ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

EIGHTIETH CONGRESS

FIRST SESSION

PURSUANT TO

SEC. 5 (A) OF PUBLIC LAW 304,

79TH CONGRESS

NOVEMBER 21, 24, 25, 26, 28, DECEMBER 2, 3, 4, 5, 9, AND 10, 1947

Printed for the use of the Joint Committee on the Economic Report

UNITED STATES
GOVERNMENT PRINTING OFFICE
69371 WASHINGTON : 1948

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CONTENTS

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FRIDAY, NOVEMBER 21, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 2 p. m., pursuant to call, in Room 318, Senate Office Building, Senator Robert A. Taft, chairman, presiding.

Present: Senators Taft (chairman), Ball, Flanders, Watkins, O'Mahoney, Myers, Sparkman, and Representatives Wolcott (vice chairman), Bender, Rich, Hart, Patman, Huber.

Senators Capper, Aiken, Ecton, Baldwin, Bushfield, Cooper, Young, and Representatives Talle, Poulson, and Horan.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

The committee is meeting in a series of hearings to complete the investigation which the committee itself has been making for the last 3 months, particularly through three subcommittees which have held hearings in some, 30 or 40 cities on the subject of high prices, and also to consider the President's recommendation in his recent message in particular the 10 points, or some of the 10 points which appear in that message.

Secretary Harriman, acting for the President, has arranged to have the officials directly concerned appear before the committee to present in more detail the proposals made by him in his message.

The first witness to appear is Secretary Anderson, Secretary of Agriculture, and I presume he will deal with various of these items, and particularly items 2, 5 and 6. I assume also that he is open to questions on those, and perhaps any of the others that are stated in the message.

Mr. Secretary.

STATEMENT OF HON. CLINTON P. ANDERSON, SECRETARY OF AGRICULTURE, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

Secretary ANDERSON. Primarily, Senator, I thought we would deal with No. 2, briefly with No. 3, if you do not mind we would like to make some comments on it, and No. 4, No. 5, No. 6, and No. 7.

The CHAIRMAN. All right.

Secretary ANDERSON. And very briefly on some of the others.

The CHAIRMAN. You may proceed.

Secretary ANDERSON. Mr. Chairman and members of the committee, the Department of Agriculture, through me, in the main would like to divide its testimony into several groups. I would like to deal very briefly with recommendation No. 2, and then with recommendation No. 6, and then refer to other people from the Department who will speak in reference to our interest in export controls, then slightly as to the transportation facilities, although I think I can confine our entire testimony to saying we believe that the ODT needs the continuation of the powers of allocation of transportation, but we do not care to deal with that, unless you desire us to file some supplementary statement.

We would then like to discuss the conservation program, and that portion of it which deals with the production of foods in foreign countries, then probably reverting to some of the other items.

The CHAIRMAN. I understand that you yourself cannot be here Monday, so you wish to finish this afternoon so far as your personal testimony is cncerned.

Secretary ANDERSON. If I may, Senator, I would appreciate it, because I have been requested to appear before the Appropriations Committee in its study that it is making of the entire food problem, and they desire to have me as a witness Monday morning. I do not know how long that testimony will last. I assume that the department would probably be through by the time the other testimony is completed. If not, I will be glad to return at a subsequent date, if you have additional questions of me after you finish with the other witnesses from the Department.

The CHAIRMAN. I thought perhaps we should finish as far as we can with your testimony this afternoon, and then the other representatives of the Department could be here Monday.

Secretary ANDERSON. Yes. They will be here. I would appreciate it if you could handle it that way.

The CHAIRMAN. You may proceed.

Secretary ANDERSON. May I first, then, devote myself to item No. 2, the proposal on commodity exchange regulations.

The proposal to strengthen regulation of speculative trading on commodity exchanges is directed especially to the purpose of curbing inflationary speculation by the large mass of small traders, most of whom are not even remotely connected with the business of merchandising or processing commodities. It is intended to prevent unsound price structures built on speculative fever. The ultimate end of all such speculative booms is sudden collapse and disorderly price movements.

Unrestrained speculation under present conditions constitutes inflationary competition in basic commodities required for domestic needs and for European relief.

The proposal will require amendment of the Commodity Exchange Act. The act contains authority for fixing limits on the trading and commitments of individual speculators. Such limits, however, affect principally the speculative trading of large operators. They do not affect the mass trading of the thousands of small speculators.

The Department believes that speculative activity may be curbed effectively through regulation of margins on speculative positions in commodity futures. We believe that this may be accomplished without impairment of the facilities necessary to the hedging of price risks by merchandisers, processors, and distributors.

Such authority should extend to all agricultural commodities in which futures trading is conducted. The Commodity Exchange Act does not cover such commodities as sugar, coffee, cocoa, pepper, hides, and grease wool. The act should therefore be amended to authorize control of margins with respect to these commodities as well as those covered by the act.

The CHAIRMAN. Mr. Anderson, have you any figures, or is there any information about the extent of this trading, how it has increased, how it is handled, and so forth?

Secretary ANDERSON. Yes, Mr. Chairman, Mr. Mehl, who is in charge of the Commodity Exchange Administration, had expected to deal with that part of it in more detail. I simply wanted to make a general statement of our interest in it. Mr. Mehl happens to be sick today. I am sure that other representatives of his Administration are available if you would like to go into that at this time. I would like to call the person involved.

The CHAIRMAN. No, I would prefer, if there are questions to you, to have your answer on the question, and have Mr. Mehl on Monday go into it in more detail.

Are there questions of Secretary Anderson on this general question of the commodity exchange, and the addition of the one power? Is that all you ask for, the one power to limit?

Secretary ANDERSON. Yes, Senator, briefly.

The CHAIRMAN. To regulate margins on speculative positions in futures.

Secretary ANDERSON. Yes, that is right.

The CHAIRMAN. Is that the only additional power you ask over what is now in the present act?

Secretary ANDERSON. I will say that throughout nearly all of the war, the exchanges were extremely cooperative and did about what the Department requested. The exchanges did regulate margins at our request, and at the present time, as you are well familiar with, the exchanges have put through a change in their margin specifications at the request of the Department of Agriculture.

Our feeling, however, is that we would be in a much better position if the regulation, or if the change in margin requirements could be enforced by the Department.

For example, if the commodity exchanges wish to tomorrow, they could completely reverse the position they took some weeks ago, and while we do not believe they contemplate doing it, we still think that regulation with some legal basis is preferable to regulation which may be changed at any moment.

The CHAIRMAN. If I understand, you mean you have no objection, at least you have effective control over the professional speculators, but you think the present act does not give enough control over the casual person who enters into the market.

Secretary ANDERSON. No; I might say it this way: We have regulations which permit the reporting of the various positions of fairly large operators. If, for example, a large speculator moves into the market and buys a very substantial block, giving us a clue that somebody may be cornering the market or manipulating it for improper purposes, those large holdings must be reported to us. Purchases of more than a certain number of bushels must be reported.

But purchases by innumerable small speculators are not reported to us in the ordinary course, and we therefore feel that the easiest way is for us to be able to require certain margin limits straight across the board, feeling that in, should I say, the normal business purposes of speculation, the operations by which a mill having contracted for the delivery of flour protects itself in the delivery of that contract as to price by a forward purchase of futures, those we do not object to and those are normally reported to us. But the speculation, which deals were just plain venturing into the arena of commodity prices, is something on which we think there should be enforceable regulation.

I have tried to be perfectly fair, and say that during the entire period of the war we have had very good cooperation from the commodity exchanges.

The CHAIRMAN. Have you any evidence that there has been excessive speculation or do you feel that there has been?

Secretary ANDERSON. Yes; I do. I feel that the somewhat limited opportunities to perhaps speculate on the market made it very convenient for people to be in the grain markets. When we persuaded the exchanges to increase their margin requirements to 33⅓ percent, there was a substantial reduction in the amount of speculative trading.

The CHAIRMAN. I notice that the Attorney General in Boston on October 8, and I was there at the time, alluded to the grain trade as "greedy men blinded with lust for money, trafficking in human misery." Did you suggest those words to him?

Secretary ANDERSON. He is much abler than I am to coin his phrases.

The CHAIRMAN. He seemed to be reflecting on the grain trade in that statement, rather than on these casual smaller speculators to whom you refer as the people that you have to control.

Secretary ANDERSON. I have stated the purpose which the Department of Agriculture has in this. That is our purpose. We have fairly ample reporting facilities for large operators and we have followed those operators with some interest at times, but we are also anxious to make sure that when we put a limitation on, we have the power to keep it on during the period that we may think that is necessary.

The CHAIRMAN. Have you felt that the legitimate operators in the grain market have behaved properly within the scope of that. Of course, their business is speculation.

Secretary ANDERSON. I think that they have.

The CHAIRMAN. Have you any great criticism of the way in which the dealers in grain have handled the situation as distinguished from the speculators?

Secretary ANDERSON. Not the legitimate dealers in grain nor the large milling organizations; we have had, and I am pleased to acknowledge it, the first opportunity I have had, we have had extremely fine relationships with the large milling organizations.

It is quite obvious that during these last few months, when there has been competition for grain that we could have been in buying very vigorously at the same times that they were and bid against each other, and produce some bad spirals in the grain trade. They have known at times when we were buying in the market in large quantities. They have somewhat restrained their operations during those times and have picked up their grain at other periods, with the result that, I think, we have both profited by the, what I regard as, decency in which these operators have acted.

The CHAIRMAN. We might go down the line here and start with Senator O'Mahoney. Are there any questions?

Senator O'MAHONEY. My understanding, Mr. Secretary, is that you primarily desire the power to enforce margin requirements.

Secretary ANDERSON. That is correct.

Senator O'MAHONEY. And you desire power to enable the department not only to regulate the large speculators, but also to follow through on the small speculators, who merely ride the ebb and flow of the purchase and sale of these commodities in this time of crisis.

Secretary ANDERSON. Yes, sir; and we have asked that certain other commodities, such as cocoa, coffee, sugar, pepper, hides, and so forth may be included in the powers. We would be perfectly willing to have you put that on an emergency basis. But I think it is just as well to put it in the normal law and let us use it when, if, and as necessary.

Senator O'MAHONEY. May I ask this additional question: The President, in his message, made reference to a long-range program for agriculture. He pointed out the need to provide for the broader utilization of agricultural products generally, and for the encouragement of production in the United States. I take it you do not intend to discuss that today?

Secretary ANDERSON. I intend to discuss increase in production.

Senator O'MAHONEY. Good. I will defer any further questions.

The CHAIRMAN. Any other questions on this question of the commodities exchanges?

Senator BALL. Is it your position that speculation was at least partly responsible for the rise in grain prices in the last few months?

Secretary ANDERSON. At least partly responsible, yes.

Senator BALL. It is my understanding that future prices have lagged behind cash prices pretty consistently. How does that jibe with blaming it on speculaion? That does not make sense to me.

Secretary ANDERSON. I know that the commodity exchange authority which studies regularly the transactions taking place on the commodities exchanges have received reports regularly of the interests that are in the speculative markets, and what has taken place on those markets when the amount of grain held for speculative purposes has increased. I think they are in much better position to testify to the exact effects of it than I am, but they have assured me that it is their belief that these activities do represent a cause of rising prices.

I have asked questions to the very point that you have just asked, as to why these future markets are low, and seemingly there are times when shorts are covering in the market as their position runs out, and they become necessarily a cash buyer. I have never bought nor sold a bushel of grain long or short, and therefore it is a mysterious process to me. But the people who deal with it regularly assure me that as the date of settlement comes closer, and a short has to produce the grain which he has agreed to deliver at a given time, as he tries to close that gap which he has been involved in in speculation, he does move into the market and start bidding vigorously.

Senator BALL. You mean in the cash market, then?

Secretary ANDERSON. Yes. That is why the markets move up above the future position.

Senator BALL. It would normally, it seems to me, when you have a lot of speculative trading in grain, it hits the future market hardest. That is where most of the speculation is initially, is it not?

Secretary ANDERSON. I wonder if the normal position might be dependent upon the fact that we usually have a surplus position of grain in the country, instead of the position in which we find ourselves with a scarcity to the shipments which we make abroad. I do not know whether that changes the picture or not, but it seems to me that it might.

Senator BALL. Is it your understanding that there has to be some speculation in the futures market in order to permit legitimate traders to hedge?

Secretary ANDERSON. That is correct.

Senator BALL. Because the short hedgers and the long hedgers do not always balance.

Secretary ANDERSON. That is right.

Senator BALL. It has to be speculators to make up the difference.

Secretary ANDERSON. That is right.

Senator BALL. You do not want to drive them out of the market entirely?

Secretary ANDERSON. No; we do not think the requirement of a 33⅓ margin does drive them out entirely, out of the market. We think it does drive out a portion of the speculation that represents a sort of frenzied purchasing and selling of grains that is not too much of a stabilizing influence.

The CHAIRMAN. Any other questions on the left? Any other questions on the right?

Representative BENDER. I would like to ask a few questions of the Secretary on this subject, Mr. Chairman.

Mr. Secretary, were you consulted by the President in the preparation of his statement of October 5, 1947, in which he said "The cost of living in this country must not be a football to be kicked about by gamblers in grain"?

Secretary ANDERSON. I do not recall whether I was consulted or not in the preparation of the statement. I would have to look at my calendar, and see which days I went to the White House, and which days I did not.

Representative BENDER. Is the cost of living due to such gambling?

Secretary ANDERSON. Solely?

Representative BENDER. Well, solely, or otherwise.

Secretary ANDERSON. I would not say solely.

Representative BENDER. Or partially.

Secretary ANDERSON. Partially.

Representative BENDER. To what extent, to what degree?

Secretary ANDERSON. I do not know that I could measure that.

Representative BENDER. Mr. Secretary, were you consulted by the President concerning his statement in the press conference of October 16 of this year, that the Attorney General was being instructed to investigate gambling in the market?

Secretary ANDERSON. No, I am never consulted as to what the President is going to say in his press conference.

Representative BENDER. Did you recommend the investigation?

Secretary ANDERSON. I do not believe that a recommendation would be coming from the Department of Agriculture to the Department of Justice as to what he would investigate. If we had found in our studies of the grain market that there were people who had violated the provisions of the law as to the amounts of their long and short holdings, we would naturally have recommended to the Department of Justice.

Representative BENDER. Did you consider the investigation necessary?

Secretary ANDERSON. I would not be asked to have an opinion on a question of that nature. The Department of Justice does not take polls among the Cabinet on its investigations and it did not on this. It did not check with us on it.

Representative BENDER. Mr. Secretary, did you state in the press conference on October 16, 1947, the same day as the President's statement, that your Department has no evidence of illegal operations in the grain exchanges?

Secretary ANDERSON. The dates are hard to remember, but if that is the press conference in which a newspaper story went out that I was in sharp opposition to the President's press conference of that afternoon, that would help to identify it for me, and if you wish to have that press conference reviewed, I would be glad to try to review it.

The question, as I recall it, and I would have to go back and consult the notes to get the exact wording, but the word that you have used there was unquestionably used in the news story.

The difficulty was that the question was asked me whether we had, that is, were holding in our Department, evidences of law violations, and I said no, we would not hold in our Department evidence of law violations; if we did come across evidences of law violations, we would turn them over to the Department of Justice, and the news story said there were no evidences in our Department.

I think that is quite different from the answer. I tried subsequently to say that we would develop information but that it was my understanding that clearly provable evidence was something other than information; that we had developed in the past information as to what we regarded as improper usage of the grain exchanges and on the basis of that, we had tried to bring about prosecutions in cases which were pending not too very long ago in Chicago and elsewhere, and I tried to point out that we would make use of information, but the development of evidence, in our opinion, would be a responsibility of the proper law officials.

I feel it was somewhat unfortunate to say that because I used that language that the Department was insisting there was no evidence in the Department.

If the question had been phrased was there ever information in the Department, then I could have easily answered that, and said at times we had had information. If it meant that was there then pending information which we had not turned over to the Department, the answer would be there was none because if we had had information, it would have been turned over to the Department of Justice.

Representative BENDER. Then you claim the newspapers lied about your position.

Secretary ANDERSON. Well, that is an easy way to put it. I tried to say that I felt, and I still maintain, and I have told some of the people who wrote the news stories that I did not think it was quite fair to pick it up in that fashion.

May I go one step further and illustrate it for you: I was asked if speculation had disappeared from the market since something had been said at the press conference of the President about speculation.

I replied that our records showed that from the time when the margins had been low, until the present day of that conference, October 16, if that was the date, the 53 percent of the speculation had dropped out of the market, and I said to that extent speculation has been driven out of the market.

I saw a newspaper story that said that I had sharply clashed with the President by saying that speculation had been driven out of the market.

Now, it is quite different to say speculation has been driven out of the market and to say to that extent speculation has been driven out of the market. That is all. I maintain that they left out what I regard as the significant words "to that extent."

Representative BENDER. Mr. Secretary, did you advise the President prior to the press conference of October 16 that this country has always exported one-third of all of its grain crop?

Secretary ANDERSON. No, I did not; but I did this: I advised the President prior to that press conference that this country shortly after wars generally exports about 30 percent of its wheat for several years thereafter, and I imagine that was the basis of that information.

After the last war we could give it to you year by year, when the export of wheat was running 30 percent or more. Then countries recovered, and the export of wheat dropped off.

We are exporting very substantial quantities now, but as these countries recover, that export will die down again.

Representative BENDER. What are the facts concerning exports, say, in the thirties, the early forties?

Secretary ANDERSON. I will be glad to get them for you later, the official figures, if you wish, but I believe I can give it sufficiently accurately from memory. For the years 1934 to 1938, there was a total movement of grain in world trade from surplus producing countries to deficit countries running about 28,350,000 tons. That may be off ten or fifteen thousand tons one way or the other.

Representative BENDER. Less than 10 percent, you would say?

Secretary ANDERSON. No; I say it will be off ten or fifteen thousand tons, which is a whole lot less than 10 percent of 28,000,000; about one- or two-tenths of 1 percent, perhaps. It is less than that, even.

However, of that amount, the United States moved to world trade about 4.6 percent; 1,300,000 tons, approximately.

The CHAIRMAN. About 4.6 percent of what?

Secretary ANDERSON. Of the total amount of grain that moved in world trade from surplus to deficit areas.

The CHAIRMAN. I thought the question related to this country's export.

Secretary ANDERSON. It does; 1,300,000 tons approximately we shipped. Last year we shipped about 15,000,000 tons.

Representative BENDER. Is it not a fact—and I would like to get this in the record—that during the late thirties and early forties, exports averaged less than 10 percent of the production, and in 1934 to 1936, we had to import wheat?

Secretary ANDERSON. Yes; we had a crop that ran between 500 and 600 million bushels. I can give it to you exactly if you wish, and we did have a period when we imported grain, and we imported wheat.

And through all of those years from 1933 to 1940, it would have averaged 10 percent or less.

Representative BENDER. Mr. Chairman, I wish the Secretary would supply that information for the record.

The CHAIRMAN. Do you want a table showing the production each year and the exports and imports, net for both?

Representative BENDER. That is right.

The CHAIRMAN. That is easy to provide, I presume.

Secretary ANDERSON. That is very easy to provide, and we will do it.

(The information referred to is as follows:)

Wheat—Production, imports, and exports, United States, 1914–46

[In thousands of bushels]

Year beginning July—	Production	Foreign trade, including flour [1]		Year beginning July—	Production	Foreign trade, including flour [1]	
		Imports	Exports, including shipments			Imports	Exports, including shipments
1914	897, 487	728	335, 702	1931	941, 540	7	125, 654
1915	1, 008, 637	7, 254	246, 221	1932	756, 307	10	34, 889
1916	634, 572	24, 960	205, 962	1933	552, 215	153	28, 377
1917	619, 790	31, 215	132, 579	1934	526, 052	15, 569	13, 314
1918	904, 130	11, 289	287, 402	1935	628, 227	34, 617	7, 096
1919	952, 097	5, 511	222, 030	1936	629, 880	34, 455	12, 263
1920	843, 277	57, 682	369, 313	1937	873, 914	634	103, 381
1921	818, 964	17, 375	282, 566	1938	919, 913	271	109, 534
1922	846, 649	20, 031	224, 900	1939	741, 210	263	48, 339
1923	759, 482	14, 578	148, 979	1940	814, 646	3, 523	37, 106
1924	841, 617	304	257, 839	1941	941, 970	3, 664	31, 390
1925	668, 700	1, 747	97, 358	1942	969, 381	1, 057	34, 511
1926	832, 213	77	209, 093	1943	843, 813	136, 016	66, 071
1927	875, 059	188	193, 919	1944	1, 060, 111	42, 075	152, 965
1928	914, 373	91	144, 392	1945	1, 108, 224	1, 958	391, 109
1929	824, 183	53	143, 337	1946 [2]	1, 155, 715	50	400, 307
1930	886, 522	354	115, 278				

[1] Compiled from reports of the Department of Commerce. Imports include full-duty wheat, wheat imported for feed, and dutiable flour in terms of wheat. From 1923 to date both imports and exports exclude wheat imported for milling in bond and exported as flour, also flour in terms of wheat. Exports 1940 to date include military exports to Europe for relief and exports handled by War Food Administration.

[2] Preliminary.

Source: Bureau of Agricultural Economics.

Corn—Production, imports, and exports, United States, 1914–46

[In thousands of bushels]

Year beginning October—	Production	Foreign trade, including meal [1]		Year beginning October—	Production	Foreign trade, including meal [1]	
		Imports	Exports			Imports	Exports
1914	2, 523, 750	7, 690	52, 515	1931	2, 575, 927	377	4, 436
1915	2, 829, 044	3, 340	71, 793	1932	2, 930, 352	173	8, 886
1916	2, 425, 206	1, 157	59, 553	1933	2, 397, 593	883	4, 812
1917	2, 908, 242	3, 046	48, 536	1934	1, 448, 920	36, 955	1, 143
1918	2, 441, 249	8, 198	17, 689	1935	2, 299, 363	21, 096	867
1919	2, 678, 541	10, 043	17, 197	1936	1, 505, 689	103, 670	432
1920	3, 070, 604	1, 059	115, 373	1937	2, 642, 978	1, 819	139, 893
1921	2, 928, 442	104	167, 806	1938	2, 548, 753	442	34, 369
1922	2, 707, 306	154	63, 695	1939	2, 580, 985	1, 110	44, 284
1923	2, 875, 292	2, 295	21, 811	1940	2, 457, 146	1, 269	14, 849
1924	2, 223, 123	2, 892	10, 486	1941	2, 651, 889	565	19, 998
1925	2, 798, 367	357	25, 424	1942	3, 068, 562	407	5, 176
1926	2, 546, 972	3, 750	18, 009	1943	2, 965, 980	3, 688	10, 269
1927	2, 616, 120	2, 940	20, 223	1944	3, 088, 110	6, 065	17, 128
1928	2, 685, 516	342	41, 734	1945	2, 880, 933	618	15, 884
1929	2, 515, 937	846	8, 963	1946 [2]	3, 287, 927	566	90, 072
1930	2, 080, 130	1, 386	3, 119				

[1] Compiled from reports of the Department of Commerce.

[2] Preliminary.

Source: Bureau of Agricultural Economics.

The CHAIRMAN. Proceed.

Representative BENDER. I would like to ask a question on the statement or the question of the chairman regarding the Attorney General's speech.

Did the Attorney General consult you prior to the delivery of the speech of October 8?

Secretary ANDERSON. No; I am sure he is well qualified.

Representative BENDER. In which he described the "greedy men blind with lust for money, trafficking in human misery"; that is the way he described it.

Secretary ANDERSON. I think I answered Senator Taft, and I do not believe I would change my testimony.

Representative BENDER. Is this in accordance with your views, Mr. Secretary?

Secretary ANDERSON. If I had had views of that nature, I might have expressed them. I have not expressed those views at all.

Representative BENDER. Then those sentiments are in accord with your views?

Secretary ANDERSON. I did not say that. I said I had no occasion to comment on that, because I do not make investigations of that nature. The Department of Justice investigates a great many things, and it might have information that I do not have. I just never have said anything of that nature because I have not had information of that character.

Representative BENDER. Mr. Secretary, at any Cabinet meeting that you have attended, was the question of speculation in grain discussed?

Secretary ANDERSON. That is a hard question, over the last 2 years. I would not answer that, except to say that it probably was but I would not be able to particularize and specify.

Representative BENDER. Was Mr. Clark's statement discussed at the Cabinet meeting—the statement he made?

Secretary ANDERSON. He would be the best witness on that.

Representative BENDER. Was the inconsistency of your position and that of the President discussed in the Cabinet meeting?

Secretary ANDERSON. So far as I know there was no inconsistency of the position of the President and myself. I think that the statement that the President had to do with the shipment of wheat after the war years, and if you will take the record year after year, you will find that that has happened. You take 1919, 1920, 1921, 1922, and then pick up the figures for 1939, and follow through the war years, and then pick up the years after, you will find that we do export large quantities of grain immediately following a war.

Representative BENDER. Mr. Secretary, what has been the effect of raising marginal requirements so far as holding prices down is concerned?

Secretary ANDERSON. I could not answer that because you do not know where prices might have gone if they had not been put down.

Representative BENDER. As a matter of fact, they went up, there was no reduction.

Secretary ANDERSON. There is no telling how far they might have gone up if those requirements had not been altered.

Representative BENDER. What has been the effect of raising marginal requirements upon the volume of trading?

Secretary ANDERSON. It has reduced it.

Representative BENDER. It has fallen very sharply, in fact, has it not?

Secretary ANDERSON. Yes, it has. It has indicated that something happened.

Representative BENDER. A thin market is sensitive, is it not?

Secretary ANDERSON. A which kind?

Representative BENDER. A thin market.

Secretary ANDERSON. I do not know what a thin market is.

Representative BENDER. I am sure you do.

Secretary ANDERSON. A thin market?

Representative BENDER. Yes.

Secretary ANDERSON. No, I do not. I have explained I have never bought or sold a bushel of any kind of grain on the exchange.

Representative BENDER. What discussions have you had, Mr. Secretary—if you care to go into it, I would like to know, and I am sure the country would like to know, what discussion you had with the President on the grain gambling statements, and on your conflicting statements.

Secretary ANDERSON. If you will point out the conflicting statements, then I will be glad to answer the question.

Representative BENDER. You say there were no conflicting statements, you claim?

Secretary ANDERSON. No, I do not. You said conflicting statements. It would be much easier if you would tell me what they are. It is hard to deny the negative.

Representative BENDER. I only know what I read in the newspapers, and the headlines were pretty big on page 1, and I recognized your picture without even looking for your name on the front page of the paper that day.

Secretary ANDERSON. Well, if you are referring again to October 16.

Representative BENDER. That is right.

Secretary ANDERSON. One news agency did carry a story that said there was a conflict. I immediately supplied that news agency with a letter stating what my understanding was of what had taken place at the press conference and calling their attention to the fact that reporters who had been covering the Department of Agriculture with some regularity, representatives of other wire services and so forth, had not made the same error, from which I concluded that perhaps the statement was somewhat mistaken in the paper.

I recognize that the reporter could have misunderstood what I said, but I did point out to them that John Ball, for example, of the Washington Post, who had been covering the office regularly, had no difficulty understanding what took place; that Bess Thurman of the New York Times had no trouble, and Markham, a long-time representative of the Associated Press, had no difficulty whatsoever. He did not see the conflict and probably the conflict was not there.

Representative BENDER. That is all, Mr. Chairman.

Representative RICH. Mr. Secretary, you made the statement, I believe, a few moments ago that there was a 33 percent margin; that it does cut out a portion of the gambling.

Secretary ANDERSON. Commodity speculation is what I believe I said.

Representative RICH. If 33 percent margins cut out part of this gambling, why should we not raise the margin to 100 percent, and cut all of it out?

Secretary ANDERSON. Because, as the Senator from Minnesota pointed out, a minute ago, there are legitimate places for the hedging, and there are times when neither the longs nor the shorts come into perfect balance and when there is a need for a small speculative interest, and so far as I am concerned, I have never claimed that that is not a legitimate function for the grain exchanges to perform.

Representative RICH. If buying and selling on the grain markets only increased the price of foodstuffs, at a time like this, should we not eliminate anything that would be of a speculative character in order that we can get foods at the lowest price to furnish to the ones who are in need?

Secretary ANDERSON. Well, I tried to say that I think there is a legitimate function served by certain types of trades. As long as the operation is confined to that, I do not see any reason why it should be closed. There were times during the war in which it was felt desirable to suspend all operations in certain commodities, and the grain firms and the exchanges ran with speculation in those commodities completely barred.

If that situation arose again, then I would certainly say all speculation should be stopped. I do not think that we are in that position at the present time.

Representative RICH. From the grain purchases that you speak of, do they tend to increase the price of the commodity in which they are dealing?

Secretary ANDERSON. I think rapid and undue speculation does, but you must remember that sometimes there are people who believe the markets will go down and there are both types of selling and buying in the market.

Representative RICH. Under present conditions when the Government is in the business of going in and making these great purchases, it does not take a lot of speculation on the part of the individual to realize that that commodity is going to advance, and therefore he can buy on the market today at the time when he finds out that the Government is going in, and the next day it is up. Is that not the case?

Secretary ANDERSON. No; I do not think it is, because the great bulk of our buying is when there are breaks in the market. There was recently 8 or 9 cents in the market.

Representative RICH. You mean to tell me when the Government goes in to purchase for the intent and purpose of trying to furnish foodstuffs for shipment abroad, that after you make those speculations the market goes down?

Secretary ANDERSON. No; I tried to say that we make our largest purchases of grain at times when prices are going down. The more the price breaks, the more we purchase.

We purchased heavily all the way down, simply because we felt that there was an excellent chance for us to pick up some large quantities of grain in a market that was somewhat disturbed by the fact that we had reduced our allocations that month.

Representative RICH. Then according to that statement, I would figure that when the market is at a certain price, the more you go in to buy, the lower the market becomes.

Secretary ANDERSON. Not at all; not at all; we both know that the operation of very heavy buying does not tend to drop the market. I only stated that we try to buy at the most advantageous periods, and usually buy when the breaks are coming into the market instead of when the booms are in.

Representative RICH. All I am interested in is this, that I personally want to recommend that all gambling on the market ceases whenever it increases the price of the foodstuffs that we so badly need, and are trying to furnish for people abroad, and anything that you can recommend to this committee that will do that, under these present-day conditions, that is the recommendation that I want you to make to this committee.

Secretary ANDERSON. Very well.

The CHAIRMAN. Senator Myers.

Senator MYERS. Mr. Secretary, I regret that I was delayed and did not hear your testimony, but I surmise that the testimony thus far has been addressed to the President's second recommendation, namely, to authorize the regulation of speculative trading on the commodity exchanges.

Secretary ANDERSON. That is correct.

Senator MYERS. And I surmise, too, Mr. Secretary, that you believe that speculation on the commodity exchanges has contributed at least in part to the unjustifiable levels of grain prices as of this time.

Secretary ANDERSON. I have so testified partially.

Senator MYERS. And, Mr. Secretary, you are presenting that testimony to the full committee of the Joint Committee on the Economic Report.

Secretary ANDERSON. Yes.

Senator MYERS. I wonder if you are aware, Mr. Secretary, that the eastern subcommittee of this joint committee, when it was holding hearings this fall, in many eastern cities, sent a telegram to the President of the United States, which was signed by all members of that subcommittee, recommending, and recommending very vigorously, that the administration take some action to curb speculation on the commodity exchanges.

Secretary ANDERSON. Yes, sir.

Senator MYERS. For the purposes of the record, I would like to read that telegram, Mr. Secretary.

On September 24 of this year, the eastern subcommittee sent the following telegram to the President:

> It has become clear to the members of the eastern subcommittee of the Joint Committee on Prices that grains and commodity speculation is accentuating market fluctuations instead of decreasing them, and that presently it is supporting food prices at unjustifiable levels. We therefore urge that your administration use every means within its power to restrain this dangerous activity. In doing so you will have full support. It is incredible that so large operations in the necessities of life should be permitted on such small cash margins. These margins could be greatly increased to the benefit of consumer's food prices, if special provision were made for normal millers hedging operations. We also urge careful study of the manner and timing of governmental food purchases whether for foreign relief or for the armed forces, in order that their speculative effect may be minimized.

That telegram was signed by Senator Baldwin, myself, Representative Hart, Representative Rich, Representative Kilburn, and Senator Flanders, the chairman of the subcommittee.

I surmise that your recommendations are in accord with the recommendations of that subcommittee, which is a part of the committee before which you are appearing today.

Secretary ANDERSON. That is correct. That occurred at the very time in which additional representations were made to the grain exchanges asking them to increase their marginal requirements and supporting by that statement.

Senator MYERS. Would you say that statement is in full accord with your recommendations of today?

Secretary ANDERSON. It is.

Representative HORAN. As you know, the Pacific coast in my area is based on a wheat economy, and whatever is done here is of tremendous importance to us. There is some danger of course of destroying the raw materials upon which our milling industry is based.

You recognize that, and I notice in your statement, "We believe that this may be accomplished without impairment of the facilities necessary to the hedging of price risks by merchandisers, processors and distributors."

Since we began working on this serious situation, you have made certain estimates of supply, and the effect of any conservation program. My question is, do you feel that we will adequately protect our domestic industries in wheat, and do you have any comments to make on your proposals that you will forward to the Congress for action?

Secretary ANDERSON. Mr. Horan, I am prepared on Monday to testify before the Appropriations Committee on this question, trying to set forth adequately the grain supplies. I will be very glad if the chairman wishes to introduce some material along that line, but thinking perhaps that it could become available as the result of that testimony, I did not plan to use much of it this afternoon.

I will be glad to abide by the chairman's wishes.

The CHAIRMAN. I prefer if we could get through the specific things by the end of the afternoon, if Representative Horan will be willing to have it then, although that perhaps should be in our record, as well as that of the Appropriations Committee.

