cross had contributed a certain amount of blood plasma. The whole thing was dumped in a bulk-sale arrangement.

Senator CAPEHART. Did General Johnson consummate the sale to this Shanghai firm?

Mr. RUNDLE. Yes, sir; that is right.

The CHAIRMAN. Any other questions of the witness?

Senator FULBRIGHT. Was this General Johnson who had such a fine house and automobile?

Mr. RUNDLE. No, sir. That is a colonel.

Senator FULBRIGHT. In the Army?

Mr. RUNDLE. An Army colonel.

Senator FULBRIGHT. What was his name?

Mr. RUNDLE. His name was Bell.

Senator FULBRIGHT. What happened to him?

Mr. RUNDLE. I believe that nothing has happened to him. I understand that the Inspector General's report recommended court martial, but I think that has not been followed through.

Senator BRICKER. He is still being held for court martial and maybe the court-martial proceedings are under way.

The CHAIRMAN. Just for human interest, was this business interest a Chinese woman or an American woman?

Mr. RUNDLE. I did not see her. I understand she was a White Russian.

The CHAIRMAN. A cold proposition, I think.

Senator CAPEHART. I am wondering what difference it would make.

Senator FULBRIGHT. It is not a matter of rumor. You know those physical facts.

Mr. RUNDLE. The basic facts are all quite true. They were well established.

Senator FULBRIGHT. Were there any other instances of that sort of thing with these officers that you know of?

Mr. RUNDLE. That is the most flagrant one with which I am familiar.

Senator FULBRIGHT. Did General Johnson also give evidence of considerable prosperity?

Mr. RUNDLE. Not to my knowledge.

The CHAIRMAN. Any other questions?

Thank you very much, sir. Good wishes to you.

Mr. RUNDLE. Thank you.

The CHAIRMAN. The meeting stands adjourned until 10:30 o'clock tomorrow morning.

(Thereupon, at 4:30 p. m., the committee recessed, to reconvene at 10:30 a. m., Thursday, March 11, 1948.)

## CONFIRMATION OF THOMAS B. McCABE

THURSDAY, MARCH 11, 1948

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10:45 o'clock a. m., in room 301, Senate Office Building, Senator Charles Tobey, chairman, presiding.

Present: Senators Tobey (chairman), Buck, Cain, Bricker, Robertson, and Sparkman.

The CHAIRMAN. The committee will come to order.

Mr. William F. McKenna?

Sit down, sir.

Mr. McKENNA. Thank you.

### TESTIMONY OF WILLIAM F. McKENNA, FORMER COUNSEL FOR FIELD COMMISSIONER FOR CHINA, FOREIGN LIQUIDATIONS COMMISSION, EAST GREENWICH, R. I.

The CHAIRMAN. Hold up your right hand. Do you solemnly promise that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. McKENNA. I do.

The CHAIRMAN. I might say to the committee that the witness appearing before us this morning is very loath to appear and it is only upon urgings and the suggestion that a subpoena will be forthcoming that he is present with us this morning.

Mr. McKENNA. What was your connection with FLC?

Mr. McKENNA. I was the counsel to the Field Commission in China, Senator.

The CHAIRMAN. Who was the Field Commissioner?

Mr. McKENNA. General Bernhard Johnson.

The CHAIRMAN. Did you have any reason to believe before leaving for Shanghai that there were any irregularities in the conduct of that office?

Mr. McKENNA. The only word I had or the only suggestion of that, was from my predecessor.

The CHAIRMAN. What was his name?

Mr. McKENNA. Major Mullally. I believe it is Lawrence Mullally.

The CHAIRMAN. He was counsel prior to your incumbency?

Mr. McKENNA. He was and he returned before I left.

The CHAIRMAN. Did you ever meet him while he was here before you went out; did you talk with him?

Mr. McKENNA. I never met him until I met him here in Washington. He left Washington.

The CHAIRMAN. So you had a chance to talk with him.

Mr. McKENNA. I did.

The CHAIRMAN. He told you about conditions there?

Mr. McKENNA. He told me of suspicions of his, suspicions that worried him considerably, but which at the time I discounted because I thought there was personal friction there.

The CHAIRMAN. I see. Later on, after you had had the incumbency of the office yourself, did you find that his statements and apprehensions were true?

Mr. McKENNA. I wish I had paid a little more attention to what he had said and never gone to China.

The CHAIRMAN. I have here a radio telegram dated July 24, 1946, which will be inserted in the record at this point, from the consulate general in Shanghai to Secretary Byrnes in Washington.

Did you originate that telegram?

Mr. McKENNA. I did, sir.

(The telegram referred to was marked "Exhibit A" and follows:)

From: Consulate General, Shanghai (via War).

To: Secretary of State, Washington.

Dated: July 24, 1946.

Number: 1332.

Urgent.

The counsel to Field Commissioner, FLC, Shanghai, namely William F. McKenna, has presented his credentials as Compliance Officer this post, along with copy of operating directive from the Washington FLC commissioner, authorizing him to have direct communication with the Chief of the Compliance Branch, Control Division, OFLC, Washington, regarding any matters which relate to the duties he is to perform; and he requests that the message given below be transmitted to the Compliance Branch Chief:

Here is Message from Mr. McKenna as China Legal Counsel and Compliance Officer:

Please see Teopdir 24 and my letters to General Counsel, OFLC, dated June 20th and June 27th. The following is strongly indicated as a result of investigation: One hundred and fifty-one (151) airplanes, spare parts, and miscellaneous items which cost the United States in excess of \$29,000,000 were included in sales contract WFLC (CH) 458 to Central Air Transport Corporation. Six hundred and forty thousand dollars (\$640,000) is sale price thereof. Following is list of aircraft: 2 C-87's; 13 C-47A's; 30 C-47B's; 11 C-46F's; 3 C-47's; 36 C-46D's; 45 C-46A's; 11 B-25's. It is the opinion of responsible people that two-thirds of the aircraft are readily capable of flying and this makes highly doubtful the representation that they are in salvage condition.

Reference sales contract SFLC (CH) 771 to same CATC: Above \$250,000 is material cost; conditions new and downward delivered upon signature of one Tang for CATC upon air force shipping tickets which stated that FLC regulations established agreement to pay prices. To this office shipping tickets were forwarded where SPB 3's show that 156 through 303, with the exception of 174, were typed from the same shipping tickets. All SPB3's were in this office marked salvage, except for \$11,000 declared cost. To an unknown extent, possible destruction of originals and signed copies of air force shipping tickets is indicated. Orders have been issued to fiscal division directing that division to draw up and sign new shipping tickets for sale for seven thousand plus dollars (\$7,000+) of the whole lot; I have intervened to stop proceedings.

Reference sales contracts WFLC (CH) 369, the Texas Company agreed to buy sheet metal for Standard and for themselves at a price of \$95,000 cash, of which there has been paid, URAD WCL 48864, at least one-half. At price of \$58,000, it was resold to the Chinese Government on the 15th of June on credit, Texas Company not consenting. Then the price was revised by this office to less than \$20,000; still credit Government of China for CT resale.

With regard to sales contract WFLC (CH) 337, please refer to my letter of June 20th; in order to stop covering of the mentioned cash outlay by refund, I intervened on the 21st.

Daily consistent objections delivery of property without fixed prices, without signed contracts, or even without receipts, and to the ignoring of priorities, have been without effect. Urgent recommendation is renewed for dispatch of field survey team and it is also requested that you take over investigation as U. S. authorities, Shanghai.

(Here ends message from Mr. McKenna.)

DAVIS.

The CHAIRMAN. Why did you send it to the consul general rather than to the Field Commissioner of the FLC?

Mr. McKENNA. Shortly or about a month, I believe, before that telegram or radiogram was sent, I had been appointed Compliance Officer for the Shanghai Office in addition to my other duties as counsel. It was a very difficult juncture of positions. I do not think it should have been, but it nevertheless was, and by reason of that position I had express regulatory authority to communicate directly with the Washington office.

Because of the nature of the contents of that radiogram which I think tells the story, I thought it necessary to go directly to the Consul General rather than through the normal channels.

The CHAIRMAN. I will ask you to read the radiogram, yourself, sir.

Mr. McKENNA (reading):

From the Consul General, Shanghai.

The CHAIRMAN. Lift your voice a little higher for the benefit of the press, kindly.

Mr. McKENNA (reading):

From the Consulate General, Shanghai, via War, to the Secretary of State in Washington, dated July 24, 1946. Urgent. The Counsel to Field Commissioner of FLC, Shanghai, namely, William F. McKenna, has presented his credentials as Compliance Officer, this post, along with copy of operating directive from Washington FLC Commissioner authorizing him to have direct communication with the Chief of the Compliance Branch, Control Division, OFLC, Washington, regarding any matters which relate to the duties he is to perform; and he requests that the message given below be transmitted to the Compliance Branch Chief.

Here is the message from Mr. McKenna as China Legal Counsel and Compliance Officer:

Please see Teopdir 24 and my letters to General Counsel, OFLC, dated June 20th and June 27th. The following is strongly indicated as result of investigation: One hundred and fifty-one airplanes, spare parts, and miscellaneous items which cost the United States in excess of \$29,000,000 were included in sales contract WFLC (CH) 458 to Central Air Transport Corporation.

The CHAIRMAN. That was a Chinese corporation?

Mr. McKENNA. That is a Chinese corporation and in a rather anomalous status. It is impossible to pin down whether it is a government corporation or a private corporation. The answer depends on the way you approach the people who run it.

The CHAIRMAN. I see.

Mr. McKENNA (continuing reading):

Six hundred forty thousand dollars is sale price thereof. Following is list of aircraft: 2 C-87's; 13 C-47A's; 30 C-47B's; 11 C-46F's; 3 C-47's; 36 C-46D's; 45 C-47A's; 11 B-25's. It is the opinion of responsible people that two-thirds of the aircraft are readily capable of flying and this makes highly doubtful the representation that they are in salvage condition.

Reference sales contract SFCL (CH) 771 to same CATC: Above \$250,000 is material cost; conditions new and downward delivered upon signature of one Tang for CATC upon air force shipping tickets which stated that FLC regulations established agreement to pay prices. To this office shipping tickets were forwarded where SPB-3's show that 156 through 303, with the exception of 174, were typed from the same shipping tickets. All SPB-3's were in this office marked salvage, except for \$11,000 declared cost. To an unknown extent, possible destruction of originals and signed copies of air force shipping tickets is indicated. Orders have been issued to fiscal division directing that division to draw up and sign new shipping tickets for sale for seven thousand plus dollars of the whole lot—

The CHAIRMAN. It is \$7,000 for the whole lot and it cost how many million?

Mr. MCKENNA. \$200,000.

The CHAIRMAN. It is \$200,000?

Mr. MCKENNA. Yes.

The CHAIRMAN. And sold for \$7,000.

Mr. MCKENNA. That price by a devise later was reduced to less than a thousand dollars.

The CHAIRMAN. Is that cash?

Mr. MCKENNA. Cash, sir.

The CHAIRMAN. One thousand dollars cash they got out of it?

Mr. MCKENNA. Yes, sir. [Reading:]

I have intervened to stop proceedings.

That, however, I did not succeed in doing.

Reference sales contracts WFLC (CH) 369, the Texas Company agreed to buy sheet metal for Standard and for themselves at a price of \$95,000 cash, of which there has been paid, URAD, WCL 48864—

The CHAIRMAN. That is a dispatch number?

Mr. MCKENNA. Yes, sir. [Reading:]

At least one-half. At price of \$58,000, it was resold to the Chinese Government on the 13th of June on credit, Texas Company not consenting.

The CHAIRMAN. The Texas Co. paid \$90,000 for it, paid half the sum down, then it was sold instead to the Chinese Government for \$58,000?

Mr. MCKENNA. On credit.

The CHAIRMAN. On credit?

Mr. MCKENNA. That is right.

Then the price was revised by this office to less than \$20,000 still credit Government of China for CT resale.

The CHAIRMAN. So we have in effect according to this data, if it is correct, and I assume it is, \$90,000 sale put through by the Texas Co. with the FLC, on which they paid half down or \$45,000, and suddenly somebody stopped the sale and said sell it instead to the Chinese Government for \$20,000. Is that right?

Mr. MCKENNA. Yes. They reduced the price first to \$58,000 and then reduced it later to \$20,000.

The CHAIRMAN. That was on credit?

Mr. MCKENNA. It was on credit, sir. No terms specified.

The CHAIRMAN. So we throw away a perfectly good cash receivable thing for \$90,000 and substitute in place thereof for value received \$20,000 on credit. Is that right?

Mr. MCKENNA. That is right, sir.

The CHAIRMAN. And the American people get the little end of the horn. Is that right? Go ahead.

Senator BUCK. Who was in charge of the operation?

Mr. McKENNA. General Johnson, sir.

Senator BUCK. Where is General Johnson now?

Mr. McKENNA. That I do not know, sir.

Senator BUCK. I think it would be well to have him here at these hearings.

Mr. McKENNA. I have not heard from the General.

The CHAIRMAN. It would not surprise me at all if we did not have him here at the hearings before we got through.

Senator BUCK. I think he is the first man we ought to have.

Mr. McKENNA (reading):

With regard to sales contract WFLC (CH) 337, please refer to my letter of June 20th; in order to stop covering of the mentioned cash outlay by refund, I intervened on the 21st.

That was a payment out of cash receipts, unappropriated funds for transshipment charges.

Daily consistent objections to delivery of property without fixed prices, without signed contracts, or even without receipts, and to the ignoring of priorities, have been without effect. Urgent recommendation is renewed for dispatch of field survey team, and it is also requested that you take over investigation as U. S. authorities, Shanghai.

The CHAIRMAN. What happened on the receipt of that? What answer came back from that?

Mr. McKENNA. Mr. Moody was sent out with an assistant, I believe Mr. Duffy, of the fiscal office. I think Mr. Moody arrived in Shanghai on a Sunday, about the 9th of August in 1946, and took over the investigation.

The CHAIRMAN. We have had the benefit of his testimony.

Senator ROBERTSON. Is that the cablegram that was sent on the 24th of July?

Mr. McKENNA. It is, sir.

Senator ROBERTSON. And you got a response to it on the 30th?

Mr. McKENNA. Mr. Moody arrived on the 9th, sir. I don't know the intermediate—

Senator ROBERTSON. On July 30 you got a response that Moody was coming?

Mr. McKENNA. That may be correct, sir. I do not remember.

Senator ROBERTSON. Moody got there as quick as he could.

Mr. McKENNA. Moody came very quickly.

Senator ROBERTSON. And Mr. McCabe got there on the 15th of August?

Mr. McKENNA. That is correct, sir.

Senator ROBERTSON. Just 3 weeks later.

Mr. McKENNA. It was very quickly. You see, I had written two letters before in June.

Senator ROBERTSON. And Mr. McCabe gave full authority to Moody and all the others to investigate what McCabe was doing.

Mr. McKENNA. That is correct, sir.

Senator ROBERTSON. And within 2 months Johnson was out?

Mr. McKENNA. Johnson was removed, I think, on the 15th of October.

The CHAIRMAN. The 26th of October.

Mr. MCKENNA. It was?

The CHAIRMAN. One month after Mr. McCabe resigned, Mr. Johnson resigned.

Mr. MCKENNA. I was forced to resign in August because of my objection to the conduct of the office and I was then assigned to the Inspector General's office in Shanghai.

Senator ROBERTSON. During the period between July 24, 1946, and the time that Johnson was put out, or at least between the time that Mr. Moody got there and then Mr. McCabe got there, and the time that Johnson was put out, did Johnson put through any more of these deals which you felt were improper and should be criticized?

Mr. MCKENNA. I had great difficulties in that period, probably the worst of the entire time in Shanghai.

Senator ROBERTSON. Can you put your finger on any specific deal that happened after Mr. McCabe got there that would connect him officially with what was done?

Mr. MCKENNA. I don't think Mr. McCabe was connected with any of this, sir. There were deals after Mr. McCabe arrived.

Senator ROBERTSON. That is what I felt and probably spoke out of turn in mentioning yesterday.

Mr. MCKENNA. Certainly there is no question about Mr. McCabe.

Senator ROBERTSON. Mr. McCabe is the man we are trying, not General Johnson. There is no doubt from what you and the other witnesses say, his case needs looking into.

Senator CAIN. The witness said he was forced to resign a particular job.

Mr. MCKENNA. That testimony should be qualified, I think, sir.

Senator CAIN. Will you speak broadly to that subject? Precisely what did you mean?

Mr. MCKENNA. Before I sent this telegram, back in June, I was already considerably worried about what was going on in that office. In fact, it was almost an intolerable situation to live in the city of Shanghai with Americans and work for FLC. So I sent a telegram, or rather a letter, to the general counsel in Washington, Mr. McCabe's general counsel, on the 20th of June and another one on the 27th of June. It was according to a request from the general counsel before I left Washington, because of the rumors then and the reports of Mr. Mullally as to what was going on.

I believe the Washington office was considerably worried about General Johnson, at least that was my impression, even before I left. That was the 8th of May, 1946.

Senator CAIN. Had you requested a transfer?

Mr. MCKENNA. It came up this way: I informed the Washington FLC authorities when they arrived in Shanghai that I could not under any conditions continue to work in that office as counsel.

Senator CAIN. How then do you reconcile your statement that you were forced to resign with your own wish that you did not want to stay there?

Mr. MCKENNA. That is why I say it should be qualified. It was put this way, that I could not work in that office under that personnel. That was a recognized fact, because I had communicated with the Washington office.

Senator CAIN. You initiated your own removal.

Mr. McKENNA. Theoretically I did. Actually, the idea of my removal was brought up by others before I mentioned it, before I put it in writing. But I would go along with the fact that there was no possibility of my continuing in that post after I had sent these communications to Washington about General Johnson and the decision was made to leave General Johnson in the post.

Senator CAIN. You would not want this committee left with the impression that by means which you have not yet defined you were literally and physically forced to resign?

Mr. McKENNA. There was no physical force, and the literal force is just what I have said.

The CHAIRMAN. Do I understand, sir—if I am wrong you will kindly correct me—that in your position there, having a sense of righteous indignation, or something similar or akin to that, over what was going on and what you were up against, it was not tenable for you in your self-respect to stay on the job?

Mr. McKENNA. I could not remain on the job under those circumstances, Senator.

Senator SPARKMAN. Mr. McKenna, I want to ask you this: You said you could not remain there after having sent the messages protesting against General Johnson, and it was decided to keep General Johnson in the office.

As a matter of fact, there was not any decision, was there, to keep General Johnson in the office?

Mr. McKENNA. There was a decision, sir, to keep him during the negotiations of the bulk sale, which would be the conclusion of one phase of the operations in China.

Senator SPARKMAN. The decision was really against removing him until the investigation had been made? Was that not it?

Mr. McKENNA. There was no immediate decision, sir.

The negotiations of the bulk sale were just started. The question then was whether or not in view of all this General Johnson would participate or lead the discussions. I will delete the word "lead," just "participate."

Senator SPARKMAN. Who made that decision?

Mr. McKENNA. That was made, of course, by higher authorities. I would not know.

Senator SPARKMAN. You would not normally expect a man to be removed from a job simply on the filing of a charge against him, would you, until there had been an investigation?

Mr. McKENNA. There had been an investigation, of course.

Senator SPARKMAN. I thought you initiated it.

Mr. McKENNA. Before I even came to Shanghai, sir, the criminal investigation division of the United States Army had been compiling evidence. After I was there, there was a sort of loose working arrangement with the S. S. U. outfit in Shanghai which made photographs for us and at that time passed out information. So there was really no formal investigation, but all this evidence in photographic detail was there.

Senator SPARKMAN. Had the information that had been compiled by the Army investigation group been made available to you?

Mr. McKENNA. It had, sir.

Senator SPARKMAN. Before you left Washington?

Mr. McKENNA. No. I do not know that the Washington office knew anything about this.

Senator SPARKMAN. So far as you know, the Washington office knew nothing about the Army's investigation?

Mr. McKENNA. So far as I know, that is correct.

Senator SPARKMAN. And so far as you know, the only word that came to the Washington office was your radiogram?

Mr. McKENNA. Except, sir, that Moody arrived there on the 9th. He was from Washington.

Senator SPARKMAN. I am saying, though, that he came really in response to your radiogram?

Mr. McKENNA. That is correct.

Senator SPARKMAN. So as quickly as you sent the radiogram, the Washington office went into action, did it not?

Mr. McKENNA. I assume it was from the radiogram.

Senator SPARKMAN. They sent Mr. Moody out there. He arrived promptly, and a few days afterward Mr. McCabe himself saw fit to come out, did he not?

Mr. McKENNA. I assume it was as a result of the radiogram.

Senator SPARKMAN. The investigation moved right on, then, did it not, until General Johnson was removed from the job?

Mr. McKENNA. That is right. I don't know how much detail you want me to go into there, Senator.

Senator SPARKMAN. I want to be certain of the general outline.

Mr. McKENNA. I think it was the 15th of August. Of that date, too, there is some question.

The day Mr. McCabe arrived, we tried to get a conference with him, Mr. Moody, and the other representatives of the Washington office, and the others who were familiar with what was going on. Mr. McCabe was busy, I believe, and we talked with his executive officer, Colonel Starr. That is when the decision was made as to how the investigation would be conducted.

The CHAIRMAN. Just for the minds of the members, I will point out the sequence of events was that Mr. McCabe was notified by cable by Mr. McKenna, his counsel, in the middle of July 1946 of Johnson's irregularities. Mr. McCabe resigned his commission on September 20, 1946, 2 months later. General Johnson was allowed to resign on October 14, 1946. I point out that General Johnson was allowed to resign after Mr. McCabe has resigned from his office.

Yesterday, sir, you may not have been here. I assume you were not?

Mr. McKENNA. I was not.

The CHAIRMAN. I read to Secretary Patterson the Inspector General's report of the War Department on these irregularities and the issue of destruction of the planes and all, which he confirmed, and Mr. McCabe had been advised of it. I would like to ask you now about Mr. Mullally. What did Mr. Mullally find out about the rotten situation in China that you know?

Mr. McKENNA. His objections as related to me by him, I do not know about any relation he may have made to anybody else, but to me he objected principally to the sale of the drugs to K. H. Powell Khoong. It could be, but I don't believe that Mullally knew that blood plasma, narcotics, and surgical dressings were included in that sale.

He was removed, according to his relation to me, because of his objection to that sale.

The CHAIRMAN. You were not here yesterday. I will read you the Inspector General of the Army's report, which I read to Mr. Patterson :

The actual destruction was accomplished by the request of Lieutenant Colonel John E. Bell, who requested Major Howard Detrick AC O-914872 to mutilate the B-25's with acetylene torches. Major Detrick asked his Supply and Transportation Officer, First Lieutenant Warren E. DeLoch AC 711151, who, with three men cut the tails off those B-25's pointed out by Mr. Bell who stated that Mr. Thomas B. McCabe gave direct instructions to Brigadier General (retired) B. A. Johnson in the presence of his Executive Officer, Colonel Edward Starr, Jr., O-900561 and his legal adviser, Charles H. Kendall, that these B-25's be mutilated so that he might counteract the unfavorable newspaper publicity by issuing a press release. Lieutenant Colonel Bell said he was then ordered by Mr. Charles H. Kendall, Mr. McCabe's aide, to carry out Mr. McCabe's wishes.

This is from the Inspector General's report of the Army investigation. Has any United States authority in Shanghai previously discussed the conduct of the FLC Shanghai office with you?

Mr. McKenna. I believe on the 29th of June, again that may be one day off one way or the other, and it should be checked. I had word relayed through Colonel Cook of the FLC office that the consul general in Shanghai wanted to see me immediately at his apartment in the Cafe Hotel in Shanghai.

I had never met the consul general. I did go then immediately to see him. He told me then of the serious concern that he had because of the general talk in Shanghai about FLC. Everyone of us in the FLC office had been faced with that. I don't know whether he told me then of the specific complaints which he had received from American businessmen.

Later, I saw these and there were the accusations in there of dishonest activities in these confidential communications to the consul general from representatives of American businessmen.

At that time, I still felt that most of this, in fact practically all of it, might be entirely rumor. I talked for a long while with Mr. Davis, asking him not to send in his own investigators at that time, which seemed to be his plan. The reason for that was of course that FLC had its own compliance outfit and as an FLC employee, I did want its own compliance outfit to handle it if possible.

There would be somewhat less of a stigma on the organization if it were handled that way.

Mr. Davis agreed on conditions. The conditions were that I keep him informed of any information that I got and that I keep my own eyes open. He was considering seriously at that time conducting his own investigation.

The CHAIRMAN. Mr. Davis was the consul general?

Mr. McKenna. He was, sir.

The CHAIRMAN. Why did you ask the consul general not to send in his own investigators?

Mr. McKenna. For that reason, Senator, that FLC did have its own compliance officer and as an FLC employee I would have preferred to have had the investigation conducted by FLC.

The CHAIRMAN. What are the two matters you then considered had more than rumor behind them? You told me there were two matters.

Mr. McKenna. When I talked to Mr. Davis, I did state to him that, with two exceptions, I did not think there was at that time any definite

proof of any very grievous calculated misconduct. Those two exceptions were, first, the payment of more than \$10,000 out of cash receipts, unappropriated money, for transshipment charges for a certain cargo. The cargo, so far as I was able to learn, was shipped from one of the islands of the Pacific without a written contract. That was an unfortunate general practice in the office which I never was completely able to eradicate.

When they arrived at Shanghai the prospective purchaser, assuming there was one, refused to take it. So the goods were put into warehouses, and warehousing charges were, of course, charged against FLC.

The FLC then paid those warehousing charges, some \$10,000 or \$11,000, out of cash receipts, which of course was unauthorized.

Senator ROBERTSON. Is that the cargo that was then sold for \$200,000?

Mr. MCKENNA. That could be the figures, sir. I don't remember.

The CHAIRMAN. Was either or both of these violations of the law?

Mr. MCKENNA. The other one I was getting to, Senator, was the employment by General Johnson. This first payment of \$10,000, in my opinion, speaking as a lawyer, is a direct violation of the statute. But it was my opinion as expressed to Mr. Davis at the time that that probably was just a blunder. It seemed like a very childish blunder.

Senator ROBERTSON. Before you leave that, I will say it has been brought out here somewhere in this testimony that that matter is now under investigation by the General Accounting Office.

Mr. MCKENNA. I don't know that, sir.

Senator ROBERTSON. If it was illegal, it is going to be charged back to somebody in the Army. Whoever the accounting officer is who signed up for that, he will probably have it charged back to him unless he can prove that he saved the Government money, and get relief, or unless Congress relieves him by exercising what he thought at that time was the best judgment.

You could not let the cargo go back out in the Pacific somewhere, could you?

Mr. MCKENNA. All I know about that is what I learned in Shanghai. I don't know the after-developments. However, the second factor was General Johnson's employment. Col. Robert B. White, of the Shanghai office, had come to me very early after I had arrived in Shanghai to state that General Johnson was negotiating for employment for General Johnson and for Colonel White with the Chinese, and Colonel White had several questions. I think he even wanted to know something about the drafting of a contract. I gathered from Colonel White's questions that he was a little afraid of it and wanted to know whether it was definitely wrong. I never did tell Colonel White it was wrong because in his case I did not believe it was. Colonel White never had anything to do with the making of sales to the Chinese or to anybody else. He was there as a technical adviser to the Chinese, so I could not consider there was anything wrong in his going on the Chinese pay roll.

That is probably where he belonged. However, the fact that General Johnson, who handled the sales, who fixed the prices, and determined what goods would be sold, was himself negotiating for a job with the Chinese, with his customers, was something that I reported right away to Washington. That was on the 20th of June in 1946.

The CHAIRMAN. You reported that General Johnson was negotiat-

ing to get a job with China? We hear the job described with rather munificent returns to him. You reported it to Washington in June?

Mr. McKENNA. Just as I reported it to Colonel White in a personal letter in a double envelope to the general counsel in Washington.

The CHAIRMAN. Did you know that Mr. Moody when he was here, testified that he requested that you, Mr. McKenna, be—

assigned to the Washington FLC office from whence he came or to Manila field office, the next higher echelon, where he would not be in the dual position of being the attorney for and the investigator of the same man, General Johnson.

Did you know that?

Mr. McKENNA. That suggestion was made, or recommendation was made, both by Mr. Moody and Captain Luboshez, the general counsel for the Pacific. My position was anomalous. It was impossible for me to perform my services.

The CHAIRMAN. Did you know that that request of Mr. Moody was refused by Mr. McCabe's executive, Ed Starr?

Mr. McKENNA. Yes, Colonel Starr did refuse that request.

The CHAIRMAN. Did Mr. McCabe send investigators in response to your letters?

Mr. McKENNA. That I can hardly answer, Senator. I sent two letters, one on the 20th of June which should have arrived before the 1st of July, and another on the 27th of June. The first word I had from Washington—this is my best recollection—was about the end of July, when word came of Mr. Moody's coming to Shanghai.

The CHAIRMAN. So a month went by from the time the letter was received here before you got word he was coming out.

Mr. McKENNA. That is correct.

The CHAIRMAN. In the meanwhile, Johnson was carrying on his nefarious work.

Mr. McKENNA. He was continuing his duties, sir.

The CHAIRMAN. I put it a little differently.

What action did Mr. McCabe take as a result of those letters?

Mr. McKENNA. I have no knowledge. I do know that this irked me considerably at the time. I had put those letters in double envelopes addressed to the general counsel, with the full expectation that they would be burned after he read them. Instead, they were mimeographed, circled around the Washington FLC office, and I was taken to task by Colonel Starr when he arrived in Shanghai for having written them. He said he had considerable doubts about me, apparently of my sanity, because I had written such letters.

The CHAIRMAN. Why did he object to your bringing rotten conditions to the attention of the authorities in Washington?

Mr. McKENNA. That was apparently his objection.

The CHAIRMAN. You were nonplussed to know why he should object, were you not?

Mr. McKENNA. That is true, sir, although there was no question there was considerable animosity to me, which I had discounted. I did not take it personally, but there was considerable animosity because I had reported those facts.

The CHAIRMAN. Those letters were mentioned to you by Colonel Starr?

Mr. McKENNA. And by numerous other persons. Apparently everybody in FLC in Washington had seen them.

The CHAIRMAN. How did General Johnson learn of them?

Mr. McKENNA. On the day after Mr. McCabe's arrival, Mr. Moody, Captain Luboshez, and several others and myself, had a conference with Colonel Starr at which we reported the evidence that we had accumulated and it was then that Navy Captain Luboshez recommended Johnson's removal from the Chinese negotiations.

The CHAIRMAN. What date was that?

Mr. McKENNA. I would guess the 15th or 16th.

The CHAIRMAN. Of what month and year?

Mr. McKENNA. Of August in 1946.

The CHAIRMAN. Was Mr. McCabe present when General Johnson was informed of the details of this evidence against him?