Secretary ANDERSON. We will leave it this way, that if after I have gone through the two or three items which I desire to deal with this afternoon, you wish to revert to the question of supplies of grain, and what these shipments will do to our economy, that I will be very happy to start submitting figures and subject myself to question by Mr. Horan.

Representative HORAN. If that is going to be answered Monday, that is all I want. I know it is something we will have to face, and I do not want to clutter up the record or take too much of your time on that.

The CHAIRMAN. I might say we invited members of the Committee on Agriculture to attend this meeting. It might assist them and save them some time later. If there are any members of the Agriculture Committee who wish to ask questions, feel free to do so.

Senator BALL. If the margin requirements for buying and selling futures were increased too much, would you not actually increase the cost of food because the legitimate hedgers and millers and other dealers in food, the country elevators, would have to add that cost then in making their purchases and sales to the cost of the commodity? It would be substantial with very high margins, would it not?

Secretary ANDERSON. I could not answer that, but I do know that we consulted large millers before the change was made in margin specifications, and they advised us it did not make a great deal of difference to them. And I do not believe the ultimate result would be an increase in prices, because I think it might remove from the market some of the speculation which tends to do the thing that the excess trading in cotton did about a year ago. I am frank to confess to you that there is no way by which I can measure the effects of commodity market speculation, but I do depend upon the people who have made a study of it in the Department, and they feel that it would not result in increases in the price by the elimination of some types of speculation.

Senator BALL. I was just thinking, if the cost of hedging goes into the cost of your product, it adds into the cost of flour, and if you increased those margins, say, to 50 to 75 or 100 percent, as Representative Rich was talking about, obviously that might become quite a substantial item.

Secretary ANDERSON. We thought 33⅓ percent was sufficient.

Senator YOUNG. I would like to ask the Secretary, is it not the fact that the shortage of grain cars to get wheat for the market has had more of an effect, bullish effect, on the market than hedging?

Secretary ANDERSON. Well, again you are asking me to evaluate the things that enter into speculation on the grain exchange, and I find it difficult. If I can answer you probably not quite so specific ally, I would like to say that we do know that the shortage of grain cars has had a very pronounced bullish effect on the price of grain.

Senator YOUNG. I would like to read, with the permission of the chariman, a very short letter from an average grain elevator in my State. This is from a little town of about 150 population, dated November 13, 1947:

> We constantly read in the press that the farmers are holding their grain for higher prices. I feel that this statement is misinterpretation and the real reason is transportation.
>
> We have an order with the Great Northern Railway Co. for 78 grain cars. The last time they brought in an empty grain car was November 6.
>
> We are only a country elevator but we have 135,000 bushels of grain waiting shipment, and which has a total value of $395,000.
>
> We are blocked and have farmers wanting to haul and sell thousands of bushels of grain; but it is impossible to get cars to ship this huge amount of grain.
>
> There must be some way that you people in Washington can make the railroad companies understand that it is imperative that we get grain cars in the Northwest immediately to move this big crop.
>
> Yours very truly,
>
> H. E. LENABURG,
> *Manager, Portland Farmers Union Elevator, Portland, N. Dak.*

Two years ago we had about 90,000,000 bushels of grain in my State alone waiting to be marketed in the spring. The Government waited so long that the farmers were in the field and they came along with foolish 30 cent wheat bonus, and I hope that that situation does not prevail again. They want to sell the wheat and cannot do it. If they could sell their wheat it would force the market down.

The CHAIRMAN. Any other questions on this particular issue?

I have just one or two questions I wanted to ask.

If you obtain this power today, would you use it by imposing a 33⅓ percent margin? Is that your opinion of what the margin should be under present conditions?

Secretary ANDERSON. Yes, Senator, if we obtain this power today, the margin will remain where it now is.

The CHAIRMAN. Would you propose to vary that as the price went up and down, or what would be your general policy in using this power?

Secretary ANDERSON. To vary it in accordance with the degree of speculation, not in accordance with the amount of price. We think the percentage measure is the desire we have to curb, but if the price just moves within limited areas, or ranges, than it would not make any great difference. But if we saw a sudden development of a speculative trend, then there should be a change in margin requirements.

The CHAIRMAN. I should not like to give you the right to impose 100 percent margin. Is there some limit, would you be prepared to accept some limitation on the total margin that could be imposed?

Secretary ANDERSON. Well, Senator, I think I would prefer to confer with the people in the Department who are more familiar with it than I am, but I would think that we would like to have full authority, because you might want to impose a very heavy margin requirement if we got something in the nature of wild speculation.

The CHAIRMAN. I mean I do not know enough about it to have a definite conclusion, and we will hear other witnesses, but it occurs to me that we might want to protect this hedging right on the part of the legitimate operators.

Secretary ANDERSON. I would prefer to say at this time that we would not like to put a limitation on it.

The CHAIRMAN. Any limitation?

Secretary ANDERSON. No.

The CHAIRMAN. May I ask you the question whether this raises prices?

Secretary ANDERSON. Mr. Chairman, I would like to say that for legislative history, if you desire it, we would say that we think 50 percent is as high as the margin would need to go, and still preserve the legitimate hedging operations. We would prefer not to have that written into the law, but rather then to make a statement by the Secretary that he would not expect to use it above 50 percent unless extreme conditions obtained.

The CHAIRMAN. You stated that the fact that prices went up when these margins were imposed was no particular evidence, because they might have gone still higher if the margins had not been imposed.

Secretary ANDERSON. I find it very difficult to estimate where markets would go under any set of circumstances.

The CHAIRMAN. In other words, the effect on prices of a margin is a matter of opinion; it is very difficult to prove one way or the other; is that not correct?

Secretary ANDERSON. That is very correct, Senator.

The CHAIRMAN. Is it your opinion that excessive speculation permanently increases prices or that it makes greater ups and downs? After all, those that go in have to come out some time.

Secretary ANDERSON. I am thinking right now of an operation which was quite widely publicized some time ago in which a man in New Orleans became very heavily involved in the cotton market. It did involve pretty substantial rises in the cotton market, and then some very tragic collapses that caught a lot of perfectly well intentioned people in a very bad fix. I think that sort of thing is disastrous wherever it occurs.

The CHAIRMAN. Do you think that it makes—taking a period of 6 months and assuming the same long interest at the end of 6 months as at the beginning—do you think it makes for a permanent effect on the price, or is it just these ups and downs that you refer to that are so tragic?

Secretary ANDERSON. I think it is chiefly the ups and downs, but we do find that these interests get into the market sometimes and establish a new level, and then mills having bought at that level, that becomes known that the farmer can expect about so much for his grain, and the elevators have a tendency to pay those prices again, and it could easily contribute more to the upside than to the down, it seems to me.

The CHAIRMAN. Thank you. If there are no other questions, you may proceed with the next item.

Senator BALDWIN. May I ask if the Department is prepared with specific legislative recommendations to deal with this particular problem, that is, the amendment of this law?

Secretary ANDERSON. Senator Baldwin, if the committee desires us to submit concrete legislative proposals, we will be glad to do so. We had rather thought that might come from legislative committees, but we are prepared to do whatever the committee desires.

If the chairman asks me, at any time, to submit a legislative proposal, I will file it with you, or the representatives of the Department will be glad to work with the legislative drafting committees, if you desire, to prepare your own recommendations, or be glad to pass upon them after you have prepared them.

Senator BALDWIN. You mean to date, you mean to say no specific form has been prepared?

Secretary ANDERSON. I could present one if you wished. I preferred to feel that the request should come from the Chair.

The CHAIRMAN. I think it would be wise to ask you to submit it, it seems to me, to point out the exact request for authority that is being made. Does the committee not think so? Now, if you would put that in the record, it would be helpful to the committee. We may not recommend any specific legislation, but I think it helps the record.

Secretary ANDERSON. If the chairman desires to do so, I will submit for the record a proposed bill to amend the Commodity Exchange Act, to grant the Secretary of Agriculture authority to regulate marginal requirements with respect to speculative transactions in further contracts on commodity exchanges.

The CHAIRMAN. That will be placed in the record.

(The proposed bill is as follows:)

A BILL To amend the Commodity Exchange Act, as amended, to grant the Secretary of Agriculture authority to regulate margin requirements with respect to speculative transactions in futures contracts on commodity exchanges

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Commodity Exchange Act, as amended (7 U. S. C. 1–17a), is amended by inserting at the end of section 4a the following:

"(5) Whenever the Secretary of Agriculture determines that the nature or extent of speculative trading on boards of trade causes or threatens to cause undue enhancement or fluctuation in the price of any commodity as herein defined, or any other agricultural commodity or product or byproduct thereof, he may prescribe rules and regulations governing the margin to be required with respect to the purchase or sale of any such commodity for future delivery on or subject to the rules of any board of trade whether or not designated as a contract market under section 5 of this Act.

It shall be unlawful for any person to buy or sell, or accept orders for the purchase or sale of any such commodity for future delivery subject to the rules of any board of trade unless they are deposited margin funds or secutities in compliance with the rules and regulations promulgated under this section. No floor broker shall be deemed to have violated this section with respect to any transaction in connection with which he has acted solely in the capacity of floor broker.

"All money, securities, or property deposited as margin in compliance with rules and regulations promulgated under this section shall be handled by the person receiving such margin in compliance with the requirements of section 4d (2), regardless of whether such person is a futures commission merchant as defined in this Act and, for the purpose of this provision, the term 'contract market', as used in section 4d (2), shall be deemed to mean board of trade. It shall be unlawful for any person to engage in soliciting or accepting orders for the purchase or sale of any agricultural commodity for future delivery on any board of trade, whether or not such board of trade is designated as a contract market, unless such person shall keep a record in writing showing the date, the parties to such contracts and their addresses, the property covered and its price, the amount and kind of margin deposited and the terms of delivery. Such record shall be kept for a period of three years from the date thereof and shall at all times be open to the inspection of any representative of the United States Department of Agriculture or the United States Department of Justice.

In order to effectuate the purposes of this section, the powers, functions and authorities vested in the President under paragraphs (3), (4), and (6) of subsection (a) of section 2 of the Act of June 28, 1940 (54 Stat. 766), as amended, shall be vested in the Secretary of Agriculture. The Secretary of Agriculture may exercise any of such powers, functions, or authorities through any employee of the Department of Agriculture."

Representative RICH. Will you point out where the point is that any speculation on the grain market has only tended to increase the price of the grain and not for the general benefit of the trading in the market for the good of the people who are milling the grain for the best interests of keeping the prices at the very minimum?

In your conversation a while ago, I thought that there was legitimate trading, and then the speculative trading. Try to determine where that point is so that we understand it.

Secretary ANDERSON. I think that would be a very difficult thing to do. We do know that when a mill makes a contract, for example, with us for the delivery of flour which is going into relief areas, it makes a contract at a specified price, and it bases that contract upon its ability to go out and buy futures at a specified price.

Now, knowing that it can get delivery in March of a given quantity of wheat which it can grind at that time and put into flour, it makes this forward contract. We think that that is legitimate in itself, and that the person who at the same time meets it on the other side of the contract.

Representative RICH. I quite agree with you, but now when people buy with the expectation that they are only buying for speculative purposes, then they have the tendency to increase the price, but they intend to gain the advantage of a profit by selling it to somebody else. There is where we want to stop them.

Secretary ANDERSON. We shall try and do that by the regulation.

The CHAIRMAN. You may proceed with the next item.

Secretary ANDERSON. May I move to item No. 6? It was to enable the Department of Agriculture to expand its program of conservation practices in this country, and to authorize measures to increase production in foreign countries.

If I may, I would like to divide that into two separate statements, one as to grain conservation.

It was recognized early last summer that this country would be called upon to make a substantial contribution to Europe's food needs. Subsequently, drought in Europe increased the need for this aid while drought in this country seriously affecting the corn crop made aid to Europe more difficult.

On September 22, the Cabinet Food Committee reported to the President that 470,000,000 bushels of grain could be expected to be available for export under the conditions then prevailing—400,000,000 bushels of which would be wheat. That estimate was about 100,000,000 bushels less than the estimated minimum requirements for grain from this country. The committee therefore recommended that a voluntary campaign to economize on domestic use be started at once.

Early in October, the President appointed the Citizens Food Committee and delegated to it the vital task of urging the American people to conserve foods made from grain or produced with grain. I am sure you are familiar in a general way with the work of that committee.

The Department of Agriculture took on, for itself, the responsibility for organizing the informational and educational program necessary to carry the conservation program out to the farms and feed lots. This, I can assure you is an important part of any effort to conserve grain. About three-fourths of the total output of grain in the United States normally is fed to livestock. That gave us a pretty big conservation target on the Nation's farms.

On October 3, I announced that the Department of Agriculture was going to do its share in making the over-all conservation program a success. In separate memoranda to the heads of Department agencies, I asked them to throw the full force of their energies behind the drive to save grain—to give it priority over all other business.

Out in the States we have what we call State USDA councils, which include representatives of State extension services and Department of Agriculture agencies working within the States—agencies such as the Production and Marketing Administration, the Forest Service, the Rural Electrification Administration, the Farmers Home Administration, and the Soil Conservation Service. I asked the chairman of each State USDA council to take the initiative in coordinating programs of the various member agencies and in organizing additional specific activities that would save grain. Through this type of organization it has been possible to work with farmers at the county level, through county agents, county agriculture conservation program committeemen, and other Federal and State people who work in the counties.

It would take up too much of your time to recite all the practices we and the State extension services are suggesting that farmers adopt to save grain; but I should like to mention some of the major ones. We are suggesting that farmers market their hogs at lighter weights; that they put less finish on beef cattle; that they feed more roughage and less grain to dairy cattle; that they cull the unprofitable hens from from their poultry flocks; that they declare war on rats and insects; that they store grain properly; and that they prevent farm fires.

As the Department's program moved along, it was given support by vigorous allies. We began to receive samples of posters, leaflets, and other types of informational material issued by farm organizations, feed dealers, feed manufacturers, the livestock industry, the meat industry, the poultry industry, and similar groups.

On October 27, Mr. Charles Luckman and I addressed a joint letter to the president of each land-grant college, suggesting that he appoint a special State livestock feed committee to serve during the emergency. It was suggested that such a committee might well include members of the research and extension staffs of the land-grant colleges, as well as representatives of State farm organizations, feed dealers and manufacturers, and others in a position to contribute to the program. The idea here was to bring under the program—at the State level—the many agencies and associations working with farmers who were willing and anxious to cooperate in saving grain. A number of land-grant colleges have already appointed these committees and the committee are now at work.

A further step in this direction was taken on November 13, when, at my invitation, representatives of the leading farm organizations, livestock producers, meat packers, poultrymen, dairymen, feed manufacturers, grain cooperatives, banks, insecticide manufacturers, and others met with Mr. Luckman and me at the Department of Agriculture. These representatives offered full cooperation with the program and outlined in detail what they were doing or would do in the way of assistance. An executive committee of five was organized and will meet with Department people Monday, November 24, to map out further plans.

I can tell you, without any reservations, that there is wholehearted cooperation with this program throughout the rural areas of the United States. How can there be anything else but wholehearted cooperation with a program that emphasizes efficient feeding practices, the elimination of rats, the prevention of fires? As Mr. Edward A. O'Neal, president of the American Farm Bureau Federation, reported after a swing around the country;

> Everybody is in favor of the grain-conservation program. They all say to me: "It's just good business."

It is good business. It is a program that the Department of Agriculture has been urging for years. Only this year, the Department is giving that program an extra push.

Farmers are conserving grain. During the past several weeks, reports from the Corn Belt have made it clear that farmers are marketing their hogs at much lighter weights than last year or the year before. The weights of barrow and gilt butcher hogs received at major Corn Belt markets during October and November have averaged 10 to 20 pounds lighter than in the same months of 1946, and 30 to 50 pounds lighter than in the same months of 1945. These figures are extremely significant in terms of grain. For every reduction of 1 pound in the average weight of all hogs marketed in the United States over the period of a year, we can expect savings of about 7,000,000 bushels of grain.

There is another indication that the program is succeeding. That indication lies in the fact that the Government's grain procurement operations have been moving forward without any serious difficulties. We have procured enough bulk grain to meet our shipping schedules through March, and enough flour to see us through January.

Much more should have been done to provide information to stimulate grain conservation on the farm. More could have been done with adequate facilities to handle this special undertaking. And yet we are encouraged at the progress that has been made. But let me interject one note of caution. The tightest pinch on our feed supplies will come—not in December or January or February—but in the months that immediately precede the next harvest. So there can be no let-up on farm grain conservation—no resting on the oars. This is a program that must go on at least until the next harvest if we are to stretch our grain supplies as they must be stretched. And speaking of the next harvest, who among us here is willing to venture a guess as to how large—or how small—that harvest will be?

Up to now, the grain-conservation program has been carried on with the regular facilities of the Department. The same is true of the special food-information services we are now providing for housewives in support of the whole conservation effort. In every section of the country, through the five Production and Marketing Administration area offices we are supplying information on the foods that are most plentiful. This information is supplied to press and radio outlets, to hotels and restaurants, and to the grocery trade as a service to stores that want to feature foods that are the most plentiful and in order that they may be prepared for greater demand for these foods. The objectives of this effort are to assist the housewife and to ease the price and demand pressure on the foods that are not so plentiful. At the same time, the home economics workers of the Department of Agriculture are supplying information on the use of the foods that are most plentiful in order to make the food-supply information more effective. The same information has been supplied to the Citizens Food Committee for use in its consumer-services operations. The Department of Agriculture is the only source in the Federal Government of this information.

The burden of these special services to the public and to the Government has been superimposed upon the duties that the Department already is required, by legislation, to perform. I am proud, frankly, of what the Department has accomplished thus far with limited facilities. But these facilities must be strengthened.

The President recommended to the Congress November 17 that legislative action be taken to enable the Department to expand its program of encouraging conservation practices. As I see it, that legislation would do two things: (1) It would give congressional sanction to a program that, as many people have put it, is "just good business"—good business at any time, but especially good business this year; and (2) it would provide the relatively modest funds that will be needed to keep this program functioning vigorously next spring and next summer. I hope, sincerely, that the Congress can see its way clear to act upon this recommendation of the President in the very near future.

If I may do so, I would like to leave with you, perhaps for filing purposes—I doubt if they should be reproduced in the hearings, some papers which would be of interest in that connection. One is the announcement of a grain-conservation program featuring a letter of October 8, which outlined a full program for grain conservation. The second would be a letter of October 27 to the State USDA councils suggesting to them measures by which they could operate within that program, and third would be a letter of November 7, in which I invited the representatives of 50 national organizations to come in and help, and I did that because in the scrap drive the farmers were somewhat restless about their supplies of farm machinery, and the farm machinery people were trying their best to get additional steel. It was suggested to them that if they could go to the farms and pick up some scrap that that could be made available for the additional manufacture of farm machinery. The Farm Equipment Institute had its dealers go out to the farms all over the country. They gathered up 3,000,000 pounds of scrap iron in 1 day and made that available to the drive for greater steel, for more steel.

I think that those same people, the commission merchants that deal with the farmers, the banks that advise them, the farm-equipment people that reach them regularly, the very many people who live in towns and cities but who deal with the farmer can be very helpful in this conservation drive.

I would like to file those with the committee for such use as you care to make of them; if any of you desire to reproduce them, we naturally would be satisfied to have you do so, but I think they are lengthy for your purposes.

I would like to file with you also, and you might care to include this in the report, the average weights of hogs sold for slaughter by weeks starting September 6 and ending November 15.

(The letters and table referred to are as follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
POLICY AND PROGRAM COMMITTEE,
Washington 25, D. C., October 8, 1947.

USDA COUNCIL MEMORANDUM 38

To: Members, State USDA councils.
From: The Secretary.
Subject: Grain-conservation program.

The campaign to save grain on the farm will be one of the most important parts of the President's program of conservation to make more grain available for shipment.

The fact that nearly three-fourths of the total output of grain in the United States is normally fed to livestock makes it evident that the major portion of the conservation campaign must be accomplished on the farm.

As President Truman has pointed out, the Cabinet Food Committee report shows that under present conditions about 470,000,000 bushels of grain would be available for export which would be tragically short of minimum needs. The problem is to increase by 100,000,000 bushels or more the amount that can be exported through intensive conservation measures in this country. The amount that can be provided above the 470,000,000 bushels now in sight will depend to a great extent upon how much grain can be saved by marketing hogs at lighter weights, by close culling of poultry flocks, by reducing the amount of grain that might be used to put top finish on beef cattle, and by all-around efficient use of grain on the farm.

I am asking that USDA councils give this campaign first consideration during this emergency period. It is one of the most important projects which I have asked the councils to undertake. The State USDA council under the leadership of the chairman should take the initiative in coordinating programs of the various member agencies and in organizing additional specific activities to be undertaken by the council in this grain-saving campaign. State councils are asked to assist county councils to devise ways of implementing the program in those areas where it is applicable.

Copies of radio and press statements and a fact sheet on the farm grain-saving campaign are attached. Other material will be sent from time to time.

Attachments.

CLINTON P. ANDERSON,
Secretary.

OCTOBER 5, 1947.

Caution: The following address by the Secretary of Agriculture to be broadcast as part of the President's Citizens Food Committee program must be held in confidence until released.

Release is automatic at 10:30 p. m., eastern standard time, today, Sunday, October 5, 1947. The same release applies to radio announcers and news broadcasters.

Please use care to avoid premature publication or radio announcement.

CHARLES G. ROSS,
Secretary to the President.

We in the Department of Agriculture can confirm the story of hunger overseas. By hunger, I do not mean the empty feeling between meals, nor the zest for food that hits us after a hard day's work. By hunger, I mean the continuous lack of essential nourishment that gnaws at the very vitals of the human being, the kind of hunger, that forces the body to feed upon itself, thus destroying the very fiber of man. There is hunger of that type in Europe.

Maybe you are thinking to yourself: Why does western Europe need grain so badly? It's 2 years after the war. Why isn't western Europe on its feet?

Trained observers of the Department of Agriculture have given us in minute detail the reasons. There was a disastrous freeze in France with the result that the 1947 French wheat crop was the worst since they have been keeping records.

I visited this summer the plains north of Paris and saw the fields where tons of precious wheat had been lost. I saw other fields where farmers had replanted after the freeze only to have the second planting destroyed by drought.

Western Europe has had a combination of bad circumstances almost without parallel in farming history. Farmers have struggled against too much water in planting season and too little when the grain was coming into maturity.

These failures were within a pattern already made dark by lack of seed, fertilizer and machinery—disaster piled upon earlier disappointment.

It all adds up to one thing: the need for aid from us if people in many lands are to get back on their feet. Food is the cornerstone of their reconstruction, and we can—we will—supply it.

But we cannot supply it without saving. In our own country we have suffered a partial failure in the corn crop. Even with a bumper wheat harvest, our food supplies are below our domestic needs plus export requirements. We must make available more grain than can easily be extracted from our economy. To do that, we must conserve at home, both at our dinner table and in our farm feed lots.

The challenge will reach industries, farms, and millions of American homes. But it must be met as we war anew against hunger all over the world.

UNITED STATES DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, October 3, 1947.

SECRETARY ANDERSON ANNOUNCES FARM GRAIN SAVING CAMPAIGN

(For October 4, a. m. release)

A campaign to save grain through more efficient livestock-feeding practices was announced today by Secretary of Agriculture Clinton P. Anderson.

This campaign to enlist the Nation's farmers and ranches in the over-all food conservation program requested by President Harry S. Truman is designed to make more grain available for relief feeding abroad.

In announcing the drive to save grain, Secretary Anderson emphasized the vital need to ship every possible bushel of grain to hungry people abroad out of this year's production. "The gap between the amounts of food and the minimum needs in hunger-stricken areas," he said, "is so wide that it will take the best efforts of all of us to prevent serious suffering.

"Farmers and ranchers, through more efficient use of livestock feeds, will make a real contribution toward increasing the volume of grain for export. That is the prime objective of the feed-conservation campaign. At the same time, holding down the use of high-priced grain will mean important savings to farmers."

Practical suggestions for more efficient livestock feeding will be made available to farmers and ranchers through the field organization of the United States Department of Agriculture, and through State agricultural colleges and farm organizations. A fact sheet of specific suggestions has been prepared for the use of these agencies.

Commenting on ways in which farmers and ranchers might save grain, Secretary Anderson said, "I am told that for every reduction of 1 pound in the average weight of all hogs marketed in the United States, there is a saving of 7,000,000 bushels of grain. That is a powerful argument for holding down the average weight of hogs marketed. In addition to marketing hogs at lighter weights feeders also can save grain by using the proper amount of protein feed, keeping hogs on pasture as much as possible, and avoiding death losses.

"Large amounts of grain and byproduct feeds are used annually in the Corn Belt to fatten cattle beyond the average of the Good slaughter grade. Inasmuch as a large part of the increase in weight obtained by feeding cattle to higher grades is weight in the form of fat, I think that feeders should not now aim at the top grades. Hay supplies are abundant and cattle can be fed more hay and less grain this year. Maximum use also should be made of pastures. In these ways, valuable grain can be saved for human consumption.

"Dairy farmers can save grain by feeding good quality hay and other roughage heavily, with economy and efficiency. Grain feeding of dry cows can be held to a minimum if the cows are in good condition and the hay available is a legume of good quality. Pastures should be utilized to the fullest extent.

"As for poultry, the United States Department of Agriculture already has suggested that poultrymen cull their flocks to obtain an over-all reduction in layers amounting to 4 percent. Even with that reduction, which will save grain, it will be possible to produce 375 eggs per capita in 1948—the third largest per capita supply on record. Further grain savings in grain can be made by poultrymen using more green feeds, keeping flocks healthy, and reducing the mortality rate."

The supply of all feed concentrates per animal unit is estimated at 1.03 tons in 1947–48. This compares with the 1942–46 average of 1.07 tons and the 1937–41 average of 1.03 tons.

Hay supplies are favorable. The supply per hay-consuming animal is expected to be the largest on record.

UNITED STATES DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, October 3, 1947.

FARM GRAIN SAVING FACT SHEET

Farmers themselves can make a great contribution to the food-conservation program now being carried on in this country.

They can make this contribution through the more efficient feeding of grain—the food most urgently needed for the relief of hunger abroad.

Approximately 71 percent of the total output of grain in the United States during the prewar years, 1937–41, was fed to livestock. About 68 percent of our total grain supply in 1946–47 was fed, including 187,000,000 bushels of wheat and 5,000,000 bushels of rye. What the percentage will be in 1947–48 will depend upon the individual feeding practices followed by millions of farmers throughout the Nation.

The more efficient feeding of grain will make an increased volume of vitally needed food available for export, of course. That is the prime objective of the conservation program. But farmers have additional reasons—economic reasons—for using their grain supplies wisely. The efficient use of high-priced feed will mean lower costs and important savings.

Feed supplies are short this year—not seriously short, but shorter than in some other recent years. This is shown by the following table:

Feed balance (exclusive of roughage and pasture), livestock numbers, and feed per unit of livestock, year beginning October 1937–41

[Millions of tons]

Item	Average, 1937–41	1942	1943	1944	1945	1946 [1]	1947 [2]
Supply: Stocks beginning of crop year [3]	16.9	18.5	[3] 17.8	11.6	14.9	10.9	15.5
Production:							
Corn	72.1	85.9	83.0	86.5	80.7	92.1	67.3
Oats	18.1	21.5	18.2	18.4	24.6	24.1	19.6
Barley	6.9	10.3	7.8	6.6	6.4	6.3	6.9
Grain sorghums	2.2	3.1	3.1	5.2	2.7	3.0	2.5
Total feed grains produced	99.3	120.8	112.1	116.7	114.4	125.5	96.3
Other grains fed [4]	4.8	15.1	16.0	10.8	8.4	6.4	10.0
Byproduct feeds (includes protein feeds)	15.4	18.6	18.8	19.3	17.8	19.8	19.0
Total supply of concentrates	136.4	173.0	164.7	158.4	155.5	162.6	140.8
Number of grain-consuming animal units Jan. 1 following (million) [5]	132.8	160.7	172.6	147.6	146.6	138.0	137.0
Supply of all concentrates per animal unit (tons)	1.03	1.08	.95	1.07	1.06	1.18	1.03

[1] Preliminary. Subject to change as additional data become available.
[2] Based on indications in September.
[3] Stocks of corn Oct. 1, and oats and barley, July 1; stocks on farms and at terminal markets, 1937–42. Stocks in all positions, including interior mill, elevator, and warehouse stocks, 1943 to date.
[4] Imported grain and domestic wheat and rye fed.
[5] Grain-consuming animal units weighted as follows: Milk cows, 1; other cattle, 0.51; hogs, 0.87; sheep, 0.04; horses and mules, 1.14; chickens, 0.045.

As this table shows, the total supply of concentrates for 1947–48 is smaller than for any of the previous 5 years, but slightly larger than the 1937–41 average. In terms of supply per animal unit, the 1.03 tons for 1947–48 is equal to the 1937–41 average, but smaller than any recent year with the exception of 1943. The fact that supplies per animal unit are equal to the prewar average, together with an improved roughage situation, provides farmers with a favorable basis for saving grain.

The situation is about like this: Regardless of the conservation program, farmers generally will not be able to feed their livestock grain and other concentrates at as high a rate as in 1946–47. Farmers in feed deficit areas may have to cut the feeding rate sharply.

The bright spot in the feed picture this year is the large hay supply. Hay supplies for 1947–48 are estimated at 118,000,000 tons, as compared with 121,000,000 tons in 1946–47, and the 1937–41 average of 103,000,000 tons. Taking into consideration the prospective reduction in hay-consuming livestock, the supply per hay consuming animal is expected to be the largest of record.

Increased feeding of roughage can help to save grain. Many other ways of saving can be employed by farmers. A few suggestions are summarized as follows:

HOGS

1. Feed hogs out to lighter weights.

For every reduction of 1 pound in the average weight of all hogs marketed, 7,000,000 bushels of high-priced grain would be saved. If the average weight of all hogs marketed during the year ahead could be held to 248 pounds—or 10 pounds below the near-record average of 1946–47—the saving in grain would be 70,000,000 bushels. If marketing weights could be held to an average of 237 pounds, the average for 1937–41, the saving in grain would be about 140,000,000 bushels.

However, feeders who have a large quantity of soft corn on hand should feed it before warm weather next spring. Unless soft corn is fed, or dried, it spoils. That is food waste too.

2. Feed a balanced ration.

Hogs need from 10 to 18 percent protein in their ration. Growing pigs need a larger percentage; heavier hogs need a smaller percentage. This protein may be supplied by such feeds as tankage, oilseed meals, and to some extent by legume hay, and alfalfa meal. Don't neglect minerals either. A balanced ration for hogs results in better utilization of all feeds and a net saving in grain.

3. Keep hogs on pasture.

Keep hogs on pasture as long as possible this fall. Plant rye this fall for temporary pasture next spring and plan now to seed rape next spring. Reserve a good legume or bluegrass pasture for hogs next summer. Legume pasture, in particular, reduces the amount of purchased protein, such as tankage and oilseed meals, that would otherwise need to be fed. Clean pastures help to avoid parasites and diseases.

4. Avoid death losses.

Protect hogs against parasites and disease. A sick pig wastes feed and a dead pig means a total loss of the feed he consumed.

BEEF CATTLE

1. Feed fewer beef cattle to a slaughter grade that will average above the Good grade.

A Choice yearling feeder steer usually requires between 40 to 45 bushels of corn to produce a Choice grade carcass with a weight gain totaling from 400 to 450 pounds. But the same animal usually requires only 20 to 25 bushels of grain, with plenty of hay or silage, to produce a Good grade carcass with a weight gain of 250 to 300 pounds. It is estimated, on the basis of studies made by the Bureau of Agricultural Economics in 1945, that 60,000,000 bushels of corn or its equivalent in other grains, plus 85,000 tons of byproduct feeds, are used in the Corn Belt annually to fatten cattle beyond the average of the Good slaughter grade.

During a season like this, when grass has been unusually plentiful, a larger than normal proportion of the cattle sold in the fall out of range areas can be marketed in good slaughter flesh with little or no grain feeding.

A large part of the increase in weight obtained by feeding cattle to higher slaughter grades is in the form of fat. Cuts from carcasses of animals that have been fattened beyond the Good slaughter grade contain more fat than usually is eaten by the average person. Much of that fat, representing valuable grain, is trimmed off the meat before eating.

2. Feed more hay and other roughage.

Hay and other roughage can be substituted to some extent for concencentrates in the feeding of cattle for market, particularly for larger animals. In this way, an increased number of cattle can be fattened and a larger quantity of beef for consumers obtained from a given quantity of concentrates.

3. Make maximum use of pastures.

Keep cattle on grass pasture or stalk fields as long as possible this fall and put them on pasture as early as possible next spring. The feed that beef animals obtain from the pasture means just that much less grain to feed.

Caution: Don't let cattle overgraze the pastures, particularly early in the spring. Let the grass get about 4 inches high before the cattle are turned out. After the grass is well grazed, move the cattle to another pasture. If there is only one pasture, divide it with a temporary fence so that the grazing can be alternated.

4. Feed as little grain as possible for maintenance this winter.

When cattle and calves are being carried through the winter to be placed on grass again in the spring, they require practically no grain for maintenance if plenty of good quality hay, silage, or other roughage is fed, along with the necessary high protein concentrates.

5. Carry some cattle on a maintenance of roughage for a few months before starting grain feeding.

One of the reasons for feeding grain to cattle is to make a substantial number of cattle available for slaughter in the spring and summer—a time when few cattle are being sold off pastures and ranges. If cattle are to be fed grain for a shorter period of time than usual, it is important for more cattle to be started on grain feed at a late date, say in early spring. This can be done by carrying more cattle with little or no grain until spring, when, with much less grain than usual, the cattle could be put in satisfactory condition for slaughter.

DAIRY CATTLE

1. Feed roughages to the limit.

Good quality hay and other roughages can be fed heavily without serious effects on total milk production. This is an economical and efficient practice, and it will result in some saving in grain. Go heavy on legume hays, such as alfalfa and clover.

2. Reduce amount of grain fed to dry cows.

Make maximum use of roughage in feeding dry cows. Reduce grain feeding sharply during the dry period if the cow is in good condition and the hay available is a legume of good quality.

3. Make maximum use of pastures.

Keep cattle on grass pasture or stalk fields as long as possible this fall and put them on pasture as early as possible next spring. The feed that dairy cows obtain from the pasture means just that much less grain to feed.

Caution: Don't let cattle overgraze the pastures, particularly early in the spring. Let the grass get about 4 inches high before the cattle are turned out. After the grass is well grazed, move the cattle to another pasture. If there is only one pasture, divide it with a temporary fence so that the grazing can be alternated.

POULTRY

1. Reduce the size of laying flocks through culling.

Although the poultry industry has reduced production substantially from the wartime peak, further readjustment can be made and yet provide an abundance of poultry and poultry products. The United States Department of Agriculture has recently suggested that farmers cull their laying flocks this fall to such an extent that there will be 4 percent fewer layers on farms January 1, 1948 than there were a year earlier. Even with that reduction it will be possible to produce 375 eggs per capita in 1948. That will be the third largest per capita supply on record.

2. Use more green feeds.

This conserves grain. For example, place alfalfa hay in a rack in the poultry house and put the birds on range whenever possible. Good range will save a lot of grain next summer.

3. Keep flocks healthy.

Only healthy chickens make good use of grain.

4. Reduce the mortality rate.

This can be accomplished through buying quality chicks and poults. Poultry mortality has been averaging about 17 percent. Each bird lost represents less poultry meat and eggs for consumer use as well as some loss of feed. Reducing the mortality rate also requires the adoption of better sanitation practices, the exercise of greater care in raising chicks and poults, and the use of vaccines for communicable diseases, and the purchase of disease-free chicks.

5. Feed economically.

Don't overfill hoppers. More frequent filling will avoid waste and pay dividends.

6. Maintain quality of the product.

Eggs that deteriorate in quality due to failure to collect frequently, or eggs that are not properly stored, packed, and transported, will result in fewer edible eggs reaching consumers. All feed utilized in the production of the lost eggs, of course, constitutes a loss.

UNITED STATES DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
POLICY AND PROGRAM COMMITTEE,
Washington 25, D. C., October 27, 1947.

USDA COUNCIL MEMORANDUM 43

To: Members, State USDA councils
From: The Secretary
Subject: Carrying out the Grain Conservation Program

USDA council memorandum 38, sent to you under date of October 8, 1947, outlined the urgent need for a broad grain conservation campaign among the Nation's farmers and ranchers. At that time I asked the councils, under the leadership of their chairmen, to give the grain conservation campaign first consideration, coordinating activities of member agencies and organizing specific programs. It is important that this work go ahead without interruption.

A handbook containing facts which may be useful in developing local programs is being prepared and will be available at an early date.

Specific recommendations for conservation and efficient feeding practices must, of course, be localized and adapted for conditions within each State. It is also important that local groups and services in the State, not represented on the councils, be brought into the campaign fully.

The Chairman of the Citizens' Food Committee, Mr. Charles Luckman, and the Secretary of Agriculture are therefore jointly suggesting to the President of each land-grant college that he may find it desirable to appoint a special State livestock feed committee to serve during the emergency. Such a committee would include members of the research and extension staffs of the land grant colleges, as well as representatives of State farm organizations, feed dealers and manufacturers, and others who can contribute to the program.

One of the first tasks of these State livestock feed committees would be to assist in the development of specific localized recommendations for saving grain in livestock feeding. The land-grant colleges, as the established centers for agricultural research and education work within each State, should take the leadership in establishing these locally approved practices.

When State recommendations are determined, the State extension service will be expected to distribute the information through all of its outlets and services. The extension service, through its representatives on the USDA council, will also be expected to see that the localized practice recommendations are made available to the councils promptly. This will make it possible for both State and Federal agencies and services to tell the same story and make the same basic recommendations. This teamwork is essential. The councils and the new State livestock feed committees where established must cooperate fully. The job is to see that every farmer in the State is reached with sound, constructive suggestions for grain conservation.

A copy of the communication which is being sent to the presidents of land-grant colleges is attached for your information. Do everything you can to facilitate the development of sound and effective working relationships. You are undoubtedly already depending upon the land-grant colleges for localized recommendations and other services. The appointment of a State livestock feed committee would not change your basic responsibility for over-all coordination of grain-conservation-program activities by all agencies represented on the State USDA council.

CLINTON P. ANDERSON,
Secretary.

TEXT OF LETTER FROM CLINTON P. ANDERSON, SECRETARY OF AGRICULTURE, AND CHARLES LUCKMAN, CHAIRMAN, CITIZENS' FOOD COMMITTEE, JOINTLY, TO THE PRESIDENTS OF LAND GRANT COLLEGES

As you know, the saving of grain on the farm is one of the important parts of the President's three-point conservation program to make more food available for shipment to hungry people abroad. Economies in livestock feeding, through special measures and greater efficiency, are vital to the success of our present efforts to meet a great international crisis.

The land grant college is, of course, the center for research within the State. It should take the leadership in determining recommended practices for the State, in support of the grain-saving program. The Department of Agriculture will continue to recommend general conservation practices at the national level, providing a basis for part of the work in local adaptation.

There is also need for definite coordination of State groups and services not represented on the USDA councils. We therefore suggest that you, as head of a land grant college, may find it desirable to appoint a State livestock feed committee to serve for the period of the emergency. Such a committee should include, in addition to members of your agricultural research and extension staffs, representatives of State farm organizations, feed dealers and manufacturers, and others you may select.

An important part of the job of a State livestock feed committee would be to assist in the development of specific suggestions for saving grain in livestock feeding, adapted for local conditions within your State.

After specific conservation practice recommendations are determined, the Extension Service will undoubtedly take the lead in educational work, using all its established outlets to get the recommendations down to individual farmers. The Extension Service is also represented on the State USDA council. By making the approved recommendations available to the council promptly, Extension can make it possible for Federal agencies to tell the same story and suggest the same practices. This should insure teamwork and a unified program within the State.

The USDA councils are being notified of this suggestion that you appoint a special State livestock feed committee.

If you appoint a livestock feed committee, please let us have the name of the chairman so that we can give him every possible support and service. Any suggestions you may have about general ways in which the joint campaign can be made more effective will also be deeply appreciated.

UNITED STATES DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, November 7, 1947.

National organizations asked to meet November 13 on farm grain conservation.

Secretary of Agriculture Clinton P. Anderson has invited representatives of approximately 50 national organizations who work with farmers to meet with him in Washington on November 13 to discuss further means of carrying out the program for conserving grain on the farm.

In a letter to the organizations, Secretary Anderson said that, in his judgment the conservation message can be put before farmers successfully only through the combined efforts of the Citizens Food Committee, the United States Department of Agriculture, and private organizations.

Secretary Anderson's letter follows:

"The responsibility of the United States Government in meeting the critical world food emergency requires the full cooperation of all Americans.

"Food conditions in Europe and the Far East are such that this country must maintain exports of food, particularly of grain, at a rate that will sustain human life until the next harvest. But exports at the rate needed to help meet minimum requirements abroad can be maintained only through careful conservation of domestic supplies.

"The United States Department of Agriculture has undertaken to secure the voluntary cooperation of farmers in this vital program. Detailed suggestions for more efficient livestock feeding and other means of avoiding waste of grain on the farm have been prepared by Department specialists. The Department's field organization has been mobilized to carry these suggestions to farmers.

"In my judgment, however, the conservation message can be put before farmers successfully only through the combined efforts of the Citizens Food Committee, the United States Department of Agriculture, and private organizations, such as the one you represent. To reach every farmer in the United States, to show him the importance of food conservation, your full cooperation is necessary.

"This is an invitation to meet with me at 10 a. m., on November 13, in Room 218, Administration Building, United States Department of Agriculture, Washington, D. C.

"I am anxious to find out from you how your organization may be able to assist in this all-important program. I will appreciate receiving any suggestions you may wish to offer."

Those invited to the November 13 meeting include the following (address Washington, D. C. unless otherwise indicated):

Benjamin F. Castle, manager-director Milk Foundation.
William R. Noble, Washington manager National Retail Farm Equipment Association.
Robert A. Jones, executive secretary Farm Equipment Institution Chicago, Ill.
Charles W. Holman, secretary National Cooperative Milk Products Federation.
L. S. Hitchner, executive secretary Agricultural Insecticide and Funguid Association, New York, 17, N. Y.
Maurice H. Lockwood, president, National Fertilizer Association.
William T. Faricy, president, Association of American Railroads, Transportation Building.
W. Kerr Scott, president, National Association of Commerce, Secretary and Director of Agriculture, Raleigh, N. C.
E. C. McArthur, president, National Association of Soil Conservation, District Government Officials, Gaffney, S. C.
Walter C. Berger, president, American Feed Manufacturers Association, Chicago, Ill.
John B. Newman, vice president, Corn Industrial Research Foundation.
Edward A. O'Neal, president, American Farm Bureau Federation, Chicago, Ill.
Albert S. Goss, president, National Grange.
W. T. Spanton, Future Farmers of America in care of United States Office of Education.
Layne Beaty, president, National Association of Radio Farm Director Station WBAP, Fort Worth, Tex.

R. B. Bowden, secretary National Grain Trade Council.
M. H. Brightman, executive secretary, Dairy Industry Commission.
John A. Logan, president National Association of Food Chains.
Clifton A. Woodrum, president, American Plant Food Council.
Wheeler McMillen, president, National Farm Chemurgic Council, Philadelphia 5, Pa.
Walter D. Fuller, president, Farm Film Foundation.
Delos L. James, manager, Agriculture Department United States Chamber of Commerce.
A. G. Brown, chairman of Agriculture Commission American Bankers Association, New York City, N. Y.
Milton Grinnell, president, American Agriculture Editors Association, Michigan Farmer, East Lansing, Mich.
Herman Fakler, vice president, Millers National Federation.
Roger P. Annan, secretary, Grain and Feed Dealers National Association, St. Louis, Mo.
Roy F. Hendrickson, Nation Federation of Grain Co-ops.
Harry Hunter, secretary, American Corn Millers Federation, Chicago, Ill.
Quentin Reynolds, president, National Council of Farm Coops.
James G. Patton, president, National Farmers Union Denver, Colo.
W. B. Wright, president, American National Livestock Association, Deeth, Nev.
Arthur R. Maurer, chairman of board, National Industrial Meat Packers Association, Kansas City, Kans.
S. J. Pauly, president, National Wool Browers Association Salt Lake City, Utah.
H. M. Stratton, president, Terminal Elevator Grain Merchants Association, Milwaukee, Wis.
W. B. Yungclas, president, American Pork Producers Association, Webster City, Iowa.
Herman C. Demmer, president, National Poultry Producers Federation, Sewell, N. J.
Milton Hult, president, National Dairy Council, Chicago, Ill.
Owen M. Richards, general manager, American Dairy Association, Chicago 6, Ill.
Wesley Hardenbergh, president, American Meat Institute, Chicago, Ill.
C. E. Weymouth, president, Texas and Southwest Raisers Association, Amarillo, Tex.
R. C. Pollock, secretary National Livestock and Meat Board, Chicago, Ill.
P. O. Wilson, manager, National Livestock Producers Association, Chicago, Ill.
A. Z. Baker, president American Stock Yards Association, Cleveland, Ohio.
Mark Goodrich, chairman of board, Institute of American Poultry Industry, Strawberry Point, Iowa.
Hobart Creighton, president, Poultry & Egg National Board, Warsaw, Ind.

Average weight of hogs sold for slaughter, by weeks

	All hogs slaughtered under Federal inspection, including sows			Barrows and gilts received at 7 Corn Belt markets		
	1947	1946	Difference	1947	1946	Difference
	Pounds	*Pounds*	*Pounds*	*Pounds*	*Pounds*	*Pounds*
Week ending—						
Sept. 6	258	256		240	(2)	
Sept. 13	250	266	−16	230	242	−12
Sept. 20	241	266	−25	223	237	−14
Sept. 27	243	274	−31	222	241	−19
Oct. 4	[1] 248	264	−16	219	243	−24
Oct. 11	246	270	−24	219	235	−16
Oct. 18	230	245	−15	219	229	−10
Oct. 25	235	243	−8	218	231	−13
Nov. 1	234	248	−14	217	233	−16
Nov. 8	229	240	−11	221	232	−11
Nov. 15	232	243	−11	221	232	−11
Nov. 22		240			231	
Nov. 29		241			232	

[1] Data for week ending Oct. 4 and subsequently are preliminary.
[2] Not available.

Source: Livestock Market News and USDA meat-production reports published by Livestock Branch, PMA.

The CHAIRMAN. It is pleasant to find something on which I think we may all agree, and commend the work of the Department of Agriculture.

Secretary ANDERSON. That you, Mr. Chairman.

The CHAIRMAN. I can not speak for everybody here, but there are some few things that are not controversial in this whole program. It is nice to find something which seems to be so very well done.

Secretary ANDERSON. We do think, Mr. Chairman, that this is a ground upon which we may all work with unified support. The four major farm organizations have all endorsed this program and are devoting time and money to it. They are all in complete agreement on it, and the land grant colleges are uniformly working along with programs of this nature.

I might say that the Department of Agriculture has had to take some of its guidance from some of these land grant colleges who have done outstanding work. I could mention the study made by the University of Illinois officially in feeding, so that it is a program that I think in which there is general acceptance.

The CHAIRMAN. May I ask the status of the Luckman committee? Was that ever under the Department of Agriculture?

Secretary Anderson. No.

The CHAIRMAN. Was that directly under the President?

Secretary ANDERSON. Yes.

The CHAIRMAN. What is the change? I wanted to ask you about the change that was made this morning in the paper.

Secretary ANDERSON. Perhaps I should not answer that way, that it was directly under the President. It was appointed by the President, but it was intended and actually worked out that the Cabinet Food Committee acted more or less for the President in the contacts with the Luckman committee, because it was felt that there were matters that needed steady discussion, and the time of the President was limited. Therefore, the members of the Cabinet Committee represented the President, at least in the dealings with the Luckman committee.

I regret to say that I am not too well qualified to say what the change was that appeared in the papers this morning, but I am quite sure that I speak correctly when I say that Mr. Luckman set for himself and for the members of his committee the goal of finding if 100,000,000 bushels of grain could not be saved by voluntary efforts of various groups. He had reached a point where pledges which he must assume are valid pledges had been received totaling 100,000,000 bushels of grain. Therefore, he did not wish longer to be dealing with matters of policy, since he felt additional matters of conservation of grain with the Congress in session would either be handled by the Congress or by the Department of Agriculture and other agencies, and therefore he felt that his committee should go to an advisory capacity rather than to be the group that was actually negotiating for these savings. I would feel better if Mr. Luckman had made his own statement.

The CHAIRMAN. Whom do they advise?

Secretary ANDERSON. They would advise the President and the Cabinet Food Committee if they are required for this period. Fundamentally they have set up their advertising schedules. They have their radio announcements. They have their newspaper publicity ready. They have advertising schedules ready to run in magazines; and they think that the work of keeping these pledges good has been cared for by the campaign that is under way. They have organized governors committees. They have organized committees of mayors and they feel that that effort will succeed in saving the 100,000,000 bushels of grain to which they had pledged themselves as they started their work.

The CHAIRMAN. I do not quite understand who is doing this now, from now on.

Secretary ANDERSON. I have tried to say that most of the work now becomes more or less routine. The advertising council has arranged for the necessary advertising for the radio time, for the steady messages. The governors councils which have been set up within the various States will continue these conservation measures that have been outlined to them. The mayors committees in cities will work to persuade people to help in these conservation efforts. But of course we are relying for very substantial savings from farm groups, and we naturally think that these State USDA councils, county organizations, all through the country, will help.

The CHAIRMAN. I understand your end of the work. I am talking about people's savings. I do not see why it does not fall to pieces if somebody does not direct it, if it has not fallen to pieces already.

Secretary ANDERSON. I am sure Mr. Luckman will be in Washington for such time as necessary and will come when necessary to get out additional items of information, but he does now feel that the goal is in sight, that the closing of distilleries for a period of 60 days will produce a specified number of bushels of grain, that the pledge made by the brewers will produce a saving of grain to which they have pledged themselves. He knows that in the poultry pledge he has behind him not only all of the people who particularly represent the poultry industry, but as well the four major farm organizations, that they are committed to the drive, and that they will see it through, and therefore he feels that the work of his committee has largely ceased. It is a follow-through process from here on out.

I have not stated it as well as he could to you, but I am sure that is his general philosophy.

The CHAIRMAN. Of course, we are dealing more with price. It occurs to me if you cut down the amount of grain for beer, the price of beer will go up and not down.

Senator SPARKMAN. It is more important that the price of grain go down, is it not?

Secretary ANDERSON. I do not think that in the temporary period that the beer prices will reflect any great change, but it is a desire to take purchasing pressures off supplies such as wheat, and there has been a relief in pressure for some time; that wheat price was moving up pretty rapidly. It has sort of stabilized now, close to a $3 figure.

The CHAIRMAN. What is the effect of feeding stock to a lower weight? Does that reduce the total amount of meat?

Secretary ANDERSON. Yes, and that is why there will be difficulties in the meat sector next spring. We do feel, however, that by reducing the weights of hogs going to market, that we are able to preserve the industry so that you can——

The CHAIRMAN. You get more grain for Europe, but you get higher prices for the Americans, is that not correct? Is that not the net result of the program?

Secretary ANDERSON. Yes, I think that you could only say that there will be a greater shortage of meat, and that without controls it might result in higher meat prices. Certainly next spring would be a difficult situation because we will be at a level that could run from 125 to 135 pounds, and that is a relatively low per capita consumption with the amount of spending money there is available in this country today. It is a question——

The CHAIRMAN. What I mean is, the effect on price, as I see it, can only be accomplished by a reduction of consumption in this country. There is a demand for a supply which is more or less limited, and which we are now limiting further in some fields, and I am sorry to see what seems to be kind of a general breakdown of programs for the reduction of the ultimate consumption of food, and meat and grain, and so forth.

Secretary ANDERSON. That is why I say that Mr. Luckman hopes that the campaign of the Citizens Food Committee, for example, an eggless day a week, may be continued, because this is a period of normally scarce egg supplies. If you have the same buying pressures in that market, you tend to raise the price of eggs; you tend to make it desirable for a farmer to retain inefficient producers where he could normally cull a poor hen from the flock, and the only hope that the campaign of this nature which gets a larger quantity of grain, the only hope it has for succeeding, that there shall be coincidentally some reduction in effective demand for meat and for eggs to match somewhat smaller supplies.

The CHAIRMAN. If we want to go further into this question of the conservation of food, do you suggest that Mr. Luckman is the man that we should call?

Secretary ANDERSON. I think he would be a very good witness.

The CHAIRMAN. He is still in charge of the matter?

Secretary ANDERSON. Yes, indeed.

The CHAIRMAN. Although not here so much, is that it?

Secretary ANDERSON. That is right.

The CHAIRMAN. Are there other questions?

Representative RICH. I would like to ask Mr. Anderson this question. You say that you and Mr. Luckman had the cooperation of the breweries in closing down for 60 days in order to conserve grain?

Secretary ANDERSON. The distillers closed for 60 days, not the brewers.

Representative RICH. I would not know the difference between a brewery and a distillery.

Secretary ANDERSON. I am unable to testify about grain speculation. When you get to distillers and brewers, I am a qualified witness.

Representative RICH. Well, now, the point I want to ask is this: If we ask our distilleries to close down here for 60 days, why is it that we are shipping grain out of the country to foreign countries and permitting it for the purpose of taking care of the starving people, as we say, and yet we are permitting people in foreign countries who buy our grain or who get it as a gift to run their distilleries and then the State Department cuts down the tariff on liquors, taking effect the 1st of January, bringing that liquor back over to this country? Can you explain why the administration is permitting that to happen?

Secretary ANDERSON. Well, I would have to divide it into two classes, whisky and beer. It may take quite a little while for me, but maybe I can do it briefly, and say that there is very little grain sent from this country that ever reaches the type of business that you are referring to. I would like to say that there is absolutely none.

Representative RICH. How do you know there is not?

Secretary ANDERSON. Well, I say that is why I would like to say there is absolutely none. I am not able to prove the absolute destination of all of the grain that we ship, but I am reasonably certain that all of the grain that we ship is handled directly as human food and not a bit of it ever goes into the manufacture of either beer or whisky in any country.

Representative RICH. Where do they get their grains then to manufacture their own liquor? They use their own grains and use ours to feed the people, and use their own grains for manufacturing liquors?

Secretary ANDERSON. Now, may I say that in the case of Britain, Britain gets its supply of grain from Canada and Australia, and not from the United States. A very small amount of our grain did go to them at one time, virtually none at the present time, and the only thing we have been able to do is to suggest to the people of Britain that it does disturb folks in this country occasionally to see their liquors coming into this country, because we are all in the business of supplying grain to the needy world together, and what Canada has and Australia has, we feel might go into a pool for the benefit of other people.

On the other hand, the only thing that supplies dollars these days is exports, and one of the most fruitful sources of exports as a means of obtaining dollars for Britain happens to be various types of liquors. It is a matter that has been dealt with many many times. I can assure you it has been the subject of a great deal of discussion, but it is not a simple matter to solve.

Representative RICH. It seems to me it would be pretty simple to simply tell them as long as they are going to use grains over there to manufacture liquors when we prohibit our distillers to manufacture them here, that if you do not stop it over there, we will not ship any grains. It seems to me that would be the answer.

Secretary ANDERSON. Well, it is a very difficult answer to make, and there is another factor that enters into it. Our stocks of liquor in the United States were very ample at the time our distillers closed down. There was a very strong likelihood that we would be in the midst of a sort of distillers' warfare if we did not stop the production and put it at a more even pace. I do not think the same hardship was done to our distillers as it would be to a distillery in Britain to close it down, where they have been operating on very short rations all during the war, and where they even now are operating at a very low figure. Over the year they will operate at a much lower figure than our distillers will over the year.

I would dislike to be put in the position of defending this policy, because I have no connection with it, actually.

Representative RICH. Do you figure that liquor is more vital to the welfare of the people over there to keep them from starving than bread?

Secretary ANDERSON. No; you know I do not, Mr. Rich.

Representative RICH. I know you do not. I know you do not. That is the reason why I think the Administration ought to step on them and prohibit them from making any more liquor when you close our own distilleries down.

Secretary ANDERSON. Well, we deal to a great degree with our food in countries that are not manufacturing tremendous quantities of liquor. At the same time there are some very difficult problems that arise out of their desire to get dollar balances.

Representative RICH. Why do they need dollar balances when we give them everything?

Secretary ANDERSON. I am sorry to say that those things must come to them from the Department of Agriculture. We do not give it to them.

Representative RICH. Mr. Secretary, I do not want to embarrass you. That is my sentiment, and I think we ought to do it.

Representative BENDER. I am wondering if the Secretary or the Administration has anything in mind regarding the further or continuing program that they have embarked upon of asking distillers to remain closed, or are you going to ask Congress for legislation to restrict the distilling in this country?

Secretary ANDERSON. I would say that the question of what will be asked of the Congress with reference to allocation of powers on grain is not solely my decision, but will involve discussions with the Commerce Department and the State Department and others. I do believe that the request will be made for legislation which will permit the allocation of grain to its most useful purpose. If so, it is entirely possible that that could be used to further restrict the distilling of whisky in this country. During the entire war period the breweries were at times reduced, the distilleries were pretty steadily closed. They were allowed certain holidays which permitted them to lay in some stocks, but I do not think that the distilleries could make quite the same case now that they could even make during the periods of the war. They have, relatively speaking, a very large supply of liquor on hand. Actually they are selling more and more blended whiskies, rather than bonded whiskies, and that makes their stock of liquor go much farther. They are using a good deal of neutral spirits, so that I feel the distilling industry is not in extreme peril by being closed down for a small period. Therefore, if there was reposed in the Department of Agriculture any power to allot grain, and we felt that the situation came down to a choice between certain types of food and liquor, we might ask for restriction of the industry.

Representative BENDER. Do you have any information regarding the amount of Scotch whisky on hand in this country?

Secretary ANDERSON. No, I do not, but it is somewhat limited. I am not trying to contribute to inflation in Scotch prices, but I can assure you that the supply of Scotch whisky is not adequate for present consumption rates.

Representative BENDER. You think most of the exports of the British are Scotch whisky?

Secretary ANDERSON. I think most of the exports of the British are Scotch whisky.

Representative HUBER. Mr. Secretary, if you curtail the output of the brewers, would not that also affect the available byproducts, the malt byproducts that are available for the dairy farmers, and then affect the supply of milk, and cause an increase in the price of milk?

Secretary ANDERSON. I recognize there is a certain byproduct which comes from the manufacture of both whisky and beer. The organizations which represent the distillers have done excellent work in preparation of tables to show that you get back as much feeding value from the manufacture of alcohol as actually goes into it. I am not able to persuade myself that that is correct. I have recommended many times that there is a better case that can be made out for beer than perhaps the operation of distilleries. There is a food value to beer. There are certain definite calories that can be measured in a glass of beer. There are working classes who depend to some degree for that as a part of their diets, and in view of the fact that there is a very large recovery value to beer, and a very substantial calory content in the product, I for one have been a little more lenient perhaps with the brewers than I have with the distilleries.

Representative HUBER. Apropos to this reference of Congressman Bender, the statements that have been made, if all of the statements that have been made by Members of Congress and those in the administration and out of the administration were laid end to end, and we proceeded from there, would it not be a good thing?

The CHAIRMAN. It is true, however, Mr. Huber's point, that the conservation of grain in beer results in feed for American consumption for cattle and other livestock, and therefore tends somewhat toward an increase in price. That would be correct, would it not?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. There was some rumor that you were planning to ship abroad malting barley.

Secretary ANDERSON. Yes, some will be shipped abroad. I am sorry that I cannot give you the exact quantity. I could get it if you desire. The malting barley is a special problem, Mr. Chairman. The malting barley brings a much higher price than the other barley under normal conditions, and if we do not allow it to be used for the preparation of malt, it has a tendency not to be used for grain for livestock, and therefore it just accumulates. We might as well make use of it. Last year we were shipping abroad something in the neighborhood of 5 million bushels per year. However, since this sort of tight situation developed, we put these shipments under license and cut down very substantially the amount that was to be sent so that for the next 2-month period, it is about 650,000 bushels, which is at the rate of about 3 to 4 million bushels a year.

The CHAIRMAN. It is true that the British get Canadian grain. While that is true, of course, it is also true that it is all in one port for all practical purposes, and also that we are being asked to pay the British for them to get this Canadian grain.

Secretary ANDERSON. I tried to say, Mr. Chairman, that I do not try to defend the whole situation entirely. I just say there are considerations in which the State Department is involved, and many other things are involved, so that it is not just a question of the Agriculture Department's decision at all.

Senator BALL. Mr. Secretary, in your recommendation on the final paragraph of your statement, I take it you do not need any additional legislation to authorize this conservation drive that you are undertaking.

Secretary ANDERSON. I am not sure, Senator. I would think it would be helpful if we had a sort of simple type of resolution that would permit the appropriation of money. You and I know that points of order can be made in one House, at least, on items which have not been authorized by legislation, and we would feel better if there was legislation of a very simple type that covered that and authorized it.

Senator BALL. You are going ahead with the program without it?

Secretary ANDERSON. We are going ahead by simply saying to the State USDA councils, "Now, you go ahead and do this the best way you can. Ask somebody to contribute. Try to get space free. Try to get somebody to mail your material out. Try to get somebody to print it for you."

Well, that goes along all right for awhile, but there is a time when you may need some money on it. I am not willing to try to mislead the committee. We will do a reasonably good job if no money is appropriated. We do feel that a whole lot better job could be done if money were appropriated and that we would get supplies of grain that otherwise we would not get; in the long run that extra grain will be extremely useful to us in helping to hold down all prices.

Senator BALL. Can you give us any idea of how much extra money the Department would need for this program?

Secretary ANDERSON. We have not an estimate on it. Can I give you a rough one? I will be somewhere between $500,000 and a million dollars. I will still stick to my figures; for the rest of this year between $500,000 and $1,000,000.

Senator BALL. Was any of this $500,000 which was taken out of the foreign relief appropriation and allocated to the Luckman committee, and in turn transferred to your Department?

Secretary ANDERSON. I could not answer that question. I would have to ask Mr. Jump, who knows all about financial matters. I could not answer that. I think not, but it is possible that it was, but I think not.

Senator BALL. This voluntary program of conserving grain at the farm level you say is working out very successfully?

Secretary ANDERSON. I think so.

Senator BALL. Then what is your recommendation in regard to the fifth recommendation of the President, which apparently called for some kind of compulsory authority to induce the marketing of livestock and poultry at weights and grades that represent the most efficient utilization of grain? Do you think if a voluntary program is working as well as you say this one is, that it is wise to attempt compulsion on millions of farmers?

Secretary ANDERSON. That opens up a rather large field, but let me see if I can say it this way: Mr. Farrington is going to testify generally about section 5. I can only express my personal convictions on it, but I cannot help but feel that the suggestion that there be legislation to require grain conservation by marketing animals at grades and weights that would conserve grains most was originally posed on the basis that there might not be a suggestion of price controls or any type of control of that nature.

Now, the best way probably to make sure that livestock is marketed at advantageous rates is either by voluntary campaign or by a price ceiling. We have seen what happens when price ceilings go on.

The CHAIRMAN. Or letting grain go up without price ceilings.

Secretary ANDERSON. By livestock ratio. The trouble with the grain going up is that livestock has a tendency to follow it, and we have sales of steers at $38, which are pretty fancy prices.

If it were contemplated that controls were to go on in the form of ceilings on a particular commodity, such as meat, then surely attempting to legislate for the marketing of livestock at grades and weights, that would greatly conserve grain, would not be the desirable way to handle it.

I would say that a voluntary effort is working reasonably well. There are, however, as you know, a great many people who continue to fatten their cattle to extremely high grades, AA grades of beef, which are wasteful of grain but profitable some times as fattening devices at present prices.

We think that ought to stop, and that that is wasteful. I do not know whether you can easily stop it or not.

Senator BALL. How can you, without price ceilings?

Secretary ANDERSON. I think you cannot. I just tried to say that I think it is almost impossible without price ceilings.

We have explored the whole field of penalties, processing taxes and various other things, and they are not satisfactory substitutes for a price relationship which tends to bring about the marketing of proper weights.

Senator BALL. Then, the President's recommendation number five would actually require authority for price ceilings on livestock.

Secretary ANDERSON. Yes, that is what it requires.

The CHAIRMAN. Assuming that there are no price controls, do you want compulsory measures on the weight?

Secretary ANDERSON. Senator, I am not in a position to recommend a program to you that I think will get the job done. We have explored penalties and taxes of various kinds, and I am not satisfied that we can offer one to you that will succeed.

The CHAIRMAN. Are there other questions? Senator Watkins.

Senator WATKINS. Mr. Secretary, I am interested in the statement that you made on page 4, and I quote, "And speaking of the next harvest, who among us here is willing to venture a guess as to how large—or how small—that harvest will be?" Is it a matter of guessing now on next year's crop; is that it?

Secretary ANDERSON. Yes, sir.

Senator WATKINS. Is it not possible to determine how many acres have been planted for wheat this winter?

Secretary ANDERSON. Yes, sir.

Senator WATKINS. During the last fall season?

Secretary ANDERSON. Yes, sir. The conditions under which wheat was seeded in the Western States make it absolutely impossible for anyone to do more than hazard a guess as to what is going to happen from here on out.

Senator WATKINS. How many acres, if not how many have been germinated and how many have been planted?

Secretary ANDERSON. Yes, sir.

Senator WATKINS. Has that not been done?

Secretary ANDERSON. No, not how many have been germinated. We cannot tell you that, but we can give you a fairly accurate estimate. If you wish, we will be glad to go into that in some degree, but whether it is gone into, it is an extremely complicated matter in a winter-wheat crop.

There are times when winter wheat goes in under good seeding conditions. All through Kansas, all through Oklahoma, northern Texas, Colorado, and those States, it goes in under very favorable conditions sometimes, as it has done for the past 3 or 4 years.

Sometimes, it goes in under very difficult circumstances, and then you have to have everything happen just right to bring in the wheat. You have to have it rain just the right day, and to quit raining just the right day, and it is a very ticklish thing to gamble that the wheat crop will come through. That is why, with a yield at a billion four hundred million bushels last year, we have to remember that 15 years ago we got a production of around five hundred and thirty or forty million busuels, about a third of last year's crop, a little more than that, that is this year's crop.

Now, the difficulty is that you cannot guarantee what is going to happen to that spring weather. If the wheat had gone in under good circumstances, if it germinated and had come up, if we had good weather here this fall, then we would be willing to guess and estimate and pretty nearly guarantee the size of next year's winter wheat crop. But we cannot be sure that we can, and you, sir, living where you do, you know about that.

But nonetheless, when you have a situation where the crop goes in and is seeded in the dust, even though you get moisture, as wheat got these last several days, you cannot absolutely make sure that you are going to see that crop come up and really produce.

Why I say that is because the Governor of Kansas, associated with several of us in the House of Representatives at one time, is the authority for the statement that the Kansas wheat crop may be next year 90,000,000 bushels as against 300,000,000 bushels this year. I do not believe he is guessing.

Senator WATKINS. That is what I thought—that probably they are not guessing; they know.

Secretary ANDERSON. I say they know a lot of things about it, but a combination of good rains and good growing weather from here on out could produce another 200- or 250-million-bushel crop in Kansas. We have been greatly encouraged by the weather of the last 10 days, and what looked like a pretty bad situation could be a fairly good one if it worked well from here on out.