Mr. McKENNA. Apparently Colonel Starr—I should not say Colonel Starr—yes, Colonel Starr admitted to it. That is right. Colonel Starr did admit that he relayed the full details of all this evidence immediately to General Johnson and I heard that from other responsible persons present. Whether Mr. McCabe was present, of course, I cannot say. Mr. McCabe was in Shanghai, but I was not there at the time that the evidence was relayed. I do know that the inspector general was very, very much upset about it and did complain bitterly that his investigation was made extremely difficult because the details of the evidence had been given to General Johnson before they were given to him.

The CHAIRMAN. You do not blame him, do you?

Getting back to the radiogram you sent July 24, 1946, what caused you to send it? Can you amplify your statement on that?

Mr. McKENNA. As I said, Senator, I was hoping all along that everything reported was nothing more than rumor. It was a hope which I could hold up to this one point in July. In the middle of July it was reported to me by Colonel Cook that certain SPB-3 forms, the forms on which Army declares surplus, had been received in the FLC office with the conditions as written by the Army stricken or just stamped over "salvage"; that with relation to some of these there were attached shipping tickets bearing a definite promise to pay on the part of the purchaser, which was CATC, the Central Air Transport Corporation; that with respect to the balance of them, in fact all of those that had been stamped salvage, the great mass of them, about \$180,000 worth, the shipping tickets did not accompany the SPB-3 forms. Apparently it had been learned there were originally shipping tickets bearing on the face of them a definite promise to pay for the goods.

I immediately talked with the civilian employees at the airfield, and they confirmed Colonel Cook's suspicions. I then talked with General Johnson, told him what I had learned, and of my terrific concern over them, because I could not see any honest explanation for those facts.

I talked with General Johnson very earnestly for about an hour on the morning of the 24th of July, trying to persuade him to take certain action to get to the bottom of what looked like a very inequitable deal.

General Johnson took certain action that morning with respect to those shipping tickets that led me to send the radiogram.

(The documents referred to were marked "Exhibits B, D, E, F, and G," inclusively, and will be found in the files of the committee.)

Senator BUCK. What action did he take?

Mr. McKenna. I recommended to General Johnson that he direct his efforts to getting the missing shipping tickets and questioning them. At that time I had a conference at 10 o'clock with General Choong, the Chief of the Chinese Board of Supply and told General Johnson before I was leaving that I had that conference.

Right after I had left there was a meeting in the FLC office between Colonel Cook, and Col. John E. Bell, and possibly one or two others, with General Johnson.

Not a complete transcript, but a relation of what happened there was dictated by both Mr. Mietus and Colonel Cook immediately afterwards to the Army Criminal Investigating Division. I don't know whether you have a copy of that here, which would be better than my testimony, but a reading of that and a study of General Johnson's questions there led me to the obvious conclusion that he was trying to whitewash it and find an out rather than trying to locate the missing shipping tickets or to explain the stamping in the FLC office. Of course, the FLC office—excuse me.

Senator ROBERTSON. You finish the statement on that.

Mr. McKenna. I was just going to say the FLC office had no power to rate the conditions of goods. That was done by the Army.

Senator ROBERTSON. When was your cable sent to Washington stating that you learned that General Johnson was negotiating with the Chinese for private employment?

Mr. McKenna. That was in an airmail letter of June 20, sir.

Senator ROBERTSON. Mr. McCabe testified before us as follows:

Meanwhile I had received about the 1st of June from General Johnson a letter stating that an official of the Chinese Government had asked Johnson if he would accept employment by the Chinese Government to assist in marketing the bulk surplus property to be purchased by that Government from FLC. Johnson stated in his letter that he had discussed the matter with the Central Field Commissioner, Mr. Howard—

You knew him?

Mr. McKenna. I did know him. Not very well. He left just as I arrived.

Senator ROBERTSON. Continuing his testimony:

who was opposed to it, and that he had discussed the matter with General Marshall, who expressed agreement with the need of the Chinese for such help as Johnson would be able to give, but said he was not sure of the legal aspects of such employment.

I replied promptly to this letter advising General Johnson that I thought such employment would not be proper, and at the same time General Connolly asked General Farthing, who was then about to leave for the Far East on a mission for us, to determine whether this offer of a position had progressed to the point of negotiation or had otherwise compromised the Field Commissioner or rendered him less useful as a representative of the United States. The response to this was a letter from Johnson dated July 12, 1946, which read as follows:

"I had a long talk with General Farthing on this matter \* \* \*"

He said further:

"I never really seriously entertained the offer from Dr. Soong for a number of reasons."

Then he gave the reasons.

In response to a question by the Chairman you said that Mr. Moody wished to relieve you from an anomalous situation and have you assigned directly to an outfit that was going to investigate Mr. Johnson.

Mr. McKENNA. That is right, sir.

Senator ROBERTSON. And that Mr. McCabe's aide turned down that request.

Mr. McKENNA. Yes, sir.

Senator ROBERTSON. That leaves an inference and I do not think it ought to be left as an inference. I think you should either directly make the charge or deny the charge that the failure or refusal to assign you to the Moody investigating outfit was inconsistent with the desire on the part of Mr. McCabe to develop all the pertinent facts concerning the operations of General Johnson.

I think you either ought to charge that or else deny it and not leave it as an inference that we wanted to investigate all the facts. You say, "I knew about the facts. Moody asked for me to be assigned and I was turned down." That is not a fair way to leave it.

The CHAIRMAN. He said he was turned down by Colonel Starr, who was Mr. McCabe's executive assistant; that is what he said.

Senator ROBERTSON. Then why was he turned down? Was it inconsistent with the desire of Mr. McCabe to get all the facts? Were they trying to cover up? Were they trying to protect General Johnson? Or was there some other good and sufficient reason as to why they did not want to make this particular assignment?

Mr. McKENNA. Of course, I would have to read Mr. McCabe's mind to answer that question.

Senator ROBERTSON. You can read your own mind. You cannot read mine. Tell me what is in your mind about it.

Mr. McKENNA. My impression, Senator, is that it was not expected that either Mr. Moody nor anybody else in that investigation would go too deeply.

Senator ROBERTSON. What is your ground for that? Is that a surmise or is that based on substantial facts that you can prove here?

Mr. McKENNA. We were consistently told—I had better go to the beginning of that, Senator. When the investigation started it was our understanding that there would be a joint investigation. Captain Lubochez, who was the senior legal counsel in the Pacific, and I, who was the only other lawyer present in conference with Colonel Starr, recommended that this evidence we had had to be turned over as a matter of law to the Department of Justice, immediately. We were overruled on that.

If I remember Colonel Starr's words, it was "the FBI or a bunch of publicity hounds" or something like that.

Senator ROBERTSON. You were presented to us as a most reluctant witness. You did not want to come here. You did not want to testify.

The CHAIRMAN. That is correct.

Senator ROBERTSON. Now you are telling us that the reason they did not turn it over to the Department of Justice was they were a bunch of publicity hounds.

The CHAIRMAN. No, no. I beg your pardon. Just a minute here. That is putting words into witness' mouth. The witness referred to testimony already given here. This man said the other day, the testimony of Mr. Moody, that the answer was "We won't have them, the FBI are a bunch of publicity hounds." He is merely repeating someone's sworn testimony here.

Mr. McKENNA. I would much rather not answer any of those questions, Senator.

Senator ROBERTSON. But you have gotten into this thing now and we have to get to the bottom of it.

Mr. McKENNA. My definite impression is that we were not supposed to go into this too deeply.

Senator ROBERTSON. Are you quoting with approval or disapproval the Moody charge that the reason the FBI was not in there was because they were publicity hounds, or do you know as a lawyer that the FBI does not operate all over the world, that it operates in this country and that is the reason the Justice Department said it could not make the investigation?

Mr. McKENNA. I do not know any of those facts.

Senator ROBERTSON. You are a lawyer, are you not?

The CHAIRMAN. Before you answer that question, this matter has been brought up here and I want to read for the benefit of the Senator from Virginia the statement, sworn testimony of Mr. Moody:

Colonel Starr replied that he would not call in the FBI because the FBI were, and I quote, "a bunch of publicity hounds." He said he would ask General Johnson to request an investigation by the local office of the Army Inspector General, and that if General Johnson refused, he would insist. Gen. Donald H. Connolly has since testified before the Senate Subcommittee on Surplus Property that Mr. McCabe himself requested the United States Army Inspector General's Department to conduct the investigation.

They conducted an investigation and I read the report in here this morning, and also yesterday.

Senator ROBERTSON. The point I want to know is why this witness comes and tells us that in his own mind he does not know what is in the minds of others.

The CHAIRMAN. I will tell you why he does. You asked him to tell what is in his mind, that is why. You first asked him to tell what is in his mind and then you criticize him for telling it.

Senator ROBERTSON. That is right; because he does not show a good foundation for what is in his mind. That is what I am going to try to bring out.

You say to us that you do not think that Mr. McCabe wanted to go into this too deeply. Is that not what you said a while ago?

Mr. McKENNA. I do not know what Mr. McCabe said back in FLC in Washington.

Senator ROBERTSON. Mr. McCabe is the man being charged with misconduct that would disqualify him from being confirmed as chairman of the Federal Reserve Board. He is the man who is on trial, so to speak.

Did Mr. McCabe do anything to interfere with the operations of Mr. Moody over there?

Mr. McKENNA. Mr. McCabe personally? No; FLC, yes.

Senator ROBERTSON. Mr. McCabe did not have anything to do with interfering with Mr. Moody? Mr. McCabe is the man we are concerned with. Did Mr. McCabe have anything to do with turning this investigation over to the Army?

Mr. McKENNA. All I know on that, sir, is a memorandum signed by Colonel Starr that it was done by Mr. McCabe. Colonel Starr himself told at that time that was what was going to happen right after we presented the evidence to him.

Senator ROBERTSON. Mr. McCabe has testified to us that it could not be handled by the Department of Justice because of the fact FBI men could not be sent all over the world. Therefore the Army was the only one to handle the job and it was turned over to the Army.

Do you mean to charge the Army with making a superficial and improper investigation of this matter, or did they go in as deep as they found any facts to take them down?

Mr. McKENNA. I would certainly not charge the Army or Colonel Dougherty, who conducted the investigation, with anything but thoroughness.

Senator ROBERTSON. All right. Then you do not wish to create the impression in the minds of this committee that you would want to sit here and charge Mr. McCabe with not wanting fully to investigate the alleged misconduct of General Johnson?

Mr. McKENNA. I don't want to charge anything against Mr. McCabe, Senator. You put a question—

Senator ROBERTSON. You and I understand each other, then.

Mr. McKENNA. We in Shanghai understood I was not to go too deeply into this investigation and that was my understanding on it.

Senator ROBERTSON. But you do not connect Mr. McCabe with that?

Mr. McKENNA. I do not. I do connect it with FLC in Washington.

Senator ROBERTSON. I do not care who else is connected with it. I would like to see General Johnson fully investigated, but I wanted to make clear whom you were shooting at.

The CHAIRMAN. We are shooting at Mr. McCabe. He is the man up before us. Mr. McCabe, in my opinion, is directly responsible for all these things because on the testimony of Senator Ferguson and the War Investigating Committee, McCabe was head of the FLC.

Starr was his head man. Starr is the man you dealt with. It is inconceivable that McCabe would not know what was going on. The War Department, in an official communique, charged that Mr. McCabe was told of these things. Mr. McCabe was the FLC. Starr was the first understudy.

I read you now, if I may, please, the testimony which is what you think about that memorandum issued after that conference.

Senator ROBERTSON. If you will permit me, you are on the jury.

The CHAIRMAN. Yes; I am on the jury and I am prosecuting the case, too, to the best of my understanding and intelligence. I do not ask a witness to tell what is in his mind and then criticize him for doing it.

Senator ROBERTSON. I was analyzing his mental processes.

The CHAIRMAN. The facts speak for themselves if you scratch the surface, I might tell you all.

Let me go on. Here is the confirmation I want from you. This memorandum is with reference to the background decision request for investigation:

After the arrival of a mission from United States on Thursday, August 15, Colonel Starr received a telephone call from Mr. Ward, compliance officer from Washington, OFLC, requesting a meeting at 0930 on Friday, August 16. The meeting was held and attended by Mr. Moody, Mr. Ward, Mr. McKenna, Captain Luboshez, and Lieutenant Duffy. At this meeting the group stated that there were articles shortly to be released by newspaper correspondents criticizing the operations of OFLC, and inferred that such articles might include criminal allegations.

The chief facts were pointed out hastily to Mr. McCabe and Mr. Vogelback. Mr. McCabe directed Colonel Starr to assume responsibility for talking the prob-

lem over with General Johnson and determining suitable steps. Both Mr. McCabe and Mr. Vogelback did not believe these rumors, but felt that in accordance with the policy of OFLC any such allegations must be investigated and clarified completely.

The mission left for Peiping at noon on Friday, August 16, and a group including General Johnson, Mr. Vogelback, Mr. Dudley and Colonel Starr returned to Shanghai Sunday afternoon, August 18. On arrival in Shanghai, Messrs. Vogelback, Dudley, and Colonel Starr talked to General Johnson, who took the position that he would demand an investigation by the Inspector General's section of the China Service Command, in order to clarify the position of his office. It was decided that General Johnson and Colonel Starr would meet at 8:30 on Monday morning, August 19, to take the necessary steps.

Is that correct?

Mr. McKENNA. A good part of that I know.

The CHAIRMAN. It is taken from the official reports of the War Investigating Committee, original copies. This is a certified copy.

This investigation was made by the Inspector General which I quoted to you a few minutes ago, which was read yesterday, which directly brings these parties in, even Mr. McCabe, with full knowledge of these matters.

Mr. McKENNA. I wasn't here yesterday, sir.

The CHAIRMAN. Did I not read it to you a few minutes ago? Get me that Inspector General's report.

That memorandum is signed by Starr himself, Mr. McCabe's executive. Where is that thing I read from Starr himself?

I am reading what I read yesterday to former Secretary of War Patterson:

The CHAIRMAN. Mr. Patterson, I want to read to you from your Army Inspector General's report written, I assume, while you were Secretary of War on the investigation of the condition of the B-25's made before their destruction by Maj. Raymond C. Pierce and First Lt. Raymond H. Grant. I quote the verbiage:

"The actual destruction was accomplished by the request of Lieutenant Colonel John E. Bell, who requested Major Howard Detrick AC 0914872 to mutilate the B-25's with acetylene torches. Major Detrick asked his supply and Transportation Officer, First Lieutenant Warren E. DeLoch, AC 711151 who, with three men cut the tails off those B-25's pointed out by Bell who stated that Mr. Thomas B. McCabe gave direct instructions to Brigadier General (retired) B. A. Johnson in the presence of his Executive Officer, Colonel Edward Starr, Jr., O900561, and his legal adviser, Charles H. Kendall, that these B-25's he mutilated so that he might counteract the unfavorable newspaper publicity by issuing a press release. Lieutenant Colonel Bell said he was then ordered by Mr. Charles H. Kendall, Mr. McCabe's aide, to carry out Mr. McCabe's wishes."

That was made a fait accompli. That is the Inspector General's report of the Army. Had you ever heard that before?

Mr. McKENNA. Those are the circumstances as I understand them, sir.

The CHAIRMAN. Going on, what explanation was given by the FLC Shanghai for this alteration in exhibit B of these contracts?

Mr. McKENNA. These are the declaration forms of which I talked sometime ago. The conditions reported by the Army in these four instances here were typed over, stricken out, and the word "salvage" stamped on. I think in all four instances, yes, in all four instances, the original condition is clear and can be seen under the strike-out.

The stamp "salvage" is put in in at least three cases, I believe, on every one of these forms. That was the matter which I took up with General Johnson on the 24th of July and about which I was quite in-

sistent and talked with him for quite a period trying to get an explanation.

No explanation was given at that time, or later, until the Inspector General put witnesses of the FLC Shanghai office under oath and the explanation that was then given as Colonel Dougherty told me, was that this stamping of "salvage" and converting the condition of the commodities sold from new, good, and fair, to "salvage," was to show a better return on sales on the FLC's records.

When goods are carried as salvage, they are carried at no cost to the United States, so any return from their sale is that much return on nothing, which shows a better FLC record. That, however, I got from Colonel Dougherty, the Inspector General, and not from any explanation that was given to me personally.

The CHAIRMAN. What do you know about the sale of medical supplies to K. H. Powell Khoong?

Mr. McKENNA. That was the contract which Mullalley told me about before I left for Shanghai and which caused me considerable concern before I left Washington. Mullalley had been removed because of his objection to that contract.

The CHAIRMAN. Let us get this clear before we go any further. This is the contract that had to do with blood plasma?

Mr. McKENNA. That is correct.

The CHAIRMAN. In a hospital unit in Okinawa, which included narcotics and blood plasma. It was testified yesterday it was a complete hospital unit. Is that the contract that covered that sale?

Mr. McKENNA. That is correct, as we discovered later.

The CHAIRMAN. Those were sold to K. H. Powell Khoong; is that correct?

Mr. McKENNA. To K. H. Powell Khoong. We did not know there was blood plasma on that until Walter Rundle, who was chief of the United Press Bureau in Shanghai, when he was called in by Mr. Moody after his arrival to tell us what he knew, told us that it might pay us to go into a certain warehouse in Shanghai. Moody and I went there and saw this fellow to whom Rundle referred us, a man by the name of Roman. I think he was a Swiss. Roman let us go through the warehouse receipts and the records of the warehouse, showing what goods had been distributed out of the FLC stocks in the warehouse.

It was there that we saw there was blood plasma, not the narcotics, but I think also surgical dressings which had been included in this contract to K. H. Powell Khoong.

The CHAIRMAN. Did he mention to him, this man Roman, who gave the instructions for distribution?

Mr. McKENNA. Roman, when we questioned him, had a rather strange attitude about it. He was a little aloof. I still remember the way he approached it, the way he answered our questions, with a little bit of contempt in his tone of voice. He told us that three persons had come to the warehouse to give instructions for the disposition of those goods which had been sold to K. H. Powell Khoong. He described one of those persons as a nationally known—he named him as a nationally known—Chinese. The second person was K. H. Powell Khoong, and the third person was a United States Army officer.

The CHAIRMAN. What was the name of the officer?

Mr. McKENNA. He did not give us the name.

The CHAIRMAN. What was the name of the Chinese?

Mr. MCKENNA. T. L. Soong, the brother of the former Premier.

The CHAIRMAN. There were three people?

Mr. MCKENNA. Three persons, according to this fellow Roman.

The CHAIRMAN. Soong was one. Who was the next one?

Mr. MCKENNA. K. H. Powell Khoong and an unnamed United States Army officer. The only clue we have to the identity of that other person comes from Mr. Walter Rundle. I don't know whether he testified—

The CHAIRMAN. He testified yesterday.

Mr. MCKENNA. I know he testified, but I don't know whether he testified on this point. He informed us of a colonel in the Army who had told us it was General Johnson. But I have no personal knowledge of that.

The CHAIRMAN. Did he say that anybody else participated in this distribution besides these three?

Mr. MCKENNA. No. According to him, Soong gave the primary orders for all the goods in the warehouse bought from FLC. Whether they were bought on the Chinese Government or whether they were the personal account of K. H. Powell Khoong, the directions were given by Mr. T. L. Soong.

The CHAIRMAN. Do you know any further details of the sale, the advertising that was used, anything further that would be of interest to this committee as to the distribution of this amazing transaction in blood?

Mr. MCKENNA. I don't read Chinese, Senator, so I have to rely on translations of the advertisements of the blood plasma in the Shanghai Chinese newspapers. They were rather lurid functions that were attributed to American blood plasma, according to the translation I had.

The CHAIRMAN. Do you know whether Mr. Khoong, the purchaser of the blood plasma, had any part in General Johnson's negotiations?

Mr. MCKENNA. All I know of that, Senator, was what General Johnson told me after I had refused to serve any longer in the office.

The CHAIRMAN. What did he tell you?

Mr. MCKENNA. General Johnson told me that the negotiations with the Chinese for employment had begun when he was approached by a Col. Ralph Olmstead, I believe, back in February of 1946.

Col. Ralph Olmstead seemed to be very well known in Shanghai but I don't know the gentleman personally. He said the next approach to him with respect to his employment by the Chinese was made by Mr. K. H. Powell Khoong, whom he described as Mr. T. V. Soong's Shanghai representative.

That, I understood from General Johnson, was about in March of 1946.

The CHAIRMAN. What was the total value of this blood-plasma sale? I do not mean the value. I mean, what was the amount that we got from it?

Mr. MCKENNA. I believe we got \$1,500,000 for the entire lot of drugs that were sold.

The CHAIRMAN. In dollars?

Mr. MCKENNA. In United States dollars. The value of the blood plasma was extremely low. I have just been repeating from memory, Senator, which can be away off. It was my recollection that each of

these parcels that sold for \$25 had cost something like 13 or 14 cents.

The CHAIRMAN. 13 or 14 cents?

Mr. McKENNA. That is my recollection which can be faulty.

The CHAIRMAN. And they did not sell them as blood plasma to restore life, but to restore vitality?

Mr. McKENNA. That is the translation that was given to me.

The CHAIRMAN. Then it was substantially contemporaneous with the sale of American blood plasma to Khoong, the FLC Field Commission, General Johnson, discussed the employment with Khoong.

Mr. McKENNA. According to General Johnson; that is correct.

The CHAIRMAN. According to him. That ought to be expert testimony.

What else do we know about Johnson's employment efforts while he was Mr. McCabe's Commissioner in China and eastern Asia?

Mr. McKENNA. The only three sources I have are, first, the general report in Shanghai. Everybody knew that Johnson was negotiating for jobs with customers of FLC. If you told anybody in Shanghai you worked for FLC you were in for a bad evening.

However, Colonel White did come to me soon after I arrived there with his story of these negotiations for himself, which were being conducted, he said, by General Johnson.

Colonel White is completely, in my opinion, free of any suggestion of wrongdoing in this, and I believe the reason he took it up with me was to find out whether there was anything really wrong.

As I said, in his case I could not say there was, because he had no part in any sale to the Chinese.

The CHAIRMAN. What did he tell you?

Mr. McKENNA. From time to time he told me of these negotiations by Johnson for him, and Johnson's report on how much of his return would be salary, and how much would be commission.

He talked of something like \$35,000 a year for General Johnson, with house, car and chauffeur, transfer position, and so forth, with something like \$15,000 for himself.

I believe those were tentative figures that were part of the discussion.

The CHAIRMAN. You said a minute ago that when anyone in China learned that you were with the FLC outfit you were in for a bad evening. What was the inference of that remark? That the FLC was not held in high repute?

Mr. McKENNA. It was a local condition as a result of repeated rumors about the local FLC Shanghai office. The other source of information about General Johnson came from Lt. Alfred Diehl. I don't know whether it was testified by Mr. Moody or not. He was present when Mr. Diehl told us about it.

The CHAIRMAN. What did he tell you?

Mr. McKENNA. He told us that back, I think, in March or April—I think it was early April of 1946—that General Johnson had called Diehl to Johnson's hotel room and asked Diehl then if he was interested in going to work for the Chinese with him—that is, with General Johnson.

According to Diehl, General Johnson had a scribbled piece of paper in front of him listing the demands that he was making on the Chinese and telling Diehl that he could do pretty well for himself, too, if he wanted to go along.

The CHAIRMAN. Did you tell Mr. McCabe what you knew?

Mr. MCKENNA. I had a long—not a long talk, but a half-hour talk with Mr. McCabe. I don't remember the date of it. I would gather about a week or so after he arrived in Shanghai.

I told him everything that I had in my knowledge at that time, and, of course, was trying to have something done about these things.

The CHAIRMAN. How did Mr. McCabe respond to your report?

Mr. MCKENNA. I think Mr. McCabe gave me credit for good faith, at least, and the remarks that came back to me later from others was that he said afterward since I felt so strongly about these things there was nothing I could do but resign—that my resignation was proper under the circumstances.

The CHAIRMAN. Using Senator Robertson's tactics, I am asking what is in your mind there, if it is a fair question?

You mean because you brought these things to his attention and showed a zeal to uncover these irregularities, you were told by Mr. McCabe that you should resign, and nothing else would do; is that it?

Mr. MCKENNA. No. I put it this way: Because of my feeling so strongly about these things that were going on in Shanghai, I could no longer continue as General Johnson's subordinate.

Under those conditions resigning was the only proper thing for me to do.

The CHAIRMAN. Did you propound the question in rebuttal "Why don't you get Johnson to resign?"

Mr. MCKENNA. I was not interested, sir. I was more interested in getting out of Shanghai.

The CHAIRMAN. They suggested you resign because you could not get along with Johnson; is that it?

Mr. MCKENNA. That is correct, sir.

The CHAIRMAN. So all the testimony here is that Johnson is what we call a bad egg. They thought that you shouldn't resign so you would not mix with them, but Johnson was kept on the job until October 20, 1946.

Mr. MCKENNA. I think that is correct.

The CHAIRMAN. What was the pricing policy of FLC Shanghai on sales to the Chinese?

Mr. MCKENNA. My introduction to the pricing policies of FLC Shanghai came right after my arrival when there was a conference with UNRRA officials, and there was an agreement reached to sell selected items, as selected by UNRRA, at 70 percent of the original cost. I objected to this, probably not so strongly, but I did feel since these were selected items rather than a general offer of over-all contract, and in fact, no contract in writing—I objected to that point, too—it should be at a fair value figure.

However, I had to retract that position very shortly afterward when I discovered that sales to the Chinese were at 65 percent of cost or 5 percent less than to UNRRA.

Again, I objected very strongly when that price of 65 percent to the Chinese was reduced to 22 percent of cost, all the time UNRRA apparently paying 70 percent and the Chinese getting first choice at 22 percent.

What the Chinese passed up at 22 percent, UNRRA would be able to buy at 70 percent, and after that American business interests at anything from 100 to 125 percent.

The CHAIRMAN. The American business interests were at the bottom of the pyramid. They got the left-overs at a jacked-up price, while China even superseded UNRRA in its humanitarian claims, and got it at a lesser price than UNRRA at 65 and then marked down to 22 percent; is that correct?

Mr. McKENNA. That is correct, sir.

The CHAIRMAN. But American businessmen paid 125 percent value?

Mr. McKENNA. That, of course, was part of the terrifically high bad feeling against FLC Shanghai prevalent among the American community in Shanghai.

The CHAIRMAN. Did you object to that policy?

Mr. McKENNA. I objected consistently, and repeatedly, almost daily, but I struck one fellow there I could never budge, a fellow by the name of Tsang, a Chinese who worked mornings in the FLC Shanghai office, and afternoons in the Chinese Board of Supply for General Khong.

The CHAIRMAN. What did he do nights?

Mr. McKENNA. In the mornings, at least, Mr. Tsang seemed to be the No. 2 man in our Shanghai office.

The CHAIRMAN. Tsang did?

Mr. McKENNA. That is right. Any time I talked about getting some of these contracts in writing or these objections of mine to prices, I was referred to Mr. Tsang—not so much in pricing but particularly on reducing the contracts—to Mr. Tsang. I never did get any place until he left to go to Okinawa, when I did get some of it in writing.

The CHAIRMAN. I do not see Exhibit C here, sir. Do you have a copy of your objections?

Mr. McKENNA. The copy of the objections I was told to produce, I think.

The CHAIRMAN. Will you read that copy into the record?

Mr. McKENNA. This was just one of the reductions to writing of my many, many oral objections. It is a photograph which the SSU took for me.

Exhibit C is as follows:

July 5, 1946.

From: The Compliance Officer.

To: The Executive Officer.

Subject: Report on Perusal of Office Files.

1. A perusal of office files since my designation as compliance officer has given rise to the following subjects of comment:

(a) Delivery of goods without signed contract.

(1) To the Chinese Government.

There is no signed contract with the Chinese Government on any of the property that has been delivered to it. In some instances, there is no receipt in the files for goods actually delivered. In no instance is the full contractual agreement set out in writing.

(2) To UNRRA.

Same comment as the Chinese Government.

(3) To E. Kadoorie & Sons and the Hongkong Government.

The purchaser has not signed certain of the contracts which appear to have been fully executed by us.

(b) Sale of goods to the Chinese at 22 percent of the depreciated cost.

(1) In the absence of an overall agreement fully executed by both, individual sales to the Chinese government must be at a fair, although there may be provision for an adjustment in an overall contract. Pending such agreement, a

temporary contract for interim sales is unobjectionable, but its terms should be in writing and complete.

(2) Existing contract prices cannot be adjusted downward merely in anticipation of the signing of the overall agreement. As a matter of law we cannot assume that such a contract will be executed until it is executed.

2. Because of the manifold difficulties of interpretation and enforcement of contracts between sovereign states, and because of the doubt as to the governing law of any contracts executed by this office that do not specify that the law of a particular jurisdiction will prevail, it is particularly important that contractual terms be written and precise before irrevocable action is taken in any instance by FLC. Letters, such as those which I have previously drawn and submitted to you for proposed forwarding to China and UNRRA, would have the effect of specifying the terms of sale of property to those organizations.

3. It is strongly recommended that—

(a) Contracts with the Chinese Government and UNRRA be signed or such letters be forwarded at once.

(b) That in the future no goods be delivered on credit without a full understanding in writing as to the terms of sale and credit, and without some form of receipt or proof of the delivery of the goods, regardless of the identity of the purchaser.

(c) Efforts be made to complete the files on past cases.

(Signed) WILLIAM F. McKENNA.

(The foregoing letter was marked as "exhibit C.")

The CHAIRMAN. We certainly congratulate you on your eyesight, sir, to read all that on that small piece of paper.

You are 20-20, all right.

Do you know about some drum steel that was sold to the Chinese at 22 percent of cost that Americans were willing to buy at more than 100 percent of cost?

Mr. McKENNA. The case of that drum steel was presented very, very strongly to Mr. Moody, and to me when we talked to the Texas Oil Co. in Shanghai.

I believe it was also reported to other United States authorities with the statement that there seemed to be no honest explanation of it. The cost of this drum steel was originally \$88,000 to the United States in United States dollars. A contract of purchase was signed by the Texas Co., China, Ltd., early in June or late in May of 1946, for a price of \$95,000, or \$7,000 more than the original cost to the United States. Half of this purchase price was paid in dollars of the United States before the contract was unilaterally canceled by FLC Shanghai and the goods sold to the Chinese Government over the objections of the Texas Co. for \$57,000 or \$58,000 on credit.

Before word of that got to Washington, the other half of the \$95,000 was paid into the United States Treasury. Then FLC reduced the price to the Chinese from \$59,000 on credit to less than \$20,000 on credit, no terms specified, and I understood from Mr. Worden of the Texas Co. in Shanghai that efforts were made by the Chinese to sell that property to the oil companies at a terrific mark-up by the Chinese.

Senator BUCK. That is a serious charge, I think, that has been brought before the committee.

I would like to ask the witness how Mr. McCabe is involved in that in any way.

Mr. McKENNA. I would not be able to say. I certainly don't believe that Mr. McCabe would be involved in that except for the approval of the contract after it was executed with the Chinese.

Senator BUCK. Who would you think was directly responsible for it?

Mr. McKENNA. It was done by the Shanghai FLC, although, of course—

Senator BUCK. In charge of General Johnson.

Mr. McKENNA. Of course, General Johnson, I suppose, had to get clearance from Washington. I can't speak on that. I don't know.

Senator BUCK. Mr. Chairman, would it not be proper that this testimony, a good deal of it, and the exhibits you have, be sent to Senator Ferguson's committee?

The CHAIRMAN. They came from Senator Ferguson's committee, Senator.

Senator BUCK. That is what I thought.

The CHAIRMAN. They were sent here to to be used in this evidence here at his request.

Senator BUCK. How far has that committee proceeded with its investigation of General Johnson?

The CHAIRMAN. I do not know.

Senator BUCK. Is that not where it should be?

The CHAIRMAN. He requested that our records be available to him.

Senator BUCK. Is that not where this case should be heard?

The CHAIRMAN. I do not think so. As far as Johnson goes?

Senator BUCK. Yes.

The CHAIRMAN. But as far as Johnson, Executive Officer for FLC in Shanghai, was under Mr. McCabe, and Johnson's irregularities were brought to his attention, that is germane here.

Senator BUCK. From the testimony we have had we know that has happened, and you probably will bring out more testimony to show that this man is still guilty.

But how does that now affect Mr. McCabe?

The CHAIRMAN. Only in connection with the fact that Mr. McCabe's administration of FLC in Shanghai was under him through his first assistant, Mr. Starr, and Mr. Johnson.

Senator BUCK. I understand. I am thoroughly convinced there is something wrong. I assume there is something wrong with the administration of Mr. Johnson.

I do not think any further testimony is going to prove to me, unless somebody has different testimony, that Mr. McCabe was involved in it in any way other than that he was Johnson's superior.

Mr. McKENNA. I have to say that I certainly don't believe that Mr. McCabe got any financial remuneration out of this.

Senator BUCK. It seems to me we are wasting our time going over these details which more properly belong to an investigating committee such as Senator Ferguson's, if you are trying to convict somebody in this organization.

I offer that as my comment.

The CHAIRMAN. I am glad to have your comment. I thought a little while ago, Douglass, that you suggested that we have General Johnson come before us.

Senator BUCK. I did, Mr. Chairman, but I did not know this had all been before the committee downstairs. I do not know why they did not proceed with it further.

It seems to me that they have much more than we have now.

The CHAIRMAN. I might say I am advised that a lot of this evidence they did not have. It is new and will be new to them.

Senator BUCK. Do you not think we ought to press them to examine this case of Johnson?

The CHAIRMAN. I think they will go into this whole administration, because they are behind the eight ball on a lot of this stuff.

Senator BUCK. In your mind and my mind this man Johnson is guilty of something.

The CHAIRMAN. Yes; guilty as everything.

Senator BUCK. There is nothing we can disclose here that will prove he is more guilty.

The CHAIRMAN. There are some facets of the case which will be brought out which will be very germane, I think, before we get through.

This particular testimony that he is giving, if you gentlemen have heard enough; all right. I had a few more questions to ask him about the Hong Kong transaction.

We will go on 15 minutes longer.

Senator BUCK. I do not want to terminate his testimony, but I am just speaking of the whole case in general.

The CHAIRMAN. I see your point. I am not opposed to it at all. I think there is food for a great deal of thought as to whether the War Investigating Committee ought to go into this, and I think it will go into this, and it will help it to have the advantage of what is heard here.

They give us many of these documents from their files. It was the suggestion of Senator Ferguson and Senator Knowland and Senator Brewster that this committee ought to go into this man's appointment very thoroughly in the light of the revelations which came to them about his office in Shanghai for which he is responsible.

They originated this situation.

Senator BUCK. They have not proved anything themselves down there that anybody has been guilty.

The CHAIRMAN. I will give you Senator Ferguson's statement to me:

This man has given away for a song millions of dollars of the American taxpayers' money. When you go into it you will be amazed what you find.

Senator BUCK. I ask, Mr. Chairman, has this man Johnson been before that committee?

The CHAIRMAN. I do not know.

Senator BUCK. Why has he not been before it?

The CHAIRMAN. I cannot answer. I cannot speak for that committee, sir.

Senator BUCK. We are wasting our time on something that ought to be downstairs.

The CHAIRMAN. I have been told General Johnson has been called back summarily from Tokyo by the War Department. Whether for a court martial or not, I do not know. We have about 15 minutes for a few questions and, with the committee's permission, I will clean up this witness—I will not clean the witness up, but I will finish with the witness.

I will place in the record at this point a copy of your letter of resignation, dated August 22, 1946.

(The letter referred to was marked "Exhibit H," and is as follows:)

## EXHIBIT H

945

AUGUST 22, 1946.

Brig. Gen. B. A. JOHNSON,  
*Field Commissioner for China,*  
*Office of the Foreign Liquidation Commission,*  
*Shanghai, China.*

DEAR GENERAL JOHNSON: I am at present counsel to the Field Commissioner for China, Office of the Foreign Liquidation Commission, with additional duties as compliance officer.

I submit herewith my resignation from these offices and from all other offices and functions in the Office of the Field Commissioner for China. A sincere effort has been made to reconcile the reasons for this action with the recommendation of the Executive Officer of the Foreign Liquidation Commission that I not submit my resignation from the Office of the Field Commissioner for China at this time. However, for the reasons previously discussed with him, with you, and with the General Counsel to the Central Field Commissioner for the Pacific and China, I find it necessary to carry through my original intentions.

It is recognized that the Foreign Liquidation Commission may determine my continued presence in Shanghai within its organization to be necessary temporarily under the present conditions. This can be accomplished by my transfer, pending separation from the Office of the Foreign Liquidation Commission, to either the Washington or Manila Offices with assignment to Shanghai.

Respectfully,

WILLIAM F. MCKENNA.

The CHAIRMAN. May I ask you kindly, Who was your successor?

Mr. MCKENNA. Mr. Allen Coker came over from Manila after I was cleaned out of the Shanghai office.

The CHAIRMAN. How long did he remain?

Mr. MCKENNA. About 10 days, I believe.

The CHAIRMAN. What caused him to leave?

Mr. MCKENNA. Another one of these deals came up. There were some small planes down in Hong Kong. Then it developed that offers had been received by FLC, Shanghai, of some \$6,000 and \$4,000 for these three or five very small planes, training planes, suitable for civilian purposes, I believe. FLC, Shanghai, wrote to the bidders that the planes were not available and then sent a man, Mobley, I believe was his name, with a letter of introduction to the British authorities in Hongkong, asking that they declare these planes surplus and make them available for sale.

They were then sold to Mr. Mobley for \$1,250 and my understanding—this is from Mr. Coker and others—is that Mr. Mobley then tried to sell them to the persons who had offered FLC \$6,000 and \$4,000, respectively, in the first instance.

After seeing General Johnson's reaction to this situation, Mr. Coker refused to stay in Shanghai.

The CHAIRMAN. So Coker was the third lawyer who was not satisfied with conditions in FLC and got out; is that right?

Mr. MCKENNA. That is correct, sir.

The CHAIRMAN. General Johnson was left in Shanghai as field commissioner even after Coker found it necessary to leave?

Mr. MCKENNA. Mr. Coker was there during the time of Mr. McCabe's visit. I think all of this happened during the time of Mr. McCabe's visit or a little after, about the end of August or the 1st of September in 1946.

I think General Johnson was there until October 26 or about that date.

The CHAIRMAN. There was some talk here in the committee that personnel responsible for reporting what went on in FLC were abused.

I show you a letter from the inspector general of the China theater regarding Colonel and Mrs. Cook. Are you familiar with that letter?

Mr. McKENNA. I do remember a letter from Colonel Dougherty to Major Cook regarding their efficiency ratings, and Colonel Dougherty's request, I believe, to the War Department, that it be disregarded because of the circumstances in Shanghai.

The CHAIRMAN. There are some letters about the T-1 tankers. These leave the implication, at least, that FLC insisted on not selling directly to the Americans for cash, but selling on credit to the Chinese and arranging the sale between the Chinese and the Americans in order that Chinese could make a substantial cash profit.

Were you present at any of the negotiations regarding these tankers?

Mr. McKENNA. That happened about the end of July. I think the contract with the Chinese for those tankers was finally signed about the 5th of August 1946.

The Texas Co. and possibly other oil companies were quite furious over the details of those transactions. They had offered, I believe, \$350,000 for each of some of these tankers.

The CHAIRMAN. I have a letter from the Texas Co. signed by W. L. Worden, assistant general manager:

SHANGHAI, July 19, 1946.

THE FOREIGN LIQUIDATION COMMISSION,  
Wayside Building, C. T. R. S., Shanghai.  
(Attention, Commander Killough.)

DEAR SIR: This is to confirm our conversation of July 18th regarding TI tankers, which may be available from the Chinese Government.

We are interested in purchasing two of these tankers providing they meet our survey requirements. We are willing to offer US \$350,000 each for them, if they are acceptable to us.

Yours very truly,

THE TEXAS COMPANY (CHINA) LTD.,  
W. L. WORDEN,  
Assistant General Manager.

(The above letter was marked "Exhibit J.")

The CHAIRMAN. The United States Navy acknowledged its letter as follows:

NINE-FOUR-FIVE, 22 JULY 1946.

THE TEXAS COMPANY (CHINA) LTD.,  
12 The Bund, Shanghai, China.  
(Attention, Mr. Worden.)

DEAR SIR: We wish to acknowledge receipt of your letter of 19 July 1946, in which you express a desire to purchase two of the TI-M-AI tankers for the price of US \$350,000 each.

Your offer has been conveyed to the Board of Supplies, Chinese Government, who will advise us as soon as they have reached a decision.

For the Field Commissioner:

J. E. KILLOUGH, Lt. Commander, U. S. N. R.,  
Director, Maritime Division.

(The foregoing letter was marked as "Exhibit K.")

The CHAIRMAN. Those are the two letters. You are familiar with them?

Mr. McKENNA. I think the second letter, sir, was from FLC.

The CHAIRMAN. That is right.

Mr. MCKENNA. The difficulty with that, as Texas Co. raised it with us, is that these letters antedated the sale to the Chinese. So FLC refused to sell the tankers directly to the Texas Co., but insisted on selling them on credit to the Chinese, and in turn the Texas Co. would have to buy them from the Chinese, paying cash for them at a considerable mark-up.

Senator BUCK. Have you ever testified before this committee downstairs?

Mr. MCKENNA. I have never testified.

The CHAIRMAN. I have here a telegram that came in from Coleman P. Cook, former lieutenant colonel. Is that the man you referred to?

Mr. MCKENNA. That is, Colonel Cook and Major Cook were husband and wife.

The CHAIRMAN. The telegram reads:

1948 MARCH 4.

Senator TOBEY,

*Senate Office Building, Washington, D. C.:*

Noted March 3 AP story, Denver Post, your accusation McCabe ordered destruction Army B-25's. McCabe per article stated "That is all new to me." For proof your accusations see August 29, 1946, edition China Press, Shanghai, China.

I have pictures of planes and all details to support your accusation. Pertinent query: What was McCabe doing in Peiping while all this was going on?

COLEMAN P. COOKE,

*Former Lt. Col. AUS with FLC Shanghai, China.*

We have this letter from Dougherty:

SHANGHAI DETACHMENT, STATION COMPLEMENT,  
NANKING HEADQUARTERS COMMAND,  
OFFICE OF THE INSPECTOR GENERAL,  
30 October 1946, APO 917.

*To Whom It May Concern:*

Major Mary Margaret Cook, WAC, I-600024, who is being relieved from duty with the Foreign Liquidation Commission, Shanghai Office, within a day or two for normal return to the United States, has been of considerable help to me in conducting an investigation into certain alleged irregularities in the FLC Shanghai Office,

Major Cook has brought to my attention the fact that her efficiency ratings covering manner of performance of duty were reduced from a rating of 5.2 on 15 April 1946 to 3.6 on 30 June 1946 and 3.4 on 15 August 1946 and that she received no rating for the period 16 August to 1 November 1946.

Major Cook and her husband, Lt. Col. Coleman P. Cook, had reported to my office and later to the office of the United States Consul in Shanghai what they believed to be irregular practices on the part of certain key position officers in the Shanghai Office of FLC. Their actions became known to Brig. Gen. B. A. Johnson, Field Commissioner, Shanghai Office, and to other persons alleged to be involved in irregular practices.

As a result, strained relations have existed between the Cooks and certain other persons in the FLC Office, and in my opinion these disagreements are definitely reflected in the efficiency ratings given both Major Cook and her husband.

The rating officer must have been influenced in these instances by letting personal feelings enter into his estimate of the value of Major Cook and her husband. I feel that regardless of justification for the lowered ratings, they should be entirely discounted in arriving at the general services of Major Cook and her husband.

In my opinion these two officers reported alleged irregularities honestly and with intention to carry out what they believed to be were their assigned jobs. I do not believe there was any malicious intent on their part to discredit anyone in an unfair manner.

J. S. DOUGHERTY,  
*Colonel, I. G. D.,*  
*Inspector General.*

(The foregoing letter was marked "Exhibit I.")

The CHAIRMAN. It seems to be evidence that because people told the truth about some things they get into disfavor with some people.

I want to thank you for your kindness in coming.

There are two more questions, and I will be through.

Mr. McKenna, every stress has been laid on the point there was strong demand to return military personnel to the States, but FLC was not a military organization.

Could not civilians have been hired at reasonable wages to guard surplus property after military personnel had departed?

Mr. McKenna. I will have to limit my answer to that, Senator, to what I know of the Pacific area.

I don't know of anything about FLC over the rest of the world. In the Pacific area very little of the surplus property was actually in China at the time I was there. What there was, was guarded by civilians at that time. The rest of the surplus that was brought to China—that is, the bulk of the surplus that was sold to China—was brought from the islands of the Pacific or is in the process of being brought now. So far as I know, it is still being guarded by American troops.

I cannot give you the answer to that, but American troops are still there.

The CHAIRMAN. Thank you.

That is all.

Senator SPARKMAN. Mr. McKenna, I do not care to prolong this, but here are some questions I want to ask you:

Going back to this matter that Senator Robertson took up with you that somebody—was it Colonel Starr? Is that S-t-a-r-r?

Mr. McKenna. That is my recollection; Colonel Ed Starr.

Senator SPARKMAN. He stated that the FBI was just publicity seeking. Is he the one?

Mr. McKenna. There was a group that was present. It was the first conference we had with Colonel Starr after his arrival.

Senator SPARKMAN. As a matter of fact, Mr. McCabe did not make that statement; did he?

Mr. McKenna. No; I did not talk with Mr. McCabe then. It was much later than that.

Senator SPARKMAN. Based upon that statement, you seem to draw the inference that a real investigation was not desired.

Mr. McKenna. The inference was not drawn from that, Senator.

Senator SPARKMAN. You used that as part of your argument to justify the inference.

Mr. McKenna. There are a lot of nebulous things, and some of them real. For example, when the investigation started, we were told that there would be two investigations. We would carry on one part, and the Inspector General insisted he would limit his to Army personnel which, of course, did not include General Johnson, as he was then a civilian. Later, Colonel Dougherty told us that he had received instructions that we were not to continue investigating except to help him, and Colonel Dougherty was pretty much wrought up because he did not think the scope of his authority went far enough for the whole investigation, but later he did change his mind.

Senator SPARKMAN. Of course, I am just trying to stick to the FBI. You gave that as one of the reasons for justifying your inference that you were not expected to go deeply into it.

When you stated that, you did not know, did you, that Mr. McCabe had already taken up with the Department of Justice the matter of having an investigation made and the Department of Justice told him they could not?

Mr. McKENNA. I knew nothing about it, sir.

Senator SPARKMAN. But if Mr. McCabe told you he did that, you would believe he did?

Mr. McKENNA. I most certainly would, sir.

I do not question Mr. McCabe's honesty.

Senator SPARKMAN. You did not know Mr. McCabe told that to this committee yesterday?

Mr. McKENNA. I did not. I would say, Senator, that the reason Navy Captain Luboshez and I were insistent upon that point and were rather surprised at the answer, is this:

The surplus property regulations specifically stated that the Attorney General and the Department of Justice would be informed of any criminal violations, and FLC would take no further part in the investigation except under the direction of the Department of Justice.

As lawyers, you recognize that the wording of that regulation had to be complied with, and the Department of Justice should be immediately informed regardless of what unwritten agreements there were.

Navy Captain Luboshez and I were insistent on that.

Senator SPARKMAN. If you had known that Mr. McCabe had already made an effort to have the FBI investigate it, then you would not have had that feeling, regardless of what Colonel Starr said.

Mr. McKENNA. May I ask, is it a correct statement that Mr. McCabe had asked the Department of Justice for this particular investigation?

Senator SPARKMAN. Yes.

Mr. McKENNA. Then that, of course, would be a complete answer.

Senator SPARKMAN. That is my recollection of his statement.

Mr. McKENNA. That would be a complete answer, then.

Senator SPARKMAN. With reference to the demilitarized planes, was there anything in the law or in the regulations or the policy controlling the disposition of these planes to the effect that they should be demilitarized?

Were you aware of any such?

Mr. McKENNA. My understanding was that these combat planes should never be declared to FLC except with prior approval of the State Department, the Navy Department and War Department, and a general consensus.

Senator SPARKMAN. And that really controlled it, did it not?

If they were declared surplus to the FLC, with the understanding that they would be sold for parts or salvage or scrap, or whatever it may be, then FLC was bound by that, was it not?

Mr. McKENNA. I would be afraid of that, Senator, because in China while such an agreement would not be enforced, there would be no way of enforcing such a condition.

Senator SPARKMAN. Unless it was made unflyable.

Mr. McKENNA. That is the only way.

Senator SPARKMAN. If the policy had been set up by the State Department or by the War Department or by the proper officials, and when the planes were turned over to FLC, they were told to dispose of them in such a way that they would be unflyable, then certainly, something should be done to make them unflyable; should there not be?

Mr. McKENNA. Again, I am talking about what Colonel Dougherty told me.

It was my understanding from Colonel Dougherty while the investigation was in process. It may have been changed. His report to me was that testimony of United States Army officials at Shanghai was that FLC had insisted that these planes be declared surplus in flyable condition.

Senator SPARKMAN. But Mr. McCabe testified before us that the other was true, that they were to be disposed of as unflyable planes.

If he said that, you would certainly believe him.

Mr. McKENNA. Whatever Mr. McCabe said before, I will accept.

Senator SPARKMAN. With reference to the sale of the medical supplies, did you see anything in any of the papers that showed that there was blood plasma in the supplies or did you learn that—I believe you testified you learned that from a UP report; did you not?

Mr. McKENNA. I learned of that because of a tip from the UP representative in China. Mr. Moody and I visited this particular warehouse on the tip.

However, I understand that anybody who had any knowledge of medical supplies would know that these field units which were sold would include all these items.

That again is hearsay.

Senator SPARKMAN. Of course, do you understand that the Navy—I believe most of these were Navy supplies?

Mr. McKENNA. All of them were; yes.

Senator SPARKMAN. When they simply turned everything over in bulk to FLC, they said nothing about any blood plasma being in there?

Do you feel that there was an obligation on the part of Mr. McCabe or someone answerable to him to break it down, item by item?

Mr. McKENNA. There certainly was no obligation on Mr. McCabe in Washington with respect to the particular transaction.

However, there was joint responsibility in that case by Navy and FLC. I don't see how it can be escaped, because I have seen documents—

Senator SPARKMAN. I want to have you understand I am not condoning it. Yes; I certainly think somebody should have known it.

Mr. McKENNA. This is my answer; that I have seen communications that stated FLC-Shanghai turned over a list of these commodities to the purchaser in order to permit him to make a sensible bid.

That was before the sale was made.

Senator SPARKMAN. Now, with reference to the hearsay statement that came back to you that Mr. McCabe had said you should resign; who told you that?

Mr. McKENNA. I would rather not answer definitely.

Senator SPARKMAN. I do not care about knowing.

Mr. McKENNA. He told me that to ease my own feeling, to show that Mr. McCabe was not very angry with me, that he thought I was acting in good faith.

Senator SPARKMAN. Mr. McCabe did not tell you to resign; did he?  
Mr. MCKENNA. He did not.

Senator SPARKMAN. In fact, nobody told you to resign; is that right?

Mr. MCKENNA. This was discussed very thoroughly with Colonel Starr, and Colonel Starr very much discouraged me from resigning.

Senator SPARKMAN. As a matter of fact, this report did not come to you until you had already decided to resign; did it?

Mr. MCKENNA. After I said I would definitely resign.

Senator SPARKMAN. Then they said probably you should, because of the feeling. In fact, according to your own testimony, you had been thrown into an impossible situation.

Mr. MCKENNA. That is what I told Colonel Starr—that I could not remain under existing conditions.

I told General Johnson and Colonel Starr that together, at the same time.

Senator SPARKMAN. Mr. McKenna, I want to ask you this question, because I do think it is very important that we keep separate in our own minds the responsibilities and the actions of General Johnson and of Mr. McCabe. I certainly join with the chairman and the other Senators who have expressed themselves in saying that I feel by all means the conduct of General Johnson in this work should receive the most careful scrutiny. It should be investigated to the very bottom.

I want to ask you, in your contact with Mr. McCabe, and your work under him, if at any time you saw anything in his conduct or in his handling of his office that you feel would reflect on his character, his integrity, his ability, or his fitness to fill the office of Chairman of the Federal Reserve Board?

Mr. MCKENNA. I can't answer that.

I would say Mr. McCabe is certainly an honorable man, and certainly a patriotic citizen, and would have no part in a transaction in blood plasma.

Senator SPARKMAN. I am talking about the scope of this work. Are we to take your testimony this morning as being in opposition?

Mr. MCKENNA. I don't want to be in opposition to Mr. McCabe at all.

Senator SPARKMAN. You think there was a rotten mess over in China that had to be cleaned up.

Mr. MCKENNA. He had no connection at all with China, regardless of what I say.

Senator SPARKMAN. You thought it ought to be cleaned up.

Mr. MCKENNA. I did all I could to clean it up.

Senator SPARKMAN. I believe you did. I think you did a good job.

Mr. MCKENNA. That is the only personnel of FLC I had any acquaintance with at all. Mr. McCabe was in Washington when this was being done in Shanghai.

Senator SPARKMAN. I want to find out if you believe that we, sitting here in judgment on Mr. McCabe's appointment, ought to take these things which you have related and hold them against him in connection with his confirmation.

Mr. MCKENNA. I don't want to pass on any question beyond the relation of the facts. I suppose I am just relating facts here, and I have certainly not tried to appraise Mr. McCabe as to his fitness for the job.

Senator SPARKMAN. That is not your purpose in testifying.

Mr. McKenna. It certainly is not.

I assume that will be done by the committee and the Senate. I am not fit to do it. I have just this one picture to give of FLC Shanghai.

That was done while Mr. McCabe was in Washington. I was in Shanghai.

Senator SPARKMAN. Thank you, Mr. McKenna.

The CHAIRMAN. Mr. McKenna, I read from the testimony of Mr. Moody for your information:

Colonel Dougherty, who was in charge of the investigation by the Inspector General, complained that every bit of evidence had been revealed in detail to General Johnson of the specific evidence held against him. Mr. McCabe's answer to Navy Captain Luboshez' recommendation that General Johnson be barred from taking further part in the official negotiations with the Chinese, in view of his admitted personal negotiations, was to project General Johnson into a prominent part in the discussions, but to eliminate Captain Luboshez for making the suggestion.

Mr. McCabe in his testimony yesterday said, and I quote:

Regardless of the truth of the charges being made, it was apparent to me that Johnson could not effectively carry on for long, and I had determined to replace him and to have a thorough and impartial investigation made of every aspect of his office.

I point out that it was over 2½ months after that that Johnson got out, and he got out a month after Mr. McCabe himself got out, so Mr. McCabe did not dismiss Johnson summarily, but he continued in the job after Mr. McCabe got through a month after.

I propound this question:

Did Mr. McCabe or anyone in the FLC—think carefully, please, as a lawyer—have the authority under the law to order the mutilation of the B-25's?

Mr. McKenna. I would not know where they would find that authority. These planes had been sold to a Chinese air line, and they were on a Chinese field in China.

There was a clause in the contract that they were sold for parts only. There was a reservation of condition, a reservation of some interest in the planes in the nature of a conditional sale, but based only on the payment of the purchase price, which was paid.

I believe it was paid even before the destruction.

The CHAIRMAN. Did FLC have the right to change the condition rating placed upon surplus goods by the Army?

Mr. McKenna. It did not, sir.

The CHAIRMAN. It did not have the right to do it?

Mr. McKenna. No.

The CHAIRMAN. So when those things were changed, they had no right to do it.

Mr. McKenna. Yes. That happened in numerous cases which came to light afterward, not only in this, but others.

The condition of the planes was changed.

The CHAIRMAN. Without the right to do it.

Mr. McKenna. From good to fair or to scrap.

The CHAIRMAN. Sir, on behalf of the committee—

Senator BUCK. Are you about to conclude?

The CHAIRMAN. Yes; subject to your question.

Senator BUCK. As our chairman, would it meet with your approval to have a committee meeting tomorrow with as many members as possible, to decide whether to continue these hearings or whether to terminate them?

The CHAIRMAN. I say for the benefit of the committee, this hearing will be adjourned this morning until next week.

Senator Fulbright is ill. He is developing certain matters himself that he wishes to examine Mr. McCabe upon. He asked that the hearings go over until he came back. I readily agreed.

I personally wish to develop matters entirely separate from the FLC in connection with Mr. McCabe that will take some more time. They are very germane to the appointment and the value and wisdom of it.

Therefore, as a friend and as a colleague—

Senator BUCK. There are only 4 of us here of a committee of 13. I think it is possible that some members have already made up their minds whether they want to vote for or against the nomination.

If we do not have more than we have now, I doubt that the testimony that will be given here will be read by them. We seldom have time to go through these records of the hearing.

If they are not going to come personally, they are not going to benefit by anything that you are disclosing.

The CHAIRMAN. What you are saying now is an indictment of the committee procedure of the United States Senate, and the indictment is a real one.

I feel it just as strongly as you do.

Senator BUCK. I am only trying to be practical. I do not think that four of us can decide this case with further testimony. I think the majority of the committee might determine whether they want to continue or terminate them.

Senator SPARKMAN. May I ask a question of the chairman?

Do you not believe that we ought to have some more hearings, at least of some evidence relating to Mr. McCabe as a banker and as to his fitness for the position for which he has been named?

We have had none on that.

Senator BUCK. I think that would be much more in keeping with what we are endeavoring to do; to find out if he is well qualified for this job.

Senator SPARKMAN. I think before we close the hearing, we ought to go into that phase of it.

Senator BUCK. This is concerning someone who was subordinate in this war work.

The CHAIRMAN. I follow you very closely and very sympathetically, and you and I probably differ on this point. I consider that the head of any department is responsible for the acts of his agent.

We hold that in business; we hold that in law. It is an established fact.

Speaking only for myself, I hold that all these things show misconduct and irrelevancy and some things that are manifest breaches of the law that came in the administration of the FLC Shanghai, of which Mr. McCabe was the head, and at which he was present during part of the time, and he did not, either through negligence or malice aforethought, remove Johnson summarily in the face of evidence

brought to his attention, in view of the Inspector General's report, linking Mr. McCabe up definitely with knowledge of these things, the blood plasma picture and the planes.

I think they all come back to the FLC office of which he is the head. I think they are contributory evidence in the picture.

Taking up what Senator Sparkman said, I am 100 percent behind you. We definitely propose to go into that matter very, very thoroughly.

I might say to you, sir, an investigation is going on now to be presented to the committee on that subject and collateral matters, too. It cannot be done in a day or night. Senator Fulbright telephoned this morning and said he regretted he was taken ill, and could not be here this week. I assured him we would go on next week subject to the call of the Chair.

At that time I hope to have my matters completed, and I think Senator Fulbright will have his, and you gentlemen will have your opportunity to examine the gentleman on these matters.

Senator BUCK. May I add, asking you to determine if in the committee's view whether the hearings should be terminated, I meant the hearings of this character which related to this work.

The CHAIRMAN. I misunderstood you. Forgive me.

Senator BUCK. The testimony is before us that there was a lot of wrongdoing in this Shanghai office.

The CHAIRMAN. Let me reassure you this witness here marks the culmination, unless something unforeseen comes up, of testimony with reference to Shanghai and these overseas matters.

The rest of the matters will be matters within this country as to Mr. McCabe's fitness, background, business, and so forth.

Senator BUCK. I am happy to know that.

The CHAIRMAN. With that understanding, the Chair will announce, it being now 12:26, that we will stand in recess subject to the call of the Chair until the first opportunity next week.

Mr. McCABE. Mr. Chairman, may I just say one word?

The CHAIRMAN. Yes.

Mr. McCABE. If I may, sir, in regard to General Johnson's being displaced in Shanghai, I would just like to say this for the record:

I insisted strongly with Mr. Vogelback, his superior, the Central Field Commissioner in Manila, to whom Mr. Johnson reported, that action be taken immediately to replace Mr. Johnson. I asked him in the early part of my stay in China if he would recommend to me a man who was fitted to take General Johnson's place before I left.

He did a great deal. He communicated with various sources to try to determine on an available man, and he recommended to me the appointment of Mr. Donald B. Davis.

I did not know Mr. Davis, but he said he had become acquainted with him in Manila as a result of his work on UNRRA. Mr. Davis was his choice. I told him to communicate with Mr. Davis immediately and ascertain his availability.

I met Mr. Davis at the plane in Manila before I left the United States. Mr. Vogelback made arrangements with Mr. Davis to go to Shanghai as quickly as he could get there.

The CHAIRMAN. Mr. Davis did?

Mr. McCABE. Mr. Vogelback made arrangements with Mr. Davis. Mr. Davis, as I understand, was there in a matter of 2 weeks.

Then on September 18, at the insistence of Mr. Vogelback, this notice was issued in the Shanghai office:

SEPTEMBER 18, 1946.

Administrative Order No. 9.

Subject: Appointment of Deputy Commissioner.

1. Reference is made to letter issued to Mr. Donald B. Davis, subject: appointment and delegation of authority, dated September 18, 1946.

2. The appointment of Mr. Donald B. Davis as Deputy Field Commissioner for China and Eastern Asia is hereby announced.

3. Henceforth, all matters of policy and operation will be referred to Mr. Davis for decision; full authority has been delegated to him for the administrative organization of the office, and for the assignment, reassignment, and replacement of personnel.