Senator WATKINS. I want to ask for some information with respect to how many acres have been planted in this area, in the Dust Bowl area, the States that produce a large portion of that grain supply.

Secretary ANDERSON. Well, there will be a report on December 18; that is the first grain estimate. I do have—I hope I have it here, although I did not bring everything—a report on seeding conditions in that area which showed the percentage in Oklahoma, Kansas, Texas, as of October 15, which is the last accurate check we made.

Conditions have greatly improved since then. If you desire we can file for the record a statement, to the best of our knowledge, on November 15, but we do not regularly collect that figure until December 1 and publish it on December 18.

Senator WATKINS. One of our committees has been hearing evidence on the condition of the crop in the western part of the United States, and at Denver we received some very bad news and we wonder now if we can bring that up to date to see what the present situation is. We are still holding hearings, and I know the committee members are very much interested in what is happening to the wheat crop.

Secretary ANDERSON. There was a weather report that I read just a while ago, that spoke of the improved conditions in that area. We have now had satisfactory rains over all of Kansas and Oklahoma. They have taken care of the immediate situation. But both the surface and the subsurface moisture is very deficient, and it is going to take more than just these steady rains running, as I remember, from November 14 to 18 to solve the problem.

Senator WATKINS. The thing I had particularly in mind was actually how many acres had been planted, and if they have any idea of whether it has germinated or not to the point where it will probably get by the winter. That will be very interesting to know, and will give us some idea of what we may expect from next year's crop.

Secretary ANDERSON. Senator, it varies from day to day. As these rains come, they start frantically to plant, if they have not planted, and if they have planted in the dust.

Senator WATKINS. Even this last year?

Secretary ANDERSON. Oh, yes.

Senator WATKINS. This might be a question showing lack of knowledge, but does not this grain have to start to germinate during the fall and winter season before it can be grown successfully in the next year?

Secretary ANDERSON. I am sorry but you are beyond my knowledge. But my understanding is that there are many areas where they will still plant next year.

However, we have made some preparation to switch to sorghums in case the weather next spring is of such a nature that they cannot plant it. I do not know what the exact situation will be December 1, but we have a regular procedure for getting that report December 1, and publishing it December 18.

The reports which we have had did show acreages in fairly good condition; showed a relatively good condition in Nebraska, a fairly good condition in many sections of Colorado, but a very bad condition in the sections of Oklahoma, Kansas, North Texas, eastern New Mexico, and southeastern Colorado.

Senator WATKINS. Would there be any way for you to get that information earlier than December 15?

Secretary ANDERSON. Yes, sir. We have much later information than October 15, but it is not as good or nearly as reliable as the December 1 report. I will be glad to have entered here a statement that covers it as best we can up to date.

(The statement is as follows:)

THE WINTER WHEAT SEEDING SITUATION NOVEMBER 24, 1947

Encouraging improvement in the wheat-seeding situation in the Southwest has resulted from a slow general rain which began the night of November 13 and continued for 4 out of 5 days following. No official estimate of wheat acreage and production can be made until the acreage data are prepared and released on December 18. In general we believe that farmers originally intended to plant an acreage equal to or somewhat in excess of the wheat goals announced October 2, 1947. Reports received from the field indicate, however, that it now will be possible for seedings in Nebraska, Oklahoma, and Colorado to be between 90 and 100 percent of the original intentions. In Kansas seedings may fall between 80 and 90 percent of original intentions and in Texas and New Mexico seedings will probably be less than 80 percent of original intentions. The moisture and crop conditions by States, according to our latest information, is as follows:

Nebraska.—The outlook is improved especially in the central and east-central districts and should be enough moisture to bring up wheat that had not previously sprouted in the south-central and southeastern districts. It is very late for wheat to get a good start this fall and with not enough moisture to properly pack the loose dry soil the outlook there is still pessimistic. The present condition of the planted acreage is good to very good in the western and northeastern part of the State, fair to good in the south-central part, poor to very poor in the southeastern part. Subsoil moisture is fair to good in the western part of the State, good to fair in the central, and fair to good in the eastern part. Surface moisture is good to very good in the western part, good in the central part, fair to very good in the eastern part.

Kansas.—Improved topsoil moisture conditions over most of Kansas resulted in increased seeding in southern and southwestern sections. The condition of planted acreage has improved from recent rains but precipitation must continue in order to carry wheat through the winter. Subsoil moisture is poor to good with mostly poor in the north-central and west-central sections, good to fair in the eastern and extreme western counties. Surface moisture is poor in the north-central and central parts of the State. Conditions in general have improved but moisture is seriously needed in the areas mentioned.

Oklahoma.—Enough rain has been received in western counties to complete wheat seeding and lateness of seeding is not a serious factor in Oklahoma. The condition of planted acreage has been improving but is still poor in many counties with the greatest wheat acreage. Subsoil moisture has improved in the southwestern portion of the State but is below normal in the main wheat area. Surface moisture is greatly improved from recent rains. Only the extreme tip of the Panhandle reports poor surface-moisture conditions.

Texas.—Rains in the Panhandle on November 13 and 14 caused volunteer wheat to sprout on quite a large acreage, an event for which farmers have been waiting so that it can be plowed up and acreage seeded at a controlled rate. To the extent volunteer wheat is sprouted and removed, the land will be ready for seeding, awaiting additional rains. The condition of the planted acreage is improving as a result of recent rains. Subsoil and surface moisture are increasingly better according to latest reports.

Colorado.—Most of the wheat in the State is in good shape and is furnishing some pasture. The southwestern dry portion has received some rain and the condition of the planted acreage in the majority of the counties is good with other counties ranging from very good to poor. Subsoil and surface moisture is reported good in a majority of these counties with other counties ranging from very good to poor.

New Mexico.—Irrigated wheat is in good to fair condition but nonirrigated wheat very poor to poor. Subsoil moisture is critically short. Light rains have been received recently and topsoil moisture situation has improved, benefiting wheat already sown.

Other winter-wheat areas.—Conditions have been almost ideal in the Pacific Northwest and favorable in the East North Central States, both relatively high yielding areas compared with the Great Plains. In both areas the acreage seeded apparently has been increased over last season, which will probably affect the acreage to be sown to spring oats more than any other crop. Early seedings in the South were doing well, but in some sections it has been too wet to continue seeding. Time is not yet a serious factor in this area, however.

Senator WATKINS. I will appreciate that.

Secretary ANDERSON. But you will understand it is a sort of interim statement, and not one of the regular statements of the Department of Agriculture.

The CHAIRMAN. Are there other questions?

Senator BALDWIN. Just one question, Mr. Secretary. The fifth point of the President's recommendations came up in connection with the discussion of conservation. Do I understand you correctly to say that your Department has no specific recommendation to make as yet as to how that No. 5 recommendation can be carried out? You have not finally come to some conclusion?

Secretary ANDERSON. Yes, Senator. If the time comes when the Congress wants a recommendation on that, we will give you some recommendation on it.

I only say that I have gone over the various studies that the people in the Department have made. I am not happy over their suggestion of processing taxes; I am not happy over what they have proposed in the nature of penalties, and neither are the people in the Department.

Senator BALDWIN. So, there is no specific recommendation on that one yet in sight?

Secretary ANDERSON. No.

Representative HORAN. Mr. Chairman, I would like to ask the Secretary this question. You stated that the tightest pinch in our feed supplies would come in the months immediately preceding the next harvest.

In that connection, I wondered if you had made any exploration of the possibilities or the practicability of liberalizing our open range and grazing practices for the immediate current needs?

Secretary ANDERSON. I am sorry, but I do not believe, Mr. Horan, that I catch the connection.

Representative HORAN. You said we would be tight on feed then and, of course, we will have to look to everybody that we have to in order to keep our livestock going.

Secretary ANDERSON. I do not think we are going to be so tight in feeds in the United States. In the statement of Monday I have a feed table which will show that the supply of feed will be this year very satisfactory compared with average years. The table will show that it is much better than 1937–41 average; nearly as good as 1942, better than 1943 but not quite as good as '45, '46; but it will be all right.

What I was referring to was the pinch that comes in the shipment of grain. The biggest difficulty that we have in the Department on the shipments of grain always comes in the months of April, May, and June, when these countries have exhausted their indigenous supplies, and they are solely dependent seemingly on what is shipped from other lands; and then you have a most difficult period, and we can see our way fairly well now, as I say, in bulk grain on hand for our shipments through the months of December, January, February, and March.

We have flour on hand for our shipments through January, and we have procured in all 397,000,000 bushels of grains of all kinds, coarse grains and cereal grains, and we are in pretty good shape; but the last scraping of the barrel comes at a bad time, because, as you will well recall, if we go into your northwestern section and take out that grain for shipment to Japan, as we did a year and a half or two ago, we greatly disrupt your livestock industry or your poultry and turkey industry out there, and we, therefore, found ourselves in many difficult situations those months.

Representative HORAN. Let me ask you another question. Is there not some relationship between the price of feed and the weights at which beef and hogs go to market?

Secretary ANDERSON. Oh, yes, indeed. One of the reasons why there has been a reduction in the weights at which hogs go to market is not only the advisory work which our land-grant colleges and our various groups have been able to do, but it has been the price of corn, and also you have a relationship that comes from the price of wheat, and these prices have been great aids in keeping down the weights of livestock.

Representative HORAN. Prices are great regulators.

Secretary ANDERSON. I would say so. I would not deny that for one moment.

Representative HORAN. The reason for my question about the open range and feeding your livestock on grass thereon, was that in Denver we were talking to very practical livestock men, and we asked them a question, if a greater use of the range were possible, if it would not have a stabilizing effect upon the price that the housewife actually paid for the beef that these men were feeding, and they said it would; and that is why I asked you the question as to whether you had explored any possibilities in the greater use and the more liberal use right now of the range.

Secretary ANDERSON. I would say that the number of cattle in the country has been dropping. We had as many as 82,000,000 just a short time ago. The last figure I have seen indicates that on January 1, 1948, that may be down to 76,000,000, so that will permit considerably greater use of the range, but from the conservation standpoint, realizing how much land has been plowed up, I am not anxious to see too much land used.

Representative HORAN. I understand that.

One more question. If this milling flour, if we mill a white flour, so-called, the byproduct from the milling operation would give us up to 28 percent, I understand, of the whole grain that could be set aside as stock feed. Have you considered that possibility?

Secretary ANDERSON. Yes. But the same 28 percent is available in these countries to which we send the whole grain as human food. They are utilizing that grain up to a milling ratio of maybe 96 percent, whereas we get out flour that has 68 to 72 percent, and while we miss the Middlings and the Shorts that we should have when we send them the whole grain instead of the flour, they are able to utilize it to a greater degree for human food than we would utilize it here in this country.

We are shipping some substantial quantities of flour, however, because we recognize the importance of the point you made regarding mill feeds for livestock uses.

Representative HORAN. May I ask one more question?

Secretary ANDERSON. Surely.

Representative HORAN. In the Pacific Northwest, where we have a very, very specific wheat economy, are you considering all of those possibilities in policy matters dealing with the use in the handling of grain?

Secretary ANDERSON. Yes, I think we are—I hope.

Representative HORAN. That is all I have. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Rich.

Representative RICH. Mr. Secretary, under the Baldwin resolution in which our subcommittee of this committee went over the country, in the East, trying to find why we had high prices, we found out that all the canneries in the East were going to have a surplus of canned goods.

It would be in the matter of conservation, it seems to me, that if in the sending of merchandise or foodstuffs to foreign countries we were to take the orange juice and grapefruit juice and peas and corn and beans that were canned, of which we have an overproduction, and ship a part of that, thus relieving this great amount of carry-over that they are going to have. That would ease up on our grains, and it seems to me that that would be a wise thing to do.

Now, why do not the powers that be in the administration purchase some of those surplus foods which are at a lower price today than they were a year ago, instead of taking grains which are very much higher than they were a year ago, and export them?

Secretary ANDERSON. Mr. Rich, that opens up a very big question which deals with the amount of money available to these other countries in their appropriations, and so forth.

For example, in the German zone the matter of how much money it would take for the operations which General Clay has under way in the German zone was based on very specific budgets which we prepared, and those budgets, in turn, were based upon the utilization of wheat, which is the cheapest way to transmit food.

The use of canned juices and canned fruits is an extremely expensive way of getting calories. I have been suggesting, and I am sure that this is not a matter of new information, that it might be cheaper on our economy to go ahead and make use of some of the things that are in surplus supply, even though the initial cost is a little higher, on the theory that the reduction in pressures on wheat may eventually save us money in the long run.

I can specify it by pointing out that, for example, I have bought some dried prunes and some raisins in California, you see. Those are goods that have normally been exported to European countries; they are goods which they are accustomed to utilizing and, therefore, I think it is a method of sending food to Europe that is not too expensive, but is not as cheap as wheat at 5 or 6 cents a pound.

Representative RICH. It certainly would keep the prices of our commodities down, and it would aid and assist the canning industry, and it would feed the people in Europe; and it seems to me we ought to do it.

Secretary ANDERSON. I think it would be helpful, but, after all, when they have budget limitations, they try to buy the cheapest possible food, and from that standpoint it is grain.

Representative RICH. It might be the cheapest, but it is not good sound business.

The CHAIRMAN. Mr. Talle.

Representative TALLE. Mr. Secretary, I should like to ask a question about carry-over of wheat from year to year. Has your Department determined the quantity that it considers to be safe as carry-over into 1948?

Secretary ANDERSON. Safe? Well, the carry-over in wheat this year, the carry-in this year was something like 84,000,000 bushels.

Representative TALLE. How did that compare with the preceding year?

Secretary ANDERSON. If you will bear with me for a moment I know that I have got something on that. It is substantially lower than we regard as a satisfactory figure, and substantially below what we think we would like to have in 1948, because, for good housekeeping, it ought to run 200,000,000 bushels; 250,000,000 bushels is a still better figure.

We are using the figure for next year of somewhere between 146 and 196 million, depending somewhat upon the crop that comes out.

Representative TALLE. Is it not true that the carry-over from last year was the lowest in twenty years, except for the year 1937?

Secretary ANDERSON. It was a very, very low figure; yes.

Representative TALLE. And for the coming year you contemplate probably a figure as high as 170,000,000 bushels?

Secretary ANDERSON. 146,000,000 is a low figure that we have been using, and it might go to 196,000,000. If you have a bad wheat prospect in Kansas, Oklahoma, north Texas, and so forth, the likelihood is that many farmers will hold more of their wheat and, therefore, you just automatically get a larger carry-over.

The stocks in 1937 were 83,000,000 bushels; in 1947 they were 84,000,000 bushels; 85,000,000 bushels in 1919; it ran up as high as 622,000,000 bushels in 1943, and 632,000,000 in 1942. A fair average is somewhere around 200,000,000 bushels, and for good housekeeping you need about that much.

Representative TALLE. I would appreciate it if your Department could supply the best estimates that can be furnished at this time on the uses of wheat, taking into account the annual use for food or feed, for seed, for industrial purposes; and then, the probable shipment abroad according to proposals made, and whether there is wheat enough, after all of those demands have been satisfied, for furnishing a carry-over so large as that which you have mentioned.

Secretary ANDERSON. That will be included in the statement which I am making on Monday. But, roughly, it will show this: For food we need about 500,000,000 bushels; for feed, it varies from 175,000,000 up to as high as 400,000,000 bushels when we had a heavy wheat program. I would say that somewhere in the neighborhood of 250 to 275 million bushels is a reasonably fair figure, although there is a fair possibility if prices stay high that it will drop as low as 200,000,000 bushels. Seed runs 85,000,000 bushels, so that with a crop production of a billion four hundred–six hundred million bushels, that would leave us somewhere between 146,000,000 and 196,000,000—well, 246,000,000—if you sent 400,000,000 bushels, you would have a carry-over of 246,000,000 bushels; if you send 500,000,000 bushels, you would have a carry-over of 196,000,000.

The CHAIRMAN. May I ask what is the present grain export goal?

Secretary ANDERSON. Well, we think that depends upon many things still, Mr. Chairman. We are trying to work out a figure well above 470,000,000 bushels.

The CHAIRMAN. The 470,000,000 bushels include 70,000,000 of corn already shipped.

Secretary ANDERSON. That is right—corn and other grains.

The CHAIRMAN. So 470,000,000 means 400,000,000 bushels of wheat; is that correct?

Secretary ANDERSON. That is correct.

The CHAIRMAN. That was the goal mentioned in the Cabinet food report, I think.

Secretary ANDERSON. Yes.

The CHAIRMAN. Is that goal higher today?

Secretary ANDERSON. Yes, in this way: That we said that 470,000,000 bushels—or 400,000,000 bushels of wheat, to try to stay with the figure that you would use—would be all that we could ship under those present circumstances; that if we were going to ship more we would have to entertain a program of conservation, undertake a program of conservation; that there were about 100,000,000 bushels short of what seemed to be required.

The Harriman report uses that identical figure; it uses 470, plus the hundred million bushels, and talks about 570 million bushels.

The CHAIRMAN. I notice that Secretary Harriman signed both of those reports almost the same day.

Secretary ANDERSON. There is no conflict between them. If you depend only on what is visible and available under normal circumstances, 470,000,000 bushels or 400,000,000 bushels of wheat are all you can count on.

The Cabinet Report says if you are going to get more than that, you have got to save it from some place, or there has got to be a change in the price relationship, and about a hundred million bushels are what you ought to save.

The CHAIRMAN. So this hundred million bushels of savings that we have heard about represent a difference between an export goal of 400,000,000 bushels of wheat and 500,000,000 bushels of wheat; is that correct?

Secretary ANDERSON. That is correct.

The CHAIRMAN. What is the Department's estimate of the general course of food and farm prices through the next 6 months, apart from any of these measures? You have at times made predictions, some of which were not always carried through.

Secretary ANDERSON. That is true, and I can make a prediction now, Senator, and rain in the Wheat Belt can change it tomorrow night. If you will tell me what is going to happen to the rain, which we cannot do—either one of us—or if we could predict accurately what the public income, the national income, was going to be—given those factors I could guess pretty well what the wheat situation is likely to be. I cannot tell what the price of wheat is going to be because I do not know these other factors.

The CHAIRMAN. Have you anything to say on meat? I think I did see a report from the Department of Agriculture in which you predict that the supply of meat in '48 would be 5 to 10 percent less than in 1947.

Secretary ANDERSON. That is correct; there will be that.

The CHAIRMAN. And does that follow that the price will be higher?

Secretary Anderson. Higher. If demands remain constant—and I hate to be putting those things in, but all of us recognize that in 1938 we had 130 some pounds of meat per capita, and the American Meat Institute, faced with a terrific surplus of meat, had to launch into a campaign of signboard advertising, and all over the highways of these United States were lighted billboards saying, "Eat more meat," because 130 was too much for the American people.

With the present national income that we have, 130 is a tremendous shortage. I hope and believe that national income is likely to stay up and, therefore, I would say to you that we are likely to have a great shortage in meat, and probably higher prices.

The CHAIRMAN. I would not ask you this except for the fact that the Department has been in the habit of making long-range predictions.

Secretary ANDERSON. We have, Senator, as you understand, people in the Bureau of Agricultural Economics who have an economic background that permits them to do that. I am an insurance peddler, and I do not know how to do that.

The CHAIRMAN. Do you think that this reduction in the consumption of meat or the supply of meat is going to be evenly spaced or is it predicted to be short certain times, and long at others?

Secretary ANDERSON. It will not be long any time in 1948. It will be better in the fall months, after the grass fats come to market. It will probably be distressingly short during February, March, April, and May.

The CHAIRMAN. You regard February, March, April, and May as the critical months in supply, then?

Secretary ANDERSON. Possibly June should be added to that.

Senator MYERS. Which part of the fall, Mr. Secretary, do you expect it to be better?

Secretary ANDERSON. October.

Senator MYERS. October.

Secretary ANDERSON. Starting in October; October and November will be a season of pretty good grass fat runs.

Senator O'MAHONEY. The number of cattle going to slaughter has been reduced during the last several years; has it not?

Secretary ANDERSON. No, it will be very high this year.

Senator O'MAHONEY. No, I say it has been reduced in the last several years.

Secretary ANDERSON. Yes.

Senator O'MAHONEY. The peak, as I recall it, was about 35,000,000,000 pounds in 1945, and it was down to an estimated 31,000,000,000 pounds this year, or something like that.

Secretary ANDERSON. I could not answer that specifically.

Senator O'MAHONEY. Has the Department of Agriculture made or is it ready to make its announcement of the probable slaughter for 1948 yet?

Secretary ANDERSON. 1948? Yes. The goals were announced for the slaughter, as I remember it, Senator, as 32,000,000. It is substantially lower than this year's figure.

The CHAIRMAN. The October issue of the Food Situation, which is your publication, estimates that the meat per capita for 1948 will be 146 pounds against 156 this year.

Secretary ANDERSON. Yes, but there will be a period down there when it will drop down to an annual rate of 125 and to 135 in the spring of the year.

The CHAIRMAN. May I ask whether you think that prices are likely to rise enough to make it profitable to feed wheat?

Secretary ANDERSON. No; I do not think it is possible for livestock prices to get high enough so that there can be any sort of a switching to feeding of wheat. The figure actually on slaughterings is 32,000,000; I think that is what I used.

Senator O'MAHONEY. That is the figure for 1948.

Secretary ANDERSON. That is right. In 1947 it is somewhere in the neighborhood of 36,000,000.

Now, I think that the present wheat price is so high that there will not be too much temptation to feed too much of it, and that will help us greatly in attaining export goals.

The CHAIRMAN. Have potato rows been increased in view of the conditions of winter wheat?

Secretary ANDERSON. No; the potato goals for 1948 are about what they were in 1947.

The CHAIRMAN. It has been suggested to this committee that an increase in potatoes and the increase in eating more potatoes in place of bread would be helpful.

Secretary ANDERSON. Well, I think you can recognize, Senator, that after what I have been through on potatoes, I will take it very slowly.

The CHAIRMAN. I understand that.

Secretary ANDERSON. I have been burned from one section of the country to the other, and I want to keep my fingers crossed when I increase potato goals.

The CHAIRMAN. The increased potato goals, however, are an increase, a net increase, in foodstuffs, are they not?

Secretary ANDERSON. Yes.

The CHAIRMAN. I mean total foodstuffs.

Secretary ANDERSON. But we are not likely to be short of food in this country unless there is a disastrous wheat crop. If there is a disastrous wheat crop, then we will very quickly change several things. We would increase the sorghums; we would increase the potatoes; we would increase the spring wheat that might be sown; we would probably try to buy additional quantities of linseed oil from outside the United States, and take areas that are now scheduled for flax out of flax, and put them into wheat, and so forth. You must make a great many adjustments if there is a tragedy in the winter crop of wheat.

The CHAIRMAN. If you think that food is not likely to be short in this country, why do we face increase in prices in this country?

Secretary ANDERSON. Well, it is the types of food.

The CHAIRMAN. Is meat the only serious problem where there might be an increase, then?

Secretary ANDERSON. I would rather you asked the people in BAE, whose job it is to do that forecasting, but meat is one of the principal spots where there is likely to be danger.

There will be a very heavy pressure on wheat if the wheat crop is not too satisfactory, and that, in turn, will put some pressure on corn.

But, as we see it, the biggest area of danger is wheat.

The CHAIRMAN. But if there is a failure of the wheat crop you will likely increase the potato goals as well as other things, soybeans, and so forth?

Secretary ANDERSON. Soybeans, spring wheat, and potatoes.

The CHAIRMAN. Why was the victory garden campaign discontinued in 1947, and is consideration being given to its renewal?

Secretary ANDERSON. I am sure it was not discontinued.

The CHAIRMAN. I was told that it was; the committee was told that it was discontinued.

Secretary ANDERSON. We did not call them victory gardens. I do not remember what we called them, but the campaign went on in 1947, and will continue in 1948.

The CHAIRMAN. It will continue in 1948?

Secretary ANDERSON. Yes, sir; it is a very important supplement.

The CHAIRMAN. Very well.

Senator SPARKMAN. What about peanuts, Mr. Secretary?

Secretary ANDERSON. We are now in the process of asking for a vote on peanut quotas. That was done at a time when it looked as if peanuts might be in very plentiful supply, and the peanut support program might cost a great deal of money.

Since that time, there has been a change in world fats and oil supplies, but we desire to go through with our vote on peanut quotas since they would be for 3 years, and since the first announcements revealed that there may be some inequities in the way of the schedules being drawn up very hurriedly.

We think that if quotas are then voted, it is a question of whether we might want to waive them or not for the first year, but at least it would give us ample time to find out what a fair quota basis would be.

Senator SPARKMAN. Of course, there will be plenty of time to look into that situation before planting time comes.

Secretary ANDERSON. Yes, sir.

Senator SPARKMAN. That is all.

The CHAIRMAN. Are there other questions?

Senator FLANDERS. Mr. Secretary, we had a number of suggestions about the import of Argentine beef, and the suggestion that even though the hoof-and-mouth disease might be in the raw carcass that probably it was not embalmed in canned corned beef. What do you think of the suggestion of importing Argentine beef?

Secretary ANDERSON. Well, there is a law against importing beef in some forms in this country, and I think if that law were to be repealed it ought to be after careful hearings, when the facts are to be developed by medical testimony.

My testimony, I am sure, would be no good. I know very little about the possibility of transmitting hoof-and-mouth disease. I do know that the hoof-and-mouth disease is a very difficult disease to handle, and I would hate to see it come into the United States.

If, after proper hearings, it could be developed there was no danger, that might be a completely different story, but I would certainly want to see it done after careful hearing because I assume it was adopted after careful hearings.

The CHAIRMAN. You may proceed with the third statement, if there are no other questions, Mr. Secretary.

Secretary ANDERSON. As we attempt to plan ahead so that sufficient food will be available to meet Europe's minimum requirements, we have to face the fact that this country cannot hope to produce under favorable conditions all of the extra food that Europe needs, and that conditions beyond our control may actually slow down the flow of food from the United States. Part of the difficulties in this situation can be illustrated by a review of what has happened in recent years.

For the years 1934 through 1938, world exports of all grain averaged 28,387,800 long tons. Of this amount the United States supplied only 4.6 percent.

Last year, the 1946–47 crop year, the total of world grain exports was almost exactly the same, 28,443,600 long tons. That is a difference of less than two-tenths of 1 percent, despite the greatly increased need in Europe and other importing countries.

Of the total amount of world exports of grain in the last crop year, the United States alone supplied 52.4 percent. The figures speak for themselves. With virtually no change in the amount moving in world trade, the amount supplied by the United States has increased from less than 5 percent before the war to more than 50 percent of last year.

This tremendous volume of grain exports can only be supplied by the United States under abnormally favorable weather conditions, and by putting a drain on our soil resources too great to be long continued. We are not aiming at a grain export market for the future as great as we are now supplying. We cannot afford to.

The success of the recovery program in Europe must not be jeopardized by dependence on the United States for supplies which this country cannot produce.

For 10 years now we have been gambling against nature, and we have been winning. Luck has been with us, but every year the odds against us rise higher. And no one known what crop conditions are likely to prevail here or elsewhere during the several years before Europe gets back on its feet.

The security of the world is too important to entrust too much of this burden and responsibility to any one nation. In justice to the unfortunate nations who need our help, in justice to ourselves in our national effort to keep from being engulfed in more inflation and subsequent deflation, we must see that the risk is spread much more widely than at present.

Many countries have the natural resources to produce more food than they are now producing. Some of them lack technical assistance and the knowledge of some of our latest developments in more efficient crop production. Some of them lack materials and supplies and equipment for expanding their production.

Others are not getting adequate price inducement from their local markets, or adequate supplies of consumer goods.

Production of many food products could be increased considerably so as to relieve our own resources, and benefit the producing areas as well as European countries in need of help.

For example, rice production in the Near East can be greatly expanded. Restoration of rice production in India, China, the Philippines, and the Netherlands East Indies would not only free some of our grain for shipment to Europe, but would also improve the diets in these countries. The Far East regions are also below par in their production of sugar, rice, and oil.

In many parts of the world, the fishing industries can be expanded. Sizable increases in the production of grains, beans, rice, and other staple foods for export are possible in the Latin-American countries.

Parts of Africa and the Middle East also have possibilities for expanded output. Most of these areas fortunately were untouched by war, and the appropriate and necessary information, technical help, and monetary incentives, I am sure, could unlock real opportunities for more food production.

There are several methods of encouraging food production in these areas and industries. In the first place, importing countries often do their buying after the crops of the exporting countries have been harvested.

If this demand were expressed in advance, it would be a more effective stimulant to production than it is during the marketing season, when it serves chiefly as a price stimulant.

Shortages of foreign exchange and uncertainties as to crop results sometimes prevent countries from making advance commitments, but such buying power as they do have might be used in more effective ways to stimulate production, especially when their import needs are known in advance.

During the war we learned something about procurement in foreign lands that should stand us in good stead now. We found that with initiative and the offer of incentives, needed commodities could be obtained.

We used this approach in the case of Cuban sugar, and production there increased. Also, when Cuba found it hard to get jute for bags in which to ship their sugar, we were able to help them buy bags in India, where our wheat was needed.

An even better example of how this approach can operate to get potential exporting countries back on their feet is the Philippine copra industry.

When the Japanese were expelled from the Philippines, the copra industry in the islands was prostrate. Eighteen months later, the industry had been so revived that its production was above prewar. This remarkable recovery has probably not been equaled by any comparable industry in any war-torn country.

When we went in we found that there were no warehouses, no transportation, no communication, no bags, no needles, or twine to sew bags. There was little incentive for the Filipinos to work at the business of reconstruction because there was nothing for them to buy with the money they might earn.

So, we tackled the problem head on. Bridges, roads, and docks were rebuilt by the Philippine Government and United States military forces.

Boats and trucks for transportation were made available by the Army and the Navy. New jute bags were obtained from India, and used bags were brought in from the States. More than $3,000,000 worth of "incentive" goods were either shipped in or obtained from war surplus.

As a result of all these measures, copra exports from the Philippines climbed from practically nothing in 1945 to about prewar normal in April of 1946, and to a rate higher than prewar, in terms of oil, by the latter part of that year. Today production of copra in the Philippines is far above prewar, and the industry is standing on its own feet.

Given the necessary international cooperation, I believe that some of the techniques used in the Philippines in the copra industry and some of the techniques used to secure strategic and other commodities in short supply during the war can be applied in many parts of the world today.

In this recommendation for legislative action to increase food production in non-European countries, we have only one basic thought: We want our efforts for European and world recovery to be successful.

The success of the entire program cannot be left to the mercy of weather in one dominant exporting area. If we can get increased agricultural production elsewhere in the world, it will contribute materially to the success of the world-wide program. At the same time, it will lighten the strain on our land resources and our entire domestic economy.

The devastation in Europe has been so great and the need for food so vast and pressing that this foreign-aid program has to be considered for more than this winter's emergency.

In most cases, producers in non-European countries can do little to increase food production before next spring, but a great deal may be accomplished in laying the basis for increased production next summer, and the following 3 or 4 years.

We must, therefore, be in a position to engage in cooperative production efforts with non-European countries for the duration of the foreign-aid program.

It is our thought that the facilities of the various parts of the Department of Agriculture can be effectively used in stimulating production in those non-European countries that are willing to cooperate in the foreign-aid program.

We need to have authority that would enable the Department to do an effective job of (a) stimulating production by various means, such as technical and other help, and (b) engaging in procurement activities in a practical, business-like manner.

In this connection it is important to be able to make purchase arrangements in advance of actual planting to provide the incentive to production over and above what would otherwise take place; in other words, an incentive to production, and not to price.

We need to have general authority that will permit the Department to furnish technical and information services where their services are wanted, and can be of benefit to the producers in non-European countries and to the foreign-aid program.

We need to have general authority to permit the Department, through the CCC, to enter into relations with the appropriate agencies in the non-European countries to furnish such essential supplies and materials, as can be made available, required for expanding production of foods and food products, and to enter into procurement arrangements on mutually agreed upon terms and conditions of payment.

It must be recognized that we will, of necessity, be dealing here with the unpredictable, since much of the food production depends upon weather.

In order to operate this program on a business-like basis, the grant of authority by the Congress should be such as to permit a considerable degree of flexibility to meet quickly changing conditions and opportunities.

The authority for entering into these business arrangements should be sufficiently broad to permit the corporation to operate in each case or area in such manner as to make the greatest contribution to the foreign-aid program and, at the same time, minimize the demand on our own scarcer commodities.

I cannot urge too strongly that this proposal is a logical and necessary extension of the approach to aiding Europe. The need is great and, as we have seen in recent years, even our bumper crops have been inadequate.

We will be able to render this assistance with much less impact on this country if we help and encourage our neighbors in this Hemisphere and in other areas to step up their food production for themselves and for Europe.

The CHAIRMAN. Mr. Anderson, do you have legislative proposals for these last two things?

Secretary ANDERSON. I would say, Senator, that I would greatly prefer to have an opportunity to clear some of these legislative proposals.

The CHAIRMAN. There is no hurry about it.

Secretary ANDERSON. But I can submit them today if you wish, but they are in very rough form, and I would like to submit them later, if it is agreeable to you.

The CHAIRMAN. That is entirely agreeable. May I ask if you were able to do this for the Philippines without further legislative authority, why not for other countries? What does exist that requires other legislative authority? What have you been hesitant about it for?

Secretary ANDERSON. At the time we were doing it for the Philippines, General MacArthur had headquarters there, and we were able to move in and cooperate with the Army and the Navy in an area where the United States had some authority.

There is nothing comparable in the situation in the Philippines as to what we might encounter in a country in Latin America or in Africa, and we have tried to state the differences.

The CHAIRMAN. You will encounter something different, but I wondered about the legal authority. Is that different?

Secretary ANDERSON. Well, I could go back a step there, Senator, and point out that the authorities under which the work in the Philippines was done have expired, I believe.

This was set up originally through the United States Commercial Company, which was an auxiliary of the RFC. They formed what was known as the Cemco Corporation, Copra Import Corporation, and Cemco undertook, in partnership with American business, to bring in the copra from the Philippines.

The directors of the soap companies, of crushing firms, such as Spencer, Kellogg, and so forth, were put into the directorships of the company.

It became apparent, as we got under way, that that corporation could not function because the man who was over there did not know exactly whether he represented the Government or whether he represented these private industries, and it was embarrassing for him to ask for ships from the Navy or trucks from the War Department, and so the matter was transferred back then to the Department of Agriculture, with the consent of these firms, and we did proceed, but we were proceeding under this original grant of $5,000,000 from the RFC to the U. S. Commercial Company, and from it, in turn, to the Cemco Corporation.

The CHAIRMAN. You did not ask for this authority during the last session?

Secretary ANDERSON. No, but it is something that I have been talking about personally, Senator, for quite a while. I think it is a very essential part of our program because, I think, when we take several hundred million bushels of grain out of this country and have to go to scraping the bottom of the barrel to do it we inevitably have a relation to the price of that grain, and we boost it, and I think it costs the American economy more to do it that way than it would, perhaps, to pick up a modest amount of these supplies in other areas.

The CHAIRMAN. This would be a kind of trading corporation, in a way. Would such material, then, be intended for shipment to western Europe? Would such material that is acquired then be intended for shipment to western Europe?

Secretary ANDERSON. Yes.

The CHAIRMAN. Or other relief countries?

Secretary ANDERSON. Yes.

The CHAIRMAN. So, it would tie into a certain extent, to the operations of whatever authority administered the Marshall plan.

Secretary ANDERSON. That is right.

The CHAIRMAN. It might be administered by them, or they will act through you.

Secretary ANDERSON. I think it is very vital that the Department of Agriculture do this sort of thing itself.

I got a most interesting letter from one of the midwestern farm States a while ago. A group of farmers went over to Europe this summer. I do not recall which particular one wrote me, but one of them did and he said, "When I got home I decided that if we could have a hundred county extension agents, vigorously working in Germany, they would do more for the agricultural production than any single factor, and if some of them would work in a few other countries, we think it would be very useful."

Well, now, we do have some extension agents who work in Germany, and I can testify that they have done a very effective job, but we need some help in some other areas, too.

The CHAIRMAN. You are dealing with a provision of the President's recommendation number six, to authorize measures designed to increase the production of foods in foreign countries. I thought when that was there it referred to the fertilizer situation, shipments of fertilizer to Europe. Have you any comment to make on that?

Secretary ANDERSON. No; we do believe that the shipments of fertilizer to Europe are an effective way of reducing the food costs and trying to help Europe.

There is a very limited supply of fertilizer available in the world, however, and not too tremendous quantities of it can be made available.

The CHAIRMAN. Let me read what the recommendations of the Harriman committee are:

> The fertilizer situation is, of course, directly related to the food production problem. American agriculture would readily absorb the full output of the fertilizer industry, and increased quantities are needed if we are to render maximum aid to Europe.
>
> But, on the other hand, European agriculture stands in even greater need of additional fertilizer. It is the view of this committee that sound policy dictates a substantial allocation of our nitrogen supply to Europe next season. Even if this means smaller agricultural production here it would on balance mean a gain in the over-all food situation.

We have had some criticism of the Department, or whoever has the authority, that they were inclined to allocate too little to Europe and too much to this country of nitrogen fertilizer.

Have you any views on the question or do you agree with the Harriman committee's report?

Secretary ANDERSON. I do not know that I would say that I would agree with the Harriman report. I have felt that it was very difficult to justify the sending of the large additional supplies of fertilizer to Europe this last season, because I knew that the condition in France was extremely difficult; that they had freezes, and I felt that fertilizer would produce more food in the United States where we had tractors, where we had good soil, where we had good growing conditions, and where we had prospects of bumper crops, because of good weather.

Now, that is a decision that is a hard one to make. It is easy to say, "Why, ship it to Europe, and they will get along because 1 ton of fertilizer is worth shipping 7 or 8 tons of grain," and, therefore, the statement in the Harriman report that on balance it is better to send some fertilizer to Europe is entirely correct.

There are practical limitations, however, as to how much fertilizer they can use, and there have been circumstances where not all of the facilities existing in European countries that might produce fertilizer for them have been utilized, and I felt that those plants should come into operation.

The CHAIRMAN. It is even more important for us to stimulate production of food in Europe to save our shipping it than it is to stimulate it in South America or some place, is it not?

Secretary ANDERSON. That is correct.

The CHAIRMAN. You would be inclined to increase the nitrogen fertilizer this year, with the prospect of a better crop, I mean in '48 to be assigned to Europe or not? I did not quite understand you on that.

Secretary ANDERSON. I think that this year it would just—of course, you understand, the Department has no real authority in that. What plants the War Department operates, they send the fertilizer to areas for which they have specific responsibility. The rest is manufactured by commercial firms, and is not under our allocation. We have the peaceful powers of persuasion.

The CHAIRMAN. Who does get it? Who buys it?

Secretary ANDERSON. The companies themselves.

The CHAIRMAN. The countries themselves?

Secretary ANDERSON. The companies themselves. The companies themselves have the power to decide whether they want to export that.

The CHAIRMAN. I understand that, but who buys it? Some departments of our Government or do these foreign nations buy it?

Secretary ANDERSON. I think that in the case of Greece, for example, it would come out of the special funds that have been set up. The Department of Agriculture has not been doing the buying.

The CHAIRMAN. This special aid bill that we are considering has fertilizer in it.

Secretary ANDERSON. Yes.

The CHAIRMAN. We buy that. That is not the Department of Agriculture?

Secretary ANDERSON. No.

The CHAIRMAN. They have nothing to do with buying fertilizer?

Secretary ANDERSON. We have not been, I am quite sure. We might buy that, but I would doubt it. Some of that potash is coming from Germany into these areas; some of the nitrate is coming from Chile.

The CHAIRMAN. I was referring to nitrates, which seemed to be the only bottlenecks, as I understand it.

Secretary ANDERSON. Yes, but we have not been doing it. The French Government makes its own arrangement for what we have been sending to France; the military takes care of Germany and Austria; the Greek group have been taken care of by, I believe, Governor

Griswold's administration, that is Greece and Italy, and it just does not come into our Department.

The CHAIRMAN. What are the prospects of expanding production of nitrogen in this country?

Secretary ANDERSON. The Department of Agriculture has been doing everything it could to bring about an expansion of nitrogen capacity in this country. As a matter of fact, we have been working as steadily as we could with the War Department, trying to see if we could not get some plants in operation that were not in operation.

The War Department could hardly afford to do it itself, because the cost of that fertilizer in the War Department program is very high; they had already used the most advantageously located plants, but we think that as a result of new policy in the Department, the War Department, and in cooperation with the Department of Agriculture and the War Assets Administration, that there will be some additional supply in nitrogenous fertilizer which will take place this year.

The CHAIRMAN. Do you know whether we are restricting the manufacture of nitrogen fertilizer in Germany?

Secretary ANDERSON. I believe that should be State Department testimony, and I am not too good a witness on it, but I am giving you my impressions only from my discussions with General Clay, that they were not restricting it, but that we tried our very best to increase it, and I can give you an example.

The CHAIRMAN. Tried our best to do what? Increase it?

Secretary ANDERSON. To increase it. There was a fertilizer plant at a place called Hoechst. There was a French plant manufacturing some type of industrial goods at Ludwigshafen. The French needed coal at Essen. The British could not mine the coal at Essen because of the food supplies. So, we sent an additional supply of food to Essen in exchange for the British sending additional coal in Ludwigshafen, in exchange for the French sending ammonia water to Hoechst, and that is how hard we were trying to get fertilizer.

The CHAIRMAN. Have we dismantled nitrogen plants in Germany?

Secretary ANDERSON. I am not in a position to answer that. I think we have dismantled plants that were primarily for defense purposes, and since some of these were like this I. G. Farben plant at Hoechst, we may have dismantled some, but the War Department and State Department would have to testify on that.

The CHAIRMAN. It has been suggested to me, do you know anything about the Army fertilizer plants, which suggested that they had the total designed capacity of 350,000 tons a year, with production now of only 250,000 tons a year? I mean that is just a note that was handed to me.

Secretary ANDERSON. I will say to you again, Senator, that that has been a very hard problem because those plants were not primarily designed for fertilizer.

You take the cactus plant in Texas. It is a very bad plant to adapt to fertilizer. The War Department has been working steadily trying to increase it. A firm has had part of it operating, and the War Department now is trying to make a long-term lease so that it can be operated full capacity. But in making the necessary financial arrangements, and still trying to retain the right to divert this property back to the Federal Government in case the Government needs it, trying to make private capital put up the expansion money, which runs into millions of dollars, is an extremely complicated problem, and it has been hard for the War Department to work it out.

I can assure you, though, that Secretary Royall is very anxious to get this done, and that as far as we can tell he is moving heaven and earth to get it done.

We have tried our best to cooperate with him, and we know if there is a bottleneck, it is not Secretary Royall. He is trying hard to get it done.

The CHAIRMAN. The suggestion is made that the deficiency is mostly in the Morgantown plant, low capacity, I mean.

Secretary ANDERSON. Morgantown plant, as I understand it, was one in which the Department of Interior was involved.

The CHAIRMAN. That may be.

Secretary ANDERSON. But it is now owned by the Army.

The CHAIRMAN. Operated by the Army?

Secretary ANDERSON. I am sorry. I knew there was one plant where the Department of Interior had gone in.

The CHAIRMAN. That is the Missouri Ordnance Works in Louisiana, Mo.

Secretary ANDERSON. That might have some additional possibilities at some time, but there is a very difficult problem that we had all last year, that we wrestled with, that had to do with cars that this product was shipped in. The butane and propane gas people, one or the other, wanted these cars, and some oil companies had loaned the Government their cars for the period of the war, and they felt they had a right to have their cars back after the war, and I think, as I recall hearing discussions of it, that a great deal of the bottleneck came as a result of the shortage of these cars, the tank cars.

Senator BALL. Mr. Secretary, you make quite a point of coordinating the buying of food supplies outside this country, and felt that the Commodity Credit Corporation could do a better job of stimulating production rather than price than is now being done. I wonder if you would recommend that your Department be authorized to purchase any food supplies that are purchased abroad under this interim-aid program?

Secretary ANDERSON. No; I mean we do a lot of purchasing at the present time. We are not too happy to do it. I would be glad to have the Army buy its own grain at any time, but I believe, and we do believe, it is desirable to have a central purchasing agent.

What I had in mind, Senator Ball, was this, that Commodity Credit, by a very, very small expansion of its present powers, could go into those areas and perhaps make arrangements for the production of beans, let us say, in Mexico, or in Cuba, and that production of a substantial quantity of those beans might take some of the pressure of our grain supplies, and would still be very good food.

Now, there are many areas where that could be done. The people who might undertake to grow those would want to know something about what the price was going to be, and we could calculate a price which would relieve the pressure on our grain and still be an attractive purchase to us, and probably would represent a real incentive to production to them.

The only thing I meant when I used the term "incentive price" was this: That when we do not know what these countries are going to need, when we hear about it late, and then have to rush into the market and buy for them, we stimulate price very greatly when we do it in a hurried fashion, and if they would let us know in advance, if there was some way of calculating it in advance, we might be able to increase production early in certain countries, and thereby not cause so much of a price rise later.

Senator BALL. Is not actually all the authority that you need to do that in the State Department now under the relief bill we passed last year, and certainly, would be under this new bill? I mean, they could delegate to you the authority to coordinate these purchases abroad, could they not?

Secretary ANDERSON. Well, I do not know. I doubt it. I would like to check, Senator, and see. It might be that that authority does exist in the State Department. We do not think so. We think that they have authority to make purchases of crops but I doubt if the State Department has authority to go into an area and try to stimulate the production of a crop, finance that crop during the growing period, perhaps even finance its harvesting, and finally move it on to its destination. I think that is a specialized type of thing that we might have to undertake. It is the sort of thing that was done during the war when the Board of Economic Warfare went into certain areas and stimulated the production of certain materials for winning the war.

Senator BALL. I can see that you might need some authority on that, but on the purchasing end, the State Department probably has all the authority, and it is just a question of getting it all centered.

Secretary ANDERSON. I think, if I left the impression that it was purchasing only, that I left the wrong impression. I do not mean that; I mean technical assistance in planning it; I mean supervision, perhaps, while it is under way; I mean contracting in advance at a firm price so that we can get larger supplies of the products.

Senator BALL. Does not the State Department, under the Latin-American program, have authority to assign technical people to various countries and projects?

Secretary ANDERSON. I am sorry, I do not know.

Senator BALL. I know they are doing it because I handled that appropriation bill, and there is about $4,000,000 and quite a sizable part of it is handled through the Department of Agriculture.

Secretary ANDERSON. I do not know.

Senator BALL. Which assigns people down there on various projects.

Secretary ANDERSON. We do have agricultural attaches and we do have people who move around, but I do not think it is for this sort of work.

Senator BALL. I know that Latin-American program is concerned with that. It is concerned with one of the big projects, for instance, on the increased rubber production in Latin America. And certainly, under the broad authority, they could use it to increase any kind of food production, I think. They would not have authority on these incentives you are talking about, but they certainly have all the authority that is necessary to assign technical people down there.

Secretary ANDERSON. I will be glad to check the State Department's powers on that. I am sorry, Senator, I do not know.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. How would you expand the rice production in the Far East?

Secretary ANDERSON. Probably by the provision of consumer goods. We found in the Philippines, for example, that a glass like this was almost impossible to get. The only thing they had were beer bottles from which they had cut off the tops. The Japanese had apparently taken all the glassware out of the Philippines. By bringing them in an opportunity of getting something of that nature, they went out and picked up copra and brought it into our trucks.

By bringing in just a small amount of wearing apparel, since they had lost a good deal of them, they were very anxious to come in and bring in copra. We were able to trade them the things that they needed, and while I am not an expert in the growing of rice, I am sure that something similar to that would be essential there.

Senator WATKINS. What, if anything, is being done there to influence the production of rice?

Secretary ANDERSON. I cannot answer that. I can only say that the Department of Agriculture for months has been trying to increase the production of copra in the Dutch East Indies, and we have had nothing but discouragement and defeat thus far.

The CHAIRMAN. What is the use when they will not let anything be exported? What is the use of doing that? I should think that would be the last place in the world you could do anything at the moment, because the Dutch are not permitting the Indonesians to export anything, if I understand it.

Secretary ANDERSON. I think the State Department would suggest to me that I not comment on that. I will be very glad to discuss that with you some time.

Senator BALDWIN. This program that you have outlined, Mr. Secretary, for producing food in foreign countries, how soon do you think that could be made effective? When would you get your first results of it?

Secretary ANDERSON. Well, if we got in with next year it probably would be the following spring before we got results, although there are things that could have been done this October and November, and even some things that could still be done in December, that would be somewhat helpful. It probably would not help us much until next year, and the real help will come the following spring, the spring of 1949.

Senator BALDWIN. 1949?

Secretary ANDERSON. Yes.

Representative RICH. Mr. Secretary, is it not a fact that we have been aiding and assisting the farmers in South America during the past 8 or 10 years to increase their agricultural production?

Now, is it not possible for us to secure more foodstuffs from those countries for aid abroad in order that we might hold down our prices here?

Secretary ANDERSON. I am sure that we have all been trying to get increased quantities of agricultural products from many of them. The Army has only recently been in negotiation with one of them on very substantial quantities of corn, but the problem is not so much getting quantities of their present crops but the fact that the acreage of wheat, for example, in the Argentine, has been going downward instead of the other way, and the output has gone very substantially down.

Under those circumstances, you start looking for areas that might increase the agricultural production, and there are no more in the world trade.

Representative RICH. On page 2 of this statement of yours, you say, "Others are not getting adequate price inducements from their local markets." What do you mean by that? Do you mean that the prices that they receive for the growing of foodstuffs is not sufficient to pay the farmer for his raising them?

Secretary ANDERSON. No; I said adequate inducements. I was referring to the situation that exists in one country where the farmer gets $1.35 or $1.40 for his wheat in a situation where the world market is well above that.

Representative RICH. Why do we not go out there and buy wheat for a dollar and a half rather than pay three dollars for it here?

Secretary ANDERSON. Well, because that same country limits its exports, and sells it at a very high price, well beyond what our world market is. The farmer gets less than he would get, and the Government gets more.

Representative RICH. Who is making the profit there?

Secretary ANDERSON. The Government.

Representative RICH. What Government?

Secretary ANDERSON. Well, the Government of Argentina.

Representative RICH. Well, it seems to me then that they are not trying very hard to aid and assist in taking care of the starving other countries in which we are giving our all.

Secretary ANDERSON. I think it is only fair to say that the Argentine Government has had some pretty fancy prices charged it for the supplies that it requires. If it could buy some of the things that it wanted at world prices, it might sell some of the things that it has at world prices. I am not trying to defend what it has done in grain prices.

Representative RICH. I thought that the governments in the Western Hemisphere were all working together.

I have one other question. On the fourth paragraph of that page you say that in many parts of the world the fishing industries can be expanded.

I understand from good authority that in the fishing industry in our own country, especially on the New England shores, the labor unions prohibit the fishermen from bringing in more than a certain amount of fish to the catch, and if they bring in more than that, they fine them, thus prohibiting them from bringing in the catch.

Why does not the Labor Department of the United States try to do something there so that we will get cheaper prices and get more fish?

Secretary ANDERSON. That is an item, Mr. Rich, that was commented on in a report published by the Special Committee of the House of Representatives To Investigate Food Shortages in the spring of 1945, and I wrote the paragraphs on it with the assistance of Mr. Herter of Massachusetts.

Representative RICH. You have a lot of influence with this Government right now, and I do not have very much or I would go right after them.

Secretary ANDERSON. Well, if I had not served in the House of Representatives with you, I would know that that was possibly true, but I know better than that, you see.

Representative HORAN. Mr. Secretary, while the recommendation that we are considering, the one that we are considering now, authorizes measures designed to increase the production of agricultural products abroad, does that recommendation include reclamation projects abroad?

Secretary ANDERSON. You refer to my recommendation, Mr. Horan?

Representative HORAN. No; I mean the President's over-all recommendation; in your mind, does that include reclamation projects abroad?

Secretary ANDERSON. I am sorry, Mr. Horan, I am trying to answer you. If you refer to the section of the President's message in which he referred to the increase of food abroad in section 6, increase of foods in foreign countries, he was not primarily concerning himself with reclamation projects; he was referring, I am quite confident, to the discussion that I have given you.

Representative HORAN. To your knowledge, have we already authorized or assisted in reclamation projects in other countries in the face of the food deficiency of the world?

Secretary ANDERSON. I have no knowledge, actual knowledge, of that.

Representative HORAN. It could be, though?

Secretary ANDERSON. Yes; it could be.

Senator BALDWIN. Are there any specific legislative recommendations with reference to that item of the program No. 6? I mean is the administration prepared with any specific legislative recommendations with reference to the encouragement of the production of food abroad?

Secretary ANDERSON. I answered Senator Taft a minute ago, by saying that if the chairman wishes me to or requires me to I could file those now, but I would prefer to wait until I had some opportunity to clear with other people.

Senator BALDWIN. Thank you.

The CHAIRMAN. Mr. Secretary, do you care to comment on the allocation section at this time, briefly? I would like to adjourn by 5 o'clock.

Secretary ANDERSON. Well, Mr. Farrington will deal with it. I would like to have him deal with the allocation section because he handled allocations in grain in the Grain Branch during the war and handled a great many other allocations for me, and knows more about it than I could tell you.

The CHAIRMAN. I think we are very much interested in knowing what specific allocations are proposed, and what their effect would be in creating not only increased supplies for some people but shortages for others, and Mr. Farrington will be prepared to do that on Monday morning.

Secretary ANDERSON. Yes.

Representative POULSON. Mr. Chairman, may I ask the Secretary a question? I would like to clear up in my mind this question. I should say that it is clear in my mind, but I would like to have it for the record, because of the fact that out in the West the argument has been used through the newspapers by means of the statement of the President and other administration officials that exports are not affecting the cost of living.

Now, with the figures that you have submitted here, showing that 1934 to 1938 we only exported 4.6 percent of our wheat, and with the statement also in the same paragraph that we are now exporting 52.4 percent of the exportable wheat of the country, does that not in itself increase the cost of the wheat?

Secretary ANDERSON. Well, I think you would have to read that against the production of wheat in the United States.

Representative POULSON. I know that, but then does it not increase, and I would like to have you answer yes or no, the cost of wheat, the amount of wheat that we are exporting?

Secretary ANDERSON. I would never say that you could ship 15,000,000 tons of foodstuffs, and a great many of them wheat, out of this country without increasing its cost.

Representative POULSON. Well, that is just what I wanted to find out.

Representative WOLCOTT. Mr. Secretary, could you give us some information as to what form your proposals take on section 6? What form your legislation takes?

Secretary ANDERSON. We are not prepared yet, Mr. Wolcott, to make a final proposal. If we had to do one now it would be an amendment to the powers of the Commodity Credit Corporation, to be permitted to engage in that type of activity.

It would be, of course, one that would be referred to your committee in the House, because it would deal with the operation of these financial concerns.

Representative WOLCOTT. Would it be within the framework of the present CCC powers or would we have to have new and additional powers to do this job, without reasonable expectancy of repayment?

Secretary ANDERSON. I think it would be merely a refinement of the existing power under the charter of the Commodity Credit Corporation, to permit it to engage in these activities outside of the continental limits, of the United States, Mr. Wolcott. I would like to reserve the right to change that if we find there is a simpler, easier way to do it. That is the present thinking.

Representative WOLCOTT. If the purchases are predicated on the objectives as stated in the Commodity Corporation charter to maintain domestic prices, then they have not the authority at the present time, have they?

Secretary ANDERSON. I think you would have trouble showing that some of the things you want to do are to maintain domestic prices.

I think that I would believe that it would be sold to help maintain domestic prices, but it would be on fairly thin ice, and contrary to our legislative promises to the proper legislative committees of the Senate and House.

The CHAIRMAN. Mr. Anderson, I have some figures here furnished by the Department of Agriculture showing that the feeder and stocker cattle sold in the largest markets in the United States in the months of July, August, September, and October have decreased below 1946 by some 23 percent, down to 77 percent of what they were in 1946. That is the sale of feeder and stocker cattle. That indicates that fewer cattle are going into the feed lots. Is that because of the lack of corn or high price of corn?

Secretary ANDERSON. It was because of the failure of the corn crop, to a great degree. The farmer was unwilling to put away a large supply of stockers and feeders when he knew that his corn crop might be short.

After all, more cattle are fed in Iowa than in any other State, but the number of cattle that the individual man owns in Iowa is about 10.

Now, that does not check at all with the experiences in the Kansas feed lot or on a Texas ranch.

That farmer watches his own supply of corn. If he finds he is going to have good supplies of it, and the price is not so high that he wants to sell it, he prefers to sell it as beef instead of corn, and then he buys these stockers and feeders and puts them on his land.

I would say that the decline was attributable to the decrease of the corn crop, which was apparent in July.

The CHAIRMAN. Does that indicate or bear out your theory that there would be a low supply in the spring?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Would you verify those figures and let them go into the record at this point?

Secretary ANDERSON. Those are figures of the Department of Agriculture.

The CHAIRMAN. All right, put them in the record.

(The figures referred to follow:)

Feeder and stocker cattle sold at 4 markets (Chicago, Kansas City, Omaha, and St. Paul)

	1946	1947	Percent 1947 of 1946
Steers:			
July	52,578	35,096	67.0
August	85,409	51,931	61.0
September	98,333	110,588	112.0
October	151,216	129,530	86.0
Total	387,536	327,145	84.0
Calves:			
July	14,279	10,227	72.0
August	18,826	7,978	42.0
September	24,461	23,573	96.0
October	49,348	31,285	63.0
Total	106,914	73,063	68.0
Cows, heifers, and bulls:			
July	16,983	10,494	62.0
August	26,588	13,556	51.0
September	32,791	23,963	73.0
October	44,483	28,384	64.0
Total	120,845	76,397	63.0
Total:			
July	83,840	55,817	67.0
August	130,823	73,465	56.0
September	155,585	158,124	102.0
October	245,047	189,199	77.0
Total	615,295	476,605	77.0

Source: U. S. Department of Agriculture.

Senator SPARKMAN. May I ask in that connection what happens to the stock? You say these individual farmers or the feeder lots do not buy them.

Secretary ANDERSON. Well, they come into the market as two-way cattle; they can either be slaughtered light and not very good or they can be turned back as stockers and feeders, and when the conditions are extremely favorable, the farmers are buying actively out of Sioux City, Omaha, South St. Paul, Kansas City—and Kansas City probably being the largest of the cattle markets—and they move those rapidly in the feed lots of Kansas, Iowa, and Illinois and Ohio, Minnesota, and so forth. But you let the price of corn be such that it is more advantageous to sell the corn as corn, or if they are not going to have enough of it, they think, to finish a large number of cattle, they do not take as many cattle from their stockyards, and more of those cattle go into early slaughtering. That is why this year's slaughtering will be high, but the amount of cattle moving in feeder will be low.

Senator SPARKMAN. And the amount of cattle will be correspondingly low.

Secretary ANDERSON. That is right.

The CHAIRMAN. What do you think is the over-all effect on food prices by the existence of support prices?

Secretary ANDERSON. Very, very little influence at all, Senator. It has had some influence recently upon potato prices, of course, but most of the goods are not now being influenced by support prices since the support price is low.

If it comes to a close question like the present potato support price, it can have a tendency to lift that price up a little bit, and we have had to stop the buying of potatoes because of that.

The CHAIRMAN. What is suggested is that if the support price is a dollar ninety and the price is $2.20, a man figures that all he can lose is 30 cents, and he might go up 5 cents, and the existence of that support price leads him to hold on for higher prices more than if there were no such support price.

Secretary ANDERSON. That is right; but when the price of wheat is nearly $3, and the support price is $2.10, then the margin is so great that this support price does not have much effect on it. So that is why I say that in potatoes, where there was a close break, the support price probably influenced the price of potatoes and raised it to some degree.

The CHAIRMAN. Have you any point at which you suggest that?

You say, for instance, if something is selling at parity, and support price is 90 percent, that would be affected probably.

Secretary ANDERSON. Yes, Senator. In the hearings before the Agriculture Committee of the House, Chairman Hope asked us to present a program of long-range agricultural planning, and even very immediate legislation, and we have recommended a change in the parity formula that gives the Secretary of Agriculture additional leeway, permits him to drop support prices to 75 percent if he feels that he should do so.

The CHAIRMAN. That would be the long-term program or are you recommending that change for 1948?

Secretary ANDERSON. Not for 1948, because a commitment has been given for 1948.

The CHAIRMAN. That is right.

Secretary ANDERSON. But after 1948.

The CHAIRMAN. At what point would you think that if something was selling at 110 percent of parity, and a 90 percent support price, would that tend to raise the price of that product? How far away do you have to get away from the support price before you think the result becomes negligible?

Secretary ANDERSON. I think the controlling factor, to answer that question, would be the over-all supply situation.

If you have an abundance of potatoes in the country, and the support price is fairly close, the support price will not affect the price a great deal.

But if you have something like wheat, which is reasonably tight, then it could be a very potent factor.

The CHAIRMAN. Are there any other questions of the Secretary?

Secretary ANDERSON. Thank you.

The CHAIRMAN. If not, we thank you very much for a long hearing. This committee will meet in this room at 10 o'clock on Monday morning to hear the heads of the various bureaus of the Department of Agriculture.

(Whereupon, at 5 p. m., an adjournment was taken until 10 a. m. Monday, November 24 1947.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

MONDAY, NOVEMBER 24, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10:10 a. m., pursuant to adjournment, in room 318, Senate Office Building, Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, Watkins, O'Mahoney, Myers, and Representatives Wolcott (vice chairman), Rich, Patman, and Huber; Senators Ecton, Baldwin, Kem, Williams, and Representatives Talle, Poulson, and Horan.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. J. M. Mehl. Is that correct, sir?

Mr. MEHL. That is correct; M-e-h-l.

The CHAIRMAN. Mr. Mehl is the Administrator of the Commodity Exchange Authority, who will speak on the subject of the additional authority requested to control commodity exchanges.

STATEMENT OF J. M. MEHL, ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. MEHL. As the chairman has indicated, I am the Administrator of the Commodity Exchange Authority of the United States Department of Agriculture.

That is a small agency which, under the direction of the Secretary of Agriculture, is responsible for the administration of the Commodity Exchange Act. It has no other functions.

I have been engaged in the work of this agency, and predecessor organizations, since 1924, and I have been in charge of the work since 1940.

My testimony here, of course, will be based largely on experience in the administration of the Commodity Exchange Act. I shall not go into the history of that act, except to say that the basic law dates back to the Grain Futures Act of 1922, then commonly referred to as the Capper-Tincher Act.

Senator O'MAHONEY. Mr. Tincher was a Congressman from Kansas, as I recall.

Mr. MEHL. He was from Kansas, and Senator Capper was Senator, of course, from Kansas. The short title of the act was changed to the

Commodity Exchange Act in 1936, when it was amended and extended to cover cotton and a number of other specified commodities.

Now, the Commodity Exchange Act provides a measure of general regulation over futures trading and speculation in the commodities subject to that act.

The act is especially directed to the purpose of preventing manipulation and corners, outlawing certain abusive trade practices, safeguarding customers' funds, and requiring exchanges to extend members' trading privileges to cooperative associations of producers.

The act also authorizes a special commission consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General to fix limits on the trading and positions of individual speculators.

Now, these limits affect only the operations of the large so-called professional speculators. Such limits now are fixed for grains and cotton. The limits are relatively large. In the case of grains, except for rye, it is 2,000,000 bushels in all futures combined. Rye, I believe, is a half million bushels, and cotton 30,000 bales.

These limits on speculative trading cannot very well be made small enough to affect the general trading of small speculators, without unduly restricting the speculative trading necessary to provide a satisfactory hedging market.

We recognize that in the commodity futures markets there is need for some speculation. Merchants and processors hedge their inventories, for example, by making short sales of futures against these inventories, and holding the short contracts until the cash commodity is sold.

Some of the short contracts of hedgers, of course, are offset by the long hedging contracts of other merchants and processors whose forward cash sales exceed their inventories.

But under most conditions, members of the trade, as a group, are not short in the futures market. Speculators, by buying the offsetting contracts of hedgers, assume the risk of price changes, and merchants and processors thus obtain the equivalent of insurance against price risks, which in turn enables them to operate on smaller margins of cost.

Futures price quotations also are very commonly used as the basis for cash transactions, and futures prices register quickly any change in conditions affecting supply and demand.

It is not believed that speculation is a basic factor in determining the general level of price in the long run. It is believed, however, that an undue amount of speculation tends to make price fluctuations more erratic and at times accentuates price trends.

We know from the number and character of traders entering the market that at times speculation does have a short-run effect on prices.

In letters of March 26, 1947, addressed to the President pro tem of the Senate, and the Speaker of the House of Representatives, the Secretary of Agriculture pointed out:

> When the Grain Futures Act of 1922 was amended in 1936 and became the Commodity Exchange Act, great weight was given to the fact that most extraordinary speculative movements had been accompanied either by manipulation or the assumption of strong leadership on the part of one or more known large

operators. It was believed that imposing limits upon the speculative positions of large operators would tend to prevent overspeculation by the general public composed of small traders. However, the limits were intended primarily to prevent market disturbances caused by the sudden liquidation of a large position.

An example of such price accentuation due to speculative activity is found in the boom in cotton in the summer of 1946, and the subsequent collapse in October, when prices dropped approximately 8 cents a pound or 40 dollars a bale in a few days.

As the Secretary said in his letter:

Investigation disclosed that, while the decline was accelerated by the forced liquidation of two large speculative accounts, the primary cause of the decline was an unsound price structure resulting from overspeculation by a large number of comparatively small traders. Some firms came dangerously close to financial failure.

The Secretary also pointed out:

In the case of cotton the limits were too large to be fully effective for this purpose. Steps have been taken to lower the limits. This, however, does not provide an effective remedy for situations such as the cotton episode. The fixing of limits is subject to statutory procedures and involves evidence of necessity which is difficult to establish before the event. Furthermore, even the lowest reasonable limit would not prevent large numbers of small traders from entering the market during the periods of widespread speculative fever.

It appears that the only way to prevent a price debacle following advances induced by overspeculation is to curb the speculative urge before it reaches the danger point. The only feasible means of doing this is through quick and somewhat arbitrary action in raising margins on speculative positions. It is believed that this could be done without serious loss of market liquidity necessary to facilitate hedging. It is doubtful whether the commodity exchanges can or will exercise margin control in such a manner as to be effective in curbing speculative excesses. Such action necessarily means a loss of commissions and income to brokerage houses.

As the Secretary has indicated, it is believed that the amount of margins required has an influence upon the volume of speculation.

High margins tend to restrict speculative activity, and, in turn, exercise a restraining influence upon price fluctuations. Traditionally, initial speculative margins have been about 10 to 15 percent of the price.

While recognizing the need for some speculation in the commodity futures markets to carry the hedging load, such margin rates seem unduly low in view of the present unsettled conditions.

Margin rates on securities, however, are not believed to be an appropriate guide to margin rates on commodity futures. There are important differences between the techniques of trading on the two types of markets. In contrast to stock market transactions, where immediate delivery is made of the stock, futures contracts remain open until delivery is made in the maturity month or until an offsetting contract is entered into.

Brokers' loans and bank credit are not ordinarily involved in commodity futures transactions.

Now, the Commodity Exchange Act, of course, does not confer authority for the fixing of margin requirements. Last spring, a sharp rise in speculative activity in grains indicated the need for substantially higher margins.

So, March 14, 1947, I asked the three principal grain exchanges to increase initial margins on grains to at least 25 percent of the market price.

At prices for wheat then prevailing, this would have amounted to approximately 70 cents per bushel, as compared with the margin of 30 cents then required by the Chicago Board of Trade.