The CHAIRMAN. What is the date of that, sir?

Mr. McCABE. This is the 18th of September 1946. That was about the time Mr. Davis reported.

As I understood from Mr. Vogelback, he did this because Mr. Davis had no knowledge of the operation. He wanted him to get a full knowledge of the operation and then subsequently in October he appointed him full field commissioner. So in reality, Mr. Davis was given this authority on the 18th of September. I just wanted to correct the record on that, because that has not been brought out in any testimony.

The CHAIRMAN. But Johnson stayed on until the 26th of October, and then resigned?

Mr. McCABE. My recollection is that it was sooner than that.

The CHAIRMAN. That is the sworn testimony here from two sources.

Mr. McCABE. I can look up that exact date, sir.

The CHAIRMAN. You resigned a month before that.

Mr. McCABE. I want to emphasize, Mr. Chairman, and you will have to take my word for it, that I insisted with all the force at my command that that change be brought about.

As in all organizations, you depend on your central field commissioner, which I did in this instance, to carry this out. I think he carried it out and his policy was—

The CHAIRMAN. That is Vogelback?

Mr. McCABE. Mr. Vogelback.

The CHAIRMAN. You had great confidence in him?

Mr. McCABE. I had great confidence in Mr. Vogelback. He is a very outstanding citizen. He is the president of a utility or two out in Chicago. In the war he was either in the OPM or the War Production Board, in the Aviation Division. He was very highly recommended to me by Mr. Meigs, vice president of the Hearst Publications.

I brought him to Washington and put him in charge of our Aviation Division. His record there was outstanding in our Aviation Division.

Then, in the Pacific—I want you to get this point very clearly—I had extreme difficulty in finding able men as time went on to succeed these men who were going out. The ablest men that we had—for instance, Mr. Wendell Endicott—went out to the Pacific in the Central Field Commission for a limited time. He would not go for any prolonged period, but he would be there for a limited time. When his time was up I was able to secure Mr. J. K. Howard, of Boston, a very eminent citizen there, to succeed Mr. Endicott.

Mr. Johnson then reported to Mr. Howard. Then Mr. Howard's health broke down on him, and I had him succeeded by Mr. Vogelback. So that Mr. Johnson then reported to Mr. Vogelback.

The point I want to make is that with this situation we had at Shanghai—I want to picture that situation. Shanghai was a place of conflicting rumors, full of strife and tension. There was a war going on in China between the Nationalists and the Communists.

The CHAIRMAN. There always is.

Mr. McCABE. This was reflected in the situation that existed in Shanghai. When I arrived there, I heard rumors of every character and description from all sides. The Communists were after the Nationalists. The Nationalists were after the Communists. You could hear rumor about almost anything. I arrived there, as I recollect, on Thursday, and on Monday this was put in the hands of the Inspector General of the Army. I say to you, gentlemen, that—within 4 days—that was fast action.

I want this committee to recognize that point.

All we had, though, gentlemen, at that time, were the rumors—that is, the accusation of Mr. McKenna's letter—but they could not all be substantiated.

The CHAIRMAN. You have just expressed great confidence in Mr. Vogelback. You said that Mr. Vogelback brought you Mr. Davis to supersede General Johnson.

Mr. McCABE. That is right.

The CHAIRMAN. You no doubt know—if you do not, I am informing you—that Mr. Davis, who Mr. Vogelback, in whom you had great confidence, brought to you, was crooked and was fired out of UNRRA for being short in his accounts. Yet you put him in charge to succeed Johnson, another crooked fellow.

Mr. McCABE. Now, sir, I would just like to say this, as to Mr. Davis' being crooked. I had not heard that. I had heard that in the inspection made, which was made very carefully by the State Department of each man's record, they finally got around to Mr. Davis' record and found that in his original application he had falsified his employment. I had never heard of any falsification.

The CHAIRMAN. Shortage in his accounts?

Mr. McCABE. I say I had not heard of that.

The CHAIRMAN. I am speaking of facts in the case.

Mr. McCABE. Mr. Chairman, I would like just to say that in the selection of hundreds of men that we had to select, and it being very difficult to get anyone to serve, what we tried to do in these areas was to get the best man that we could find that was available that would take the job.

The CHAIRMAN. Would it not seem elementary that before you put in a man to succeed a crook, Johnson, Mr. Vogelback, in whom you had great confidence, would have checked and double-checked the man taking his place to be sure he was above reproach.

Mr. McCABE. I doubt seriously if he could have found anything then in the man's record. You see, we were in Shanghai and were checking the man's record, considering him, a man who was in Manila at the time. We wanted to act fast—or I did. I insisted on fast action.

The CHAIRMAN. When you hire a house servant or an employee or an office clerk, you generally ask the previous employers what they say about him. If you had asked UNRRA they would have told you about Davis.

Mr. McCABE. I would assume, sir, if we had asked UNRRA we probably would have gotten a good recommendation on him.

The CHAIRMAN. I do not believe they could, under the circumstances.

Senator SPARKMAN. He was with UNRRA at the time? You took him actively out of the service?

Mr. McCABE. Senator Sparkman, I cannot answer that directly, but he was actively engaged in UNRRA then, or has been engaged with UNRRA. I just wanted to call that to your attention.

The CHAIRMAN. Thank you. I want to say further, Mr. McCabe, of course this committee will give you every opportunity to meet any suggestions or criticisms made to the fullest extent of your desire before the hearings are closed.

You understand that, of course.

Mr. McCABE. The only thing, sir, is when these accusations are made and there is a lapse of a day or a week, I just wanted to show the committee that I am at a distinct disadvantage.

The CHAIRMAN. I do not know how we are going to change that procedure. All we can do is put in the case of criticism of you; and all you can do is make your rebuttal and knock them in the head, if you can. That is the story with all these procedures. You cannot put both sides in the same day. It is not the Senate custom. We are merely going according to the traditions of the Senate. If it be a disadvantage, I am sorry. You will be given every opportunity. I shall insist on that in full.

We will call the hearings together at the earliest possible moment, and you will all be notified.

We now stand in recess.

(Thereupon, at 12:40 p. m. the committee adjourned, subject to the call of the Chair.)

## CONFIRMATION OF THOMAS B. McCABE

WEDNESDAY, MARCH 24, 1948

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to call, at 10:30 a. m., in room 301, Senate Office Building, Senator Charles Tobey, chairman, presiding.

Present: Senators Tobey (chairman), Buck, Capehart, Cain, Bricker, Maybank, Fulbright, Robertson of Virginia, and Sparkman.

The CHAIRMAN. The committee will come to order.

Gentlemen, a sufficient number are present, and we shall begin.

Good morning, Mr. McCabe. Will you sit down, sir?

### STATEMENT OF THOMAS BAYARD McCABE, PHILADELPHIA, PA.—

Resumed

Mr. McCABE. Thank you.

The CHAIRMAN. Mr. McCabe, first, did you have any statement that you wish to make at this time?

Mr. McCABE. No, sir.

The CHAIRMAN. I present for the record two letters, one addressed to me, and one addressed to the committee. One of the letters is from the dean of the University of Pennsylvania, Wharton School of Finance and Commerce; and the other is from John S. Sinclair, executive vice president of the New York Life Insurance Co.

Both of the letters speak in very high terms of Mr. McCabe, and I offer them for the record.

(The letters referred to are as follows:)

NEW YORK LIFE INSURANCE CO.,  
*New York 10, N. Y., March 16, 1948.*

THE BANKING AND CURRENCY COMMITTEE,  
*United States Senate, Washington, D. C.*

DEAR SIR: I write in connection with the hearings now being conducted by your committee on the confirmation of President Truman's appointment of Mr. Thomas B. McCabe as a member of the Federal Reserve Board.

As of January 1, 1934, I was elected Deputy Governor of the Federal Reserve Bank of Philadelphia after practicing law in Philadelphia for the 12 preceding years. In the early spring of 1936 I was elected president of the Philadelphia Reserve Bank and served as such until June 30, 1941. I resigned at that time to accept election as a vice president of the New York life Insurance Co. In 1942 I became executive vice president of that company and now hold that office. I have known Mr. McCabe in a business and social way for more than 12 years and consider myself as one of his close friends. Our acquaintanceship started during my service with the Philadelphia Reserve Bank under the following circumstances:

In 1936 the Reserve bank was considering a loan to a paper company and needed to have a comprehensive study made of the paper business. Mr. McCabe's name was suggested to me as a competent person to make that study. After

reviewing the matter with him he undertook the study which was of much help to the Reserve bank in considering applications for paper company loans in the Third Federal Reserve District.

I also found upon inquiry of our vice president in charge of the Philadelphia Federal Reserve Bank's examination work that Mr. McCabe had had a competent and broad background in banking and financial matters, in particular as a director of the Delaware County National Bank of Chester, Pa. He had taken the lead in the recapitalization of that bank and the strengthening of its officer personnel. As a result of his financial assistance, advice, and guidance that bank greatly strengthened its position and for some years has been one of the outstanding financial institutions in the important industrial area of Chester.

In conversations with Mr. McCabe I learned that as a young man he had assisted his father who was commissioner of banking of the State of Delaware. He had become conversant with banking operations and problems. He also had majored in banking, finance, and economics while a student at Swarthmore College. In leading that Scott Paper Co. into its prominent position in the paper industry he became quite conversant with financial requirements of American business and the operations of small as well as large banks. I found in him a very real interest in central banking operations.

As my knowledge of Mr. McCabe and his background increased I brought his name to the attention of the members of the Federal Reserve Board with the suggestion that he would make an outstanding contribution to the Philadelphia Federal Reserve Bank and to the Federal Reserve System as a class C director of that bank. On my own initiative, the idea originating with me alone, I introduced him to the members of the Federal Reserve Board in the spring of 1937. I believe it was in the latter part of 1937 that he was appointed a class C director of the Philadelphia Reserve Bank and was eventually appointed by the Federal Reserve Board as chairman of the board of directors of the Philadelphia Reserve Bank.

From 1937 to 1941 Mr. McCabe, as a class C director and as chairman of our board, was of incalculable help to me in conducting the management and operations of the Philadelphia Reserve Bank and in my broader responsibilities in the Federal Reserve System. He was much interested in the personnel and day-to-day operations of the bank and also in the broader problems of central banking matters. He guided and assisted me in making the meetings of our directors constructive and of more help to the bank and our officers. He spent a good deal of time in service on the various committees of the bank and familiarized himself thoroughly with its operations and policies.

Mr. McCabe played an active part in the conferences of the chairmen of the 12 Federal Reserve banks and encouraged a thorough and complete study of the personnel and salary classifications and standards for employees and officers of the several Federal Reserve banks. In this connection he served on a committee with Owen D. Young and General Wood, respectively chairmen of the New York and Chicago Reserve Banks. In other words, Mr. McCabe was a constructive and active influence not only in connection with his responsibility as chairman of the Philadelphia Reserve Bank but also in the broader problems of the Federal Reserve System.

After my resignation in 1941 he continued to assist Dr. Alfred H. Williams, my successor president of the Philadelphia Reserve Bank, and I am sure that Dr. Williams will confirm or has confirmed the constructive contributions continuously made by Mr. McCabe to the Philadelphia bank.

As you know, during the defense and war periods he gave valuable public service and completely of his time to the lend-lease operations and to the foreign war surplus disposal agency.

Mr. McCabe is a man of great force and energy. His integrity is unquestionable. He is an independent and liberal thinker and an able administrator and executive. He knows thoroughly the operations of American business and our economy generally and in my judgment has a well-tested and competent background in central banking theory and practice as well as in the field of commercial banking operations.

If there is any further information I can give you in this connection please do not hesitate to call upon me at any time.

Cordially yours,

JOHN S. SINCLAIR,  
*Executive Vice President.*

UNIVERSITY OF PENNSYLVANIA,  
WHARTON SCHOOL OF FINANCE AND COMMERCE,  
OFFICE OF THE DEAN,  
*Philadelphia, March 22, 1948.*

HON. CHARLES W. TOBEY,  
*Chairman, Senate Committee on Banking and Currency,  
United States Senate, Washington, D. C.*

MY DEAR SENATOR TOBEY: The hearings that your committee is now conducting into the qualifications of Mr. Thomas B. McCabe for membership on the Board of Governors of the Federal Reserve System lead me to offer some observations as to his qualifications as banker and administrator. These are based upon my association with Mr. McCabe week after week for a half-dozen years as a class C, or public, director of the Federal Reserve Bank of Philadelphia.

To conserve your time, I endorse him without reservation, *not only because of his interest in the credit and fiscal problems of our Nation, but because of the sense of public responsibility which I have seen him display so often.* Mr. McCabe's basic method of operation is to enlist the active participation of all interested parties in the definition and solution of problems. In other words, he by nature adopts the human approach to every problem, and his faculty for developing teamwork enables him to marshal advice from both technicians and businessmen.

Perhaps the best way to indicate his method is to cite a few specific illustrations of the results of his leadership. One of his outstanding contributions has been the spirit of cooperation and loyalty that he has helped to inspire in the staff of the bank. Convinced that the quality of any institution is determined by the people in it, he has worked constantly and effectively to strengthen the personnel of the bank and system. He initiated and carried through a system-wide analysis of official compensation in 1940 and of executive development in 1941. In addition, he played an important part in developing a system-wide program of job analysis and salary administration.

He also fostered and participated actively in a program to weld the work of the Philadelphia Reserve Bank and the commercial banks of the district. This program is based on the belief that the democratic method of solving problems is to develop informed discussion. The bankers of the district are brought together in small groups by the Federal Reserve banks to discuss current and prospective problems of mutual interest. Last year some 40 such conferences were held. In this connection, I might mention, incidentally, that Mr. McCabe had much to do with the discussion and approval of the Bretton Woods agreements by the bankers of Philadelphia.

Research is another field in which Mr. McCabe has taken active leadership. His interest in this field arises from his firm belief that judgment should be based on the most accurate information and analysis it is possible to secure. By demonstrating the importance of research, he has in turn inspired the research staff to put forth its best effort.

In short, it is my belief that Mr. McCabe's long familiarity with the problems facing the system, together with his remarkable talent for leadership, makes him an ideal choice for a Governor of the Federal Reserve System.

Sincerely yours,

C. C. BALDERSTON, *Dean.*

The CHAIRMAN. Mr. McCabe, coming now to the phase of the hearings which deals more definitely and particularly with the banking business and the position for which you have been named, I have a series of questions to ask you, which I hope will bring out information for the committee's benefit.

I shall ask the indulgence of the members in order that I may be allowed to finish these questions, which will not take too long, without interruption. Then each member of the committee, beginning with Senator Buck, will have the opportunity to submit any questions he wishes to the witness. We will first hear from my friends on the right. Then, after these gentlemen are finished, we will come over to my friends on the left.

Mr. McCabe, what experience have you had in banking?

Mr. McCABE. Senator Tobey, my most recent experience has been as Chairman of the Federal Reserve Bank of Philadelphia—Chairman of the Board. I went on that Board in 1937, as a class C director. Class C directors, as you know, are appointed by the Board of Governors in Washington.

In 1938 I was appointed Vice Chairman of that Board, and I have been Chairman since 1939.

Prior to going on the Board, Governor Norris tried to get me to go on the advisory committee of the Board, to assist in the problems in connection with loans to commercial companies under 13 (b) of the Federal Reserve Act. I didn't have the time then to serve on that committee, but I did advise with them on a few very special cases.

And then I was in contact with the bank, prior to going on the Board in connection with some of the interesting problems of the bank of which I was a director, in Chester, Pa., prior to going on the Federal Reserve Board.

The CHAIRMAN. Have you ever been connected with a commercial bank as such?

Mr. McCABE. Not as an officer. I have been a director of a commercial bank.

The CHAIRMAN. How much of your time each month was given over to the duties of honorary chairman of the Federal Reserve Board of Philadelphia?

Mr. McCABE. That varies, Senator. When I was not in Government service, I devoted considerable time to the Board—not so much actually physically being at the Board as much as the frequent conferences that I had with the president and other officers. The president was in almost constant telephone communication with me.

The CHAIRMAN. Has your business experience been almost entirely in the paper business?

Mr. McCABE. Yes, sir.

The CHAIRMAN. Coming down to the position to which you have been nominated, I ask you if you will be good enough to tell me: Supposing you were President of the United States and were seeking a man to be Chairman of the Federal Reserve Board. What qualifications do you think that man should have?

Mr. McCABE. Well, first, I should say, he should have a broad knowledge of banking, although it would not be necessary for him to be a professional banker. He should have broad knowledge of commerce, industry, and finance. And he should have, of course, proven leadership qualities.

The CHAIRMAN. What do you consider to be the functions of a central bank?

Mr. McCABE. Well, the primary function of the central bank is to control the supply, availability, and cost of money and credit. I look upon the Federal Reserve System as an auxiliary of commerce, industry, and agriculture; and as I see it, its primary function is that of the maximum service in the field of credit to the industry of America.

The CHAIRMAN. That is a good answer.

Mr. McCABE. To my mind, sir, when we consider industry in the United States, it is clear that the two great factors in industry are production and distribution. This, of course, being the greatest industrial Nation in the world, I feel that the banking system should be at

the service of industry. I certainly don't look upon the banking system as the tail that wags the dog, but rather as the auxiliary to commerce, industry, and agriculture.

The CHAIRMAN. Now, the Reserve Board, of necessity, is frequently confronted, is it not, with problems requiring decisions as between conflicting interests?

Mr. McCABE. Of course, that is true, sir, of every phase of life.

The CHAIRMAN. Well, I am speaking now particularly of the Federal Reserve Board. Naturally, with questions of policy, there are going to be conflicting interests; are there not?

Mr. McCABE. Yes, sir.

The CHAIRMAN. And you have to make a decision on those things.

How do you think such differences can be reconciled? What would be the controlling factor in making a decision in these things?

Mr. McCABE. Well, first it is necessary to ascertain all the facts. Then you have to realize that, sitting in that position, your primary consideration must be the 140,000,000 people of the United States and their interests.

The CHAIRMAN. And, not wishing to put words in your mouth, would you put it another way: That the public interest is paramount?

Mr. McCABE. Yes, sir.

The CHAIRMAN. Do you think the Board should be independent in its actions?

I can be more specific, if you like.

Mr. McCABE. I think that is a very fair question, sir.

I think that the Board should exercise a high degree of independence; but at the same time, sir, I think it should coordinate its efforts wherever possible with government and with industry and with finance.

The CHAIRMAN. Now, just assume, for instance, that you were confirmed, and were beginning your work. In the case of a disagreement with the Treasury, for instance, do you think the Board should yield to the Treasury's viewpoint?

Mr. McCABE. Well, I would want to be sure of my statutory authority.

The CHAIRMAN. You know the statute governing the Federal Reserve Board, I do not doubt; and you know the powers of the Board.

Mr. McCABE. Yes, sir. I think my record will show, sir, all during my life, that I have at least attempted to be as reasonably independent as possible; but that I have always attained results from considering the larger interests and what I must do to cooperate. I don't know, sir, that I have answered your question.

The CHAIRMAN. I suppose what you mean is that you would show a high degree of "sweet reasonableness"; is that it?

Mr. McCABE. I would say this, and you can check this thoroughly, sir: That in the various positions I have held in Government, I think I have a record, sir, for working with the various departments of government rather harmoniously, and yet never giving up what I felt was the primary interest of the job.

The CHAIRMAN. That is good, of course.

Mr. McCABE. You can check that, sir, with the Army, the Navy, the State Department.

The CHAIRMAN. I am not questioning that at all, sir; not the least bit.

What is the first you knew about your being considered for this position?

Mr. McCABE. The first intimation that I had of that was a complete surprise to me, because I had had no intimation that I was being given consideration prior to that time. It was a telephone communication which I received, on the 18th of January, from the Secretary of the Treasury, Mr. Snyder. He called me at my home, and told me that the President had consulted with him relative to my capabilities and availability for a position in the Federal Reserve; and stated that I might expect a phone call from the President in a day or two.

About 2 days later, the President made an appointment to see me, and then told me of the vacancy on the Board—the Federal Reserve Board.

The CHAIRMAN. Was there a vacancy at that time?

Mr. McCABE. Yes, sir.

The CHAIRMAN. Had the decapitation of Mr. Eccles been made a fait accompli, or was it in futuro?

Mr. McCABE. Mr. Ransom had died, sir. He was a member of the Board. And that left a vacancy on the Board of Governors.

The CHAIRMAN. But I mean, was it then proposed to drop Mr. Eccles, or was that something in the future?

Mr. McCABE. As far as the President's conversations with Mr. Eccles—

The CHAIRMAN. No, I did not ask that question.

Do you know whether Mr. Eccles had been dropped by the President when he talked with you, or was that something that came after that?

Mr. McCABE. I can't recollect whether the President had a conversation—

The CHAIRMAN. That is all right. Thank you.

Now, with what other officials in Government had you talked about your appointment besides Mr. Snyder?

Mr. McCABE. I can't recall but one other man that I talked to, and that was Mr. Clayton.

The CHAIRMAN. Now, what bankers in New York did you talk with about it?

Mr. McCABE. None.

The CHAIRMAN. No bankers?

Mr. McCABE. No bankers, sir.

The CHAIRMAN. What bankers called you? No bankers called you up about this?

Mr. McCABE. No, sir.

The CHAIRMAN. Did you confer with the Secretary of the Treasury on more than one occasion?

Mr. McCABE. Yes, sir.

The CHAIRMAN. After you saw the President, you went back and saw him?

Mr. McCABE. Yes, sir.

The CHAIRMAN. Did you ever talk with Mr. Giannini of the Pacific coast?

Mr. McCABE. I can't recall ever seeing Mr. Giannini but once in my life, sir, and that was socially. I doubt if we had more than 2 minutes' conversation.

The CHAIRMAN. When was that?

Mr. McCABE. About a year ago.

The CHAIRMAN. Did you talk with any representative of Mr. Gianini's holding company, or his banks, in connection with this thing?

Mr. McCABE. Not that I know of, sir.

The CHAIRMAN. I like to see you smile when you say that.

What is your opinion of the adequacy of existing legal limits on reserve requirements of member banks of the Federal Reserve System?

Mr. McCABE. Well, as of the end of last year, when we were reaching a high point on the inflationary spiral, and the indications then were that we were going higher on the inflationary spiral, I felt that the Federal Reserve would have to ask for an increase in the maximum reserve requirements.

The CHAIRMAN. And what is your opinion of the advisability of requiring a secondary reserve from National and State banks, consisting of cash or short-term Federal obligations at the option of the particular bank? Such a proposal, as you know, is contained in S. 2126, now pending before this committee.

Mr. McCABE. Yes, sir.

Well, I think the plan has a great deal to commend itself for consideration, but I felt from the beginning that the Congress would never authorize it.

Or, may I put it this way: I felt that it would be necessary to conduct a broad educational program with the Congress and the public, to get the Congress and the public to accept it. It being somewhat unorthodox, the only question I had was as to whether, from a practical standpoint, it could be sold within any reasonable time to the Congress and the public.

The CHAIRMAN. We had hearings, you know, on that bill, and you know the result of them.

Mr. McCABE. Yes, sir.

The CHAIRMAN. Do you feel the present legal limits for reserves of Federal Reserve banks should be increased?

Mr. McCABE. I was going to continue, sir, when I said that at the end of last year, when we were on the upward spiral of inflation, I felt that it would be necessary to ask the Congress for additional authorization. Then, of course, in February, we had the break in the commodity market, the lowering of prices, and then we felt the effects all around the country of the tightening of credit.

I have received a number of letters from various parts of the United States since my nomination came to the Congress, from various business people and others, complaining about the tightness of credit.

Therefore, I would say that as of February the necessity for increasing reserve requirements was not as great as it was in, say, November and December.

Now, of course, in the last few days a number of things have taken place. The President has indicated to the Congress that a rearmament program is imminent.

The CHAIRMAN. The Republicans have passed the tax bill.

Mr. McCABE. It looks as if the Congress will be asked to appropriate substantial amounts for the armament program, and then, I think, in the light of that and the events of the last few days, this whole subject will have to be thoroughly studied. And if the Congress sees fit to confirm my nomination, and I get in office, I would expect to make

a very intensive study of this problem and be prepared to come back to this committee, sir, and make a recommendation.

The CHAIRMAN. How do you propose, or would you propose, to stabilize the influence on the monetary system of the importation of gold?

Mr. McCABE. I would think that possibly the imports of gold might decrease some when the European aid program becomes effective. I know no other way to handle the gold problem than the way it is being handled at the present time.

The CHAIRMAN. And how is that?

Mr. McCABE. Well, sir, we import the gold. The Treasury buys it. The funds that the Treasury pays for that are deposited in the banks. It has the tendency, of course, to increase the loanable funds, and increase the excess reserves of the banks.

The CHAIRMAN. And the sterilization features come in there.

Mr. McCABE. That is a difficult one, sir; a very difficult one.

The CHAIRMAN. I quite agree.

Now, would you tell us what your theories are about open-market operations?

Mr. McCABE. When you say "theories," sir, in connection with open market operations, I assume that you are referring to the Federal Reserve support program of Government bonds.

The CHAIRMAN. That is right.

Mr. McCABE. I would like to say that I am thoroughly in accord with the current program of the Federal Reserve in supporting the Government bond program.

The CHAIRMAN. I take it that events indicate what is in my own mind: that you feel the bonds should be maintained at par for an indefinite period.

Mr. McCABE. Well, the support program, as you know, follows a pattern on the Government bonds, and my own feeling is that that pattern, certainly as far as I can ascertain today, is a right one.

The CHAIRMAN. You approve of the procedure the Federal Reserve followed in December, when it dropped the price down to make it more uniform?

Mr. McCABE. I thought that was a very constructive move.

The CHAIRMAN. You know there was opposition among the banks, but we do not put people on special notice when we act in the public interest.

Mr. McCABE. I thought that was very constructive.

The CHAIRMAN. Then it comes down to this question: I think we are in accord with the theory that we should maintain a uniform pattern, and that we should maintain these at par for an indefinite period; the alternative being, if we reduced the price of the bonds, the evil that would ensue at once in the ruining of so many of our savings institutions that are loaded to the muzzle with Government bonds. How do you feel about that situation?

Mr. McCABE. Well, in the general support program, I feel this: There are three paramount considerations.

First, there is the refunding, or refinancing, problem of the Treasury.

The second is that I feel we have an ethical responsibility to the people who have purchased Government bonds. Our present Federal debt is a very large one. In fact, it is one and one-half times all the

rest of the debt of the United States put together; the total, that is, of private and corporate debt of all kinds.

And the third consideration, I think, is that it is very helpful to commerce and industry and agriculture to know that there is a reasonable range in interest rates, and they can reasonably count on that in refinancing of businesses, business enterprises generally.

The CHAIRMAN. You would share my apprehension, would you, to be perfectly frank, as to the danger of price decline below par, and the consequent effect upon savings institutions in the country?

Mr. McCABE. Well, when you talk about the absolute support price. I think, sir, that that has to be reviewed from time to time to ascertain what that level should be.

My own feeling is that I am in full support of the action that has been taken to date in supporting the program.

The CHAIRMAN. And as you look ahead, you have nothing in the back of your mind that would lend you at this time to a mental commitment, or reservation, that it would happen in the future, as far as you can see: that reduction below par?

Mr. McCABE. In the "foreseeable future"—I think those are the words.

The CHAIRMAN. You mention something that touches a responsive chord in me, when you talk about an ethical responsibility to people. You are familiar with the thesis of Professor Schlichter, of Harvard, who says it is bad faith to sell the little people hundreds of millions of E bonds and then let them be confronted with the fact that the E bond will not buy anything like what it bought when they put the money in; and he thinks some arrangement should be made to take care of that differential.

You know that the theory is in the minds of some good men in the country.

Mr. McCABE. I have heard Professor Schlichter express that very forcibly.

The CHAIRMAN. What is your feeling regarding the encouragement of all banks to limit loans to those which will increase production? That is in line with what we said a while ago.

Mr. McCABE. I think the word "production" is too broad a term. I think that when you say "increase production," there must be an analysis made of production. I speak from the standpoint of the paper industry, now; and there is far more reason for loans to increase the output of woodpulp than there is to increase equipment for processing of paper. Because with a limited supply of woodpulp, if you increase too much the new equipment for the processing of paper, you are putting undue pressure on the supplier of wood pulp, and that has the tendency to drive the price up.

The CHAIRMAN. We hear this axiom so often—that the best antidote to inflation is production. I think the Senator from Indiana has said that many times.

Mr. McCABE. Generally speaking, you see, I agree that one of the greatest answers to the inflationary problem is increased production. But I am just saying that I think that in the extension of credit, you must give consideration to certain types of production—and extraordinary consideration.

The CHAIRMAN. The two facets to the question are the emphasis on production as against carrying inventories.

Mr. McCABE. I presume you mean, sir, by that question: The carrying of abnormal inventories.

The CHAIRMAN. Yes. And that all depends, as you and I both agree, on what a man calls "abnormal."

Mr. McCABE. Then you have also the factor of the character of the merchandise that goes into that inventory.

The CHAIRMAN. It is a many-sided thing.

Mr. McCABE. Yes; it is a many-sided thing.

The CHAIRMAN. What measures, if any, would you recommend be espoused by the Federal Reserve System at the present time as an antidote to inflationary tendencies in our economy?

Mr. McCABE. Well, we have spoken of the increase of Reserve requirements.

Of course, I am fundamentally a great believer in cooperative effort, and I feel that the 12 Federal Reserve banks and the 24 branches have a great opportunity to work with commerce, industry, and the financial segments of the economy in each area to get a cooperative plan on credit control; and can do a great deal to bring about the proper use of credit by an educational process.

I speak of that feelingly, because in the Philadelphia Federal Reserve Bank we have conducted a very intensive program through our bank relations department. I think we held some 44 or 45 meetings—group meetings—last year, with bankers throughout the district. And the program of those meetings was devoted to problems of central banking, credit control, better bank management, and all the other factors that we feel are necessary to bring to the attention of the banks.

The results of those meetings have been rather extraordinary. You see, you are getting out into the grass roots, and you are getting right down fundamentally to the first principles of banking.

I think we ought to carry that program forward more vigorously, because I think through that cooperative effort with the banks, we have an opportunity to point out to them the dangers of loose credit policy, poor management, and all of the other factors.

Then we have done a very interesting thing there. We have started a program of personnel training in banks. Because we are called upon all the time by banks of various sizes for personnel; and we are always complimented when the bank comes to us and takes one of our officers or one of the employees of the banks.

So we have started a training program, a program of training young men through the banks, so that we can supply personnel in these spots where they are required.