The Minneapolis and Kansas City exchanges adopted the 25-percent margin on wheat, and the Chicago Board of Trade met the request only in part.

During the period when these higher margins were in effect, trading volume and daily price ranges decreased.

On May 7, however, the Chicago Board of Trade lowered its margin requirements back to 30 cents for all wheat futures except the then-expiring May future. The other two exchanges, of course, then reduced their requirements. Trading volume in wheat increased following the reduction in margins, and a marked expansion in speculative activity appeared in the corn market.

A sharp rise in early September in speculative trading in wheat with marked price instability indicated even more clearly the need for more substantial margins.

So, on September 15, I asked the grain exchanges again to raise initial speculative margins, and this time to 33⅓ percent, or approximately 94 cents per bushel for wheat, at prices then prevailing.

As stated at the time, the purpose of the higher margins was to curb excessive speculation. The exchanges did not accept this proposal.

On October 6, by direction of the President, the Commodity Exchange Commission requested the grain exchanges to raise margins to at least 33⅓ percent. The grain exchanges then did raise margins to 33⅓ percent, effective on October 7.

It is fair to point out that in the meantime there had been considerable discussion, I believe, by responsible Members of Congress; Senator Flanders, I believe, and Congressman Hope, had indicated concern over the existing margin rates, and the desirability of doing something to curb speculation.

Now, the effects of the increased margins are seen in reduced trading volume, and more orderly price movements.

During the 30 trading days immediately following the establishment of the 33⅓-percent margin, the average daily trading in wheat was reduced 45 percent, as compared with the 30 trading days preceding the margin increase.

I think the decrease during the first 6 days, the 6-day period, following the increase, compared with the 6-day period before the increase, showed a decline in average volume per day of about 53 percent.

Trading activity in corn and oats also declined in the 30-day period after the margin increase.

During the 30-day period prior to October 7, there were 10 days, one-third of the days, in which wheat prices reached the daily fluctuation limit of 10 cents per bushel, six times on the low side, and four times on the high side.

In the 30 days since October 7, after margins were increased, there were only 2 days on which the daily limit was reached.

Prior to the increase on October 7, corn prices reached the limits on 9 days; I believe the limits on corn were 8 cents; and in the subsequent 30-day period it reached the limit only once.

Oat prices reached the limits on 6 days before the margin increase, and only once since the change.

The average high-low daily price ranges also reflect the dampening of price fluctuations since the 33⅓-percent margins were made effective.

In the 30 days prior to October 7, the average daily price range for the December wheat future at Chicago was 7 cents per bushel.

In the following 30-day period it was 4⅝ cents; decreases also appeared in corn and oats.

I would like, Mr. Chairman, at this point, if I may, to introduce table No. 1, which is attached at the end of my statement. That table is entitled, "Wheat, Corn, and Oat Futures, Chicago Board of Trade—Trading and Price Sensitivity During 30 Trading Days Before and After October 7, 1947."

The CHAIRMAN. That will be admitted.

(The table referred to follows:)

TABLE 1.—*Wheat, corn, and oat futures, Chicago Board of Trade—Trading and price sensitivity during 30 trading days before and after October 7, 1947*

AVERAGE DAILY VOLUME OF TRADING (BUSHELS)

	Sept. 1-Oct. 6	Oct. 7-Nov. 12	Percent reduction
Wheat	26,985,000	14,933,000	44.7
Corn	14,667,000	7,704,000	47.5
Oats	11,027,000	7,207,000	34.6

NUMBER OF DAYS HIGH AND LOW FLUCTUATION LIMIT REACHED

	Sept. 1-Oct. 6		Oct. 7-Nov. 12	
	High	Low	High	Low
Wheat	4	6		2
Corn	4	5		1
Oats	2	4		1

AVERAGE DAILY RANGE (CENTS PER BUSHEL)

	Sept. 1-Oct. 6	Oct. 7-Nov. 12
Wheat	7	4⅝
Corn	5⅞	3¾
Oats	3¾	2⅝

AVERAGE CLOSE-TO-CLOSE CHANGE (CENTS PER BUSHEL)

	Sept. 1-Oct. 6	Oct. 7-Nov. 12
Wheat	4⅜	3¼
Corn	3⅞	2⅛
Oats	2⅜	1⅝

Source: U. S. Department of Agriculture, Commodity Exchange Authority.

The CHAIRMAN. Do you have any corresponding tables which you can put in showing the price of wheat during those 60 days, and corn and oats, whether they went up or down, and so forth?

Mr. MEHL. Well, I do not know that I have tables, but I have a chart which will show the price movement during that period.

The speculative interest and the types of traders in the wheat market on the Chicago Board of Trade are shown by a special survey of all positions on September 17, and of trading on the three following days, when price movements were very erratic; and, bearing on that point, I would call your attention to table No. 2, and ask that it be inserted in the record at this point.

The CHAIRMAN. It will be done.

(The table referred to follows:)

TABLE 2.—*Wheat futures—Number of accounts and aggregate positions, by occupations of traders, Chicago Board of Trade, Sept. 17, 1947*

Occupation	Number of accounts	Position (thousand bushels)	
		Long	Short
HEDGING			
Grain merchants	273	11,516	25,270
Millers and processors	103	8,217	34,980
Exporters and importers	6	1,010	1,410
Cooperative organizations	18	157	2,871
Feed and seed dealers, flour brokers, and miscellaneous	21	395	302
Farmers	35	282	118
Total	456	21,577	64,951
SPECULATIVE			
Grain merchants	136	2,865	1,912
Millers and processors	27	1,609	1,042
Exporters and importers	7	1,160	1,040
Members and officers of grain firms	53	3,561	3,408
Farmers	846	8,452	2,138
Floor traders	139	15,351	13,111
Capitalists and financiers	44	8,614	2,569
Bankers and bank officials	22	1,793	199
Proprietors and managers:			
Wholesale and manufacturing establishments	158	4,742	1,510
Retail establishments	319	4,200	1,120
Real estate, insurance, securities	364	6,241	2,877
Miscellaneous	158	2,794	1,039
Salesmen	39	280	31
Office and store workers: Clerks, stenographers, salespersons, etc	133	959	315
Skilled workers: Foremen, bakers, barbers, butchers, etc	181	1,166	489
Manual and unskilled workers	29	140	52
Domestics: Butlers, maids, etc	6	92	10
Lawyers and judges	79	1,514	294
Physicians, dentists, chiropractors, nurses, pharmacists, etc	135	2,131	684
Chemists, technicians, etc	24	106	28
Clergymen	6	59	3
School officials and teachers	40	428	281
Artists, musicians, and actors	11	232	62
Statisticians, draftsmen, reporters, etc	28	308	71
Accountants and auditors	54	884	274
Other professional occupations	32	215	52
Semiprofessional occupations	12	388	222
Local, State, and Federal employees	71	384	131
Housewives	308	7,392	3,720
Students	24	306	197
Unemployed	44	607	100
Retired	256	3,868	1,209
Unknown	42	387	65
Total	3,827	83,228	40,255
Grand total	4,283	104,805	105,206

Source: U. S. Department of Agriculture, Commodity Exchange Authority.

Mr. MEHL. This table 2 shows that out of 4,283 accounts on September 17, there were 3,827 traders, or 89 percent, whose accounts were classified as speculative, classified as such by the reporting brokerage firms.

Speculative long commitments amounted to 83,228,000 bushels, or 79 percent of the total long contracts. Speculative short positions totaled 40,255,000 bushels, or 38.3 percent of the total short contracts.

If you will look at the table you can see that speculators from all walks of life held positions in the market, including bankers and capitalists; owners of business establishments and managers of business establishments of widely varied types; office and store employees, such as clerks, stenographers, and salespersons; skilled workers, such as bakers, barbers, and butchers; doctors; lawyers; farmers; actors; housewives; and students.

Representative RICH. May I ask a question?

Mr. MEHL. Yes; certainly.

Representative RICH. Were those people dealing on the market all considered by you as speculative investors?

Mr. MEHL. They were so classified. The 3,827 were classified by the brokerage houses that carried their accounts as speculative.

Now, if you will look at the first few classifications under "Speculative," when you get down to capitalists and financiers, practically every profession can be seen in the classification as to occupation that follows.

People who do not have any remotely connected interest with the grain business are represented. Of course, grain merchants, millers, processors, exporters, and so forth do have a connected interest. Floor traders, of course, and farmers are interested in prices, and naturally might have a speculative interest.

The CHAIRMAN. I notice more farmers than anybody else go into it.

Mr. MEHL. Yes. Of course, Senator Taft, a good many people who are in the professions and from other businesses are also farmers. I would not know just how they were classified here.

Senator MYERS. Gentlemen farmers, you mean?

Mr. MEHL. Yes, sir.

The CHAIRMAN. Have you a similar table, say, for October 17, after the margin went into effect? Or will you have such a table?

Mr. MEHL. No; we have not. We do not have that; it is quite a job to ask the commission firms to report on all these accounts.

The CHAIRMAN. You do not do it as a regular thing?

Mr. MEHL. No. We have reports daily on those traders that have, in the case of grains, 200,000 bushels or more in any one future, but we only call for all accounts, as we did on this occasion, when there is some special need.

The CHAIRMAN. All right, you may finish, and then we will ask questions.

Mr. MEHL. Speculative accounts also traded heavily on the 3 days, September 18, 19, and 20. The total purchases of speculators on the 3 days amounted to 80.1 percent of all purchases. Sales for speculative accounts amounted to 91.6 percent of all the sales. Purchases for hedge accounts were thus 19.9 percent of the total, and hedging sales were 8.4 percent of all sales.

Prices declined on each of these 3 days. The December future closed 6⅞ cents lower on the 18th; 10 cents lower on the 19th, and 3½ cents lower on the 20th.

On each day during those 3 days, speculators, as a group, sold more than they bought. Sales by speculators reached a maximum of 35,960,000 bushels on September 20. Purchases and sales by classes of speculators and by hedgers may be seen in table 3, which I would like to have inserted at this point.

The CHAIRMAN. It will be admitted.

(The table referred to follows:)

TABLE 3.—*Wheat futures, Chicago Board of Trade—Purchases and sales of speculators and hedgers reported by futures commission merchants, Sept. 18–20, 1947*

Date	Speculators						Hedgers		Total [1]	
	Floor traders		Other speculators		Total					
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Sept. 18	11,148	12,314	7,346	8,950	18,494	21,264	4,820	2,048	23,314	23,312
Sept. 19	16,599	16,786	9,734	12,871	26,333	29,657	5,763	2,476	32,096	32,133
Sept. 20	19,401	18,622	11,748	17,338	31,149	35,960	8,336	3,398	39,485	39,358
Total	47,148	47,722	28,828	39,159	75,976	86,881	18,919	7,922	94,895	94,803

[1] Due to reporting errors or omissions, total purchases and sales are not equal and differ slightly from total volume of trading as reported by exchange clearing members.

Source: U. S. Department of Agriculture, Commodity Exchange Authority.

Mr. MEHL. This table shows that the maximum purchases by hedgers were slightly over 8,000,000 bushels on September 20. These purchases would be offset to the extent of 3,000,000 bushels by the hedging sales on that day, leaving 5,000,000 bushels roughly to be absorbed by speculative buyers.

The average daily volume of approximately 15,000,000 bushels, which is one side only, either the sales side or the purchase side, during the period since margins were increased to 33⅓ percent, would seem to be ample to cover the needs of hedgers at this time, and under present conditions.

I think the effect of what I have tried to tell you about the situation, 30 days before the margins were increased and 30 days afterward, may be seen at a glance from a chart which I have. I do not know whether you want a discussion of that chart on the record or off the record. I am sure that you do not want to have it introduced in the record. If you do, we could furnish photostatic copies.

Senator WATKINS. May we get copies of the chart?

Mr. MEHL. I will be able to furnish photostatic copies later, if you like. I do not have them with me. I was under the impression that charts were not usually placed in the record. I will be glad to supply them.

Senator WATKINS. We would like to have them for the use of the subcommittee.

Mr. MEHL. They will be supplied, sir. This line in the center of the chart, divides the period of 30 days before margins were increased to 33⅓ percent, and the 30-day period afterward.[11]

This price scale is very narrow, as you see, so it does not show up the daily price fluctuations as much as it should. But you can see that even on that narrow scale there is a much more drastic daily price change or fluctuation in prices in the 30-day period before October 7 than in the 30-day period following.

Now, in the second portion here showing daily price ranges, you will note that there are days, many days here before the margin increase, when the price range is very much larger than any that occurred after-

[11] The chart and table from which the chart was prepared are filed at the end of Mr. Mehl's testimony, p. 91.

ward, and you will also note that on days when these large price ranges occur they are accompanied by a large volume of trading on those days.

Here is one day, for example, when the volume of trading was about 39,000,000 bushels. Here is another large day, and you will also note that the daily price ranges on those days are very large.

The chart shows not only the average daily volume of trading, but also from day to day for a 30-day period before and after October 7.

The CHAIRMAN. But control or no control, it went up 20 cents a bushel 30 days before, and 20 cents a bushel 30 days afterward.

Mr. MEHL. That is right, Senator; but more irregularly during this first period than afterward.

The CHAIRMAN. The chief benefits, you think, are straightening out those curves so that there is not such up-and-down movement.

Mr. MEHL. Yes, and, Senator, when we asked that margins be raised the first time, back in March, and the second time on September 15, we were concerned about what we saw developing in the market.

We wanted to curb the speculation, as we saw it developing, and stop it before it got out of hand and was too late. If you wait until prices are built up on a structure of speculation, as was the case in cotton last October, it is too late. We are not only looking at speculation that moves prices up but we do know from experience, and I am sure you gentlemen know, that ultimately every speculative movement ends in collapse and price disorder, with repercussions all through the financial districts.

The CHAIRMAN. There is an argument the other way. I mean there is an argument that if there is no speculative market, things go up more violently and down more violently than if there is a speculative market, which tends to straighten it out.

Mr. MEHL. I think I agree, Senator.

The CHAIRMAN. You would not eliminate the speculative market entirely; you think it has some function in that direction?

Mr. MEHL. Oh, absolutely. I agree with you that over the long run speculation within reasonable limits has a tendency to stabilize markets, and it certainly focuses all of the forces that affect price in one place where everybody can see it.

The CHAIRMAN. On the whole, if you have the professional speculators restrained by the total volume of trading, and by rules against manipulation, and so forth, do you think their influence is probably sounder than those of the daily trader, the clergyman and the member of the public, the people who come in?

Mr. MEHL. I think so, because, Senator, if I went to a horse race today, I would not know anything about horse racing, but I probably would ask someone what horse to bet on, just to go along with the crowd, and I think that the average fellow and the small trader, stenographers and bookkeepers, and that class, are attracted to the market only when they hear that somebody has made a lot of money, and say "this is something that I ought to get in on." It is not what we would call intelligent speculation, if there is such a thing. But, obviously there is sounder judgment by people who are close to the market and who are engaged in—well, even farmers are watching prices; they know more about it than the class of people who come into the market under a special speculative urge, and the desire to get in on a good thing.

The CHAIRMAN. Are there any questions of the witness?

Senator WATKINS. You are acquainted with the operation of the Portland Exchange in the Northwest?

Mr. MEHL. Yes, in a general way. It is a very small market, as you know, from the standpoint of future trading.

Senator WATKINS. It is a small market; they do not have any future speculation at all there, do they?

Mr. MEHL. Very little at any time, and none since the war.

Senator WATKINS. They just have to buy their grain as it comes along rather than in futures.

Mr. MEHL. Well, they are designated as a contract market under the Commodity Exchange Act, but it is quite a different market from Chicago, Kansas City, or Minneapolis.

Senator WATKINS. In what way does it differ?

Mr. MEHL. In the smaller volume of trading and more of a trade market; you will not find clerks and barbers and butchers and the general run of what we call the general public in that market. They naturally trade in a larger market such as Chicago.

Senator WATKINS. That is all.

Senator BALDWIN. May I ask if you have exercised the full extent of the powers that you have under the existing law?

Mr. MEHL. Well, with respect to what?

Senator BALDWIN. I mean, what might you have done, what might you have been able to do, under the existing law; I mean, specifically what recommendations have you for changes here that you think are necessary and which would be effective?

Mr. MEHL. We think, as I have tried to indicate, that the only way to deal with excessive speculation affecting prices, speculative fever on the part of the general trading public, is through the device of raising margins, and thereby limiting the extent of their participation in the market.

Senator BALDWIN. Under the existing law, you have some authority to raise margins?

Mr. MEHL. No, we have no authority.

Senator BALDWIN. You have none at all?

Mr. MEHL. No.

Senator BALDWIN. Your power is really one of recommendation.

Mr. MEHL. That is right.

Senator BALDWIN. What is the highest that you recommend in the way of margins?

Mr. MEHL. The highest that we recommended was 33⅓ percent on September 15. The exchanges did not accept that proposal; they came to Washington to discuss the matter with the Secretary of Agriculture, to explain to him what the purpose of margins was, and so forth; and the situation was not getting any better; then the President directed the Commission, the Commodity Exchange Commission, consisting of the three Cabinet officers, to request the exchanges to raise margins to 33⅓ percent, and with that request they complied.

Senator BALDWIN. That was after the telegram from the eastern subcommittee, was it not?

Mr. MEHL. Yes, sir; I believe it was.

Senator BALDWIN. That the President took that action.

Mr. MEHL. That is right; yes, sir.

Senator BALDWIN. What was the situation during the war; I do not recall how it was handled then?

Mr. MEHL. Well, of course, during the war, the volume of trading in all commodities was restricted with the exception of cotton, rye, and oats; but all of the other markets were restricted by reason of price controls, and volume of trading in most commodities was relatively small during the entire war.

Senator BALDWIN. In other words, you had complete control of it during that period?

Mr. MEHL. We had no control over margins during that period. But the price controls themselves made the market unattractive.

Senator BALDWIN. Yes.

Mr. MEHL. Unattractive to speculators.

Senator BALDWIN. You mean price control stopped speculation?

Mr. MEHL. That is correct.

Senator FLANDERS. Mr. Chairman, I would like to inquire of the witness, whether under any given margin requirements, the established operators and the millers and so forth, still have access to what you might call the open accounts, in which the margins do not apply?

Mr. MEHL. It would not be my idea to fix margins, and certainly, not at the same rate for hedgers as are fixed for speculators, because a hedger is not a speculator.

Senator FLANDERS. That is antispeculation.

Mr. MEHL. That is right. He is using the future market in a sense to avoid speculation, and to get the equivalent of price insurance.

No; we certainly would not want to handicap in any way that kind of trade. We recognize that in order to facilitate hedging you must have some speculation, otherwise you would have to have always the same amount of purchases for hedge account as you have sales; and it would be very unusual if hedgers selling orders would meet other hedgers' buying orders in the market at the same time. It is necessary also to have what we call floor traders who are watching the market every minute, and will trade even on fluctuations of an eighth or a quarter or a half-cent a bushel. Such trading tends to keep the market liquid, and tends to provide an always available hedging market.

Senator FLANDERS. This 33⅓ percent margin now in force applies to every transaction, does it?

Mr. MEHL. It does not apply to hedging transactions.

Senator FLANDERS. It does not apply to hedging?

Mr. MEHL. No, sir.

Senator FLANDERS. Does the older margin apply to hedging?

Mr. MEHL. Beg pardon?

Senator FLANDERS. Does the older margin of 15 apply to hedging? What is the situation there?

Mr. MEHL. Under exchange rules, I believe, the clearing house rate (that is the amount of margins that the commission firms deposit with the clearing house) is the rate that applies also to hedges, and that is very much less; I think it is about 30 cents a bushel right now in the case of wheat, 30 or less.

Senator FLANDERS. Yes.

Mr. MEHL. There is also a class of speculator that is not subject to the 33⅓ percent margin requirement at present. These are what we call spreaders, who buy in one market, or future, or grain and sell in another. They are speculating in differences. They, of course, provide the market with a great deal of liquidity during the day.

Senator ECTON. Mr. Chairman, at that point I would like to ask Mr. Mehl, suppose a farmer sells 5,000 bushels of actual wheat, for instance, now or in December, and thinking that the price is going to be higher next spring, he buys May futures in '48. Now, under the law would he be classified as a speculator, a scalper or a hedger?

Mr. MEHL. Do I understand that he sells actual wheat for delivery in the future, not a futures contract?

Senator ECTON. No, he sells and delivers actual wheat now.

Mr. MEHL. Now.

Senator ECTON. And then he turns around and buys the same number of bushels on the May futures.

Mr. MEHL. He was speculating in or holding his cash wheat; he has disposed of his cash wheat, and he buys futures. Within the definition of hedging in the Commodity Exchange Act that would be classified as speculative.

The CHAIRMAN. Even though he is cooperating with the Secretary's desire to get the wheat out and shipped to Europe?

Senator ECTON. Yes, it seems to me as if that would be a clear case of cooperation.

Mr. MEHL. Yes. By that means, of course, the Government has been able to get some of its wheat, but this farmer has also, if he has sold his cash wheat, gotten a considerable amount of money with which to put up 33⅓ percent as margin.

As a matter of fact, if he wants to speculate in the futures market he can take on a larger line than his cash line.

Senator ECTON. Oh, yes, he could; he could go in the market and speculate just the same as anybody; but it seemed to me on the face of it that if he did not repurchase any more in futures than the actual cash wheat he sold, he could hardly be classified as a speculator.

Mr. MEHL. Well, I think you could make a pretty good argument on that side. Of course, when I say it is classified as speculation in futures under the Commodity Exchange Act, I have in mind the definition in the act which is directed especially to speculative trading and position limits, and as I indicated earlier, that limit in the case of wheat and corn and other grains is 2,000,000 bushels, so a farmer would not be handicapped ordinarily by reason of that limit, even if the trade is classified as speculative. He would have to put up margins at the higher rate.

Senator ECTON. Is it not true, that these so-called speculators can make just as much money or lose just as much money on a down market as on an up market?

Mr. MEHL. Oh, yes.

Senator ECTON. We have been discussing their activities in relation to higher prices. I think we should also recognize that they have a bearing on lower prices. So, I am wondering if they just do not about balance off the market?

Mr. MEHL. I am not proposing that margins should apply only to speculative buying. I think it is just as necessary when you reach the peak on prices, and they start going down, that there be a similar curb on the short sellers, make them put up some real money also.

Senator ECTON. Mr. Mehl, do you think there has been excessive speculation in the grain market during this summer and fall?

Mr. MEHL. Yes, I think there has been some excessive speculation.

Senator ECTON. How can you justify it when cash wheat is worth more than the future wheat?

Mr. MEHL. Well, it is a very good question. Of course, you know that during the entire war period, the deferred futures for nearly every commodity have been progressively lower than the nearby futures. That reflects, of course, the keen immediate demand for wheat and oils, etc. Speculation, trading in futures, particularly the more distant futures, of course, takes into account the long-range view, possibly a lessening of demand and an increase in supplies, in crops.

Senator ECTON. Another question I would like to ask, if you have an explanation for it, how can there be excessive trading on the grain market in this country and yet be so far below the world price on wheat?

Mr. MEHL. Carl Farrington of the Commodity Credit Corporation, will know more about this than I do, and will be in a better position to speak. But I have a feeling that the purchase program of the Department of Agriculture during this period has taken the United States markets a little farther away from the world markets than will be the case in the future.

Those purchases undoubtedly have had a bearing on prices, increasing prices, but I feel that the manner of buying, that is by just one agency, has probably kept prices from moving to even higher levels, under the speculative urge, than if the supply had been competed for by many, many different private dealers.

Now, as I say, Mr. Farrington knows more about that than I do; that is just an opinion I happen to hold.

Senator ECTON. If I may ask one more question, Mr. Chairman.

The CHAIRMAN. Yes.

Senator ECTON. Have you made any studies of how great a volume is necessary in future trades, that is, in futures, to support a stable and a constant market for the cash buying?

Mr. MEHL. Well, we have considerable experience in the past, of course, and I do not want to suggest that the present daily average trading of around 15,000,000 bushels in the case of wheat on the Chicago Board of Trade is an ample volume of trading at all times. If we ever get back to normal conditions, and we have large crops that move immediately after harvest, naturally, those supplies are going to be hedged, and the open interests will increase.

By reason of the hedging trades, it may be necessary to have a very much larger volume of trading, and I would want to watch that very carefully.

I have no fixed opinion as to the amounts of trading that are necessary, and I would not want to specify that at any time only so many millions of bushels are necessary. But I do think at times like this we ought to have a device whereby when we see this speculative interest developing we could take action right then and there; I would want to talk with the responsible members of the trade, people who I have confidence in, and find out whether they are having any difficulty in executing their orders; and I want to say on that point that especially would I want to solicit the views of those who are in the grain business and in the commodity business who do not also have very large commission departments, because I feel their views would be less biased on that question. You understand what I mean.

Senator ECTON. Thank you.

The CHAIRMAN. Mr. Rich.

Representative RICH. Mr. Mehl, I noticed from the statement that you read to us on September 17, you show 456 persons who were purchasing grains for the purpose of using the grains for future delivery, and you show 3,827 as speculative accounts.

Now, in the first four or five, for instance, you said grain merchants 273 hedging, and speculative 136; millers and processors 103 hedging, and processors, speculative 27; and you give us quite a list. There were over a thousand that were speculating, which had the same occupations as those that were hedging. How did you determine the difference between the speculator and the hedger?

Mr. MEHL. Well, as I indicated, these accounts were classified as they appear here by the brokerage firms that had their accounts.

Representative RICH. The broker told you that they were either hedgers or speculators.

Mr. MEHL. That is correct.

Representative RICH. On September 15 you made a request to the commodity exchanges to put a 33⅓ percent margin on speculation, and they did not act; but on October 6, they did put that margin of 33⅓ percent. At the same time, after that margin was put on, you reduced the amount of wheat that was traded 44.7 percent. Corn reduced in trading 47.5 percent, and oats 34.6 percent.

In your judgment, supposing you would have had a fifty percent margin, would that still have reduced the amount of grain that was traded?

Mr. MEHL. I should say it would have reduced it even more; yes.

Representative RICH. Well, if it reduced it more, do you think the price of these commodities would have so been reduced?

Mr. MEHL. No, I do not.

Representative RICH. You think the price would have still remained the same?

Mr. MEHL. I say I do not believe that. I have no way of knowing, of course, but in view of the fact that prices tended upward, I would assume that they would have advanced some in any event. I am not contending you know, and none of us are contending, that speculation in the market was the whole and sole thing responsible for the price increase. We were taking steps to keep speculation from becoming a force that would throw prices clear out of line. We thought the time to deal with this situation was before it got out of hand, and I think you agree with that, sir.

Representative RICH. According to this report, evidently that is the case, and if it did that much good in holding down the price of grains, I do not see why we should permit any speculation or anyone to become rich or even make money out of foodstuffs at this present time except the legitimate dealer.

Mr. MEHL. Well, there are a lot of people who agree with you.

Representative RICH. What I am trying to get at is this: I would like to have more information, if you can get it, on where we draw the line in stopping speculators from making a profit today out of grains. Have you anything further to say on that?

Mr. MEHL. No. My experience over the years has led me to believe—of course I may be wrong, but I have given it a lot of thought—I believe that if we are to maintain the present system of marketing, with the incident of hedging which enables processors and dealers to transfer the price risk from their shoulders to speculators who are willing to assume these risks, we will have to tolerate some degree of speculative trading in order to take up the slack between the merchant and the processor who wants to buy for hedging purposes, and the one who wants to sell for hedging purposes.

It is, I think, necessary to provide a liquid and also always available futures market.

Representative RICH. I am not interested in trying in any way to stop legitimate business; I want that to proceed. But I thought if there was anything that you could suggest to our committee whereby we might, from your experience, stop speculation pure and simple, and let legitimate trade go on, I wish you would make that recommendation.

Mr. MEHL. There may be some way, but at the moment I do not think you could stop speculation, as such, in futures and have a practical hedging market.

Representative HORAN. Mr. Chairman, I would like to ask Mr. Mehl this question. You say that in these five categories where we recognize they are doing a necessary job of hedging like millers and processors, particularly, I want to know who determines, and how those men are hedging at one time, and how they are classified as speculators at another. Does it have something to do with the known amount of grains that they have to have at certain periods for their operations?

Mr. MEHL. Well, as previously indicated, there are operations, even by merchants and processors, that are outside of the definition of hedging in the Commodity Exchange Act. They could be considered hedgers in one sense. They would be entirely legitimate.

But under the act, in order for us to check on those that get over the trading limit, we insist on their being reported and classified according to the definition in the act. The definition does not fit all cases.

Representative HORAN. Now, what is the definition of a hedger?

Mr. MEHL. Well, under the act, hedging is defined as an offsetting sale of futures against a purchase of the actual commodity, or vice versa. Growers are considered to be hedgers if they sell futures against a crop they expect to produce within a period of 12 months. But so far as trade interests are concerned, the definition in the act considers them hedgers only to the extent that positions in the futures market are offset by an opposite risk position in the actual commodity.

Representative HORAN. Who makes those determinations?

Mr. MEHL. As to whether they are hedging or not?

Representative HORAN. Yes.

Mr. MEHL. In this study, reporting commission firms that reported these trades. Now, on the large traders, and by large traders I mean those in grain who have as much as 200,000 bushels, long or short, in any one grain future, they report that to us themselves each day, and they classify it. But the classifications in the table are based on what the commission firms who had these accounts reported to us.

Senator FLANDERS. Mr. Mehl, would it be fair to state that the purpose of the commission's asking for permission, for your asking permission, to set the margins, is to preserve fools from their folly or is there some other broader purpose than that?

Mr. MEHL. Well, I do not know that you can ever preserve fools from their folly, but the primary purpose is to curb the speculative urge by the mass of traders who are not ordinarily connected with the trade.

They just go in when it appeals to them as an opportunity, an adventure, to make money. They hear about Tom Jones or Bill Smith making a lot of money in the market, and they want to get in on it.

Senator FLANDERS. Are there any broader considerations involved than simply protecting those people who come into the market under those conditions?

Mr. MEHL. Yes, the main consideration is to protect the market against conditions of overspeculation, and a false price structure that is going to break wide open some day.

The more serious thing is the market's being completely upset, and ordinarily the history of all such movements is a price depression, and failures, and instability. We want orderly trading.

The CHAIRMAN. I thought what we wanted was price depression?

Mr. MEHL. What is that?

The CHAIRMAN. I thought what we wanted was price depression; that has been the whole purpose, has it not, of an anti-inflation program at the present time, lower prices?

Mr. MEHL. Lower prices, generally. I do not think that you would want to bring anything down by a sudden dropping from the 50th floor into the sub-basement. I do not think we want a repetition of what happened in cotton last October, when prices had gone up under a wave of speculation.

The CHAIRMAN. I agree that there is a purpose. But I understood that the purpose of all these regulations was, as I understood it, to keep prices down.

Senator O'MAHONEY. Or at least to prevent them from going up.

Mr. MEHL. Yes.

Senator FLANDERS. I notice that in table 2, and notice it with a great deal of interest, that the largest accounts are carried by housewives.

Mr. MEHL. Well, that classification is something like farmers, I guess.

Representative HORAN. Could they not be hedging their home baking?

Representative POULSON. Mr. Chairman, may I ask a question?

The CHAIRMAN. Surely.

Representative POULSON. You stated that most of these people entering the market here heard about it from someone else's making money. Do you not think also that when they read the papers and see where certain of our administration officials make statements that grains were going to be much higher next April and May, and, for instance, Friday, Secretary Anderson stated that we are going to have a big shortage of feed grains along about April and May.

Would that not be an incentive for someone to buy anything on a statement like that?

Mr. MEHL. Yes, it might be. Any kind of statement or market news, of course, may become the basis for some kind of speculative activity.

Senator O'MAHONEY. Mr. Chairman, I would like to ask Mr. Mehl one or two questions about table 2. Unfortunately, I was at the Appropriations Committee meeting while you were presenting your main testimony, so you may have answered some of these questions when you presented the table in the first place.

Do I understand that this table does not show a general trend, but rather that it represents the position of wheat futures as of this particular date September 17, 1947?

Mr. MEHL. No; that is just 1 day.

Senator O'MAHONEY. Is it a typical day?

Mr. MEHL. Well, I would say that it is typical of speculative markets, yes, sir.

Senator O'MAHONEY. That table would appear to show that the hedging accounts represent only a small fraction of all the accounts in the exchange, scarcely more than 10 percent of the total number of accounts.

Mr. MEHL. Eleven percent; yes, sir, that is correct.

Senator O'MAHONEY. That is the general condition, is it, in the commodities exchanges?

Mr. MEHL. Oh, I think that under more normal conditions, with large crops moving into elevators and when there is not any immediate demand for it, the number of hedging accounts would probably be higher than this.

Senator O'MAHONEY. Well, what would be the maximum?

Mr. MEHL. Pardon me?

Senator O'MAHONEY. Let me put the question this way: would it run as high as 20 percent?

Mr. MEHL. I would think that 20 percent would probably be the maximum, yes.

Senator O'MAHONEY. So that, in your opinion, the hedging accounts upon the commodity exchange do not constitute, on the whole, more than 20 percent of the total accounts.

Mr. MEHL. I think that would be about right.

Senator O'MAHONEY. The justification which is made of the commodity exchange has always been that these hedging accounts are necessary in order that the millers may operate their business, is that right?

Mr. MEHL. Yes, sir.

Senator O'MAHONEY. Do you know of any other trade or business, or any other industry, in which the operators deal in futures with respect to their raw material?

Mr. MEHL. No; future trading is limited largely to agricultural commodities, to agricultural commodities and some metals.

Senator O'MAHONEY. Now, what constructive purpose in the public interest is served when 80 percent of the trading on the exchange is speculative?

Mr. MEHL. Of course, we are talking about accounts now; we are not talking about positions, and 11 percent of this total——

Senator O'MAHONEY. We will get to position later. Let us talk about the account.