The CHAIRMAN. We are coming to a phase now, as to a few questions on the bank holding legislation, and bank holding evils, or virtues, depending upon the point of view. And as a preliminary thereto, there has been placed in the hands of the members a very inclusive chart here, prepared by the Virginia Bankers Association, as published in the American Banker of February 27 of this year, and used in hearings before the Legislature of the State of Virginia.

(The chart referred to will be found opposite this page.)

The CHAIRMAN. I will ask the clerk to read this.

Mr. Bowles?

Mr. BOWLES (Raimond Bowles, committee clerk) (reading):

All statements in this memorandum are based on a chart prepared by Virginia Bankers Association, published in the American Banker February 27, 1948, and used in hearings before the Legislature of the State of Virginia.

**ELLERY C. HUNTINGTON  
DAVID M. MILTON**

420 LEXINGTON AVE., NEW YORK, N.Y. AND #1 EXCHANGE PLACE, JERSEY CITY, N.J.

23.90% (33,000 SHARES OF OCEANIC TRADING CO. INC. (10¢ PAR) COMMON STOCK OUT OF 138,436.1 SHARES OUTSTANDING, AND WITH DEC 31, 1944 BOOK VALUE OF APPROXIMATELY \$168,500, HOLDS VOTING CONTROL OF SUBSIDIARIES WITH ASSETS OVER \$359,000,000.)

**OCEANIC TRADING COMPANY, Inc.**

(A PANAMA CORPORATION WITH OFFICES AT NASSAU, BAHAMAS, B. W. I.)  
CAPITALIZATION -- 138,436.1 SHARES 10¢ PAR COMMON STOCK

29.58% AS OF MAR. 31, 1947.

21.79% OF VOTING POWER (1,044,273 SHARES EQUITY CORP., 10¢ PAR, COMMON STOCK HELD IN NAME OF ROYNAS & CO., NASSAU, BAHAMAS.)

**EQUITY CORPORATION**

420 LEXINGTON AVE., NEW YORK, N.Y.

ELLERY C. HUNTINGTON, Chairman of Board DAVID M. MILTON, President & Director  
MORTON H. FRY, Director G. HILMER LUNDBECK, Jr. Director WEBSTER B. TODD, Director  
W.F. BEST, V. Pres. & Comptroller K.P. ANDERSON, V. Pres. & Sec'y. R.S. ELLIOT, Jr., V. Pres. EDWARD A. McQUADE, V. Pres.  
ALBERT E. KARN, V. Pres. J.P. CHRISTIANSON, Treas. GEORGE C. JOHNSTON, V. Pres.  
Assets \$19,992,212 as of Sept 30, 1947. Capitalization: 165,032 4 shares 10¢ par Preferred Stock 4,791,289 shares 10¢ par Common Stock.

75.22% (75.15% AS OF MARCH 31, 1947)

**AMERICAN GENERAL CORPORATION**

420 LEXINGTON AVE., NEW YORK, N.Y.

ELLERY C. HUNTINGTON, Chairman of Board DAVID M. MILTON, President  
ASSETS --- \$34,005,543 AS OF DEC. 31, 1946

61.28% (61.35% AS OF JUNE 30, 1947) REPRESENTED BY HOLDINGS OF APPROXIMATELY 954,768 SHARES (10¢ PAR) OUT OF 1,557,964.5 SHARES OUTSTANDING.

**MORRIS PLAN CORPORATION of AMERICA**

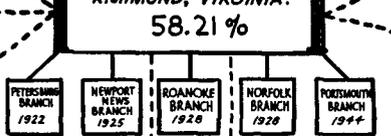
420 LEXINGTON AVE. NEW YORK, N.Y.  
WITH ASSETS OF \$21,735,419 HOLDS MAJORITY STOCK CONTROL OF SUBSIDIARY BANKS WITH ASSETS OF \$298,530,812 AS OF DEC. 31, 1946.

MANAGEMENT  
\*ELLERY C. HUNTINGTON, Pres. & Director \*DAVID M. MILTON, Director & Chairman \*J.P. CHRISTIANSON, V. Pres. & Director  
\*K.P. ANDERSON, V. Pres. & Sec'y. \*W.F. BEST, V. Pres. & Comptroller \*R.S. ELLIOT, Jr., V. Pres. \*E.A. McQUADE, V. Pres.  
ARTHUR J. MORRIS, Chairman of Board. JOSEPH C. ROVENSKY, V. Pres. & Treasurer CHARLES L. WILLIAMS, Dir. & V. Pres.  
WILLIAM M. BERTLES, Director J.A. BANCROFT, V. Pres. THOMAS D. CARSON, V. Pres.  
WILLIAM HAAS, V. Pres. \*L.P. CARRON, Assistant Treasurer

\* OFFICER or DIRECTOR of EQUITY CORP. or AMERICAN GENERAL CORPORATION.

**BANK of VIRGINIA**

RICHMOND, VIRGINIA. 58.21%



STATE WIDE INSURANCE AGENCY Richmond, Va. 100%

COMMONWEALTH DISCOUNT CORP. of VA. Richmond, Va. 100%

**SOURCES:**

UNITED STATES SECURITIES and EXCHANGE COMMISSION REGISTRATION STATEMENTS AND ANNUAL REPORTS:  
NO. 811-187-2 FILED BY EQUITY CORP.  
NO. 811-189-2 FILED BY AMERICAN GENERAL CORP.  
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**FIRST YORK CORPORATION**

420 LEXINGTON AVE., NEW YORK, N.Y.

ELLERY C. HUNTINGTON  
DAVID M. MILTON  
CHAIRMAN OF BOARD  
PRESIDENT

ASSETS \$17,758,215 AS OF SEPT 30, 1947

BAKER ICE MACHINE CO., INC. (REFRIGERATOR MFG'R) OMAHA, NEB. 100%

NORTHWEST BAKER ICE MACHINE CO., Inc. (REFRIGERATOR MFG'R) SEATTLE, WASH. 100%

LEHWOOD CORP. PATENTS ON WOOD FINISHING DEVICES MISHAWAKA, IND. 100%

AMERICAN WHEELABRATOR & EQUIPMENT CORP. (ABRASIVE MFG'R) MISHAWAKA, IND. 100%

FINANCIERA TECNICA de MEXICO, S.H. MEXICO (Finance) TRANSFER AGENT FOR OCEANIC TRADING CO., INC. 100%

**ELECTROMODE CORP.**

(ELECTRIC HEATERS) Rochester, N.Y.

COMMERCIAL CONTROLS CORP. (OFFICE EQUIP'T) JERSEY CITY, N.J. 100%

JUSTOWRITER CORP. (OFFICE MACHINES) Rochester, NY 100%

COMMERCIAL CONTROLS Canada, Ltd. Toronto, Can. 100%

U.S. POSTAL METER CO. (INACTIVE)

**THE LANCASTER CORP.**

(REAL ESTATE) 95.06%

MONTGOMERY OIL CORP. (OIL INTERESTS) 10%

TODD & BROWN, Inc. (Engineering) NEW YORK, N.Y. 100%

BANKERS SECURITY INSURANCE SOC. NEW YORK, N.Y. ASSETS: \$2,555,397 AS OF DEC. 31, 1946. 64.99%

U.S. POSTAL METER CO. (INACTIVE)

- BANK of OHIO CO CLEVELAND, OHIO 24.17%
- CITY STATE BANK DALLAS, TEXAS 2.0%
- MORRIS PLAN INVEST CO SAN FRANCISCO, CALIF. 05%
- BANK of LOUISVILLE, KY 7.0%
- DAVENPORT MORRIS PLAN BANK, DAVENPORT, IOWA 6%
- ANTHONY WHITE BANK FORT WAYNE, IND 1.85%
- PIONEER BANK CHATTANOOGA, TENN 6.02%
- THE GUARDIAN BANK & SAVINGS CO CINCINNATI, OHIO 9.80%
- BANK of AKRON CO AKRON, OHIO 15.5%
- MORRIS PLAN CO of ST JOSEPH, MO 11.13%
- BROOKTON MORRIS PLAN CO BROOKTON, MASS 18.80%
- THE LAWRENCE MORRIS PLAN BANKING CO LAWRENCE, MASS 15%
- MORRIS PLAN CO of STAMFORD, CONN 12.68%
- MORRIS PLAN BANK of NEW HAVEN, CONN 14.42%
- MORRIS PLAN BANK of JACOBSONVILLE, FLA 2.0%
- MORRIS PLAN BANK of WATERBURY, CONN 2.5%
- DES MOINES MORRIS PLAN CO DES MOINES, IOWA 2.5%
- THE TOPEKA MORRIS PLAN CO TOPEKA, KANS 2.5%
- MORRIS PLAN SAVINGS & LOAN CO WHEELING, W. VA 2.45%
- NEW BARN MORRIS PLAN CO NEW BARN, N.C 2.5%
- PTM AGENCY, INC (INSURANCE AGENCY) 100%
- FIRST INDUSTRIAL LOAN CO NEWARK, N.J. 100%
- GENERAL PURCHASE CORP of AMERICA 100%
- GENERAL CONTRACT PURCHASE CORP NEW YORK, N.Y. 100%
- GEN'L ENGINEERING & MFG CO (CORPORATE FINANCING) 100%
- COMMONWEALTH DISCOUNT CORP WILMINGTON, DEL 100%
- NORTH ENGINEERING CO, INC NEW YORK, N.Y. (CORPORATE FINANCING) 100%
- MORRIS PLAN CO of CANADA, LTD (INACTIVE) 100%
- MORRIS PLAN CO of PHILADELPHIA (INACTIVE) 97.19%
- THE CHARTER BANK of PHILADELPHIA, PA 97.70%

- CHELSEA MORRIS PLAN CO CHELSEA, MASS 2.5%
- MANCHESTER MORRIS PLAN BANK MANCHESTER, N.H. 2.96%
- NEWELL MORRIS PLAN BANKING CO NEWELL, MASS 2.5%
- WINDWOOD MORRIS PLAN BANK WINDWOOD, MASS 2.5%
- MORRIS PLAN CO of SOUTH BEND, IND 36.40%
- LOWELL MORRIS PLAN CO LOWELL, MASS 47.44%
- THE BADEN BANK of ST LOUIS, MO 57.05%
- MORRIS PLAN BANK & BANKING CO of LYNN, MASS 61.77%
- WORTHINGTON SAVINGS BANK & TRUST CO PITTSBURGH, PA 61.13%
- UNION TRUST CO of PITTSBURGH, PA 64.05%
- THE COMMUNITY BANK WARREN, MASS 66.32%
- STATE BANK of BLUE ISLAND BLUE ISLAND, ILL (CORPORATE FINANCING) 66.6%
- INDUSTRIAL CITY BANK & BANKING CO of PITTSBURGH, PA 64.80%
- INDUSTRIAL BANK of BIRMINGHAM NEW YORK, N.Y. (1 BRANCH) 61.21%
- TENNESSEE VALLEY BANK KNOXVILLE, TENN 69.43%
- BUFFALO INDUSTRIAL BANK BUFFALO, N.Y. 70.14%
- BANK of GEORGIA ATLANTA, GA 74.80%
- INDUSTRIAL BANK of SOLEDAD, CALIF 70.92%
- CITIZENS BANK of WASHINGTON, D.C. 72.80%
- INDUSTRIAL BANK of CENTRAL N.Y. SYRACUSE, NY 81.30%
- MORRIS PLAN CONTINENTAL DISCOUNT CO of YALE, PA 80.70%
- PULLMAN TRUST & SAVINGS BANK CHICAGO, ILL 75.66%
- PULLMAN SAFE DEPOSIT COMPANY CHICAGO, ILL 100%

Ellery C. Huntington and David M. Milton own 33,000 (23.909 percent) of 138,436.1 outstanding shares of common stock of Oceanic Trading Co., Inc. The par value is 10 cents per share. Holds voting control of subsidiaries with assets over \$359,000,000.

Oceanic Trading Co., Inc., is a Panama corporation with offices at Nassau, Bahamas, British West Indies. The transfer agent for Oceanic is Financiera Tecnica de Mexico, S. H., Mexico, in which Oceanic owns indirectly a small interest.

Oceanic, as of March 31, 1947, owned 29.58 percent (held in the name of Roynas & Co., Nassau, Bahamas) of the common stock of Equity Corp., 420 Lexington Avenue, New York, N. Y. Huntington is chairman of the board. Milton is president.

Equity Corp., as of March 31, 1947, owned 75.15 percent of the American General Corp., 420 Lexington Avenue, New York, N. Y. Huntington is chairman of the board. Milton is president.

American General Corp., as of June 30, 1947, owned 61.35 percent of the stock of Morris Plan Corp. of America, 420 Lexington Avenue, New York. Huntington is president and Milton is chairman of the executive committee.

Morris Plan Corp. of America owns stock, in varying amounts, in more than 40 banks, one of which, at least, has branches, in 20 States and the District of Columbia.

Taken together, holdings of American General Corp. and Morris Plan Corp. of America include, in addition to stocks in banks, stock in insurance—industry, fire, and casualty—companies, insurance agencies, a loan company, a purchase corporation, industrial liquidation companies, discount companies, an installment credit service company, a survey company, a commercial corporation, a safe deposit company, refrigerator manufacturing companies, a corporation to hold patents on wood finishing devices, an abrasive manufacturing company, an electric heater company, a real estate company, a company with oil interests, an office-equipment company, office machines and controls companies, reinsurance companies, and Stokely-Van Camp.

The States in which one or more of the various banks or companies are located include:

California	Kansas	Ohio
Connecticut	Kentucky	Pennsylvania
District of Columbia	Massachusetts	Tennessee
Florida	Michigan	Texas
Georgia	Missouri	Virginia
Illinois	Nebraska	Washington
Indiana	New York	West Virginia
Iowa	North Carolina	

Senator ROBERTSON. May I ask who signed that statement, or who presented it on behalf of the Virginia Bankers Association?

The CHAIRMAN. I do not know. It was just given me, and it was asked that it be released to accompany these charts here.

All I would suggest is that after listening to the transcript of the summation, I would call this chart "wheels within wheels."

Now, coming to bank-holding companies, are you of the opinion that banks should participate either directly or indirectly in nonbanking businesses?

Mr. McCABE. As a general proposition, I would say "No."

The CHAIRMAN. What degree of competition among banks do you believe is desirable?

Mr. McCABE. Well, I think generally, sir, that, having been raised in business, I am in favor of competition.

The CHAIRMAN. Of competition?

Mr. McCABE. Yes.

The CHAIRMAN. We all know, those of us who know anything about banking, how large New York banks put out the long hand and reach

into New Hampshire and tell the banks what they shall and shall not do.

Now, in your opinion, does the present banking system of the Nation contain any monopolistic trends?

Mr. McCABE. Well, I assume, sir, that the committee must have thought that, in favorably passing on the bank holding bill.

The CHAIRMAN. We reported it out. It is on the calendar now, as you know.

Mr. McCABE. Yes.

The CHAIRMAN. What is your opinion?

Mr. McCABE. I have just a general idea of that bill; and the provisions, as I have read them or had them explained, I think in the main are good. I have not had the benefit, of course, of the testimony that was given before this committee pro and con. There might be some particular provision that I might have a different point of view on, sir, but in the main, it seemed like good legislation to me.

The CHAIRMAN. Put it this way: Would you agree with me and with other members of the committee, some, at least, that because of the great growth, the outstanding and unusual and amazing growth, of one large holding company in this country, and the enormous spread of its tentacles, that the time has come, in the public interest, which you are devoted to as we are here, to hold up before the country "a stop, look, and listen sign"?

Mr. McCABE. To tell you the truth, Mr. Chairman, I don't know enough about the situation that you are referring to, to answer the question.

The CHAIRMAN. Are you not pretty familiar with the Giannini outfit, and their business, the scope of their operations?

Mr. McCABE. Familiar only in that I have heard comments in the press and have read the articles in financial magazines and generally talked to people.

The CHAIRMAN. Have you not talked to the Federal Reserve officials and the Treasury officials about the bank-holding companies?

Mr. McCABE. I have heard the Federal Reserve officials explain the Bank Holding Act; and, as I say, as I have said before, I am favorably disposed to the Bank Holding Act.

The CHAIRMAN. And have you talked with any other Government officials about the bank-holding situation?

The CHAIRMAN. In your opinion, should any such controls be made applicable on a Nation-wide basis, or could there safely be eliminated from such controls banking systems within a single State?

Mr. McCABE. I think, sir, my general answer to the effect that I am in favor of this legislation would indicate my general point of view on that.

The CHAIRMAN. It would be general, and not confined to a single State?

Mr. McCABE. I would want to make a little more analysis of the single State sir, before I answer that.

The CHAIRMAN. Can you see some danger attendant upon the fact of such elimination of controls within a single State?

Mr. McCABE. I prefer, sir, not to answer that specifically, until I know more about the subject. You see, we have not been confronted with that problem, to date, in the third Federal Reserve district. And quite frankly I have not made any intensive study.

The CHAIRMAN. Have not the directors of the Philadelphia bank, of which you have been chairman, ever discussed around the table informally, the comity of such a situation?

Mr. McCABE. Yes, sir.

The CHAIRMAN. And what is the consensus of opinion of the board headed by you?

Mr. McCABE. I have expressed my own opinion.

The CHAIRMAN. But what is the consensus of the board?

Mr. McCABE. I think we have never polled the board. I have heard just the informal discussions. My feeling would be, from what I have heard expressed, that they would be favorable.

The CHAIRMAN. Favorable to bank-holding companies?

Mr. McCABE. Oh, no.

The CHAIRMAN. All right.

Do you agree that the necessary results could not be achieved merely by regulating member banks of the Federal Reserve System?

Mr. McCABE. Well, that again goes back to the bank holding bill.

The CHAIRMAN. That is another form of the question.

Here is a pertinent question that we are very interested in: Do you believe that bank-holding companies should be on a different basis of examination and regulation than their subsidiary banks?

Mr. McCABE. You have provided for that in the Bank Holding Act, as I recall, sir.

The CHAIRMAN. I wanted to get your opinion on it.

Mr. McCABE. My opinion generally is—

The CHAIRMAN. That on that point we concur? Is that right?

Mr. McCABE. I certainly concur in the proposed bill, sir.

The CHAIRMAN. But I am asking a specific question. It is not a difficult question, is it? You have a perfect right to your opinion. I would not put any words in your mouth. The question is whether or not bank-holding companies should be on a different basis of examination and regulation than their subsidiary banks.

Mr. McCABE. No, sir; I don't think so.

The CHAIRMAN. The whole is greater than any part, is it not?

Mr. McCABE. Yes.

The CHAIRMAN. Under discussion are measures which would deny an offending bank-holding company (1) the right to vote shares of stock of its subsidiaries, (2) the right to receive dividends from its subsidiaries, (3) the right to pay salaries to offending officials, (4) criminal penalties for willful violation.

Now, what sanctions in your opinion should be included in any such legislation to regulate bank-holding companies and their subsidiaries?

Mr. McCABE. Well, you have come back again, I think, to the bill. I think you have covered most of those things in the bill.

The CHAIRMAN. You have not read the act, have you?

Mr. McCABE. I have not read it. I have heard Mr. Eccles give an outline of it, at the chairmen's conference.

The CHAIRMAN. Was it enthusiastically received?

Mr. McCABE. I heard no adverse comment.

The CHAIRMAN. Did you hear any applause? Any amens?

Mr. McCABE. I think, generally speaking, they were in favor of it.

The CHAIRMAN. The banks are a little conservative in expressing applause, are they not? Or approval?

Now, sir, do you support the continuing war bond program?

Mr. McCABE. I think I have answered that, sir.

The CHAIRMAN. I did not know you had. If you have, I thank you. Have you always used your efforts to foster that program?

Mr. McCABE. When you say "the war bond program," do you mean the E bond program?

The CHAIRMAN. Yes; the continuing bond program, sir.

Mr. McCABE. Well, I have been chairman of the industrial committee on that.

The CHAIRMAN. Have you ever refused to join in campaigns to expand the pay-roll savings program and thereby increase the purchase of bonds?

Mr. McCABE. The committee that I have been chairman of was primarily interested in that.

The CHAIRMAN. You did not refuse to join any campaigns to expand the pay-roll savings programs?

Mr. McCABE. No, sir. I say, I have been chairman of the industrial committee to promote that.

The CHAIRMAN. As President of the Federal Reserve Board of Philadelphia, did you refuse to hold meetings with management and representatives of organized labor to foster sales of war bonds and pay-roll savings systems?

Mr. McCABE. No sir.

The CHAIRMAN. Senator Buck?

Senator BUCK. Mr. McCabe you have come through the third degree with flag flying.

The CHAIRMAN. That is only the second.

Senator BUCK. And I have only a few simple questions to ask you.

The position to which you have been nominated is a full-time position?

Mr. McCABE. I was nominated for the vacancy created by the death of Mr. Ransom, and I think that has 8 years to go sir.

Senator BUCK. I mean, you are required to devote your full time to the office?

Mr. McCABE. Oh, yes, sir.

Senator BUCK. And what salary does it pay?

Mr. McCABE. Fifteen thousand.

Senator BUCK. You are at the present time president of the Scott Paper Co.?

Mr. McCABE. Yes, sir.

Senator BUCK. How large a company is that?

Mr. McCABE. Our volume of sales last year was in the neighborhood of \$60,000,000.

Senator BUCK. Well, I will not ask you to disclose the salary that you have received, but it must be a very substantial salary, far in excess of what you will get.

Mr. McCABE. It is no secret, sir. The SEC reports it. It is \$36,000 a year.

Senator BUCK. Then it is at some sacrifice that you would take this position.

Mr. McCabe, do you feel that inflation is a serious domestic problem in this country?

Mr. McCABE. Yes, sir. You may have heard me state that I felt that at the end of last year it was a more serious problem than it was in February; and that now with the proposals that are before the Congress, the problem is going to be more serious than it is currently.

The CHAIRMAN. There has been a little recrudescence of the inflationary tendency.

Senator BUCK. In your opinion, does the Federal Reserve Board have powers under the present law to curb inflation?

Mr. McCABE. I think the Federal Reserve, in connection with the Treasury, have done a remarkable job, say, in the last few months in tightening credit controls.

As far as additional powers are concerned, as I stated before, sir, I felt strongly a few months ago that it would be necessary to ask the Congress for additional powers to increase the maximum reserve requirements.

The situation now will have to be reviewed in the light of all the proposals that are before the Congress. And I think it should be given most serious consideration, sir, as to the program for the future.

Senator BUCK. Mr. McCabe, assuming that additional powers for the Board, as proposed by Chairman Eccles and Mr. Truman, are not granted by Congress, and if you held the position of Chairman of the Federal Reserve Board, what would you propose to do in this matter with the Board's present powers?

Mr. McCABE. Well, I think there would have to be an intensive effort made in order to coordinate the efforts of the Federal Reserve with, first, I would say, the program of the Committee on the Economic Report of the Congress. Because in the control of inflation, the Federal Reserve is only one factor. There are so many other factors in the control of inflation. And I think that should be thoroughly discussed with the committee of the Congress.

Then I think we would have to take our coats off in the field to establish a program of cooperative effort with the banks, insurance companies, and with industry, in order to bring about the end result in that manner, if extra powers are not given by the Congress.

Senator BUCK. That is all. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Capehart?

Senator CAPEHART. I do not think I have any questions.

The CHAIRMAN. Senator Cain?

Senator CAIN. Mr. McCabe, are you aware that the Advisory Council of the Federal Reserve Board has, by unanimous action, as I understand it, recommended the passage by the Congress of the bank holding bill which has recently been referred to?

Mr. McCABE. I understand so; yes.

Senator CAIN. You have no prejudice against the principles involved in that proposed legislation, have you?

Mr. McCABE. No. I come with a completely open mind.

Senator CAIN. Your mind is completely open on the subject?

Mr. McCABE. Yes.

Senator CAIN. I did not see the article, but I have been told that Mr. Drew Pearson columnized some time in the past to say that you were being nominated for this post in the Federal Reserve because of your willingness to assure those who were to nominate you that you would do all in your power to defeat that legislation, and prevent it from ever becoming law.

Mr. McCABE. I think what I have said, sir, this morning would refute that statement.

Senator CAIN. From your point of view, that is a complete and absolute refutation of any such allegation made by Mr. Drew Pearson, or anyone else?

Mr. McCABE. Absolutely.

Senator CAIN. May I ask, sir, if, outside of the Federal Reserve System, you have ever had conversations concerning the so-called bank holding bill, with other top executive governmental officials?

Mr. McCABE. I can't recall that I ever did, sir.

Senator CAIN. To your knowledge, you have never discussed that particular bank holding subject with the President of the United States, or with the Secretary of the Treasury, Mr. Snyder?

Mr. McCABE. No, sir.

Senator CAIN. And you have discussed it with no other person, to your knowledge?

Mr. McCABE. No, sir.

Senator CAIN. Thank you, sir.

The CHAIRMAN. Senator Maybank?

Senator MAYBANK. No questions.

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. Mr. McCabe, I am interested primarily, in your ideas as to the proper function or place of the Federal Reserve System in our economy.

I saw in the Washington Post an article by Mr. Livingston, who is a financial writer for the Washington Post, commenting on one aspect of the problem.

The implication of this statement is that there is a difference between your view and that of the present Chairman of the Board, or Acting Chairman of the Board, as to the function of the Federal Reserve System in our banking economy.

As I understand it, on the one hand it is regarded as a central banking system. That is the viewpoint of the present chairman. And it was the implication of the article that your view is that it should be decentralized and there should be more autonomy in the different Reserve banks.

I would like for you to give in your own words, what you think about the function of the Federal Reserve System and what you think about the relationship between the Federal Reserve Board and the regional banks.

Mr. McCABE. Well, I would like to make one point clear, there, Senator Fulbright. During my term of service in the Federal Reserve, there has been a very happy relationship, personal relationship and business relationship between the present members of the Board of Governors here in Washington and myself. And that is particularly true of Mr. Eccles. We have been very close friends ever since I have been a part of the Federal Reserve System. In fact, as the Class C Director, I was appointed by the Board of Governors here in Washington.

And repeatedly, I have gone to members of the Board and to Mr. Eccles, when I have considered taking one of the Government jobs, and consulted with the Board about taking the position, and whether they wanted me to resign as Chairman when I did take such position.

So I want to make that point very clear.

Now, as to my own views regarding the system, my own view is that I share a great deal of the philosophy of Senator Glass, when the Federal Reserve Act was under consideration: that it should be primarily a regional system. I am old-fashioned enough to believe that the regional banks should play a very important part in the making of the policy of the system; that you have in the regional banks, among the directors of the regional banks, some remarkable men.

The representatives from industry, commerce, agriculture, and the professions that were on those boards are outstanding men in every community. I feel that as much as possible you should utilize that experience, the brains of those men, their contacts with their communities, on questions of major policy.

I think that those questions wherever possible should be given to those boards, and their advice and consultation sought on those problems, so that when a decision is reached in the System, it is more or less a System decision, in which you have taken great pains to educate these boards, and bring to their attention these problems.

You have, of course, certain operating problems in a Federal Reserve bank. The Board devotes its attention to those problems.

I would like to see the boards have a chance to participate to a great extent in a number of the problems that we have been discussing here this morning. And I think it is perfectly possible to do that.

Senator FULBRIGHT. You feel that the local regional reserve board should have a high degree of autonomy to run their own affairs?

Mr. McCABE. I think that the operation of the whole system should be just as you would operate a successful business corporation that does business nationally, that you should have a degree of, a high degree of, decentralization with just enough coordination and control in Washington to make sure that one bank was not doing something diametrically opposed from another, but that you should give reasonably as much freedom of action as possible, to the local banks.

Senator FULBRIGHT. Those banks you say should be conducted on a businesslike basis as any private bank should be.

Mr. McCABE. That is right, sir.

Senator FULBRIGHT. You think so.

Mr. McCABE. Yes.

Senator FULBRIGHT. This article raised that point, I might read one paragraph to illustrate the difference in views. I think it is important that we understand one another about what is the objective of this central banking system.

Mr. McCABE. Yes, sir.

Senator FULBRIGHT. It illustrates, I think, what he has in mind. Mr. Livingston says:

Mr. McCabe has had a brush with the Board of Governors on this point as chairman of the board of the Federal Reserve Bank of Philadelphia. He wanted to raise the salary of Alfred H. Williams, president, from \$25,000 to \$35,000, but was turned down. In its attempt to standardize budgets and operations of the 12 Reserve banks, the Board has set top salaries for the presidents of \$50,000 for New York, \$35,000 for Chicago, and \$25,000 for the 10 other banks.

That follows the first point I mentioned, indicating that your view is that these banks ought to run their own affairs, and the Board ought not to control them, is that correct?

Mr. McCABE. That is not entirely correct, sir. Having operated a business where we have subsidiary plants, I have had some experience in that, and my feeling is that you should give to a subsidiary, in this instance to the 12 banks, as much authority as you can reasonably give those banks so that those directors will feel that they are playing an important part in the operation of that institution, and then, of course, you must always realize that in order to coordinate those activities you must have a reasonable degree of control at headquarters.

Senator FULBRIGHT. Was this incident true? Did you recommend \$35,000?

Mr. McCABE. I would like to say this, Senator Fulbright, that on the question of salaries and promotions in the Federal Reserve, when I was chairman of the chairmen's conference, shortly after I became chairman, I was appointed on a committee of three comprising Owen D. Young, General Wood, and myself, to make an intensive study of Federal Reserve officers' salaries and their promotions.

We spent two summers at that. We employed Dr. Balderston, the dean of the Wharton School, Dr. Karl Bopp, of the University of Missouri, and one other man to make that study.

As a result of that, we came up with what we have later called the Balderston report, and that was submitted to the Board of Governors, so that I speak with considerable experience on this question of salaries.

I have discussed salaries with the Board, and at times there has been some difference of opinion on salaries. That specifically, the figure there, does not sound to me exactly right, but that may be.

Senator FULBRIGHT. Mr. Williams succeeded Mr. Sinclair.

Mr. McCABE. That is right, sir.

Senator FULBRIGHT. What salary did he get when he came on the Board?

Mr. McCABE. Mr. Williams?

Senator FULBRIGHT. Yes.

Mr. McCABE. I cannot remember that exactly, sir. I think it was in the neighborhood of \$20,000.

Senator FULBRIGHT. He now gets \$25,000?

Mr. McCABE. He gets \$25,000.

Senator FULBRIGHT. When was he appointed?

Mr. McCABE. I think it was in 1941.

Senator FULBRIGHT. What did he do before he was appointed?

Mr. McCABE. He was dean of the Wharton School of the University of Pennsylvania.

Senator FULBRIGHT. What did he make as dean of the Wharton School?

Mr. McCABE. I have no idea.

Senator FULBRIGHT. It is very doubtful if he made anything like \$20,000. Approximately, would you guess about eight?

Mr. McCABE. I have no idea, sir.

Senator FULBRIGHT. I am not sure that I entirely understand your views, that these banks should be run on a businesslike basis with a high degree of autonomy.

Here is the question as far as we are concerned. These are really governmental institutions, are they not? Do you see any great difference between the bank in Philadelphia, and the RFC in its relationship to the Government?

Mr. McCABE. Well, I would say that there is some degree of difference there. I might say they are semipublic institutions where you use the public institutions.

Senator FULBRIGHT. Does not the residual interest in these banks belong to the Government?

Mr. McCABE. Yes, sir.

Senator FULBRIGHT. If they are liquidated, all of their funds come to the Government, just like the RFC.

Mr. McCABE. Yes.

Senator FULBRIGHT. The ownership of the bank stock in these institutions is not in any sense the same as you own in a private bank, is it?

Mr. McCABE. But if I may just interject this, sir, on the question of salaries, I hope you will not misunderstand, that I feel that the review of salaries should be continued in Washington. I have no difference of opinion on that.

Senator FULBRIGHT. The implication of this article is otherwise.

Mr. McCABE. I would say the article was wrong in that. I still feel that the review of salaries should be continued in Washington, and you come back again to Dr. Williams, in whom I have, of course, a very vital interest. I do know that over the course of the last number of years, he has had opportunities to leave the bank for positions where the salary would probably be in the neighborhood of \$45,000 to \$50,000, because he is a very outstanding individual.

You have always the question in the Federal Reserve of the retention of these outstanding men, because being located, as is a regional bank, in cities, say, like Philadelphia, New York, Cleveland, Chicago, our outstanding men are very much in the limelight and are sought after, and you have that constant problem of retention of those men.

Of course, on the other hand, as I made the statement before, I have felt disposed to encourage the men when they left the bank to go, say, particularly with other banking institutions.

Senator FULBRIGHT. You think these Federal Reserve banks should try to compete with the private banks in their salaries?

Mr. McCABE. I do not think they can, sir.

Senator FULBRIGHT. Do you think the function of the president of the Federal Reserve bank is similar to that of a president of a commercial bank?

Mr. McCABE. The function is somewhat different. The president of a commercial bank must, of course, have an experience and a knowledge of the technique of banking, particularly. He has the problem of making commercial loans.

Senator FULBRIGHT. He has to make a profit, too.

Mr. McCABE. He has to make a profit.

Senator FULBRIGHT. Under circumstances very different from Reserve banks.

Mr. McCABE. Yes.

Senator FULBRIGHT. You pay this man \$25,000, and the head of the Reconstruction Finance Corporation gets \$12,500, and yet he has a greater responsibility than the president of a single Reserve bank.

Mr. McCABE. Yes, sir.

Senator FULBRIGHT. This concerns the philosophy of what his function is. Is he a Government official or is he a banker in the sense that the president of the Chase National Bank is, and that is what I am

trying to understand, and the reason I want to is in the future in case you are nominated, which I expect you very likely will be, we want, or I want, to understand what you views are about it. I think it is extremely important, because under the law creating the Federal Reserve System we gave to the Board of the Federal Reserve, rather than retaining here in Congress as we have done in the case of these other governmental corporations, the power to supervise and control the policies of the regional Reserve banks.

Mr. McCABE. That is right.

Senator FULBRIGHT. If you feel that it is a business operation, that is one thing, and very different from being a Government operation.

Mr. McCABE. No, Senator Fulbright; I doubt if we have any difference of opinion on that point. My only feeling is this, that when you have a conspicuously outstanding man, and in this case I feel that Dr. Williams is, because he plays a most important part in that community, I am not confining it—

Senator FULBRIGHT. You are on the Federal Reserve Board at \$15,000. Do you not consider that it is as important to get good men on the Board as it is to get good presidents of the Reserve banks?

Mr. McCABE. My feeling on that, sir, not speaking for my own angle, is that even in that case the salary is too low. I have a very strong conviction that the salaries of top Government officials, and of the Congress, are entirely too low.

Senator FULBRIGHT. That is a question we can take up and might have a very interesting conversation on, but it is aside, it is not the point I am trying to make, and that is, if you are Chairman of this Board, I doubt myself that you should be too cooperative with all of these constituents, so to speak, in the event you have to run this show, and I think the Federal Reserve Board has got to run it, and if you do not, if you have a feeling that each one is autonomous, I think it will end up in chaos.

Mr. McCABE. No; I would like, for instance, Senator Fulbright, to submit you the Balderston report of the study that we made at that time. That did not say that the banks were absolutely autonomous, and I do not believe that—I repeat—I do not believe that. I say that you can utilize the latent forces in that bank, the potentialities that are there, to an extraordinary degree, and my own feeling is that why not use them.

Now, when you come to the question of salaries, and I doubt if we had time enough to discuss it, that there is any difference of view on that. My feeling is that there should be in Washington coordination and reasonable control of all of these problems, operating problems, but not to the degree of where you handle every specific thing.

Senator FULBRIGHT. They have the power to pass upon all salaries of every Federal Reserve bank.

Mr. McCABE. That is right.

Senator FULBRIGHT. As well as the policies. It is the policies that are more important than the salaries.

Mr. McCABE. Yes.

Senator FULBRIGHT. That was used as an illustration only of your attitude as to the place of the Federal Reserve Board. I consider it the most important financial instrumentality of the Federal Government, in many respects greater than the Treasury, in its real influence on our financial structure. The power that the Federal Reserve

banks have to issue currency is one of the highest powers of Government, and the idea that these banks operate as a commercial bank, to make money, seems to me inconsistent with that. They cannot help but make money when they have power to issue currency to buy Government bonds. Their whole profit comes from interest on Government bonds. In other words, tax money, is it not?

Mr. McCABE. When you talk about salaries there, I hope nothing I have said that would give you the idea that I feel that the president of the Federal Reserve bank should get the salary of a president of a commercial bank. I am just talking about the degree.

Senator FULBRIGHT. I am not interested really in what he gets in dollars. It is who controls this whole organization is the real point. That was brought up as being in this article and raised the question in my mind whether or not you had the view that this Federal Reserve Board, which is the one that we deal with, that is, this committee, should actually control the policies of the whole system.

Mr. McCABE. That is right.

Senator FULBRIGHT. We get our information from the Board. If that Board gives up its authority under the law or does not exercise it, this committee and the Congress is to a great extent cut off from its control of a Government institution which it is our duty to control, in my opinion.

Mr. McCABE. If you are interested in that subject—

Senator FULBRIGHT. And I think we ought to, and I would dislike to see the Board give up that power by simply nonaction or letting it lapse. I think they ought to continue to do it, and if they do it wrongly, of course, it is our job to criticize them. But I often think of the relationship we have with FDIC, for example, or the RFC, or any of these other governmental financial institutions. That general question, I think, is the basic one.

Mr. McCABE. If you are interested, I will give you a statement that I made on this general subject.

Senator FULBRIGHT. Yes, it is a general one. It is difficult to be specific in this kind of a hearing, but I think that is highly important in the general conduct of this organization that you understood at least what my attitude as a member of the committee is, that it is this committee as a representative of Congress which is the one that is much more important to you than each individual bank in the making of policy.

Mr. McCABE. I understand that, sir, and what I am trying to say is that the Board of Governors here in Washington have a statutory responsibility. I do not think they can give up that statutory responsibility.

On the other hand, I feel always that you can share the problems of central banking with the individual banks and thus bring or give the banks an opportunity to feel that they are important in the system. That is a feeling of mine that is rather strong.

In that connection, at the last meeting of the chairman's conference, I expressed some thoughts on that that I would be very glad to have the Senator read.

Senator FULBRIGHT. I would be glad to have that. If you have an extra copy, I would like to have it to read before the next meeting.

Mr. McCABE. You can take this along.

Senator FULBRIGHT. Do you feel as Chairman of the Board, that the Federal Reserve System is on a par with the Treasury, or subsidiary to it, in our governmental structure. I did not quite get what you thought about that. This bears on the same idea.

Mr. McCABE. I say that the Federal Reserve has certain statutory responsibilities, and as Chairman of the Board of Governors of the Federal Reserve System, I would feel that I must carry out those statutory responsibilities, that I must exercise a strong degree of independence, but at the same time, sir, I feel it is important to have a cooperative spirit with people in Government, in order to accomplish the end that we have in view.

Senator FULBRIGHT. Of course, in my experience around here, if you are too cooperative, you are run over roughshod whether in the legislature or the executive branch.

Mr. McCABE. That is right. It is the same degree which you as a Senator have to exercise, and I feel that you have to look at my record to see whether I have exercised the appropriate degree of independence.

Senator FULBRIGHT. I have often thought I have been too cooperative for the good of myself and the country. I did not understand quite clearly, if you do not mind a little repetition, about your views on the difference between the special reserve and an increase in the regular reserves on control of credit.

I did not quite understand what you said. Did you express a preference as to the special reserve?

Mr. McCABE. I think on the special reserve that as a plan it has a lot to commend it. My feeling has been that from almost the beginning that it was a plan that would be difficult to, as we say in business language, sell, first to the Congress, and to the public.

Senator FULBRIGHT. The bankers are the ones who really opposed it, are they not?

Mr. McCABE. Well, my feeling is that it did not receive a very favorable response here, did it?

Senator FULBRIGHT. The reason being largely that practically all of the bankers, such as the commercial bankers, came in and vigorously opposed it.

The CHAIRMAN. And the advisory board, Senator.

Senator FULBRIGHT. They were representative of the commercial bankers.

Mr. McCABE. My feeling on things of that character is that when you have something new, you must realize that you have to go through a period of time to educate people to the advantages and the disadvantages of a particular plan. Facing the critical situation that we are facing, if it is necessary to increase the reserve requirements, I would prefer personally to advocate a program that I thought had a reasonable chance of getting through the Congress. It is only a question of being practical about it, as to whether you would take a longer period of time to educate the Congress to one point of view, or take a shorter period on a more realistic plan.

Senator FULBRIGHT. You are dealing with people who have a very natural interest in their own business. In the President's report, he recommended the study of that suggestion, and the opposition came from the bankers. In any kind of controls, whether it be in banking or

in business, you are familiar enough with OPA, for example, to know that people do not like it, and any kind of control of a governmental nature, is not popular with the people affected.

I do not think that in dealing with inflation and inflationary conditions, we can take too long to educate people. If it is sound and necessary to prevent inflation, I think you ought to proceed to try to do it, whether or not it has been accepted by the one affected, because voluntarily they just will not accept it.

Mr. McCABE. Yes. Of course, on all questions of that character, you have to always realize the practical side of it and my feeling is that if you take a plan like that, that you want to start in the grass roots with your educational program.

The CHAIRMAN. Will you excuse me in order that I may interpolate one question there?

The only trouble with that, as I see it, is that in a way the house is on fire. Inflation was rising at that time. We had a man in the job you are nominated for named Eccles, who, conceding in the words of Hutchinson that "If we would guide in the light of reason, we must let our minds be bold," made a bold pronouncement of a plan which in his own honest judgment he thought would stop the situation, which met with opprobrium. That is the kind of a man I would like to see in these positions, a man with guts enough and foresight and courage enough to take a position, because he in his acumen and judgment thinks it is right. He cannot go out in the grass roots and hold conventions and say, "What do you think about this?" and listen with both sides of his head. He is in the job to make decisions and to hold before the people ideas and principles, and say that "We must do this. That is the way I see it."

Mr. McCABE. I would not differ with you, sir, because I have great admiration for Mr. Eccles. I would say this, however, that to take extraordinary pains I think does produce results. I was thinking of the Bretton Woods agreement.

The CHAIRMAN. If you bring that up, you and I both will come in for some bad times, because we both supported it.

Mr. McCABE. I was proud of the fact that in our Philadelphia district that the leading banks there came out boldly for Bretton Woods. It was the only major city in the United States where the bankers did come out boldly for Bretton Woods, and I think it was due to the fact that sufficient time was taken to convince the bankers.

Senator FULBRIGHT. I do not want to drag this out too long. I think to sum up that particular aspect, it is a question of the determined leadership of the Board. I feel that is where there should be leadership, it has to be in the Federal Reserve Board, and not in the various reserve banks.

That is in the various regional banks.

Do you have any views about the extension of credit controls on consumer credit? I do not believe you were asked about that. That was another recommendation of the President in his economic report of January.

Mr. McCABE. My philosophy, Senator, is that in peacetime, as a rule, I naturally resist controls unless they are absolutely necessary. In the case of consumer credit controls, my own personal view was in favor of reestablishing that in view of the critical inflationary situation which prevailed a few months ago.

I would like to make this clear, however, that when you establish one control here, or another control here, that you have to consider the whole economy, and the controls over all of the economy; that is, I think it is wrong to put in a control here, and then let all the rest of the economy go, leaving other credit to be extended promiscuously, because fundamentally I am a great believer, in normal times, in installment selling. I think it has enabled the masses of our people to acquire merchandise that they would never have acquired any other way.

Senator FULBRIGHT. Do you consider these normal times?

Mr. McCABE. Of course not, sir.

Senator FULBRIGHT. You do not?

Mr. McCABE. I say of course not.

Senator FULBRIGHT. What do you think about inflation at the moment? Do you feel that the peak has been passed in January or are we threatened still with inflation?

Mr. McCABE. I tried to express that, sir, by saying that I thought we were in in a dangerous spiral of inflation.

Senator FULBRIGHT. Still in it?

Mr. McCABE. The latter part of last year. I was hopeful in February, with the drop in commodity prices and the general drop in prices, and the catching up of supply with demand in a great many items. I think what has happened the last few days, however, will make it necessary for us to reconsider all of the programs to combat inflation, because I think we have got it facing us.

Senator FULBRIGHT. Did I understand you to say that you felt that the Federal Reserve Board now has sufficient powers to control it, assuming that you think something should be done?

Mr. McCABE. I said in the light of present conditions that we should make a very intensive study of the problem, and that I would like to come back before this committee, after having studied all of the factors, and make a recommendation, that is, provided it is concurred in by the Board of Governors, on what I felt we would need from the Congress in the way of legislation.

Senator FULBRIGHT. You mean by way of additional powers?

Mr. McCABE. Additional powers; yes.

Senator FULBRIGHT. I take it you are doubtful that they have sufficient power now. I am not asking what you shall recommend, but I mean that they need some power.

Mr. McCABE. I was doubtful of the power in December. In February I rather felt that perhaps we could get by without additional power, but in the light of the events of the last few days, I think we have to review the subject.

Senator FULBRIGHT. The fact is that the necessity for supporting Government bond prices, which everyone seems to agree on, has almost nullified the principal power to control credit.

Mr. McCABE. It has been a very strong factor.

Senator FULBRIGHT. That was the main tool, and it is practically nullified by these conditions.

Mr. McCABE. To my mind that must be done.

Senator FULBRIGHT. The discount rate no longer can be applied. Can it, effectively, to restrict credit?

Mr. McCABE. It has a strong psychological effect, though, sir. The combination of efforts taken in the last few weeks, first by the Treasury in increasing the interest rates on bills and certificates, second by increasing the rediscount rate only slightly in the Federal Reserve, the increasing of the Reserve requirements in the two central Reserve city banks, Chicago and New York, that, plus the cooperative efforts of the supervisors of banking, Comptroller of the Currency, the Federal Reserve, the State supervisors of banking, the cooperative efforts of all of those, plus the educational program of the bankers themselves, all of it in combination, I think, is bringing about a very desirable result.

Senator FULBRIGHT. I hope that it is effective, but it certainly is a rather dangerous situation when you think the banks can purchase and may have to purchase a couple of hundred billions of dollars in bonds, if they begin unloading them, there is not much that the Federal Reserve Board can do but take them. That is my only point, the support program is what keeps them from going down.

Mr. McCABE. The amount of bonds that the Federal Reserve would have to take is not as large as a lot of people think. The total of Government bonds outstanding, what we term the long maturity, and you can say over 5 years, is about \$50,000,000,000 outside of the bonds now held by the Treasury, and the Federal Reserve. That is a smaller amount than is generally considered by the public. What percentage of those you will have to take is, of course, anybody's guess.

Senator FULBRIGHT. What do you think about the 75 percent margin on security purchases, the maintenance of that?

Mr. McCABE. On that question, that is a typical question that I would like to see referred to, say, a committee composed of representatives of the banks. I have a completely open mind on that question. I have no preconceived notion on it whatsoever. I would like to see, say, a committee of three members: a chairman, perhaps, of one bank, the president of a bank, and one of the other officers or directors of a bank, make an intensive study of that problem, so that you could bring into play the point of view of commerce, industry, agriculture, as well as the banks, on that problem.

Senator FULBRIGHT. You have no view about it, whether it has been a good or bad thing?

Mr. McCABE. I think that in wartime it was a necessary thing to do.

Senator FULBRIGHT. It was 100 percent during the war, but since the war it has been 75.

Mr. McCABE. Reduced to 75, and my own impression is that reduction made very little material difference.

Senator FULBRIGHT. Do you think the maintenance of that at 75 percent has influenced the course of the stock market?

Mr. McCABE. I say I do not think it has had any real material difference, the reduction from 100 to 75.

Senator FULBRIGHT. I do not mean the reduction. I mean maintaining it at 75. What do you think might have been the result if there had been only a 10-percent marginal requirement?

Mr. McCABE. I think there would have been a great difference. But I think the difference between 100 and 75 made no material difference.

Senator FULBRIGHT. You are not prepared to say whether you are willing or want to retain the 75-percent margin or not?

Mr. McCABE. No; that is a subject, quite frankly, sir, as to which I have a completely open mind and no preconceived notions.

Senator FULBRIGHT. Mr. Chairman, I do not know what your program is. I wanted to ask him a few more questions about the Bank Holding Act.

The CHAIRMAN. Go ahead.

Senator FULBRIGHT. I am very interested in that because of the influence that the Reserve Board will have on the passage of that legislation. Of course, you know, what this committee thinks about it. I hope that before the next hearing that you will really study that act, because I think it is the most important one before us.

The CHAIRMAN. I will present you with a copy of the act, and the report.

Senator FULBRIGHT. I would like your considered opinion about it.

Mr. McCABE. I have, sir, in my notes an outline of the act, the principal features of the act, and, as I said to the chairman, generally I am favorable to the act.

Senator FULBRIGHT. Are you familiar with the facts about the Transamerica Corporation and its place on the west coast?

Mr. McCABE. Only in a general way, sir.

Senator FULBRIGHT. Those facts are available. They are in the hearings before the committee.

Mr. McCABE. I would be glad to check them.

Senator FULBRIGHT. I have various reasons for being interested in it. We had an experience in my State once with a holding company that is comparable, at least in that area, to what is now in existence on the west coast.

Mr. McCABE. Yes, sir.

Senator FULBRIGHT. And I think that you will be in a position either to promote or hinder its passage, and to administer it, and I think it is important. I would like to know in detail, and as definitely as possible, your views about that legislation and how it should be applied to the situations that have been mentioned, that is particularly to the Transamerica Corporation, and the Morris Plan organization.

The CHAIRMAN. We have now provided the appointee with the copy of the bill and the committee report and copy of the hearings, and if it is not burdening you too much, before the meeting next Tuesday, would you familiarize yourself with these so you could be more definite and concrete on the subject matter for next Tuesday?

Mr. McCABE. On the Holding Company Act?

The CHAIRMAN. Yes.

Senator FULBRIGHT. I think you probably know that there is pending now application for branching of many banks. The matter is in suspense, further growth, especially of the Transamerica organization, is involved.

Mr. McCABE. Yes, sir.

Senator FULBRIGHT. And involved in that is not only the aspects of the holding company which relate to the intermingling of non-banking industries of all kinds with banking, but in addition the very important element of monopoly in the banking system within that area.

Mr. McCABE. I understand.

Senator FULBRIGHT. Those are the two very important aspects I have in mind. I think they hold within them considerable danger, even to my State, because the repercussions of difficulties in an area like that certainly go all over the United States.

I am concerned in Arkansas with what happens out there, but I do not like to press you for answers about it when you have not had an opportunity to study it. And I understand that the Treasury has not yet commented on it.

The chairman says the Treasury will be represented to discuss this matter.

The CHAIRMAN. Secretary Snyder will be here next Tuesday morning.

Senator FULBRIGHT. On that same subject?

The CHAIRMAN. Yes.

Senator FULBRIGHT. With that in mind, I will not pursue the subject further at this time.

The CHAIRMAN. We will give you full opportunity whenever you want it.

Senator FULBRIGHT. I think it is the most important issue immediately before us, that and the inflationary problem. We regard the Chairman of the Reserve Board as our principal adviser on most of these questions. That is why I feel that this is the most important position that comes before us for consideration.

Mr. McCABE. Yes, sir.

Senator FULBRIGHT. I will suspend, then, Mr. Chairman, until the next time.

Senator BUCK. Do I understand, Mr. McCabe, that you say that the reserves in the Chicago and New York banks had been extended to the limit?

Mr. McCABE. No, I said they have been increased. I did not say the amount; from 20 to 22 percent.

Senator BUCK. Twenty-five is the limit?

Mr. McCABE. Twenty-six.

Senator BUCK. Thank you.

The CHAIRMAN. Are there any other questions this morning?

If not, we thank you, Mr. McCabe.

The hearing stands adjourned until 10 o'clock next Tuesday morning.

(Thereupon at 12:15 o'clock an adjournment was taken until Tuesday, March 30, 1948, at 10 a. m.)



# CONFIRMATION OF THOMAS B. McCABE

TUESDAY, MARCH 30, 1948

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to adjournment, at 10:30 a. m., in room 301, Senate Office Building, Senator Charles Tobey, chairman, presiding.

Present: Senators Tobey (chairman), Buck, Cain, Maybank, Fulbright, and Robertson of Virginia.

Present also: The Honorable John W. Snyder, Secretary of the Treasury.

The CHAIRMAN. The meeting will come to order.

There will be inserted at this point in the record an exchange of letters between the Comptroller of the Currency, the Federal Reserve Board, and the chairman of the committee:

MARCH 24, 1948.

HON. PRESTON DELANO,  
*Comptroller of the Currency,*  
*Washington 25, D. C.*

DEAR MR. DELANO: In view of certain testimony before the committee on the nomination of Mr. Thomas B. McCabe and in view of previous reports in the daily press and in banking publications, I would appreciate it if you would furnish to me as promptly as possible copies of any correspondence in your office or other relevant material in your files indicating an interest on the part of Transamerica Corp. or of Bank of America N. T. & S. A. in applications pending before your office for permits for branches or in pending legislation or in other governmental actions affecting the interests of Transamerica or of Bank of America.

Sincerely yours,

CHARLES W. TOBEY,  
*Chairman.*

MARCH 24, 1948.

HON. MARRINER S. ECCLES,  
*Chairman, Federal Reserve System,*  
*Washington 25, D. C.*

DEAR MR. ECCLES: In view of certain testimony before the committee on the nomination of Mr. Thomas B. McCabe and in view of previous reports in the daily press and in banking publications, I would appreciate it if you would furnish to me as promptly as possible copies of any correspondence in your office or other relevant material in your files indicating an interest on the part of Transamerica Corp. or of Bank of America N. T. & S. A. in applications pending before your office for permits for branches or in pending legislation or in other governmental actions affecting the interests of Transamerica or of Bank of America.

Sincerely yours,

CHARLES W. TOBEY,  
*Chairman.*

TREASURY DEPARTMENT,  
 COMPTROLLER OF THE CURRENCY,  
 Washington 25, March 24, 1948.

HON. CHARLES W. TOBEY,  
 Chairman, Committee on Banking and Currency,  
 United States Senate, Washington, D. C.

MY DEAR SENATOR: In the absence of the Comptroller, we wish to respond to your letter of March 24 by stating:

(1) We have no correspondence in our files from the Transamerica Corp. indicating an interest on the part of that corporation or of Bank of America N. T. & S. A. in applications pending before this office for permits for branches, or in pending legislation, or in other governmental actions affecting the interests of either that corporation or the bank.

(2) We have no correspondence from Bank of America indicating an interest on the part of either the corporation or the bank in pending legislation or in other governmental actions affecting the interests of that corporation or the bank, except as stated below.

(3) There are pending in this office a number of applications for branches submitted by the Bank of America from time to time and which are awaiting disposition. In view of the long-established policy of this office not to disclose information concerning applications for branches until after they have been acted upon, we are not enclosing copies of the applications or correspondence relating thereto.

Very truly yours,

R. B. McCANDLESS,  
 Deputy Comptroller.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,  
 Washington 25, D. C., March 29, 1948.

HON. CHARLES W. TOBEY,  
 Chairman, Committee on Banking and Currency,  
 United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: The Board has directed me to acknowledge your letter of March 24, 1948, in which you request that the Board furnish copies of any correspondence and other relevant material in its files indicating an interest on the part of Transamerica Corp. or of Bank of America N. T. & S. A. in applications pending before the Board for permits for branches or in pending legislation or in other governmental action affecting the interests of Transamerica or of Bank of America.

In reply you are advised that the Board, of course, has a considerable volume of material in its files relating to Transamerica Corp. or its affiliated institutions. However, there is not now pending before the Board any application for the establishment of branches by any of the Transamerica affiliated banking institutions. Nor has the Board had any correspondence with Transamerica or any of its affiliated institutions respecting the current bank holding company bill or any other legislation now pending before the Congress. The most recent correspondence from the Board's files which touches upon any other governmental action which would affect the interests of Transamerica or Bank of America relates to a recent order of the Board instructing its legal division to conduct an investigation for the purpose of advising the Board whether there appears to be reasonable cause for the Board to institute proceedings under section 11 of the Clayton Act. This correspondence is enclosed herewith and is comprised of copies of letters, as follows:

Letter dated November 7, 1947, from M. S. Eccles to Tom C. Clark, Attorney General.

Letter dated November 7, 1947, from M. S. Eccles to Preston Delano, Comptroller of the Currency.

Letter dated November 7, 1947, from M. S. Eccles to Maple Harl, Chairman, Federal Deposit Insurance Corporation.

Letter dated November 28, 1947, from Preston Delano, Comptroller of the Currency, to M. S. Eccles, with enclosures as follows: Copy of letter dated November 28, 1947, from Preston Delano to S. C. Beise, executive vice president, Bank of America N. T. & S. A. and copy of letter dated November 28, 1947, from Preston Delano to F. N. Belgrano, Jr., president, First National Bank of Portland, Portland, Oreg.

For your information and that of the members of your committee, the investigation referred to in the correspondence listed above is now being actively conducted by the Board's staff.

Sincerely yours,

M. S. ECCLES,  
*Chairman pro tempore.*

UNITED STATES SENATE,  
March 29, 1948.

HON. M. S. ECCLES,  
*Board of Governors, Federal Reserve System,  
Washington 25, D. C.*

DEAR MR. ECCLES: I have received your letter of March 29, 1948, enclosing certain material from the files of the Board, which were sent to me in response to my letter of March 24.

I note that you have construed my letter of March 24 as requesting information only concerning matters of current concern with regard to Transamerica Corp. or any of its affiliated institutions. However, what I wish to obtain to bring before the committee is any other relevant material from the files of the Board from January 1, 1942, to date, bearing upon questions or problems between the Board of Governors or any other agency of the Government, and Transamerica Corp. or any of its affiliated institutions—this to include every bit of data that is in your files concerning these various elements or groups.

The committee, as you know, is at the present time considering matters of far-reaching importance to the country in connection with the confirmation of Mr. Thomas McCabe as Chairman of the Federal Reserve Board. This evidence is germane to some phases of the inquiry and I request its transmission to the committee at the earliest possible moment.

Time is of the essence.

Sincerely yours,

CHARLES W. TOBEY.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,  
*Washington, March 29, 1948.*

HON. CHARLES W. TOBEY,  
*Chairman, Committee on Banking and Currency,  
United States Senate, Washington, D. C.*

DEAR MR. CHAIRMAN: In response to your letter of this afternoon, and having particularly in mind your statement that time is of the essence in this matter, the Board sends you herewith copies of correspondence, as set forth in the enclosed list, which have been taken from the files of the Board and which bear upon the more important questions or problems that have arisen since January 1, 1942, between the Board of Governors or any other agency of the Government and Transamerica Corp. or any of its affiliated institutions.

Sincerely yours,

M. S. ECCLES,  
*Chairman pro tempore.*

#### LIST OF CORRESPONDENCE

*Group No. 1.*—This group relates to an application of one of the Transamerica-controlled State member banks for permission to establish certain branches in 1942, and is comprised of copies of correspondence as follows:

Letter dated January 15, 1942, from First Trust and Savings Bank of Pasadena, Pasadena, Calif., to Federal Reserve Bank of San Francisco.

Letter dated February 14, 1942, from Board of Governors to Transamerica Corp.

Letter dated March 17, 1942, from Transamerica Corp. to Board of Governors.

Letter dated July 13, 1942, from Federal Reserve Bank of San Francisco to First Trust and Savings Bank of Pasadena, Pasadena, Calif.

Letter dated August 8, 1942, from Transamerica Corp. to Board of Governors.

Letter dated August 17, 1942, from A. P. Giannini to M. S. Eccles.

Letter dated November 13, 1942, from M. S. Eccles to A. P. Giannini.

Letter dated November 25, 1942, from A. P. Giannini to M. S. Eccles.

Letter dated December 19, 1942, from M. S. Eccles to A. P. Giannini.

*Group No. 2.*—This group relates to the Board's interest in a certain investigation of Transamerica Corp. which was conducted by the Antitrust Division of the Department of Justice in 1945, and is comprised of copies of correspondence as follows:

Letter dated October 31, 1945, from Tom C. Clark, Attorney General, to M. S. Eccles.  
Letter dated February 26, 1947, from M. S. Eccles to Tom C. Clark, Attorney General.

Letter dated March 4, 1947, from Tom C. Clark, Attorney General, to M. S. Eccles.  
Letter dated April 15, 1947, from M. S. Eccles to John W. Snyder, Secretary of the Treasury.

Letter dated April 15, 1947, from M. S. Eccles to A. L. M. Wiggins, Under Secretary of the Treasury.

The CHAIRMAN. Mr. Snyder, please.

I want to express my appreciation, Mr. Secretary, for your kindness in consenting to come this morning. I have prepared a series of questions to ask you which bear upon this subject of Mr. McCabe's appointment and, collaterally, upon matters which his appointment will affect and be affected by.

Without more ado, I will begin the questions.

Do you personally know either or both of the Gianninis?

#### STATEMENT OF HON. JOHN W. SNYDER, SECRETARY OF THE TREASURY

Secretary SNYDER. Yes, sir. I have known them for years.

The CHAIRMAN. Are you acquainted with Sam Husbands?

Secretary SNYDER. I was associated with Mr. Husbands in the RFC; yes.

The CHAIRMAN. He is at present an official of Transamerica, is he not?

Secretary SNYDER. The last time I heard of him; yes.

The CHAIRMAN. What was his capacity; what was the position he held there?