Mr. MEHL. Take this number of 456 hedge accounts; they were short in wheat futures on that day in September totaling 64,951,000 bushels, and the position held by the speculator group, long, you see is 83,228,000 bushels.

Senator O'MAHONEY. Yes; I noticed that was just the reverse of the other position. What public purpose is served by the speculative account, if any?

Mr. MEHL. Well, you see, you have 65,000,000 short; you have 22,000,000 long. These are for hedging accounts. That means that there is an excess of short hedgings. This excess is carried by speculators who are long as a group. You asked what the purpose of it is.

I do not think that there is any question but what the ability to use the futures market to hedge enables country elevators and merchants and processors to handle their business on a little narrower margin of operating costs.

Senator O'MAHONEY. How much narrower?

Mr. MEHL. They are able to shift that risk to the speculative market. I am not arguing whether it is a good thing.

Senator O'MAHONEY. I understand. Neither am I.

Mr. MEHL. I understand.

Senator O'MAHONEY. I am just trying to get information.

Mr. MEHL. Yes, sir.

Senator O'MAHONEY. In answer to my query as to what public purpose is served, you say that in your opinion the millers will be enabled by reason of this speculative position to obtain their raw materials at a slightly lower cost, with a slightly lower outlay of capital.

Mr. MEHL. Yes.

Senator O'MAHONEY. Now, is there any other public purpose served?

Mr. MEHL. No; I would say that marketwise, that is the main purpose.

Senator O'MAHONEY. Do you see any difference intrinsically between future trading in grain and future trading in iron ore?

Mr. MEHL. The same principle.

Senator O'MAHONEY. What is that?

Mr. MEHL. In iron ore?

Senator O'MAHONEY. Yes.

Mr. MEHL. Yes; it would be the same principle.

Senator O'MAHONEY. But there is no trading in iron ore.

Mr. MEHL. No; there is trading, or was, in copper and other metals, I believe.

Senator O'MAHONEY. Thank you very much.

I am not trying to put you in a defensive position, sir.

Mr. MEHL. I understand.

The CHAIRMAN. Mr. Mehl, may I ask: Is there any evidence during the last year that speculation has increased the price of wheat more than it would otherwise have increased?

I notice on your table the big speculative days are some of them where wheat goes up, and there are just as many when wheat goes down.

Is there any evidence that actually the price of wheat is any higher today by reason of speculation than it would be without the speculative market?

Mr. MEHL. Not that I could measure, Senator, but I think we know that speculation, as such, is an inflationary force at times like this.

The CHAIRMAN. You say in your statement it is believed that an undue amount of speculation tends to make price fluctuations more erratic but is not a basic factor in determining the general level of prices in the long run.

Mr. MEHL. That is right.

The CHAIRMAN. That is your view?

Mr. MEHL. Yes, sir.

The CHAIRMAN. Do you think that the price structure on September 17, when this table was made, was in any way an artificial structure or a false structure?

Mr. MEHL. At that time, I think it was more an indication of a tendency and a developing situation in which the public was coming into the market, and we felt that the time to take action was at that time and not after it had gone further.

The CHAIRMAN. Well, I am asking: Was that in any way a false structure? Does not the fact that wheat went up 20 cents a bushel during the following 30 days show that after all there was nothing particularly artificial about the situation on September 17?

Mr. MEHL. I think it is entirely possible that if the futures market had been closed, prices would have been about where they are.

I have no way of knowing otherwise.

The CHAIRMAN. As a matter of fact, if futures are lower than cash wheat finally is when developed, is that not evidence that the opinion of the traders that wheat was going to be lower turned out wrong, and was that not rather a depressing influence of wheat going up rather than otherwise?

Mr. MEHL. Not necessarily, Senator.

As a matter of fact, spot prices, cash prices of many grades are always higher than the futures market.

The CHAIRMAN. But in each case, I understand that the wheat, when finally sold, the May wheat or December wheat, was actually higher than the futures had been during the previous 4 or 5 months.

Mr. MEHL. Yes, sir.

The CHAIRMAN. Indicating that it was higher, or these traders thought it was not going to be as high.

Mr. MEHL. In the future, yes.

The CHAIRMAN. And is it not also true that their opinion turned out to be wrong. And that being so, has that not been a restraining influence?

Mr. MEHL. I do not think so, Senator.

The CHAIRMAN. I do not quite see why not.

The CHAIRMAN. One further question for the record: Yesterday, Secretary Anderson said that while he would like to have authority to impose margins up to the limit of 100 percent, that he would be satisfied, as I understand his testimony, with 50 percent.

Do you agree with that?

Mr. MEHL. Yes; I do not think it would be necessary to have margins higher than that.

The CHAIRMAN. In other words, Congress might want to take the position that speculation serves a purpose and therefore should not be entirely eliminated, but still permit the imposing of margins that would discourage it somewhat. That is also your opinion?

Mr. MEHL. Yes, sir.

The CHAIRMAN. Mr. Mehl, what is your own background in this whole field? Are you an economist, or what is your position?

Mr. MEHL. No; I am a lawyer by training.

The CHAIRMAN. You are the commodity exchange authority. You will regulate this thing. What is your background?

Mr. MEHL. My main business experience, in so far as it relates to this subject, was 8 years as a manager of a farmer cooperative elevator company in Iowa, so long ago that it is possibly not relevant.

The CHAIRMAN. How long have you been with the Government?

Mr. MEHL. I have been with the Government since 1917 and I have been engaged in this work since 1924.

The CHAIRMAN. Thank you. Senator Myers?

Senator MYERS. Mr. Mehl, do I understand your testimony to be that excessive speculation has contributed at least in part to the high prices of grain?

Mr. MEHL. Speculation is always a factor in price. It necessarily contributed to some extent, but I am not able to measure it.

Senator MYERS. I do not know that anyone is able to measure it, but nevertheless, you are convinced that excessive speculation in the last 6 months or 9 months has contributed in some part to the high price of grains today?

Mr. MEHL. That is correct; and we were more alarmed in what we saw as a potential for a greatly increased effect on prices by speculation.

Senator MYERS. Although the chart that you just showed to us indicates that the prices of grain have increased to even higher levels during the 30 day period on which you had a 33⅓ percent margin, it might well be that without that margin the prices would have gone to much higher levels?

Mr. MEHL. I do not think there is any question about that, although it is hard to prove what would have happened.

Senator MYERS. So, although it would seem at first blush that prices of grains had increased to greater levels even with the margin requirements in effect there is no indication or proof that margin requirements were not necessary.

Mr. MEHL. No; as a matter of fact, I think the course of prices and the effect afterwards on volume of trading demonstrated the effectiveness of the increased margins.

Senator MYERS. I surmise, then, it is your opinion, too, that unless margins are provided, we may have sooner or later, and probably much sooner than any of us anticipate, a tremendous break in the price of grains which could endanger large segments of the farm economy.

Mr. MEHL. Well, speculative fever is something that grows, you know, if you let it go unrestrained, and it affects prices.

Senator MYERS. Now, with regard to the question that Senator Taft just proposed to you, do you believe that 33⅓ percent is sufficient today, and that there may never be any necessity for an increase in the margin requirements above 33⅓ percent?

Mr. MEHL. That is entirely possible. I would want to study that very closely and watch it very closely.

Senator MYERS. Are you convinced, Mr. Mehl, that the 50-percent requirement would be sufficient, and the time would never come when something in excess of 50 percent might not be necessary?

Mr. MEHL. No, I am not convinced of that. But I would be surprised if more than 50 percent were ever necessary.

Senator MYERS. Well, do you think it would be wise for the Congress if they are going to give you this authority, to tie you to a 50-percent requirement?

Mr. MEHL. No, I do not.

Senator MYERS. You think you should be given at least authority in excess of 50 percent?

Mr. MEHL. Yes, sir.

The CHAIRMAN. Mr. Horan?

Representative HORAN. Mr. Mehl, in testimony before our western subcommittee in Portland, Mr. Barbery, the head of the Portland Grain Exchange, made quite a case charging that Government operations, purchases of Government wheat, was the main cause for the skyrocketing of the grain prices. That has been refuted in statements to me by the Department stating that they got in early, bought heavily, and have stayed out since then.

In an attempt to stabilize the grain market, how are you going to use any authority we might give you to control speculation margins and to regulate Government activities in the grain market?

Mr. MEHL. Well, I would not have anything to do with regulating Government purchasing activities. The witnesses who follow me will be able to give you more authoritative information on the purchase program and its effect on prices than I could.

Representative HORAN. Who will correlate those two forces?

Mr. MEHL. As between speculation and Government purchases?

Representative HORAN. Government purchases and regulation of speculative markets. They should be related and should be controlled by someone.

Mr. MEHL. Well, I assume that self-interest on the part of the Government would tend to insure an intelligent and orderly purchase program. But, as I say, that is outside of my field. As far as I might have anything to do with the margin program, I would be looking simply at the speculative market—the futures market.

Representative HORAN. Do I understand that the Secretary of Agriculture, then, would handle those two forces in addition to his other duties or would not someone under him have that initial responsibility to be checked on by the Secretary?

Mr. MEHL. I assume someone under him.

Representative HORAN. Who would that be?

Mr. MEHL. I believe perhaps Commodity Credit Corporation, Production and Marketing Administration. Mr. Carl Farrington is going to follow me, I believe, and that is his field.

Representative HORAN. That is all, Mr. Chairman.

Senator FLANDERS. Mr. Mehl, I find this table 2 exceedingly interesting. One of the things in grains that I see, glancing over it roughly, is that it seems to be the case that the nonprofessional accounts are mostly on the long side whereas the whole thing balances up, but the outside traders seem to be predominantly or, rather, overwhelmingly on the long side, as I look it over.

Now, does that in your mind indicate that the prices of wheat may have been pushed up? Does that make for a bull market and perhaps a higher price than would have existed if that large outside volume of accounts had not existed?

Mr. MEHL. That would put the pressure on price on the upside, of course.

Senator FLANDERS. I was just trying to find out some point at which you could make a case for a margin control as a means of keeping the price of wheat down somewhat, and as the chairman just said, that is the purpose of these hearings—to keep prices down.

I was just wondering if that were an indication that prices might be lower if those outside accounts had not been so large.

Mr. MEHL. That is entirely possible. As I said, it is very difficult to measure precisely what the effect is of that trading, or what it might be on the price. But we do know, as I say, from experience, and I think it is common knowledge, that when speculators get to buying, whether it is land or anything else, it exerts an upward pressure on price.

As to these people being predominantly long, I think the average fellow who is not in the business knows more about buying than he does about selling short, and over the years, I would say that the general public is found more often on the buying side than on the selling side. That was true here.

The CHAIRMAN. Are there any other questions?

Representative PATMAN. I would like to ask a question, Mr. Chairman.

The CHAIRMAN. Mr. Patman.

Representative PATMAN. You stated, in answer to a question from Senator O'Mahoney, that about 20 percent of these transactions are for hedging, which you considered worth while and helpful and legitimate, of course. That is about 20 percent. The other 80 percent, I assume, are speculative; is that right?

Mr. MEHL. The accounts are so classified; yes, sir.

Representative PATMAN. Well, do you believe that the 80 percent is necessary for the purposes that you have stated?

Mr. MEHL. Oh, there are some of these people that I do not believe have any business in the market at any time—bankers, bank officials and trust officers—but I do not know how you could eliminate them.

Representative PATMAN. Well, you state that the exchanges are operating for a good purpose—to provide a real service for 20 percent.

How would you eliminate the 80 percent in order to confine it to just the good part, the 20 percent?

Mr. MEHL. Well, I believe you could eliminate a good many in these classifications here without any damage to the market, but I think it is fundamental that if you are going to have a hedging market to serve the needs of the processors, that you must provide for some outside speculation.

Representative PATMAN. But 80 percent is rather top-heavy?

Mr. MEHL. Well, this is in number. Of course, some of these have rather small accounts.

Representative PATMAN. In quantity, how would they be?

Mr. MEHL. I do not know how this would split. Yes: their trading amounts to a considerable quantity also.

The CHAIRMAN. Speculative accounts are 123,000,000 bushels compared to 86,000,000 bushels of the hedging. In other words, about 60 to 40.

Representative PATMAN. That is all, Mr. Chairman.

The CHAIRMAN. Are there any more questions?

Representative WOLCOTT. Mr. Chairman?

The CHAIRMAN. Mr. Wolcott.

Mr. WOLCOTT. You indicated that control over margin requirements on the Commodity Exchange were not necessary during the war because we had price controls.

The President has asked to invoke price controls and also controls over commodity markets.

Do you think both are necessary?

Mr. MEHL. Well, I have no business in expressing any views on price control. I do think that control over margins is necessary and desirable in these times.

Representative WOLCOTT. Would it be necessary if we gave the President the authority to control prices?

Mr. MEHL. If you had price control which fixed the prices on everything at prices below what they would sell for in the black market, there would not be any futures trading, but during the war, when there were price controls, there were many commodities in which futures trading continued.

Representative WOLCOTT. Is that because of the black market?

Mr. MEHL. No, it would be when prices were below the controlled price. We had a fairly active market in cotton, you know, throughout the war. There were no price controls on the raw cotton, but there was price control on cotton goods. There was trading in wheat and also in corn.

Representative WOLCOTT. Do you recommend that we make no statutory limitation, or provide for no statutory limitation on the amount of the margin requirement?

Mr. MEHL. Yes, sir; I do.

Representative WOLCOTT. That would give the administrators, theoretically, the power to stop all trading on commodity exchanges; would it not?

Mr. MEHL. All except hedging trading; yes. Yes, it would practically give them power to stop trading in futures.

Representative WOLCOTT. Thank you.

The CHAIRMAN. Any further questions? Mr. Talle.

Representative TALLE. Mr. Chairman, perhaps I did not hear what the witness said, but I thought in answer to a question by the senior Senator from Wyoming, that Mr. Mehl said that there was no better reason for organized markets in dealing with commodities than for iron ore. Did I misunderstand that?

Mr. MEHL. I did not quite understand you, sir.

Representative TALLE. Will you repeat what you said with reference to commodities in organized markets in relation to, say, the iron ore market?

Mr. MEHL. Well, I do not know about iron ore. I know that there were markets in copper and zinc before the war, and the principles of futures trading in those markets, of course, are the same as in agricultural commodities. I do not know what class of trade patronized the futures markets in metals. I have no information on that. But, generally speaking, an active futures market, such as the Chicago Board of Trade, the New York and the New Orleans cotton market, does attract considerable volume of speculation, and they become really the dominant markets insofar as futures prices are concerned.

For example, I would say that the Chicago Board of Trade, on which 80 percent or possibly 90 percent of all of the trading in wheat futures concentrates, is where the speculative trading centers. While the smaller markets are used for hedging, frequently such trading is reflected again in the larger market.

Representative TALLE. Well, is it not true that the nature of these commodities is so different, production methods are so different, that they really are not comparable? Metals are depleted whereas your commodities are recurring crops.

Mr. MEHL. Oh, yes; that is true. I was just saying that the principle of futures trading is the same in all commodities.

The CHAIRMAN. Are there any other questions?

If not, we thank you, Mr. Mehl.

Mr. MEHL. Thank you, sir.

The CHAIRMAN. Is it possible to put that chart in the record?

Mr. MEHL. I will get you a photostatic copy.

The CHAIRMAN. I think it is very interesting.

Mr. MEHL. Yes, sir.

(The chart, and additional information supplied by Mr. Mehl, is as follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,
COMMODITY EXCHANGE AUTHORITY,
Washington 25, D. C., November 29, 1947.

Hon. ROBERT A. TAFT,
Chairman, Joint Committee on the Economic Report,
United States Senate.

DEAR SENATOR TAFT: As indicated at the hearings before the committee on Monday, the chart shown at that time has been reproduced, and 25 copies are enclosed for use of the committee. I am also enclosing copies of the table upon which the chart is based.

I am not sure whether full explanation was made as to the relation between cash and futures prices. There are a number of pricing elements, of course, which determine the size of cash premiums or discounts as compared to futures. Among these elements are grades, protein content of cash wheat, and time and place factors. The time factor is of special importance where comparison is made between cash contracts calling for immediate delivery and a future with maturity several months later. As the delivery month approaches, it is natural to expect the prices of cash wheat and futures to come together, allowing for any differences in grade and other factors.

Premiums for cash wheat over futures declined substantially between June and September. This is indicated in the attached table showing for midmonth dates the price of No. 2 Hard Winter cash wheat at Kansas City, the closing price of the near future on the Kansas City Board of Trade, and the cash premium. Kansas City is the most active cash market, whereas cash quotations at Chicago are infrequent. The relation between futures prices at Kansas City and Chicago has shown little change during the year.

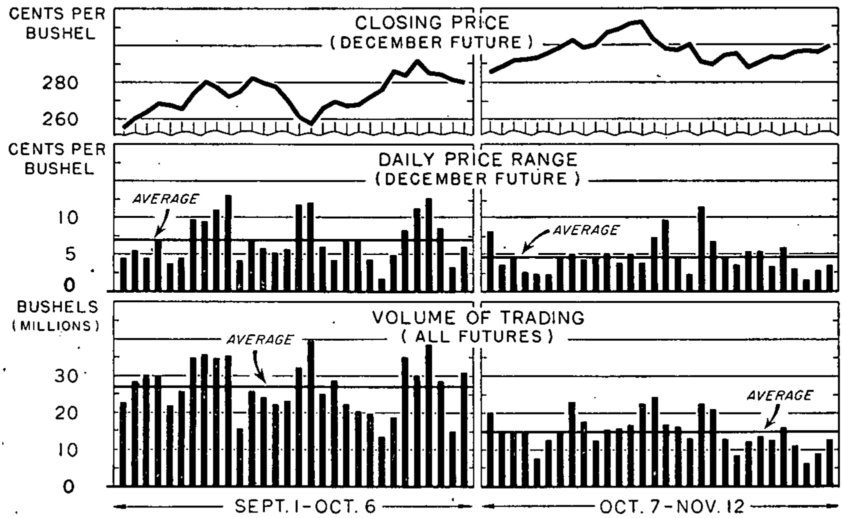
As indicated by the table, futures prices rose substantially as compared to cash prices between June and September. It may have been noted from the table showing commitments of various classes of traders attached to my letter of November 19 that in this period the long speculative positions of reporting traders increased substantially while their short positions declined. The same type of change was reflected in the positions of small (nonreporting) traders, most of whom are known to be speculators. As of the end of June, small traders were still net short of the market and subsequently bought heavily, resulting in net long positions.

Comparison of positions of all speculators as shown by the survey of February 28 and the survey of September 17 also reflect this shift of speculative interest to the long side.

Very truly yours,

J. M. MEHL, *Administrator.*

WHEAT FUTURES: CHICAGO BOARD OF TRADE



Closing prices of near future, Kansas City Board of Trade, weighted average cash prices for carlot sales at Kansas City, and premium of cash wheat over future, on midmonth dates, January to November 1947

[Cents per bushel]

Date	Near future	Cash No. 2 Hard Winter	Premium near future	Date	Near future	Cash No. 2 Hard Winter	Premium near future
1947				*1947*			
Jan. 15	203¾	210	+6¼	July 15	224⅞	230	+5⅛
Feb. 15	223¾	227	+3¼	Aug. 15	228⅛-¼	230	+1¾
Mar. 15	280	286	+6	Sept. 15	272¼	275	+2¾
Apr. 15	250-50¼	266	+15⅞	Oct. 15	290¾	303	+12¼
May 15	265	(1)		Nov. 15	292⅜-¼	301	+8¾
June 14	204⅛-04	236	+32				

[1] No quotations.

The CHAIRMAN. Is Mr. Carl C. Farrington here?

Mr. Farrington, we will go on until 12 o'clock and then I think I will take a chance on meeting at 3 o'clock again this afternoon, if that is possible, because I think that probably after the opening statements on this European aid, in the Senate, that we will probably recess.

Representative WOLCOTT. Mr. Chairman, I should call to your attention that there are several very controversial matters on the House side. I doubt if the House will be in adjournment by 3 o'clock. We have up the question of those people who refused to answer the questions as to whether they were Communists before the Committee on Un-American Activities. It is very doubtful that the House Members could be here.

The CHAIRMAN. If we cannot meet this afternoon, we will have to meet next week.

Representative WOLCOTT. May I suggest that you set the meeting tentatively and we will notify you as to whether we can appear.

The CHAIRMAN. We will recess at 12 o'clock, then, and if we cannot meet at 3 o'clock, we will have to put it over until next week, because Mr. Eccles is coming tomorrow, and I want to go ahead with that.

All right, Mr. Farrington.

STATEMENT OF CARL C. FARRINGTON, ASSISTANT ADMINISTRATOR, PRODUCTION AND MARKETING ADMINISTRATION, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

Mr. FARRINGTON. Mr. Chairman and members of the committee, this statement covers items 5 and 7 of the President's recommendations for immediate legislative action insofar as those recommendations apply to agriculture. Item 5 recommends action to conserve grain through the most efficient marketing of livestock and poultry, and item 7 recommends authorization for allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production.

We believe that everything possible to make additional quantities of food available for export should be accomplished on a voluntary basis. As the President has pointed out in his message, voluntary means of doing the job that needs to be done should be stressed both before and after mandatory measures are made available for use as needed.

The Department has already begun an extensive program of education and assistance to producers in conserving grain and using it in the most efficient manner, as the Secretary testified in connection with item 6. This work needs to be continued and intensified.

However, the reduced supplies of feed available for use this year, the probabilities of lower meat production and possibilities of a much smaller wheat crop in 1948, the continuing high level of consumer demand in this country, and the urgency of maintaining a large flow of food abroad, while at the same time assuring that our own needs will be met, make it essential that we be prepared to use allocation powers and inventory controls. In some cases rationing and price control would be necessary to afford the necessary protection to our own economy.

While we understand it is the desire of the committee to defer for the time being hearings with respect to items 9 and 10 of the President's 10-point program, it will be necessary in developing our statement with respect to items 5 and 7 to make some reference to price and distribution, since price control and rationing, together with the use of allocations, would constitute the principal means, outside of voluntary measures, of accomplishing the objective stated in item 5.

Our grain supplies largely determine our ability to meet the demands for food abroad and for livestock products at home. Of the total quantity of grain and grain products and byproducts, utilized in the past year, approximately 75 percent was fed to livestock, about 15 percent was used for domestic food, seed, and all industrial uses, and about 10 percent was exported. But this 10 percent of our grain supplies exported constituted about 80 percent of our total exports of more than 19,000,000 tons of food. It is apparent that any sub stantial reduction in grain supplies must be immediately reflected in feeding operations, and any substantial saving in grain, in order to make more available for export, must come largely from a reduction in the feeding of grain.

The total feed grain and other feed concentrate supply for 1947–48 is 139,000,000 tons compared with 162,000,000 in 1946–47 and a 1937–41 average of 136,000,000 tons. Supplies per grain-consuming animal are about 14 percent smaller than last year.

This reduction in the supply of feed makes it necessary that we market hogs at lighter weights, market beef cattle with less finish, cull our dairy herds and poultry flocks more closely than normal, reduce broiler and turkey production, and use our feed supplies as efficiently as possible.

These necessary measures with respect to livestock feeding operations will inevitably result in smaller supplies of livestock products in 1948 than we had in 1947. Meat production in 1948 is expected to total about 21.5 billion pounds or 1.5 billion pounds less than estimated production in 1947. The supply of meat for domestic consumption per person in 1948 will be about 146 pounds or about 10 pounds less than in the present year. The decrease in meat production next year will be in both beef and pork and will be a reflection of the short corn crop this year as well as the decreasing numbers of cattle on farms and ranges.

Senator O'MAHONEY. One hundred and forty-six pounds per capita is considerably above the 1935–39 average; is it not?

Mr. FARRINGTON. Yes, sir. That is brought out in the next paragraph here, Senator.

The decrease will be most pronounced in the spring and summer of 1948 when marketing of hogs and all grain-fed cattle will be sharply reduced.

Although total meat production and supply of meat per capita in 1948 will be smaller than in 1947 the supply of meat available will be much above the prewar 1935–39 average of 125.6 pounds. Despite this fact, the decrease from 1947 along with a high level of consumer incomes will tend to further strengthen prices that are already at record levels. No material increase in meat production over the reduced 1948 level is likely until after the summer of 1949.

The hog-corn price ratio has been well below average almost continuously since May. Together with the poor corn-crop prospects, the below-average ratio has tended to reduce the size of the 1947 fall pig crop below the indications in the latest Pig Crop Report, issued in June, and possibly almost as low as the 1946 fall crop. These factors also indicate that the 1948 spring pig crop will be smaller than the 53,000,000 saved in the spring of 1947, and may be smaller than the goal of 50,000,000 announced for the spring of 1948. The unfavorable feeding ratio has also reduced hog weights, particularly since August. The average weights of barrow and gilt butcher hogs received at the major Corn Belt markets during October and November have run 10 to 20 pounds lighter than in the same months of 1946, but have averaged slightly above the prewar 1937–41 average.

Prices of meats and livestock have been at record or near-record levels in recent months. For example, the price of hogs in October 1947 was 93 percent above the June 1946 level. Choice and prime beef steers were 89 percent above the June 1946 level. Fresh pork loins were 112 percent above the June 1946 level. Bacon was 168 percent above the June 1946 level. Choice steer carcass beef was 117 percent above the June 1946 level. Further strength in these prices is likely during 1948 as a result of reduced supplies and continued strong demand.

Although livestock feeding ratios now are unfavorable, particularly for hogs, a further advance in prices of meats and livestock, as supplies become shorter, will have one or both of the following results:

(1) An improvement in feeding ratios which would encourage more grain feeding of livestock with grains already in short supply; or

(2) Further advances in grain prices, which would prevent such a further increase in livestock feeding ratios.

In 1947 we produced a record wheat crop of more than 1,400,000,000 bushels. This record production of wheat exceeded the 1946 production by almost 250,000,000 bushels. It has been a godsend in view of the sharp reduction in the crops of western Europe and limited export availabilities from Canada, Argentina, and eastern Europe. It has also helped offset the reduction of 800,000,000 bushels in the corn crop in 1947 as compared with 1946. Even the record crop of this year was not enough to supply all needs. Wheat prices have advanced sharply. The current price of wheat at Kansas City is about 40 percent above the price a year ago and about 60 percent above the June 30, 1946 price.

It is estimated that the use of wheat for food in this country will total about 510,000,000 bushels this year or about the same as in other recent years.

Feed use was estimated early in the year as high as 350,000,000 bushels but as a result of conservation measures and the increase in the price of wheat it now appears that feed use may be as low as 250,000,000 bushels and could be even lower.

Seed use should be about 85,000,000 bushels, leaving 646,000,000 bushels for export and carry-over.

If crop prospects in the spring look sufficiently favorable to permit the carry-over to be reduced to below 150,000,000 bushels it would be possible to export up to 500,000,000 bushels. If crop prospects are unfavorable it would be dangerous to reduce our carry-over to that level.

We have asked farmers to plant for harvest in 1948 another near-record acreage of wheat. It is well known, however, that weather conditions in the southern Great Plains area have been very unfavorable this fall and large areas have been extremely dry. Rains during the past week have partially relieved this drought condition but unusually favorable weather conditions will be necessary in order to assure another large crop in this area.

The necessity of reducing our carry-over to relatively low levels in order to meet export needs this year together with the possibility of a much smaller production in 1948 and continuing heavy export needs in 1948–49 create a situation which makes it essential that authority be available not only for controlling the export of wheat but also for limiting inventories and directing use to the most essential channels.

Other commodities which are important sources of food for export include fats and oils, rice, beans, and peas. For these also there is likely to be need for some domestic allocation controls as well as for controls of exports.

The allocation powers which are believed necessary in order to be prepared to deal adequately with the domestic use of food include—

(1) Authority to allocate food by imposing limitations on inventories; restricting and prohibiting the use on the basis of the essentiality of the particular use; placing limitations on the delivery or transportation; requiring producers and distributors to set aside specific amounts or the entire production for acquisition by governmental agencies; providing for priorities in the filling of orders based upon the essentiality of the use for which the order was given, including priorities for export; and establishing an import licensing system to control the importation of foods to make effective cooperation with friendly nations with respect to world short supply.

(2) Authority to allocate the use of facilities and nonfood materials to carry out the food program by restrictions upon the use of storage facilities, limiting their use to the storage of specific commodities and for specific periods of time; controlling the distribution and importation of fertilizer; controlling the distribution of farm machinery; controlling the use of transportation facilities by rail carriers; and controlling the use of tin and tin plate to aid in the preservation of foods.

It would be preferable that these authorities be granted in general terms similar to those contained in the Second War Powers Act, but if it is considered desirable to specify the particular material or facilities relating to food, the materials which we believe should be specified are grain and grain products; rice and rice products; dry beans and peas; fats and oils, including oil-bearing materials, fatty acids, soap and soap powder, but not including petroleum and petroleum products; livestock and poultry and their products; and milk and milk products.

In addition, we believe provision should be made, under a public-hearing procedure, for the use of these powers with respect to other commodities and facilities whenever it is determined that such action is necessary in order to fulfill the requirements for the defense of the United States, for carrying out the foreign policy of the United States, and for purposes necessary to the health, safety, and welfare of the American people.

We believe that the exercise of the allocation authority, as proposed above, could limit or prohibit the use of scarce commodities in less essential uses and prevent hoarding in commercial channels through inventory control limitations, thereby increasing the amount available for essential uses and exports. Through priorities and set-aside programs procurement for export under the program would be aided.

In the event of an emergency situation such as might be brought about by an extremely short wheat crop, for example, the powers should be such as to make it possible for the Government to become the sole buyer of the crop to the extent it is offered for sale by producers in a manner similar to that which was used during the war with respect to soybeans, peanuts, and wool.

Similarly, the allocation powers with respect to poultry might be used to limit the number of eggs set by commercial hatcherymen during a specified period of time in the event this is necessary in order to keep hatchings at a rate consistent with available feed supplies.

In the case of livestock they could be used to limit inventories of livestock products, thereby assuring more equitable distribution.

Our experiences during the war period provide many examples of cases in which allocation authorities were needed to make the most effective use of our total available food supplies. For example, by this means distillers were prohibited from using wheat and were limited in the quantity of grain they could use in the manufacture of both beverage and industrial alcohol, and brewers were prohibited for a while from using wheat and table grades of rice and limited in the total quantity of grain used by them. Mixed feed manufacturers were prohibited from using wheat of milling grades and limited in the quantities of other feed ingredients that they could use. Flour millers were limited with respect to the quantity of wheat they could use in the manufacture of flour for domestic use, and bakers were prohibited from engaging in certain wasteful practices. Inventories were limited generally throughout the grain-processing and distribution channels. All of these measures were designed to direct grain into its most essential uses and to the extent that it is necessary to do so could be used again if the allocation powers were reenacted as recommended.

During the war period also, inventory controls and use limitations were found necessary with respect to nearly all fats and oils and oil-bearing materials. The use of these powers may again be needed in order to conserve supplies, assure equitable domestic distribution, and make available necessary minimum quantities for export. The Department has been cooperating and will continue its cooperation with industry in the fat-salvage campaign, which has provided about 10 percent of our inedible tallow and grease supplies.

Set-aside orders were used frequently during the war period to assure the availability of adequate supplies for the most essential uses and facilitate procurement by Government agencies. In view of the shortages that are in prospect and the large volume of Government procurement that may be necessary for export these powers should again be available.

In conclusion, I feel that I should stress again that the Department proposes to do all it can through voluntary measures to meet our export program and bring about needed adjustments in the use of grain. We have no wish to go through another period of emergency controls.

But we must face realistically the facts of the current and prospective situation. These facts indicate that the allocation powers discussed above, though essential as the first step beyond voluntary measures, may not get the full job done. To insure the maximum savings of grain and at the same time combat inflation, authority for rationing and price ceilings should be provided.

With your permission, Mr. Chairman, I would like to make this additional statement, which the Secretary has asked me to make because of certain accounts that appeared following this testimony Friday.

Apparently his testimony was interpreted by some as not endorsing recommendation No. 5 of the President's message, a recommendation for legislation to induce the marketing of livestock and poultry at weights and grades representing the most efficient use of grain.

The intent of the Secretary's testimony was to point out that the Department had explored the possibility of controlliug livestock feeding by penalties and taxes, and while we are prepared to discuss many proposals, most of such a discussion would be wasted if another of the President's recommendations was to be adopted, namely, the grant of power to impose price and rationing controls.

In fact, our discussions lead to the conclusion that control made possible by price ceilings and rationing would be the most effective means of accomplishing the objective indicated in item 5. The record will show that this was the Secretary's testimony.

The Department knows of no simple way to put, on the weights of cattle, limits that strike at wasteful feeding habits. Although weight limits are effective on hogs, weight limits do not work at all on poultry.

Establishment of grade differentials is a possible feed-control method for cattle, but not for hogs. During the meat shortage of 1945, premiums were given to feeders for finishing cattle to top grades, thus increasing the use of grain and the supply of meat. Now when we need to conserve grain, the process could be reversed, even though it will still further intensify the shortage of meat.

The Department therefore testifies that price control is the most effective weapon against wasteful feeding. If authority for price control is to be granted, then our recommendations to implement the President's fifth recommendation will be quite different from what legislation we would ask in the absence of power to maintain unfavorable feeding ratios.

The CHAIRMAN. Mr. Farrington, I was quoted somewhat improperly also. My understanding of the Secretary's testimony was that he had found no effective means of limiting weights except price control. He thought that was the most effective means of doing it.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. But he had no other suggestions to make under paragraph 5 as an independent method of carrying out that purpose. Is that your understanding?

Mr. FARRINGTON. Yes. For the present discussion, we should look upon item 5 as an objective without specific legislative recommendations.

The CHAIRMAN. Mr. Farrington, I just want to ask one question on this: What was the export in meat last year and what is the prospective export this year?

Mr. FARRINGTON. It was about 2 percent of our total production, Senator.