Secretary SNYDER. Frankly, I do not know. I think he is president, Mr. Chairman, but I could not tell you.

The CHAIRMAN. Of Transamerica?

Secretary SNYDER. That is correct. At least, I think he is. I do not know.

The CHAIRMAN. He was formerly an official of RFC?

Secretary SNYDER. Yes, sir. But I never talked with Mr. Husbands in his present capacity, so I do not know what his title is.

The CHAIRMAN. He left the RFC to accept the position with the Gianninis and Transamerica. Is that correct?

Secretary SNYDER. I could not say. I do not know what he did after he left the RFC.

The CHAIRMAN. In the press last week I saw a story, whether rumor or truth, but I propound this question to you; it bears upon you. It said that you personally had been offered a position with the Transamerica, or the Gianninis. Is that correct?

Secretary SNYDER. I have no intention of dignifying rumors, Mr. Chairman.

The CHAIRMAN. Let me ask you definitely, then: Have you been offered a position by them?

Secretary SNYDER. I have no intention of discussing what I have been offered or have not been offered. I am working for the Govern-

ment, I have no intention of leaving, and I am not going to discuss any prospective likelihood of any connection I might have.

The CHAIRMAN. That is your privilege, sir. But the fact remains that the bank holding bill which is now before the Senate, reported by this committee, which was introduced by me at the request of the Federal Reserve Board, is an outstanding and vital piece of legislation. The bank holding company bill is aimed directly at the Gianninis. The fact remains also that the Gianninis are very anxious to have Mr. Eccles removed as Chairman. The fact remains that they made representations to people high in the administration to get him removed. The fact remains he was removed and that his successor was appointed. And by collateral evidence before we get through we expect to link this up.

If it is true that the Gianninis came to you, Mr. Snyder, and offered you a position with them, it would have some bearing upon my thought at least in the situation before us today.

Secretary SNYDER. It would have no bearing on my action. I quite assure you, whoever offered me a job, Mr. Chairman, as to my decisions while I am Secretary of the Treasury. I call to your mind, sir, that when I came to this Government I resigned every business connection that I had, so that I would not be influenced in the public mind nor in my own as to any decision I made. I am still in that position.

The CHAIRMAN. When did you personally last see one or both of the Gianninis?

Secretary SNYDER. I do not remember. It has been some time.

The CHAIRMAN. Did you meet with one or both of the Gianninis or representatives in Florida recently?

Secretary SNYDER. One of them was down there.

The CHAIRMAN. During the current year?

Secretary SNYDER. One of them was down there; yes.

The CHAIRMAN. Did you meet with him in a hotel room?

Secretary SNYDER. No, sir; I did not.

The CHAIRMAN. Which one was there? Senior or Junior?

Secretary SNYDER. I do not know where they were.

The CHAIRMAN. The Gianninis you contacted, and that contacted you in the meeting in Florida during the calendar year, who were they?

Secretary SNYDER. I had no meeting with any Gianninis in Florida.

The CHAIRMAN. You did not meet with one or both of them in a hotel?

Secretary SNYDER. I did not.

The CHAIRMAN. All right. I will take your word at par.

Secretary SNYDER. I hope you will.

The CHAIRMAN. They were your luncheon guests last fall, were they not, here in Washington?

Secretary SNYDER. Yes, sir; one of them; the younger.

The CHAIRMAN. After that you took them to the White House to see the President, did you not?

Secretary SNYDER. I did not.

The CHAIRMAN. You did not arrange an appointment for them at the White House?

Secretary SNYDER. I do not recall arranging any appointment. I do not know whether they even went over there or not.

The CHAIRMAN. What did they come to see you about at that time?

Secretary SNYDER. Just a visit.

The CHAIRMAN. To take up the bank holding legislation?

Secretary SNYDER. They did not discuss the bank holding legislation at all.

The CHAIRMAN. Was it in connection with their application for branches?

Secretary SNYDER. I think that was discussed; yes. They have had a number of applications pending for quite a long time.

The CHAIRMAN. What is your attitude toward the bank holding company bill?

Secretary SNYDER. I think I wrote you a letter on that sometime last fall.

The CHAIRMAN. You did, and I will read the letter. It was not last fall; it was May 23, 1947, to be exact.

Secretary SNYDER. Well, last spring.

The CHAIRMAN. When I had written to you asking you as Secretary of the Treasury, to give me the benefit of your views on the bank holding bill. Your reply was as follows [reading]:

DEAR SENATOR TOBEY: I am truly sorry that the Department is not in a position to furnish your committee with a definitive statement of our views on the bank holding company bill at this time.

As you know, my time in recent weeks has been preempted by a number of very important matters, particularly the tax bill, which has been the subject of fairly extended hearings within the Senate and House, and the general tax study commenced only this week before the Ways and Means Committee. In addition matters involving international finance have required considerable attention. Under the circumstances, I would much prefer not to take any position on such an important matter without a more adequate basis for having one than I now have.

That is May of last year [reading]:

A substantial amount of study has been given to the matter in the Department, and I have been furnished with the views of a number of those in the Department to whom I would look for advice in such matters. However, I have not had an opportunity personally to go into the matter thoroughly. As you know, the Comptroller of the Currency, Mr. Delano, who has had the bank holding company legislation under study, has been ill and away from the office for some time. That has contributed in no small measure to my unwillingness to go on record one way or the other now, as I definitely would like to discuss this matter thoroughly with him before taking a position.

I should say that in taking this stand I do not intend to indicate or to imply opposition to the bill either in principle or in detail.

JOHN W. SNYDER,  
*Secretary of the Treasury.*

Mr. Snyder, that was last May. Mr. Delano was ill then. He had a good recovery in June of that year. It is now almost April. Have you done as you said you wanted to do, and discussed the matter with him?

Secretary SNYDER. I discussed it at various times.

The CHAIRMAN. But you did not let me know what your views were in response to this letter.

Secretary SNYDER. You reported the bill out.

The CHAIRMAN. The bill is coming on the floor. We would like to have John Snyder's leverage to put the bill through.

Secretary SNYDER. You have not called on me since that time. The bill was reported out.

The CHAIRMAN. But reporting the bill out was only one incident in the matter.

Secretary SNYDER. I presumed if you wanted anything further from me you would call on me. You usually do, Senator.

The CHAIRMAN. I am calling on you now.

Secretary SNYDER. I would be glad to prepare something for you.

The CHAIRMAN. Now let us get back to the examination.

Secretary SNYDER. I have no objection to the holding company bill, as you well know.

The CHAIRMAN. What is your attitude toward it now, in the light of the passage of time?

Secretary SNYDER. I have not reviewed it recently. I would be glad to go into it. You had not told me what you were going to discuss when you asked me to appear here today.

The CHAIRMAN. This question has been under study for several years, has it not?

Secretary SNYDER. I understand it has.

The CHAIRMAN. But you have never taken a position on it, pro or con?

Secretary SNYDER. Not beyond the letter that I wrote.

The CHAIRMAN. That does not take any position except to say you are not against it.

Secretary SNYDER. That is right.

The CHAIRMAN. "He who is not for Me is against Me."

Secretary SNYDER. Not necessarily.

The CHAIRMAN. You are aware, are you not, that the bill which was favorably reported by this committee has the support of practically the entire banking fraternity except the Gianninis?

Secretary SNYDER. No; I did not know that.

The CHAIRMAN. In your letter to me nearly a year ago you said that you were unwilling to go on record one way or the other at that time and that you wanted to discuss the matter thoroughly with the Comptroller of the Currency. Have you ever discussed it with him?

Secretary SNYDER. I have answered that one. I have; several times.

The CHAIRMAN. I thank you.

At the time the Gianninis were here last fall, was the Comptroller's office giving consideration to granting them permits for a large number of banks which had been acquired by Transamerica?

Secretary SNYDER. I presume they were, because when I first went in there they had many applications and they are still there. So I presume they did.

The CHAIRMAN. Did you ever express your attitude toward this proposed expansion?

Secretary SNYDER. I do not think I ever did.

The CHAIRMAN. Do you know what the attitude of the Federal Reserve Board was in this matter?

Secretary SNYDER. No; I do not think I have ever discussed this with them.

The CHAIRMAN. At this point I should like to put into the record a copy of a letter of November 7, 1947, from Chairman Eccles to the Comptroller of the Currency, advising him that the Board on October 31, had unanimously adopted a resolution directing its counsel to

undertake an investigation to ascertain whether action should be taken under the Clayton Act against Transamerica. I will insert that in the record.

(The letter is as follows:)

NOVEMBER 7, 1947.

Personal and confidential

HON. PRESTON DELANO,  
*Comptroller of the Currency,*  
*Washington, D. C.*

DEAR PRESTON: At a recent meeting the Board received and considered a report from its Legal Division discussing Transamerica Corp. and its group of controlled banks. In that report counsel for the Board advised that, in his opinion, the present combined statistical data respecting these banks raises serious questions as to the Board's responsibilities under section 11 of the Clayton Act. That section, as you know, places upon the Board primary responsibility for effectuating certain aspects of the Federal antimonopoly policy. It was counsel's recommendation that the Board investigate the entire Transamerica situation in the light of these statutory provisions to determine what action, if any, the Board should take thereunder.

This is to advise you that at its meeting of October 31 last the Board unanimously adopted a resolution directing that an investigation be undertaken under the direction of its Legal Division to ascertain whether there is just cause for the Board to institute the statutory proceeding contemplated by section 11 of the Clayton Act looking to the entry of an order requiring Transamerica Corp. to divest itself of the stocks of any or all of the banks which it now owns, with the exception of that of Bank of America National Trust & Savings Association.

Sincerely yours,

M. S. ECCLES, *Chairman.*

The CHAIRMAN. You were advised by this action of the Board at that time, were you not?

Secretary SNYDER. That is right.

The CHAIRMAN. I now place in the record at this point letters of November 28, 1947, from the Comptroller of the Currency, one addressed to the executive vice president of the Bank of America, in San Francisco, and the other to the president of the First National Bank of Portland.

Did you know of the existence of those letters?

Secretary SNYDER. Which were those?

The CHAIRMAN. A letter to the president of the First National Bank of Portland, Oreg., and a letter to the executive vice president of the Bank of America, in San Francisco.

Secretary SNYDER. What was the name of them?

The CHAIRMAN. I will have the clerk read the letter.

Mr. BOWLES (reading):

NOVEMBER 28, 1947.

Mr. S. C. BEISE,

*Executive Vice President,*  
*Bank of America National Trust & Savings Association,*  
*San Francisco, Calif.*

DEAR MR. BEISE: Please refer to the request of the Bank of America National Trust & Savings Association to branch into its system the following Transamerica-controlled banks and their existing branches:

First Trust & Savings Bank of Pasadena (three branches)  
First National Bank of Crows Landing  
Head office of the Bank of Newman  
Crows Landing branch of the Bank of Newman  
Patterson branch of the Bank of Newman  
Gustine branch of the Bank of Newman  
Head office of the Bank of Pinole in Crockett  
Pinole branch of the Bank of Pinole

Rodeo branch of the Bank of Pinole  
 Bank of Tehachapi  
 Central Bank of Calaveras, San Andreas  
 Farmers and Merchants Bank of Watts  
 First National Bank in Corcoran  
 First National Bank in Santa Ana  
 First National Bank of Turlock  
 First National Bank of Bellflower  
 First National Bank of Fairfield  
 First National Bank of Garden Grove  
 First National Bank of Los Altos  
 First National Bank of San Jacinto  
 First National Bank of Weed  
 First National Trust & Savings Bank of Santa Barbara  
 Temple City National Bank of Temple City

You will recall that when you were last here in Washington this matter was discussed at some length.

The Comptroller of the Currency is advised by the Board of Governors of the Federal Reserve System that the Board now has under consideration the question of instituting proceedings under the Clayton Act against Transamerica Corp. Under these circumstances, it will be necessary for this office to defer its decision on the above-listed applications.

Very truly yours,

PRESTON DELANO.

(The second letter is as follows:)

NOVEMBER 28, 1947.

Mr. F. N. BELGRANO, Jr.,

*President, the First National Bank of Portland, Oreg.*

DEAR MR. BELGRANO: Please refer to the request of the First National Bank of Portland, Portland, Oreg., to branch into its system the following Transamerica-controlled banks.

First National Bank of Prineville  
 First National Bank of Cottage Grove  
 First National Bank of Forest Grove  
 Coolidge & McLaine, Silverton  
 Scio State Bank, Scio  
 Clatsop County Bank, Seaside  
 Bank of Sweet Home  
 Moreland-Sellwood Bank, Portland  
 First National Bank of Eugene  
 Benton County State Bank, Corvallis

You will recall that when you were last here in Washington this matter was discussed at some length.

The Comptroller of the Currency is advised by the Board of Governors of the Federal Reserve System that the Board now has under consideration the question of instituting proceedings under the Clayton Act against Trans-America Corp. Under these circumstances, it will be necessary for this office to defer its decision on the above-listed applications.

Very truly yours,

PRESTON DELANO,  
*Comptroller of the Currency.*

The CHAIRMAN. Mr. Clerk, I want to offer for the record a letter addressed to the Transamerica Corp., in San Francisco, which is of historic value, dated February 14, 1942, and signed by the secretary of the Board, in which it appears that the Board and the Comptroller of the Currency, and the Federal Deposit Insurance Corporation were all apprehensive about the extending of the Giannini's outfit in California, and calling attention to it.

That should be read slowly.

Senator ROBERTSON. Before that letter is read, who wrote the letter that has just been read? I did not get that.

The CHAIRMAN. It is signed by Preston Delano, Comptroller of the Currency.

Mr. BOWLES. This letter is addressed to the Transamerica Corp., San Francisco, Calif.

Senator FULBRIGHT. What is the date?

Mr. BOWLES. The date is February 14, 1942, over the heading of the Board of Governors, Federal Reserve System, Washington, D. C.:

GENTLEMEN: The Board has recently received through the Federal Reserve Bank of San Francisco a copy of a letter from a member bank, control of which was recently acquired by your corporation, stating that the member bank has under consideration the establishment of several branch banks and that the letter is written for the purpose of securing the necessary approval from the Federal Reserve Board. The member bank's letter set forth certain facts with respect to proposed branches at two locations and stated that the letter would be supplemented by such formal applications as Federal Reserve regulations may require.

The Board gave careful consideration to the information submitted and to other pertinent information in its files and reached the conclusion that it should not approve the establishment of the proposed branches on the basis of the information now before it. The Federal Reserve Bank of San Francisco was requested to advise the member bank accordingly.

Should your corporation have any plans for the further expansion of its interests in banks, either directly or indirectly, through the mechanism of extending loans to others for the purpose of acquiring bank stock, or in any other manner, you are requested to advise the Board through the Federal Reserve Bank of San Francisco before any such plans are consummated.

The Board's position in this matter is in accord with the policy, upon which there is unanimous agreement by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, that the Federal Bank supervisory agencies should, under existing circumstances, decline permission for the acquisition directly or indirectly of any additional banking offices or any substantial interest therein by Transamerica Corp., Bank of America N. T. & S. A., or any other unit of the Transamerica group.

Please see that all persons in the Transamerica group who may be concerned with this policy are advised accordingly.

Very truly yours,

CHESTER MORRILL, *Secretary.*

The CHAIRMAN. There is a letter from these three agencies very definitely taking a stand against the further expansion of the Giannini Transamerica banking interests in the West.

Secretary SNYDER. Just a minute, Mr. Chairman. I am at a complete loss where this is all leading. That is a letter written some 7 or 8 years ago.

The CHAIRMAN. That is correct. And it is particularly important for the record, and that is an incident only in these hearings, as establishing the fact that these three great Government agencies all took a positive stand which later was apparently set aside and nullified.

We are trying to find out the reasons for it; that is all, sir. We are just beginning.

This is another letter. You would be interested in this, too.

Mr. BOWLES (reading):

DECEMBER 19, 1942.

Mr. A. P. GIANNINI,

*Chairman of the Board, Transamerica Corp., San Francisco, Calif.*

DEAR A. P.: I have yours of November 25 in which you acknowledge receipt of my letter of November 13 respecting the position of the Board in the matter of expansion of banking institutions in the Transamerica group.

I could not possibly agree with you that the Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency have entered upon a course of arbitrary and discriminatory action where Transamerica is concerned nor could I possibly agree that any policy has been declared and put into effect without any opportunity for the interested parties to be heard. I believe that

you are fully informed as to the Board's position and of all the facts upon which it is based, and I am convinced that continued discussion would only involve us in lengthy arguments as to the correctness of your impressions regarding the soundness of the Board's position and the sincerity of its motives. However, any time you or any of your senior associates are in Washington, I shall be glad to arrange further conferences on this matter.

With kind personal regards, I am,  
Sincerely yours,

MARRINER S. ECCLES, *Chairman.*

Secretary SNYDER. Are those original letters?

The CHAIRMAN. These are carbon copies from the Federal Reserve Banking files, and also the Comptroller's office. I called for all pertinent data on bank-holding legislation from these different agencies. They were sent down to me this morning. I did not make any exceptions.

Now, I would like to ask you one more question.

Secretary SNYDER. These are unidentified copies?

The CHAIRMAN. They were identified by the Federal Reserve Board secretary, who brought them down personally from the files this morning.

Secretary SNYDER. That is what I want.

The CHAIRMAN. I am willing to take them at par.

Secretary SNYDER. I just wanted to know where they came from. That is all right.

The CHAIRMAN. These letters refer to more than 30 branches which the Gianninis were seeking to obtain. In effect, the Comptroller advised them that his office would defer decision on the Gianninis' applications for branches in view of the proposed action under the Clayton Act.

You will note that both letters state that this matter was discussed at length when the Giannini officials were in Washington. Do you recall when that was and did you participate in the discussion?

Secretary SNYDER. What was the date of that memorandum, please?

The CHAIRMAN. November 7, 1947.

Secretary SNYDER. No. I would have to look that up.

So far as I personally am concerned, I have carried on no discussion with the Gianninis about their branches. That has all been handled by the Comptroller of the Currency.

The CHAIRMAN. I offer for the record a letter from Chairman Eccles to the Secretary of the Treasury which is before us, together with a letter of February 26, 1947, from Chairman Eccles to the Attorney General.

The letter from Mr. Eccles to Mr. Snyder is dated April 15, 1947. Will you read that letter, please.

Mr. BOWLES (reading):

APRIL 15, 1947.

HON. JOHN W. SNYDER,  
*Secretary of the Treasury, Washington, D. C.*

DEAR JOHN: For almost 2 years the Board has been closely following an investigation by the Department of Justice into the Transamerica situation. The Anti-trust Division has made use of certain of the Board's files in connection with this investigation, and I have had one or two talks with Tom Clark about the matter. At one of those talks and in a letter which he sent me in October 1945, he pointed out that, while the statistical picture respecting Transamerica might justify a proceeding under the antitrust laws, nevertheless he felt there was not sufficient evidence available to demonstrate an abuse of power by Transamerica either in attaining its dominant position or in perpetuating it. Hence, he felt at that time that ultimate success in a legal proceeding against Transamerica was very doubtful.

On February 26 last I wrote Tom asking whether his Department had considered the recent decision of the Supreme Court in the American Tobacco case in relation to the Transamerica matter, in particular inquiring whether the effect of that decision might not eliminate the need for the type of proof to which he had referred in our earlier discussions. I talked with him again about a week ago and he told me that he had asked you to consider the entire matter and to give him the benefit of your views.

While I know how extremely busy you are, I nevertheless hope that you will be able to give this subject your early consideration. The Board is very anxious to obtain a decision from Justice on this subject just as soon as possible so that it may determine its own future course of action in dealing with this vexing problem. I do not know whether Tom sent you a copy of my letter of February 26. A copy is enclosed herewith. If there is any other information touching this matter which we can supply you, please let me know.

Sincerely yours,

MARRINER S. ECCLES, *Chairman.*

Secretary SNYDER. I do not think I ever saw that letter, Mr. Chairman. Some time around that period, probably, I talked with Mr. Clark. He came to my office and said he had been talking to Chairman Eccles about this matter.

I asked Mr. Clark if the Department of Justice had any ground on which to bring any action, and if they did, I thought they ought to proceed. He advised me that they did not, and did not think they could make a case.

The CHAIRMAN. That was before the American Tobacco decision, was it not?

Secretary SNYDER. It has been some time ago. I don't know that I have the dates.

The CHAIRMAN. He speaks in that letter, you may recall, of the American Tobacco decision which he thought put a new light on the case.

Secretary SNYDER. I don't remember when I talked with Clark, whether it was after that decision or not; but he did say to me that he felt that the Department of Justice had no grounds on which to take action, and they couldn't make a case, and that if any procedure was to be taken that it should be taken under the Clayton Act by the Federal Reserve bank.

The CHAIRMAN. You never received that letter, you say.

Secretary SNYDER. This one you just read, I do not recall ever receiving.

The CHAIRMAN. Of course, not having received it, you could not reply to it.

Now, let us come down to the Gianninis again. Would you agree that there was every reason why the Gianninis would want to get Mr. Eccles out as Chairman of the Federal Reserve Board?

Secretary SNYDER. I will let the Gianninis testify to that. I would not want to make any statement because I don't know. I have heard too many people talking about the banking situation to try to pick out any one of them to say what they have had to say, Mr. Chairman.

(The letter of February 26, 1947, is as follows:)

FEBRUARY 26, 1947.

Confidential.

Hon. TOM C. CLARK,

*Attorney General, Washington, D. C.*

DEAR MR. ATTORNEY GENERAL: It has been well over a year since the luncheon meetings in your office of representatives of the Treasury Department, Federal Deposit Insurance Corporation, the Board of Governors, and your Antitrust

Divison respecting Transamerica Corp. Since that time various proposals for legislation to tighten existing controls over bank-holding companies generally have been considered and discussed by the Board and on April 30, 1946, a bill dealing with this subject was introduced by then Chairman Spence of the House Banking and Currency Committee. However, the pressure of war and reconversion matters prevented consideration of this legislation by the Seventy-ninth Congress. It is expected that a similar bill will be introduced in the present Congress and we hope that it will receive early and favorable consideration.

Meanwhile, however, the problem of how to deal effectively with the Transamerica situation has continued to trouble and concern the Board. Legislation alone will not solve the problem, unless it be of the "death sentence" variety; and the Board is convinced that the passage of such a bill is neither desirable nor possible. The most that may be expected of legislation is to curb the future expansion of a bank-holding company which, like Transamerica, has followed a consistent policy of monopolistic growth.

In your letter to me of October 31, 1945, you reviewed the factual situation respecting Transamerica as disclosed by the investigation of your Antitrust Division. Your letter points out that at that time Transamerica "controls 35 banks in the States of California, Nevada, Arizona, Oregon, and Washington, the largest of which is the Bank of America; that many of these 35 banks have numerous branches; that these banks control approximately 40 percent of the banking offices and approximately 36 percent of the commercial banking deposits in the five-State area; that the Transamerica-controlled banks control approximately 80 percent of deposits in the State of Nevada and 61 percent of the commercial banking offices; in California, 42 percent of the deposits and 49 percent of the commercial banking offices; in Oregon, 39 percent of the deposits and 13 percent of the commercial banking offices; and in Washington, 5 percent of the deposits and 4 percent of the commercial banking offices. In many counties within this five-State area the percentage control of deposits and commercial banking offices is much greater. In California, for example, there are 13 counties in which the Transamerica Corp. controls 100 percent of the commercial banking facilities. This expansion program has been effected over a period of approximately 20 years. In many instances the holding company financed the acquisitions by borrowing funds from its banking subsidiaries, using the assets of the purchased bank as security for the loan."

Since your letter was written, Transamerica has further increased its dominating position in the five-State area mentioned above by the acquisition of other banks and by the growth of those already owned by it. In addition, its portfolio of nonbanking interests has increased.

Both in your letter and in our contemporary meetings you expressed the opinion that, while the statistical data referred to above might be sufficient to justify the Department in commencing some kind of antitrust proceeding against Transamerica and its affiliated organizations, nevertheless the lack of proof of any sustained policy of abuse of power, either in attaining its dominant position or in perpetuating it, made the outcome of such a suit decidedly dubious.

Counsel for the Board have recently called to the Board's attention the decision of the Supreme Court in *American Tobacco Company v. United States*, decided on June 10, 1946. The effect of that decision seems to eliminate the need in certain cases for the kind or extent of proof which had previously been though necessary in antitrust proceedings. I am wondering, therefore, if your Department has considered whether the decision in the tobacco case might not lessen to a considerable extent the doubt which heretofore it has entertained as to the ultimate success of an antitrust proceeding against Transamerica.

I would appreciate receiving your present opinion in the matter, for the Board is again considering the Transamerica situation in the light of the Board's over-all responsibility in the banking field generally and in particular its responsibility under section 7 of the Clayton Act.

Sincerely yours,

MARRINER S. ECCLES, *Chairman*.

The CHAIRMAN. Did you consult, Mr. Secretary, with Mr. Eccles, in regard to Mr. McCabe's appointment?

Secretary SNYDER. I had no reason to, sir. I think we had better get my part straight because of what you said.

The CHAIRMAN. We are going to get it straight.

Secretary SNYDER. I will get it straight for you pretty quickly.

The CHAIRMAN. Go ahead, ad libitum. Take your own time.

Secretary SNYDER. I have only one statement to make and that is that the President asked me one day, if I thought Mr. McCabe would make a good member of the Federal Reserve Board, and I told him I thought he would; and that is the story.

The CHAIRMAN. You talked to Mr. McCabe thereafter about taking the job, did you not?

Secretary SNYDER. I called Mr. McCabe and said, "The President has you in mind for a job. I thought I would just let you know about it. He said something to me about it." That is as far as we have ever discussed it.

The CHAIRMAN. And you talked to Will Clayton about it, did you not?

Secretary SNYDER. The reason I called Will Clayton is perfectly obvious. Mr. McCabe had been associated with Mr. Clayton in the State Department under the surplus property settlement, and I was just naturally checking up, after I had given an opinion about his ability. I checked with Mr. Clayton.

The CHAIRMAN. And you said at a press conference, did you not, following Mr. Clayton's testimony, that at the time you consulted Mr. Clayton you did not know that Mr. McCabe was to replace Mr. Eccles?

Secretary SNYDER. I did not know it until it was announced.

The CHAIRMAN. In view of the fact that you said you were on such good terms with Mr. Eccles, how does it happen that you did not talk with him about Mr. McCabe, who was being named to his board? Would it not have been a natural thing to do?

Secretary SNYDER. Not necessarily. That was the President's business, not mine.

The CHAIRMAN. You knew Mr. McCabe had served for some 9 or 10 years as the chairman of the Federal Reserve Bank of Philadelphia, did you not?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. In other words, he was the Board's own appointee at Philadelphia and on friendly terms with Mr. Eccles. You realized that, did you not?

Secretary SNYDER. I certainly did; yes, sir.

The CHAIRMAN. Mr. Buck?

Senator BUCK. I have no questions.

The CHAIRMAN. Mr. Cain?

Senator CAIN. I have none, sir.

The CHAIRMAN. Mr. Fulbright?

Senator FULBRIGHT. I do not know, Mr. Chairman, whether to pursue this with the Secretary or not. I intended to ask, primarily, about Mr. McCabe's views about the holding-company bill. I might say that I would be very interested, when the Secretary has an opportunity, to have his views about this bill.

Secretary SNYDER. I have stated very plainly, Mr. Senator, and I will be glad to do so again. I am in favor of a proper holding company act. I always have been. There has never been any mystery or question about that.

Senator FULBRIGHT. You have never taken a position in opposition?

Secretary SNYDER. Never have, and do not intend to. I said a "proper" holding company act.

Senator FULBRIGHT. Do you have any reservation about whether this act is proper?

Secretary SNYDER. I do not want to just testify without having it before me, not having looked at it in over a year's time. That was my only precaution there, that I want to make, that I am not testifying in connection with any particular bill at this time.

Senator FULBRIGHT. While Giannini is one of the largest, we had presented to us the other day the Morris Plan organization, by a representative of the Independent Bankers Association. It is a very curious corporate set-up, headed up apparently by a corporation in the Bahamas, I think. I hope the Treasury might give some thought to that particular operation.

Secretary SNYDER. I am not acquainted with that.

Senator FULBRIGHT. I was not, either. But it is a strange combination of all sorts of things, in addition to banks, ice-making machinery, and I think cosmetics and nearly everything we make in this country, all grouped under this corporation, in which we find the Morris Plan banks.

Having had, as I think the Secretary well knows, a rather disastrous experience in Arkansas, about 1928, with chain banking, it has a great interest for me.

I do not believe I have anything further, Mr. Chairman.

The CHAIRMAN. Mr. Robertson?

Senator ROBERTSON. I have nothing.

The CHAIRMAN. Mr. Maybank?

Senator MAYBANK. I have nothing.

The CHAIRMAN. Mr. Snyder, again adverting to your letter of May 23 to me, in which you took no position about the holding-company bill, when I was seeking light from you as Secretary of the Treasury; if I may say so, that is a masterful letter from the standpoint of saying nothing about the subject matter. But you just said that you were in favor of a proper holding-company bill. You did not even give me the benefit of that suggestion in this letter.

Secretary SNYDER. At that time I had not had the privilege of talking to Mr. Delano about it—and I so stated in the letter. He had been ill for some time. You recall, I had only been in the Treasury a relatively short time, at the time of that letter—8 or 9 months.

The CHAIRMAN. Mr. Snyder, I want to thank you for your appearance here this morning. That is all.

Secretary SNYDER. Thank you, sir. Thank you, gentlemen.

The CHAIRMAN. Mr. McCabe?

Mr. McCabe, the committee turned over to you a circulating library in the form of a copy of the hearings before the committee, a copy of the bill, and the committee's report. I do not know whether you have had time to peruse that or not, but I assume you have.

On that hypothesis I would like to reexamine you as to your views as to the holding-company bill now on the Senate calendar, asking the same questions as when you were here last week, at which time you did not have the solution, or the answer.

No. 1: You have looked these things over, I take it.

**STATEMENT OF THOMAS BAYARD McCABE, PHILADELPHIA, PA.—**  
**Resumed**

Mr. McCABE. I might be able, Senator Tobey, to save your time and the committee's if I gave you this brief report as a result of my home work. I think that if I make this statement—

The CHAIRMAN. It will obviate my asking you any questions?

Mr. McCABE. No. I hope you will ask me questions; but I think it will bring my views to your attention quicker.

The CHAIRMAN. By all means, go ahead.

Mr. McCABE. In compliance with the request of this committee, I have made a quick analysis of the proposed Bank Holding Company Act, S. 829, and have read the June 19, 1947 report of this committee to the Senate as well as the published report of the hearings held on May 26, June 2, and June 11, 1947.

I have also conferred, at considerable length, with the members of the legal staff of the Federal Reserve Board who assisted in the preparation of the bill. They expressed astonishment at my very optimistic hope of mastering the essential features of the bill in such a short time.

As one of them expressed it, "We have been working on this legislation for more than 5 years, and it will be difficult to give you what you want in such a short time."

I have persisted, however, and in addition to conferring with them I also talked with Mr. Harold Amberg, the legal counsel of the First National Bank of Chicago and a former associate of mine in Government service. Mr. Amberg, as you know, collaborated in drafting the recommendations of the Reserve City bankers on this legislation.

Since I am not a lawyer and much of the reading material is expressed in legal language, I found my home work over the Easter holidays a little difficult, but certainly worth while from the standpoint of the possible future administration of the act.

As a result of the study, there is no question in my mind concerning the desirability of the broad principles of regulating and controlling bank-holding companies, especially those whose expansion programs are inconsistent with principles of adequate and sound banking.

In arriving at this conclusion I have been particularly impressed by the extensive study which the Board and its staff have given to this general subject over the past several years. There appear to have been innumerable discussions of the matter at the Board itself, as well as between representatives of the Board and those of other governmental agencies, including the Justice Department, the Comptroller of the Currency, and the FDIC. The Federal Advisory Council also has studied the bill, and I understand that certain amendments were suggested by the Board and approved by your committee as a result of the Council's recommendations on the subject. Outside the Government, the need for bank-holding-company legislation seems to have been urged upon the Board and the Congress by the Association of Reserve City Bankers, the 2 independent bankers associations, some 10 or 12 State bankers associations, the National Association of Supervisors of State Banks, and by a considerable number of independent bankers throughout the country. I understand that various of these organizations have contributed suggestions affecting the draftsman-

ship of the bill, some of which are already included in the bill, while others form the basis of certain amendments which the Board is even now proposing to the Congress.

I find that even the bank-holding companies themselves have taken part in discussions with representatives of the Board relating to the terms of this proposed legislation. Finally, your own committee has voted unanimously to report the bill favorably to the Senate.

In the light of this extensive background of expert study and support for the bill, I am without hesitation in renewing my previous endorsement of the principles of the bill, and to state my conclusion that there appears to be a definite need for early congressional action in this field. I agree that the Congress and the bank authorities should diligently strive to establish such rules and regulations as will preserve the maintenance of competition among all banks.

Certainly the ownership by bank holding companies of unrelated businesses is not conducive to a sound banking policy, nor is it fair competitively for the umpire of the game—the Government—to follow certain traditional policies in regard to the expansion activities of independent banks and another policy with regard to bank holding companies.

The legal regulations concerning supervision, examination, loan policy, and maintenance of adequate reserves should be written only with the view of establishing equitable competition between all classes of banks and not for punitive reasons. I think that S. 829 establishes the principles which I have already mentioned.

I think it only fair, however, to point out that I have not been able to become an expert on the precise provisions of the bill in a short period of time. As I pointed out last week, this subject is not one which has been of particular moment at the Federal Reserve Bank of Philadelphia and even my intense course of briefing over the past week has not brought me sufficient familiarity with the minutiae of the problem to enable me competently to choose between different methods for achieving the same objective. I do hope, however, that if in the course of debate on this measure it should appear that changes are required, they will not affect the fundamental objectives.

I wish to repeat, Mr. Chairman, that I am in favor of this proposed legislation in principle. And if Congress should see fit to pass S. 829 in substantially the form recommended by your committee, I can assure you that, if confirmed, I will join with the other Governors of the Board in administering it with fairness and with diligence.

I sincerely hope that the final act will embody the broad principles to which this committee has subscribed.

Thank you, sir.

The CHAIRMAN. Thank you.

Now, specifically, a few questions.

In your opinion, does the present banking system of the Nation contain any monopolistic trends?

Mr. McCABE. Well, sir, I would certainly say that at least the administration should take cognizance of the rapid growth of some of the organizations.

The CHAIRMAN. Stop, look, and listen.

Senator ROBERTSON. Mr. Chairman?

The CHAIRMAN. Mr. Robertson.

Senator ROBERTSON. In your opinion, has that not been due to loopholes in the present law, rather than the failure of the Congress to legislate on the subject?

Mr. McCABE. The present law is full of loopholes, sir. All you have to do is read the law to indicate that it is full of loopholes.

The CHAIRMAN. In your opinion, should any such controls be made applicable on a Nation-wide basis, or could there safely be eliminated from such controls banking systems within a single State?

Mr. McCABE. You asked me that question before, sir.

The CHAIRMAN. These are the same questions I asked you last week.

Mr. McCABE. Yes; at the last hearing.

When I went back to the Federal Reserve Board and discussed this act with the specialists there, they brought out the fact that Senator Buck had introduced an amendment which would exclude the operation of this act from holding companies that operate within a State boundary.

I have not had the opportunity, sir, to hear Senator Buck's reasons for that legislation, and I would like to reserve judgment on that, sir, until I could hear his reasons for that legislation.

The CHAIRMAN. I have not discussed it with my friend on the right at all. I did not know until recently that he introduced such an amendment. But speaking now entirely impersonally and as a man charged with the duty as a member of this committee to put on the statute books constructive legislation in the interest of the people, I would point out that, as I see it—and I may be wrong—the danger in that sort of an amendment, which would result in a law eliminating the power to control a bank-holding company confined to one State, would be that Mr. Giannini—and he is the gigantic individual in this thing, to put it mildly—would simply subdivide his empire, which now covers everything from electric trains to baby nipples. What he would do, as I would if I were he, is subdivide his empire and incorporate it in groups in each State Boundary, and he would have seven or eight State organizations, but would probably devise a method within the letter of the law to place these organizations all under the domination of one A. P. Giannini Corp., and the beneficial effects of the law would thus be nullified.

That is what I am afraid of. That is why I put the question in here.

Now, can you, sir, sitting there now, see that possibility?

Mr. McCABE. I would certainly think that if this amendment was passed, he would have to divorce from Transamerica certain of the operations in these other States. As to how that would be done, sir—

The CHAIRMAN. I am speaking of a way to get around that. All of us who are interested in special projects, whether Mr. Giannini or Mr. Charles Tobey, or Mr. Thomas McCabe, which are pretty close to our hearts, would incidentally try to devise means of circumventing the law, and try not to give up powers under these limitations, and they would play the game in my judgment just exactly as under A. P. Giannini's hat.

Do you believe that bank holding companies should be under a different basis of examination and regulation than the subsidiary banks?

Mr. McCABE. No, sir.

The CHAIRMAN. We agree on that, personally; yes.

Mr. McCABE. Yes.

The CHAIRMAN. Under discussion are measures which would deny an offending bank holding corporation, one, the right to vote shares of stock of either subsidiaries; two, the right to receive dividends from its subsidiaries; three, the right to pay salaries to offending officials; four, criminal penalties for willful violation.

What sanctions, in your opinion should be included in any such legislation to regulate bank holding companies and their subsidiaries?

Mr. McCABE. I think, sir, you have covered that in the act here. I think you have covered all the points that you raised there very, very well in the act.

The CHAIRMAN. That is a compliment, but I was particularly interested in what Mr. McCabe said.

Mr. McCABE. I have before me the various provisions of the act.

The CHAIRMAN. You think that covered that?

Mr. McCABE. I think you have covered that.

The CHAIRMAN. It would be your desire to have them covered there?

Mr. McCABE. I think in the main the provisions of the act, in the short study that I have made, are very tight.

The CHAIRMAN. One last question, sir. This is the last question I am going to ask you as far as I am concerned, and you may well say, as did one of Shakespeare's characters, "for which relief, much thanks":

Do you believe that you agree that these results could not be achieved merely by regulating member banks of the Federal Reserve System?

Mr. McCABE. I think, to really cover the subject, it has to be all-inclusive, as far as the banks are concerned.

The CHAIRMAN. I want to thank you, sir.

Mr. Buck?

Senator BUCK. I have nothing.

The CHAIRMAN. Mr. Cain?

Senator CAIN. No questions.

The CHAIRMAN. Mr. Fulbright?

Senator FULBRIGHT. I want to develop your statement a little further, Mr. McCabe. I thought your statement a good one. I agree with it.

Have you ever had occasion to study the system of banking that grew up in England?

Mr. McCABE. I have a general idea of that system.

Senator FULBRIGHT. Would you state briefly how it is? Before the nationalization program—I am not interested in that. It is true it grew up in five big banks that covered the country?

Mr. McCABE. Yes.

Senator FULBRIGHT. Do you feel that is a healthy system?

Mr. McCABE. Not saying what is healthy for England, I do not think it is healthy for the United States.

Senator FULBRIGHT. That is the point. Is not the tendency of the growth of the Gianninis' Transamerica toward that?

Mr. McCABE. I think the statement I have made here, Senator, answers your question.

Senator FULBRIGHT. In a way it does.

Mr. McCABE. I think the development of the American banking system has been an extremely interesting one, because, as you study the American banking system you will see that our banks developed on a very independent basis. Prior to the Federal Reserve Act we had some 25,000 independent banks in the United States.

I think that banking system, as it developed, was peculiarly American, and performed a great service. Then I think it reached a point where our economy, the needs of industry, the needs of agriculture, required reserves that were more mobile; that were concentrated.

We needed a more elastic currency. Then we developed the Federal Reserve Act, which I think is one of the most monumental pieces of legislation ever put on the statute books.

I think over the period of time, since the creation of the Federal Reserve, that very desirable changes have been made in the act, and the growth of the banking system, I think, in the main, has been excellent.

I think, as has been pointed out here, the development of certain phases of that have been just a little out of tune with the American development, I mean with our sound American development.

Senator FULBRIGHT. I do not understand what are the advantages to the public of an organization like Transamerica. What is their argument; what is their justification?

Mr. McCABE. I have never talked to Transamerica or any of its people about their reasons for their development.

Senator FULBRIGHT. Can you, from your own knowledge, see any good reason for that kind of development?

Mr. McCABE. You want me to take their side for a moment?

Senator FULBRIGHT. I was trying to explore it. I cannot see what the justification is for that kind of an organization, in banking. I can see in making Ford automobiles there is a great justification for the assembly line, but I do not see it in banking; do you?

Mr. McCABE. You are asking me to make a surmise.

Senator FULBRIGHT. Yes.

Mr. McCABE. I would assume that they had in mind, just as the grocery chains had in mind, the covering of a broad territory. They cover now about five States.

I presume that they have developed certain efficiencies in these multiple operations, and that they had demands for large loans which perhaps they could not handle in just one bank, but perhaps they split those loans up and handled them in many banks.

I would presume again, sir, that their thought was that operating in the manner in which they have operated, there were efficiencies, there was a chance to make larger earnings, and that perhaps there was a development of personnel—that through a system of many banks they could develop a career system, perhaps, for their people.

Then, of course, they engaged not only in banking, but in all these collateral activities.

I suppose there was an opportunity to utilize the bank services on the one side while they were developing this on the other.

You have asked me to surmise, and I can't recall that I have ever talked to any official of the Transamerica Corp. or the Bank of America about this particular development.

I have heard people on the west coast—I have traveled out there in years past—that have talked about the enormous loans and investments which they have made in various enterprises, and of course, there is a divided feeling out on the west coast.

There is a feeling on the part of a great many people that they have been a great influence in the development of that area, and then there is a feeling on the part of some of their competitors that they have taken an unfair advantage, so that you get a divided opinion.

When I was sales manager of my company in my early days and as president of the company, I used to travel out to the coast, I would hear these divided opinions. Of course, they have scores of strong supporters among the individual people who feel that they have contributed something.

Senator FULBRIGHT. It is true you also have that in any monopoly or any big business.

Mr. McCABE. That is true.

I hope I have answered your question.

Senator FULBRIGHT. You did, very well.

I have a statement here from the First National Bank of Willows, Green County, Calif., that I—

Mr. McCABE. I saw that.

Senator FULBRIGHT. I think some of those questions are very pertinent to this inquiry. I am not familiar with the particular bank. The Independent Bankers' Association, I think, feel very much as the Bank of Willows does about this whole business.

While you have given what I suppose is the reasoning of the directors and owners of the Bank of America and Transamerica, I do not follow it. There is a distinction, in my own mind, between chain grocery stores and banks.

The fundamental influence of a bank upon a community is much greater. And when you have only one bank in some of these large communities, it gives an undue power to that organization over the whole business life of the community, as distinguished from a grocery store.

Mr. McCABE. Did this committee ever have Mr. Giannini in to testify?

The CHAIRMAN. No, sir.

Senator FULBRIGHT. Not to my knowledge.

Senator MAYBANK. Mr. Chairman, I might say this: That Mr. Giannini's representative was one of the men who opposed, when I was on the committee, everything for the smaller banks, by not eliminating exchanges. Mr. Eccles also opposed the smaller banks.

In 1942, if I remember correctly, Mr. Eccles came down here and testified against Mr. Tate. That, in turn, hurt the smaller banks.

Senator FULBRIGHT. I noticed this, Mr. McCabe—that there is the general policy already accepted by the Comptroller, I believe, that in a town, say, of above 10,000 they like to keep two banks; that is, two banks of different ownership.

But this particular growth nullifies that policy when they do it by acquisition of the existing banks and branches of those existing banks, does it not?

Mr. McCABE. In town after town you have seen the so-called commercial bank, and then the bank with trust powers. Quite frequently you see that in towns. Then you see towns that have three or four

banks. There will be one or two commercial banks and one or two trust companies. It is quite natural in the average community to have banks that offer different types of service.

Senator FULBRIGHT. And under different ownerships.

Mr. McCABE. Yes.

Senator FULBRIGHT. That is, as you say, the real American way.

Mr. McCABE. Yes.

Senator FULBRIGHT. But, as I understand it, in California practically 50 percent of all the deposits are held by the Bank of America; and in town after town there is only one bank in the sense of ownership. There may be many offices, but only one bank. Is that correct? Would you say that is not a typical or American condition?

Mr. McCABE. I would say this, Senator Fulbright—that those who studied merchandising intensively recognize that the west coast has pioneered in a number of merchandising activities. You take the development of the supermarket, for example. That is where it developed to a great extent, on the west coast.

There is something in the atmosphere out there that those people do things on a different scale, and on a very large scale. I think it is something like the spirit of the place. I think that would partially account for it.

Senator FULBRIGHT. Now, they have spread into five States, and it is becoming so large it is a national problem, it seems to me, and it carries with it a great responsibility.

When such an organization makes a mistake, it involves a great deal more than a mistake in an ordinary bank. It actually is going along the line of socialism, it seems to me. You create a condition which, if something goes wrong, the Government has to step in. It is a step in that direction, not only in this business but in many other businesses. And I do not like it.

Mr. McCABE. Did that come home to you in Arkansas?

Senator FULBRIGHT. I was coming to that—this question of permitting holding companies wholly within a State. The one which we suffered so greatly from was confined to the State. But it paralyzed the whole business of that State.

Mr. McCABE. And you never forget an experience like that.

Senator FULBRIGHT. Practically every bank of any importance had to close or be bailed out, and it took many years to get over it, even in the capital city. One or two of them were in good condition, but the sympathetic influence of the others created the same havoc there.

Because of that experience, I cannot see why it should be permissible even on a State-wide basis. Of course, it is better than having it on a national basis. It is not quite so dangerous. But this one, and several others, particularly the Morris Plan Bank organization, spread over many States. Did you examine the Morris Plan corporate set-up?

Mr. McCABE. I went through that. I suppose I read that part of the text three times.

Senator FULBRIGHT. Is that not an odd way to set up a bank holding corporation?

Mr. McCABE. It seemed odd to me. There must have been some basic reason in the minds of those men for developing it the way they did. In spite of the odd set-up, there are certain things about their pioneering, though, in the fields of activity, that are very appealing;

I mean the way they developed the small-loan business and installment selling.

I thought, in the text, there were certain pioneering activities of that organization that were very interesting.

Senator FULBRIGHT. They could do that without being associated with all of those individual enterprises of all kinds, could they not? That makes no contribution.

Mr. McCABE. It seems that that was overdone, sir.

Senator FULBRIGHT. That is the way it seems to me.

Mr. McCABE. Yes.

Senator FULBRIGHT. The main point I wish to get at is your view about this whole matter, which I am very interested in.

I take it from your testimony that you are convinced of the merit of this legislation.

Mr. McCABE. Not the slightest doubt about it.

Senator FULBRIGHT. Either as to influence on monopoly or the divorcement of banks from industry.

Mr. McCABE. Not the slightest doubt about it.

Senator FULBRIGHT. I think that is the most important legislation to come out of this committee recently. We have now these questions brought up about the pending applications for branches of Transamerica. I assume from what you say that you think that is to be held in abeyance until the Congress acts on the Holding Corporation Act.

Mr. McCABE. I would think Congress—

Senator FULBRIGHT. In a year of this kind I am not sure that we will get any action at all until November.

Mr. Chairman, I do not know that I have anything further.

I may say that I am glad you gave your consent to review this legislation.

I do not believe that I have any further questions, Mr. Chairman.

The CHAIRMAN. Mr. Robertson?

Senator ROBERTSON. Mr. McCabe, I understand from your testimony that, regardless of whether or not wide coverage by means of chain banks and subsidiary enterprises results in greater efficiency or merely greater profit, if the set-up is monopoly, you are against it?

Mr. McCABE. I say here in my statement that I think that the Government, as an umpire, should do everything possible to preserve competition.

Senator ROBINSON. In other words, on general principles you are opposed to a monopoly in any field, whether industry or labor?

Mr. McCABE. Yes.

Senator ROBERTSON. That is all.

Senator FULBRIGHT. Mr. Chairman, following that up, we have been opposed to monopoly for over 50 years. But we have done virtually nothing about it.

Now, everybody says he is opposed to monopoly. But when it comes to doing anything about it—there have been introduced in the Senate, I know, amendments to the Clayton Act relating to the acquisition of assets—but nothing was ever done about it.

I think it is a fraud on the people, pretending we have an anti-trust law when we do not really have it. Because the growth of mergers tending toward monopolies in the last 2 years has been greater than in any 2 years in our history.

The Federal Trade Commission not long ago analyzed that situation and published the fact that around 1,800 major mergers through the acquisition of assets, which is permissible, have occurred since the war.

So the important thing is not just general. Can we get, and will you support, some specific legislation, and do something about it? That is what I am after.

Mr. McCABE. I have answered that.

Senator FULBRIGHT. You have; and I rely on that answer—that you really want to do something about it. Because I do not consider that we have done anything, practically, and the growth of monopoly has not been very seriously interfered with.

I think the greatest tendency toward socialism today is to build up huge organizations which, once they abuse their power, presents an opportunity for the Government to take them over.

The converse of that is that we always say we are for little business, and we are always going to do something for little business, but to my knowledge we have never done anything except to create a committee to consider the subject. I believe that is true. I do not know of anything specific.

Mr. McCABE. I am very sympathetic to little business, because when I started with my company it had annual sales of a little over \$1,000,000 a year. It was not strong financially.

I had 32 years' experience in helping to develop a very, very small business into what I would call one of moderate size, with sales of about \$60,000,000. We had to buck every kind of competition imaginable, and it was a thrilling experience.

I have seen large businesses, I have dealt with large businesses, I have dealt with small businesses. I think I have had an opportunity to view the industry of this country very broadly.

Senator FULBRIGHT. When I say "small business," what I really mean is the opportunity for small business to prosper and to grow to be larger business. I do not want to freeze them into small business. But it is that opportunity to do what you have done that we would like to preserve.

*I think we are fast making it almost impossible for anybody to do what you did with your business.*

Mr. McCABE. I will tell you, Senator, it is a great experience to do that.

Senator FULBRIGHT. Do you not think it is more difficult under present taxing laws and other laws for a man to do what you did?

Mr. McCABE. Every time the Government passes legislation—this is the sad part of it—in the passage of a great deal of legislation, and in the regulations, such as we had in the war period, the small business is at a distinct disadvantage.

In the first place, the interpretation of these regulations and these laws require excellent legal minds. The preparation of these reports requires the services of excellent auditors. And the small-business man is at a distinct disadvantage; because, in the first place, he doesn't have contact with the right people. It is expensive to get that advice. And, as a result, he goes through a state of confusion to grope with the rules and regulations.

The big organization is well set up. It has an excellent legal department, it has a comptroller's department that is well set up, and it has generally a fine staff in its general counsel's office. It employs competent auditors; it has specialists in all directions to advise it.

So that when the Government decides to regulate something, or an industry, the larger corporation is in a far better position to meet the conditions than the little fellow.

That is, sometimes we pass laws, or we decide to regulate industry, in the hope that we are going to help the small fellow, and sometimes we don't help him.

Senator FULBRIGHT. It is sometimes felt that those who administer these laws are not interested in helping those, too.

Are you going to be sympathetic with the little ones?

Mr. McCABE. What would you think, with my background? I mean, business background, and even in a very modest way, my banking background?

My father was a little country banker. I lived across the street from the bank. So I saw the problems of the little banker. I have a familiarity with that. He was also banking commissioner of the State. So I had a chance to observe the manner in which the banks were examined and the analysis made.

I have seen the countrymen come in and apply for loans and the agreements taking place with the local merchants on loans.

So that my background from the first has been training in connection with a small bank and training in connection with a small business.

Senator FULBRIGHT. You have not forgotten that?

Mr. McCABE. I haven't forgotten.

I would like to say in that connection—I don't think I need go any further.

The CHAIRMAN. In your statement on page 3 you say as follows:

Certainly the ownership by bank holding companies of unrelated businesses is not conducive to a sound banking policy—

Here is the heart of it—

nor is it fair competitively for the umpire of the game, the Government—and you just paid tribute to the Government as an umpire—

to follow certain traditional policies in regard to the expansion activities of independent banks and another policy with regard to bank holding companies.

Will you lighten that up a little bit? That is a little foggy to me.

Mr. McCABE. What I mean in regard to independent banks is that the Government has a policy of examination, control, and regulation.

The CHAIRMAN. You were referring to examination?

Mr. McCABE. I am referring to all these things, the policy that the Comptroller of the Currency has, the Federal Reserve, and the FDIC, with the independent banks.

Now, the point I make here is that if a holding company operates these subsidiaries, it should be subjected to the same controls that the independent banks are. That is the point I make.

The CHAIRMAN. Thank you.

One concluding question: Do you not feel that we should have a strong central bank, in the Federal Reserve Board, to which you have been nominated, with wide discretionary powers, rather than a

system of 12 regional central banks whose policies could at times run off in different directions?

Mr. McCABE. That is a very interesting question, Senator.

The CHAIRMAN. I know it is.

Mr. McCABE. I think that what we have is excellent. That is, we have here in Washington a Board of seven Governors who are devoting most of their time to problems of central banking. You have 12 regional banks that are close to the grass roots, that are studying the problems of finance and commerce, the problems of industry, agriculture, in their area.

I feel that it is very helpful to the Board of Governors here in Washington to have the advice, counsel, and opinion of the directors of these 12 regional banks, as well as the 24 branches, because they are close, as I say, to the people, and close to industry.

I think the more that the Board of Governors can receive the opinions and the counsel of these 12 banks and their branches, the better. In doing that, and this question came up the other day—asked by Senator Fulbright—I don't think for one moment that the Board of Governors should ever relinquish any of their authority or their responsibilities, but I do think it is very helpful for them to obtain the opinions of the regional banks and branches, because you have some extraordinary men on the boards of directors and on the advisory committees of these banks.

I think, for instance, when a question like the bank-holding-company bill comes up, that while it is under discussion it is an excellent thing to pass that out to the banks and the branches and have them study the thing themselves, and then receive their opinions so they can be incorporated in the act.

I think that then when you produce the bill, Senator, you have those men feeling that they are a part of it. When they feel that they are a part of it, they wield tremendous influence in their communities, and can be very influential.

I think the thing that I would like to avoid is to take a stand here in Washington, and then go out and seek the support of these banks and their branches. If they have not been in on the prior discussion, sometimes that support is hard to obtain.

The CHAIRMAN. Is not provision made for that contingency in the fact that you have the Federal Advisory Council who meet periodically in Washington. You have the liaison set-up under the modus operandi that gives you that facility.

Mr. McCABE. Don't misunderstand—that I am critical.

The CHAIRMAN. No.

Mr. McCABE. My feeling is that having been a director of a regional bank, and the chairman of its board, and having been connected with that bank for some 10 or 11 years, I think I have a feeling for the part that those directors can play, and it is my intention to utilize the power that I know is there, the latent power that is there, and I would like to use that to the *n*th degree.

I think it would come in, for instance, on this bank-holding-company bill. I think that if you took the time and patience to go before those boards and explain the purposes of this legislation—

The CHAIRMAN. What boards are you referring to?

Mr. McCABE. I am referring to the regional boards.

The CHAIRMAN. That has been done, has it not, in conferences around the table here?

Mr. McCABE. Yes.

The CHAIRMAN. Then does that not cover your argument?

Mr. McCABE. I am just saying that I am like a sales manager that has come into the home office after he has been in the field. That is always a healthy thing because the sales manager has an understanding of the territory that I think is of value to the home office.

That is all I am talking about.

The CHAIRMAN. In the back of your mind, projecting your mind, you sitting up there in Mr. Eccles' place on the Federal Reserve Board, is it conceivable that this would be a description of your policy on this very vital policy: that you adopt Theodore Roosevelt's policy of "tread softly and carry a big stick"?

Mr. McCABE. I think you have to look at my record, sir, as to what attitude I would take. I say this: That when you start in business, you are way down here. Over a period of time you help develop that business to where it is conspicuously one of the leaders in the industry. To do that you have to exercise a degree of independence, a degree of leadership, and you have to demonstrate ability to work with people.

The CHAIRMAN. And once in a while, in a great crisis, you have to say "Thus saith the Lord"; do you not? The oracle is speaking now?

Mr. McCABE. Yes.

The CHAIRMAN. Now, coming down to the Federal Reserve Board action in reducing Government bonds to the support price of par, last December, when they put the bid price down to par. You know and I know that leading bankers took umbrage at that and are very bitter at the Federal Reserve Board at Washington because overnight they dropped the support price without putting an ad in the paper and telling them they were going to do it, and let somebody else hold the bag. In my judgment they did a very wise, constructive act to equalize between long-term and short-term bonds, and it is a sound policy. But the bankers in the hinterland were bitter about it, as you know.

What I am getting at is that there comes a time when in a great national crisis somebody has to speak as one having authority, and that someone must be, under our banking laws, it seems to me, the central bank sitting in Washington, headed by Mr. McCabe or his predecessor, Mr. Eccles, who sees the situation and has to have the courage to make a pronouncement. Do you agree with that?

Mr. McCABE. Senator Tobey, I expressed myself at the last hearing forcibly on that.

The CHAIRMAN. I know you did.

Mr. McCABE. I am in full accord with the action taken at that time. But as far as speaking out, I would just like to bring this to the attention of the chairman—that when the ERP, for instance, was first suggested—

The CHAIRMAN. What is that?

Mr. McCABE. European recovery program.

The CHAIRMAN. Oh, yes.

Mr. McCABE. I went before the Pennsylvania Newspaper Publishers Association, which consists of publishers throughout the State, and took a very, very strong stand. In the State of Pennsylvania, as conservative as it is, to have taken the stand as strongly as I did, I

think, required a little courage and independence. I don't know whether I have the address here. Yes; here is a copy. This is the address, America is a European Power.

I think I had to show a degree of independence to do that.

On Bretton Woods, I went before our group in Philadelphia and, as I said the other day, we were the only city in the United States where the leading bankers came out boldly for Bretton Woods, when it wasn't popular to do that.

Now, the other thing I would like to say to you: You recall, sir, that when the British loan was before the Congress, and my recollection is that that was when I first met you, Senator Tobey.

The CHAIRMAN. That was a good day.

Mr. McCABE. I went to Philadelphia with Chief Justice Vinson, who was then Secretary of the Treasury, before the Academy of Political Science, and spoke from the platform with him, and advocated that with all the vigor at my command.

That wasn't too popular a subject at that particular time.

I point these things out only to indicate that although I might be mild-mannered, that when the time comes I do know how to act.

The CHAIRMAN. The reserve strength will be there. Reserve personnel, and the Federal Reserve Board. Now, sir, one concluding comment and I think you will agree, the Scripture said, "In a multitude of counsel there is wisdom." And that is the thought you have, and I have also, in banking matters; and your multitude of counsel out in the hinterland, the advisory board and the 12 regional banks, and they all have a community of interest in this matter.

You will recognize, I think, with me, that in a time of great national and international crisis, when we are living by the day, hoping and praying for the best, that it is very probable that a crisis may arise in monetary matters in this country, when we listen to our banker friends from the west to the east coast, all of whom are splendid men.

We talked with them, but after all is said and done, finally there comes a time, may well come a time, in the unforeseen future, when somebody has to take a definite position and lead off in these things.

Do you agree with that?

Mr. McCABE. Yes.

The CHAIRMAN. When that time comes, it is your testimony about this that Mr. McCabe would rise to the occasion and show the decision and the guts and the courage necessary to make a great decision in time of crisis; is that right?

Mr. McCABE. Yes.

The CHAIRMAN. On his own, with his Board; is that correct?

Mr. McCABE. I don't think there is the slightest question on that.

The CHAIRMAN. Because there is something more important than banks and bankers. There are 130,000,000 people of the public interested, and their interest is supreme; isn't it?

Mr. McCABE. There is no question in my mind, sir. I think my life has indicated that; I think in my actions in the things I have done.

The CHAIRMAN. That is all I have to say, sir.

The committee has been very tolerant with the chairman. I have completed my job, sir, and I want to say this in conclusion, epilogue, if you please, that you came before us as a nominee from the President,

to what I think one of the most important jobs any man can be named for in this country, especially in this great crisis, because in your hands, if you are confirmed, will be the reserve policy, the monetary policy of the country, in a time of crisis.

I thought it was my duty, based on the fact that three fellow Senators had pointed out their disapproval of what you were doing overseas, and there were no personal thoughts, to investigate. The committee has done so.

I further thought that we should go into the matter of the holding-company bill which is involved; and also to go into the matter of your viewpoint on Federal Reserve matters and the relations between the various banks and your bank.

So, I have no apologies to make to you or to our fellow members of the committee for what I think is a very thorough investigation of the whole matter. Whether the people like it or not I cannot help it, let the chips fall where they may. I have no feeling for you but the kindest feeling. I hoped when we got through these hearings that I could vote for you. That is the reason that I wanted the green light to my mind, speaking solely of Charles Tobey's position.

Any comments from the committee?

Senator BUCK. Mr. Chairman, when do we start hearings of General Johnson?

The CHAIRMAN. General Johnson is still hors de combat out in Japan. He has not arrived in this country yet. I would like to get my hands on him.

The meeting stands adjourned. Subsequently and shortly the committee will be called in session to vote on the nominee, when the committee is in full attendance.

Thank you for coming.

(Whereupon, at 12 noon, the committee was adjourned.)

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