The CHAIRMAN. You state here that it is 1,500,000,000 approximately less than estimated, which is the falling off of 1948 under 1947.

Can you state it in terms of billion pounds?

Mr. FARRINGTON. Well, 2 percent of 23,000,000,000 would be about 460,000,000 pounds.

The CHAIRMAN. About 460,000,000 pounds?

Mr. FARRINGTON. Something in that neighborhood. I think under 500,000,000 pounds.

The CHAIRMAN. Is that the program for 1947?

Mr. FARRINGTON. It will be even less this year.

The CHAIRMAN. For the calendar year 1947?

Mr. FARRINGTON. Yes, sir. Still in the neighborhood of 2 percent or less.

Senator O'MAHONEY. Mr. Chairman, may I say that the answer to that question is found on page 18 of the joint committee document on food prices, production, and consumption. The total there seems to be 2.2 percent. It is meats, beef, veal, pork, lamb, and mutton.

The production in 1946, according to this table, was 22,400,000,000 pounds. In long tons, the production was 10,000,000; and the exports in long tons, 1946–47, amounted to 224,000 tons, which figures out 2.2 percent.

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN. About 450,000,000 pounds?

Mr. FARRINGTON. Yes, sir; something under 500,000,000.

The CHAIRMAN. The committee will adjourn until 3 o'clock, although we may find it impossible to go on at that time.

You will return, Mr. Farrington?

Mr. FARRINGTON. Yes, sir.

(Thereupon, at 12 m., a recess was taken until 3 p. m., of the same day.)

AFTERNOON SESSION

The committee reconvened at 3:15 p. m., after the expiration of the recess.

The CHAIRMAN. The committee will come to order.

We will proceed now. I believe we have heard the main testimony of Mr. Farrington.

Mr. Farrington, on reading over your main statement, the principal shortage which appears to develop is the meat shortage. If you are right in thinking that grain is too expensive to be fed to animals, then we may get this extra hundred million bushels without serious effect on the price of grain.

But, when you come to the allocation powers, you want allocation powers for everything in sight. Is it necessary to have allocations for all of these things? For what purpose? To prevent the rise in price, or what is the main purpose of the allocation power in question requested?

STATEMENT OF CARL C. FARRINGTON, ASSISTANT ADMINISTRATOR, PRODUCTION AND MARKETING ADMINISTRATION, UNITED STATES DEPARTMENT OF AGRICULTURE—Resumed

Mr. FARRINGTON. On pages 6 and 7 we list the types of actions that were carried out during the war period under the allocation authority of the Second War Powers Act, and suggest that those same powers should be made available to deal with whatever shortages or shortage situations might develop.

The CHAIRMAN. Have they developed? I mean, the need for all of these extraordinary powers, and I do not think that Congress is disposed to grant them, certainly, unless there is some clear emergency right now to do it. What is the emergency, outside of the price of meat, for which a case is made?

Mr. FARRINGTON. The potential shortages of grain that we may have in the coming year, and the possibilities of shortages of fats and oils, and those other commodities that are listed in the event of adverse weather conditions, and the continuing heavy drain for export, and the high domestic demand.

The CHAIRMAN. However, might we not wait on all of that? We will be here next June some time. Do we need to grant this completely arbitrary unlimited power to meet any emergency that now exists?

Mr. FARRINGTON. There are a number of things being done now under voluntary means that, I hope, can be continued, and will make it unnecessary to exercise many, if any, of these powers.

We do believe however that it is risky to go along without them in view of the known and prospective shortages that are in the offing.

The CHAIRMAN. Our experience is that once the authority is granted, and that was so in the Price Control Act, it sort of started out to be a few things, but once the authority was there it went right on until they controlled the price of everything, including all the things they said they were not going to control, when they started off, and I am personally very loath to grant powers that are not now needed just on the theory that they may, perhaps, have to be used some day.

Mr. FARRINGTON. I also am loath to suggest that they be used except in conditions of extreme emergency. I have had sufficient experience with them that I have a noticeable lack of enthusiasm for having to apply them, but I do believe that the shortages that are definite, with respect to the livestock products, and the possibilities, as a result of crop failures with respect to crops, are such that I feel that the executive branch should have powers to allocate so as to avoid unnecessary piling up in inventories, and to eliminate the less essential uses in cases where there are certain serious shortages.

The CHAIRMAN. It seemed to me that the authority to allocate, as interpreted by you, means a control, complete control, of all distribution of all foodstuffs, from the time that they are produced until they reach the consumer. Do you interpret your power of allocation as including rationing to the consumer also, under the powers you request? That was done under the Second War Powers Act, as I remember it.

Mr. FARRINGTON. Yes, all of the consumer rationing, as I understand it, was done under this control under the powers of the Second War Powers Act.

The CHAIRMAN. So that allocations——

Mr. FARRINGTON. All of the limitations and set-aside priority orders issued during the war were under this allocation power of the Second War Powers Act.

The CHAIRMAN. The word "allocation" so far as you are concerned, means rationing, consumer rationing, as well as other rationing?

Mr. FARRINGTON. If the allocation powers were reenacted in the form in which they were in the Second War Powers Act, they would include the possibility or the authority to engage in rationing; that is one means of allocating commodities for use.

The CHAIRMAN. Instead of allocating to the intermediate distributors, you will allocate to the consumer directly.

Mr. FARRINGTON. Yes, sir; the same power was used for both purposes.

The CHAIRMAN. If you were granted these powers, what would you propose to do immediately in imposing limitations on inventories?

On what particular commodities today would you think the imposition of limitaions on inventories was necessary?

Mr. FARRINGTON. There has not been any final position reached on that, Senator. Naturally, we have discussed the things that might be done immediately.

The CHAIRMAN. I mean, unless there is some need to use it, my general attitude would be that unless there is some need to use it now, that we are not going to give it. So, you had better tell us what the need is that you want it for. That is my personal attitude.

Mr. FARRINGTON. Yes. Naturally, you would make a minimum use of it, and you would, first, try to limit what you might consider the less essential uses.

In the case of grain, the uses that are most generally thought of as being those which could be best curbed for a time are those that are indicated on page 8. The use of grain by the distilling industry, and by brewers, and the prohibition of certain wasteful practices in the bakery industry. Those are the ones that we would consider the most feasible, the most necessary in the field of grains.

The CHAIRMAN. Does anybody in that group have any excessive inventories today?

Mr. FARRINGTON. Not to my knowledge, sir.

The CHAIRMAN. The second one is restricting and prohibiting the use on the basis of essentiality. That is what you are referring to here in limiting the use of grain in the manufacture of beverage and industrial alcohol, and brewing.

Mr. FARRINGTON. That is right.

The CHAIRMAN. Would you impose prohibitory allocations on those at the present time or did you have in mind some partial cutting down of the amount used after this 90-day holiday in distilling?

Mr. FARRINGTON. I am not in a position to state, of course, Senator, just what would be done with the powers. We did, during 1945 and 1946, the fiscal year 1945–46, I think, generally limit the amount they could use. The complete prohibition was carried out only during the war period when the facilities were needed for producing industrial alcohol, which, in turn, was used to a considerable extent in the manufacture of synthetic rubber. Certainly, a complete shutting down would not be feasible for more than a limited period of time. Beyond that time a restriction on the volume would appear to be the appropriate type of control to have.

The CHAIRMAN. Mixed-feed manufacturers prohibited from using wheat and milling grains, limiting the quantities of other feeding ingredients they would use. Would you propose to reestablish that allocation?

Mr. FARRINGTON. That is a very doubtful and difficult one, Senator. And, in fact, many of those controls would have to be used sparingly, very sparingly, in the absence of price regulations.

It is possible, you know, for an allocation order to even create an artificial shortage in certain areas, and you would want to be very careful in using the powers to avoid an artificial scarcity.

The CHAIRMAN. If you limit the quantities of feed ingredients that the mixed-feed manufacturers can use, then there would be less mixed feed.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. That tends to raise the price of mixed feed to the dairy farmers and other users of mixed feed.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. Poultry farmers. And that tends, in turn, to raise the price of milk and chickens and eggs to the consumers, I assume.

Mr. FARRINGTON. In many sections of the country producers of livestock products have an alternative; they can either buy the mixed feed or they can buy unmixed feeds, and that is one case where it is very difficult to say just what the real effects would be.

The CHAIRMAN. You are not certain whether you would use that one or not?

Mr. FARRINGTON. That is right.

The CHAIRMAN. Flour millers would be limited to the quantities of wheat they could use in the manufacture of flour, and I suppose, the percentage, the quantity of wheat?

Mr. FARRINGTON. Yes, sir. We limited the quantity of wheat they could use in the manufacture of flour for domestic use.

The CHAIRMAN. You would not propose to limit the quantity of wheat now, would you, that the millers use? You might limit the percentage; you might limit the percentage that you might put in, a milling percentage.

Mr. FARRINGTON. Well, I said this was for domestic distribution. We did not limit the total quantity of wheat they could use before. We said that a certain amount could be used for producing flour for domestic use, and the remainder had to flow into export.

The CHAIRMAN. Such a limitation without price control would, of course, raise the price of flour, would it not?

Mr. FARRINGTON. It would tend to have that result.

The CHAIRMAN. Domestically?

Mr. FARRINGTON. Yes.

The CHAIRMAN. And, as a matter of fact, you have stated that your general plan in the use of wheat was to give the same figure that seemed to be required for domestic consumption, was it not?

Mr. FARRINGTON. That is correct.

The CHAIRMAN. So that you would not limit the quantity of wheat they use, presumably; at least, you would not do it now?

Mr. FARRINGTON. That is correct. We would not have any immediate plans in that field.

The CHAIRMAN. What about the percentage of the milling, that is, for the production of white flour and brown flour? Would you propose to increase the percentage of milling?

Mr. FARRINGTON. That would all depend upon, I would say, the relative supplies of wheat and feed grains. This year, with feed grains quite short, with the 800,000,000 bushels decrease in corn, of course, the mill byproducts, the mill feeds, have a very important place in feeding, and I am not at all sure that there would be any real grain by forcing the flour millers to use more of that byproduct in the flour.

The CHAIRMAN. Bakers would be prohibited from engaging in certain wasteful practices. What would be those practices? What would be those sort of things?

Mr. FARRINGTON. There were a number of them but, particularly, the practice of selling bread on consignment and then picking up bread that was a day old, and selling that for stock feed.

It is a practice that has been quite prevalent in the industry. During the war that was prohibited for a time.

The CHAIRMAN. Has it come back at all?

Mr. FARRINGTON. Yes, sir; it has come back to a considerable extent.

The CHAIRMAN. Was there not some agreement reached with the bakers in connection with the Luckman committee?

Mr. FARRINGTON. There have been discussions regarding it, but I do not believe they have accomplished putting that into effect.

The CHAIRMAN. So that you might, and this is under (*b*), go back to the business of regulating bakers, the business of regulating bakers' practices in handling bread?

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN. I pass over placing limitations on delivery or transportation. That will be dealt with, I think, by the Commerce Committee. [Reading:]

(*d*) Requiring producers and distributors to set aside specific amounts or the entire production for acquisition by Government agencies.

Under that you could say to all the farmers that they could not sell any corn or any wheat or anything, could you not?

Mr. FARRINGTON. Well, that would be——

The CHAIRMAN. You could say to the farmers that they have got to hold it, and let the Government buy it at a fixed price.

Mr. FARRINGTON. A theoretical possibility.

The CHAIRMAN. Why do you say "or the entire production," if it is not an actual possibility? You say "or the entire production."

Mr. FARRINGTON. It would be a possibility. In the war, we did have some set-aside orders that were as high as 100 percent, and I wanted to call attention to those as things that were involved in the allocation powers before, and which it might be necessary to use again.

The CHAIRMAN. I notice at the end here you referred to the fact that you might want to buy the entire wheat crop.

Mr. FARRINGTON. Yes, sir. I hope it will never be necessary to take such action but I suggested that that power should be available for use in the event of an extremely short crop.

The CHAIRMAN. And if that were so, you say that the Government would become the sole buyer of the crop, do you not?

Mr. FARRINGTON. No; I say, in the event of an extreme emergency situation brought about by an extremely short wheat crop——

Senator O'MAHONEY. Page 8.

The CHAIRMAN. "To become the sole buyer of the crop," and in connection with this, you require the farmer, practically prohibit a farmer from selling to anybody else but the Government.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. Giving the Government a right to buy it at any price that the Government might fix even though you did not have price-fixing powers.

Mr. FARRINGTON. If it were a hundred percent set-aside or allocation, then it would be necessary to designate the price at which it would be accepted, and in the event that a lesser percent is set aside it would not be necessary to designate the price but some kind of price formula would be required.

The CHAIRMAN. If there were no competition, then the farmer would have to sell it at that price or not at all.

Mr. FARRINGTON. That is right.

The CHAIRMAN. The next is providing for priorities in the filling of orders based upon the essentiality of the use for which the order was given, including priorities for export.

Have you any particular thing you intended to do under that at the present moment, except to order, perhaps, priority for exports?

Mr. FARRINGTON. There are none of the grains with respect to which we would see the need for export priorities right now. The most likely field for the immediate future would be in fats and oils, I would say, Senator.

The CHAIRMAN. What kind of fats and oils?

Mr. FARRINGTON. Soybean oil and other edible oils and oil products.

The CHAIRMAN. There is an ample supply of inedible oil, is there not, today?

Mr. FARRINGTON. Only certain types, sir. The inedible oils are also in rather short supply. I am not sure what you are including in inedible oils. The drying oils are quite short. The soap raw materials have been tightening up lately, and could get much tighter, and would get much tighter with a falling-off in the slaughtering of hogs and cattle.

The CHAIRMAN. You would not allocate any oils to soap, would you? You mean you would allocate something else?

Mr. FARRINGTON. We might prohibit certain of the kinds of oils going into soap, certain edible oils.

The CHAIRMAN. Which would then raise the price of those oils and make the price of soap higher. I mean, is it not inevitable that an allocation for export or anything else is going to raise the prices certainly unless you have price control and, perhaps, even if you do?

Mr. FARRINGTON. That is why I stated that you would have to be very careful in using the allocation powers in the absence of price controls, because it could bring about an artificial increase in prices; presumably over a period of time, the result would be the same, but you would be spreading out the use over a longer period of time, and the immediate result might be higher prices than you would otherwise have.

The CHAIRMAN (reading).

(*f*) Establishing an import licensing system to control the importation of foods to make effective cooperation with friendly nations with respect to world short supply.

What is the necessity of putting back an import licensing system? We continued the power to control a few imports last year, and they have not been used very much. What is the emergency today to have any new import licensing system?

Mr. FARRINGTON. As is indicated here, that would be used to the extent that it was necessary in order to assure other countries that we would not gobble up the world supply, so to speak, Senator. It has been used particularly in the case of the fats and oils, linseed oil, and other drying oils, and it has been used in the case of rice, and a number of other products.

The CHAIRMAN. And the result is inevitable that as soon as we limit the export of something we want here, we raise the price at home, do we not?

Mr. FARRINGTON. No, sir.

The CHAIRMAN. Why not?

Mr. FARRINGTON. Perhaps you meant to say import.

The CHAIRMAN. I mean limit the import. If you were to import oils, you would raise the price of oils here, because there are not enough.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. What is the advantage? Why not have a free market in oil? Why should we not have the right to buy things throughout the world and bring them in here, and determine then whether we have got enough supply to give it away afterward?

Mr. FARRINGTON. Well, that goes to the question of international cooperation, and trying to work out things on a mutually satisfactory basis such as we do through the IEFC; we agree on how much, each country should receive of various materials; fertilizers; linseed oil; and many others.

The CHAIRMAN. Well, I suggest that the best way to get any increase in production abroad is to let our people go in and raise the price of it abroad.

Mr. FARRINGTON. We recognize that possibility, and the Secretary testified on that point, that there are a number of cases where that could be very effective in bringing about increased production, and this would not be intended to prevent increased production in any case.

The CHAIRMAN. Is not the only possible effect of this, insofar as it is an anti-inflationary program, the effect to raise prices instead of lowering them?

Mr. FARRINGTON. I think by itself it would tend to have that result, but import controls would be used only in conjunction with export controls which have a deflationary effect.

Senator O'MAHONEY. Are you not overlooking the use of the word "friendly" in your analysis here? You stated under the point marked "f":

> that you wanted to establish an import licensing system to control the importation of foods to make effective cooperation with friendly nations with respect to world short supply.

Mr. FARRINGTON. That is right. And as a part of a world or international plan for utilizing supplies in the best possible way, not draining too much into this area if it is needed worse in some other area; the total effect would not be inflationary; I think the total effect would be just the opposite when you combine the import and export controls.

Senator O'MAHONEY. When I heard you read that sentence this morning I assumed that you meant to imply that in the effort to stimulate cooperation among the nations of the world to produce food and thus to increase the world supply, you wanted us to be in a position to grant some concessions to those nations which cooperated with us and thereby, perhaps, deny import licenses to those countries which refused to cooperate. Was that the possibility?

Mr. FARRINGTON. Well, certainly the first part of it. I had not thought about the second part of it, denying licenses.

Senator O'MAHONEY. Of course, if import licenses are to be established at all, you have the authority to say "yes" or "no" with respect to importation.

Mr. FARRINGTON. The real point is that in order to get the cooperation on commodities that we export, we also agree to go along with a licensing system on the things that we might import and the total of the cooperation on both groups of commodities, I think, is deflationary rather than inflationary. But if you pin me down to the import authority alone, I would have to agree with you that as far as our domestic economy is concerned, that by itself could work in reverse.

The CHAIRMAN. You have already power to import oil, to license the importation of oils. What do you mean by establishing import licensing system? What else is there besides oils that anybody wants to limit the imports of? Oils and quinine, there were one or two things, but that was all. It is there now.

You say you want to establish it. What other things are you going to put in under an import licensing program besides fats and oils?

Mr. FARRINGTON. That power would expire on February 29.

The CHAIRMAN. You do not say anything about extending it; you say establishing it to control the importation of food, which, I take it, means all foods. We limited it very carefully last year.

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN. And as a general principle, I can see no possible justification for it.

Mr. FARRINGTON. The ones that are now mentioned are the principal ones that we would see the need for and, perhaps, we should have used the word "continuing" rather than "establishing."

The CHAIRMAN. The theory is, as I get it, that you want to let the British buy oils directly without competing. It seems to me that the result of that is that they get the oils cheaper and nobody has reason to increase the production of oils where they can be increased. It seems to me that is the necessary effect of an import licensing system, the very purpose of letting the British buy it cheaply, as I understand it, so that they can get it. And the moment we cut off our imports, we prevent any increase in price, which might have increased the production of oil.

As you know, that is true in cocoa. In the case of cocoa, the British do not let us buy their cocoa, and they will not pay their people, they charge us twice as much, but they will not pay their producers enough so that there is any increase in the production of cocoa.

In fact, the British company has a surplus of $100,000,000 profit that they have not given their own producers.

Mr. FARRINGTON. I am not familiar with cocoa.

The CHAIRMAN. It seems to me that the only effect of import licenses is to refuse people to get into different parts of the world and buy stuff that is needed here, and that means it is a check on the increase of production which might in the end break the price of these various products or bring it down to a reasonable figure.

Mr. FARRINGTON. I would say, Mr. Chairman, that in any case it does have the effect of keeping the price down to producers to a level where it discourages production, it would be certainly an unfortunate use of that power. Import control is not being exercised with respect to cocoa.

The CHAIRMAN. No; I do not think it is.

Mr. FARRINGTON. No, sir.

The CHAIRMAN. And I do not think it is being exercised much as to oil also, though they made a tremendous thing about getting the power last spring. They took it off Philippine copra.

Mr. FARRINGTON. No; I understand copra imports are still subject to import licenses.

The CHAIRMAN. I do not know whether they have taken it off palm oil.

Mr. FARRINGTON. Yes; palm oil and linseed oil are still controlled.

The CHAIRMAN. On going to two, authority to allocate the use of facilities and nonfood materials to carry out the food program by "(a) Restrictions upon the use of storage facilities, limiting their use to the storage of specific commodities and for specific periods of time."

Is there any place that we need a restriction on the use of storage facilities today?

Mr. FARRINGTON. I do not believe just at this time that there are, Mr. Chairman. We did find during the war there were certain times when the cold-storage facilities, for example, became filled up with commodities that should have been moving into consumption, thereby keeping the facilities from being used for other things that were more urgent, and it was necessary to limit the period of time that certain commodities could be stored.

The CHAIRMAN. But you know of no need, you have nothing in mind specifically that you would like to do tomorrow if you had this authority?

Mr. FARRINGTON. No, sir.

The CHAIRMAN (reading):

(b) Controlling the distribution and importation of fertilizer.

Mr. FARRINGTON. That would be a continuation.

The CHAIRMAN. What would you do about that today?

Mr. FARRINGTON. That is a continuation of the existing controls.

The CHAIRMAN. That is just a continuation; that is an extension?

Senator MYERS. Which expires when?

Mr. FARRINGTON. February 29.

The CHAIRMAN. What would you do with that power? Would you ship more fertilizer abroad or less? What would you do?

Mr. FARRINGTON. That would be a matter of international agreement just as it has been in the past, whether we ship more or less.

The CHAIRMAN. Has not the Department of Agriculture discouraged the exportation of fertilizer on the ground that we need it here?

Mr. FARRINGTON. I think that the position of the Department of Agriculture has been toward keeping as much as possible here, but we have recognized that there might be even greater needs abroad for fertilizer and, therefore, have consented to a certain amount going abroad, because we felt that meant less total demands on this country.

The CHAIRMAN. It is cheaper to ship fertilizer and let them raise the grain than it is to ship grain, is it not?

Mr. FARRINGTON. That is correct; and that is the reason we have concurred in some export of nitrogenous fertilizer.

The CHAIRMAN. Well, so far as I understood it, about all the exports were what the Army exported from their own plants; is that right?

Mr. FARRINGTON. Essentially, it has been the production of Army plants.

The CHAIRMAN. That is going to the occupied areas?

Mr. FARRINGTON. Not exclusively, I would say.

The CHAIRMAN. Not exclusively. Do you know that in this $597,000,000 bill that we are considering in the Senate at this moment there is an item for fertilizer to Italy and France. Do you know how much that is?

Mr. FARRINGTON. As I recall the figures, the only amount there that the United States would be involved in was, I believe, 11,000 tons of nitrogenous fertilizer that has already been allocated to France but has not been purchased.

The CHAIRMAN. I see. [Reading:]

(c) Controlling the distribution of farm machinery.

Do you mean you want to go back to rationing farm machinery to farmers?

Mr. FARRINGTON. No; I hope that does not become necessary.

The CHAIRMAN. What does that mean then? Controlling the distribution?

Mr. FARRINGTON. It would be listed among those that could be exercised. The more appropriate use of it, I think, would be to direct the types of farm machinery that we would produce, that would be produced, and then channel those into the trades so as to make those the most useful possible. The individual farm rationing, I think, would be something that we would not attempt or want to do.

The CHAIRMAN. You mean you would tell the farm machinery people what kind of farm machinery they had to make; is that at?

Mr. FARRINGTON. Yes, possibly.

The CHAIRMAN. On what theory?

Mr. FARRINGTON. Essentiality.

The CHAIRMAN. You mean you would tell the farmers that? I should think the farmers would determine the essentiality by their demand. I should think the companies would know that better than the Department of Agriculture.

Mr. FARRINGTON. You could always leave that up to supply and demand, and sooner or later you would get a reflection of those needs.

The CHAIRMAN. Is there any specific need today? I mean, do you have any desire today to tell the company to change their present manufacture of farm machinery into another kind of farm machinery?

Mr. FARRINGTON. There have been no problems that have come to my attention that would in my judgment require it immediately.

The CHAIRMAN. There is no immediate emergency about it then?

Mr. FARRINGTON. But if through the allocation of steel the supplies were reduced it might easily become possible. I hope that that will not be the case.

The CHAIRMAN. If you use your power of allocation to take away steel from the farm machinery people, you mean then you want to tell them what to make. You are not really contemplating taking any steel away from the agricultural machinery people, are you?

Mr. FARRINGTON. We would certainly recommend against it, Mr. Chairman.

The CHAIRMAN. You would like to increase it, would you not, rather than decrease it?

Mr. FARRINGTON. That is right.

The CHAIRMAN. Controlling the use of transportation facilities by rail carriers; that, I say, goes to the other committee, and is really a continuation of existing power, is it not?

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN (reading):

(e) Controlling the use of tin and tin plate to aid in the preservation of foods.

That power exists today already, does it not?

Mr. FARRINGTON. Yes, sir; that would be a continuation.

The CHAIRMAN. Is not tin one of the few things that we did continue?

Mr. FARRINGTON. That is my recollection; yes, sir.

The CHAIRMAN. This is no more than a continuation of the existing power.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. I notice that while you say limit a few things, you really want to have power here under a public hearing procedure for the use of powers over everything else that is not specifically named in the bill. As a practical matter, we might just as well give it all, might we not? I mean, what is the advantage of that public hearing procedure? It seems to me to rather cover up the fact that really you are asking for complete power for everything, besides the things that are named.

Mr. FARRINGTON. Well, any enumeration, of course, is liable to prove inadequate, and we did feel that there should be some procedure whereby additional items could be brought under the control of the act.

The CHAIRMAN. You would have to have a Presidential proclamation or finding to make it necessary in grain and grain products, according to all the procedures we have. I do not see what difference it makes whether you list them or do not list them, Mr. Farrington, in the powers that you are asking for. In either case, you would have to have a Presidential proclamation or finding that it is necessary.

Mr. FARRINGTON. Excepting that under the public hearing procedure you would have a chance for interested groups to express their views, and then take that record into consideration.

The CHAIRMAN. They usually express their views pretty strenuously anyway. In the next one about the wheat crop, we have had that. [Reading:]

Similarly, the allocation powers with respect to poultry might be used to limit the number of eggs set by commercial hatcherymen during a specified period of time.

Is that a practical way of controlling the production of chickens? I mean every farmer has an incubator, and I do not see how you are going to have control and to very effectively hope to control the number of eggs that are set.

Mr. FARRINGTON. You certainly would not have a complete control because there are lots of farm incubators, and there are still lots of hens that are willing to set; but for the commercial production of broilers, and in lots of areas, the producers do depend upon commercial hatcheries, this has been discussed a number of times, as one possible means of avoiding having too many chickens in relation to feed supplies; and I would say that it would appear to us to be the most practicable approach in that field, if it becomes necessary to take any action on poultry.

The CHAIRMAN. Of course, the moment you limit the number of eggs you raise the price of chickens to everybody.

Mr. FARRINGTON. It comes back again to that original proposition.

The CHAIRMAN. Well, it would only seem to me that you are asking here for complete power over everything and everybody from the time it left the farmer to the consumer, when there is no real intention of using these powers at present, and no evidence that you have to except in very limited fields, possibly meat being the only case which, it seems to me, you have made any case for.

Senator O'MAHONEY. Mr. Farrington, in responding to Senator Taft's questions, I thought I understood you to agree with the suggestion that was implicit in his question that power of allocation might be used as the power of rationing. I wondered whether in presenting these matters and in responding to the chairman's questions you were not misled by a perfectly frank and forthright interpretation of the meaning of the various phrases set down here on pages 6 and 7. Overlooking the introductory statement, which you made on pages 1 and 2, in which you told us that this statement covers items 5 and 7 in the President's recommendations, you said in commenting on items 5 and 7 that you might be compelled to make some references to price and distribution, since price control and rationing, together with the use of allocations, would constitute the principal means in addition to voluntary measures of accomplishing the objectives stated in item 5.

When I heard you read that sentence, I took it that you felt in your own mind that there was a difference between the power of allocation that you were requesting, and the power of controlling distribution to consumers by price controls or by rationing.

Mr. FARRINGTON. Well, you will note that we did not list consumer rationing among the specific things that we were stating here.

Senator O'MAHONEY. That is right.

Mr. FARRINGTON. My response to the Senator's questions was to the effect that the rationing that was carried out during the war was pursuant to the provisions of title III of the Second War Powers Act.

Senator O'MAHONEY. Since the President's recommendation No. 5 reads:

To authorize measures which will induce the marketing of livestock and poultry at weights and grades that represent the most efficient utilization of grain—

and since item No. 7 reads:

to authorize allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production—

you do not wish to be understood by your response to Senator Taft's questions as meaning that in submitting these recommendations you are going beyond the President's recommendations.

Mr. FARRINGTON. No, sir; I did not intend that, certainly, Senator.

Senator O'MAHONEY. So that this power to allocate and to control inventory is in your mind distinctly limited to scarce commodities,—is that not so?

Mr. FARRINGTON. Oh, yes.

Senator O'MAHONEY. I take it that is the reason why you have said that one of these powers might be used in the event of an emergency situation to enable the Government to take over the entire wheat crop, a step which, by the way, has been positively recommended by one of the members of this committee, Senator Watkins of Utah.

Mr. FARRINGTON. That is correct.

Senator O'MAHONEY. You are referring to scarce commodities?

Mr. FARRINGTON. That is certainly the case. The power would be limited to scarce commodities by its very terms.

Senator O'MAHONEY. Now, going back to that item (*f*) on page 6 by which you seek authority to allocate food by establishing an import licensing system to control the importation of foods and to make effective cooperation with friendly nations with respect to world short supplies: Do you interpret that as asking for powers to establish an American import licensing system without consideration of the interest of friendly nations in apportioning the products in world short supply?

Mr. FARRINGTON. No; it would obviously be in concert with an international understanding of how certain commodities in short supply should be divided among the nations involved. In order to get agreement and then carry it out, you have to have both export and import controls.

Senator O'MAHONEY. Then, I take it, that as you understand the program which you are telling us about this afternoon, this is one which is designed to operate not only within the objectives laid down in the President's message with respect to foreign aid program, but also with respect to controlling inflation in those items which are in short supply.

Mr. FARRINGTON. That is absolutely correct.

Senator O'MAHONEY. You would not want to be so understood, I take it, that you have come before this committee in order to obtain a broad authority which would enable you to go beyond those objectives?

Mr. FARRINGTON. That is correct.

Senator O'MAHONEY. That is all, Mr. Chairman.

The CHAIRMAN. Are there any other questions?

Senator MYERS. Mr. Chairman, I have some questions. On page 4 you have some rather illuminating figures, although I believe that all members of the committee have seen these figures before, namely, that the prices of hogs have increased 93 percent in less than a year and a half; beef steers 89 percent, and so forth.

I surmise that all of those items are in short supply, are they not?

Mr. FARRINGTON. Yes, sir; they are in short supply as compared with the current demand.

Senator MYERS. Many people hold to the theory that the only reason for that increase in prices is the law of supply and demand.

Mr. FARRINGTON. That is generally correct.

Senator MYERS. That there are no other reasons, although I disagree with that premise.

Mr. FARRINGTON. Yes.

Senator MYERS. We have been told by those in the business that the reason for these spiraling prices is the law of supply and demand. A large part of the total increase has occurred during the last several months; although you indicate that prices have risen continuously for the last 16 months. I believe and I think it has been demonstrated that in the last 4 months price increases, have been tremendous, and out of line with the general gradual increase over the previous 10 or 12 months, is that not so?

Mr. FARRINGTON. That is correct, and a big factor in that was, of course, the big reduction in the corn crop.

Senator MYERS. Of course, you may be very strongly criticized, as was the Secretary, for his divulging to the American people that prices of meats will increase seriously and considerably next year unless something is done to prevent it. That was supposed to have been a secret which you should not have divulged and told to the American people.

I think the Secretary was severely criticized this morning and it was said that such statements tended to increase prices. It will probably also be said that his statement caused the even higher meat prices which we will surely experience next year.

Well, if that is so, Mr. Farrington, that the price of meats, particularly, is going to increase next year, I think it is your duty to so advise us and ask us to do something about it. The President has, and you come here as a representative of the Department of Agriculture, which is presenting part of this program suggested by the President.

You have said to the Congress very frankly that prices of meats are going to increase next year. The law of supply and demand will not take care of that unless you do something about it, and these are some of the suggestions that you offer to curb these prices.

Maybe we can poke holes into many of them; maybe they are not necessary today or tomorrow, but if we want to do something about this increase in the cost of living and next year's meat prices and food prices, you suggest these remedies.

Mr. FARRINGTON. That is correct.

Senator MYERS. And if we do not do them prices are going higher, particularly prices of foodstuffs, is that not your position?

Mr. FARRINGTON. All of our data would indicate that.

Senator MYERS. Well, you have testified as to these terrific price increases in the last 16 months of beef and pork and bacon and other items, and then you add:

> Further strength in these prices is likely during 1948 as a result of reduced supplies and continued strong demand.

So, in your mind, there is no doubt, Mr. Farrington, that prices are going to continue going up, prices of meats in 1948, unless something is done about it?

Mr. FARRINGTON. All of our data would indicate that we must look forward to that probability in 1948. There will be a period of several months when there is heavy marketing, but by the spring and summer, that is going to happen.

Senator MYERS. That is seasonal, is it not?

Mr. FARRINGTON. Yes, the heavy marketing during the next few months is seasonal. But by the spring and summer of 1948 all of our data indicate that meat supplies are bound to be shorter than they were this year.

Senator MYERS. The previous witness, Mr. Mehl, when the question was asked as to whether or not he might advise us as to the method of Government purchasing of foodstuffs, said that Mr. Farrington might be better qualified to reply to that query. Are you in a position to tell us something about the method of Government purchasing, particularly of wheat?

Mr. FARRINGTON. I will be very glad to comment on the work that we are doing in that field.

Senator MYERS. The reason I asked you that question is that in many quarters it has been charged that prices of wheat, the high price of wheat, is due in part to the method of Government purchasing. It was my information that when the Government got out of the market the price continued to spiral. It was my information that you always endeavored to buy under the market quotation or the market price, but since that has been given wide publicity, that the Government is responsible in part for the high price of grain because of its purchasing methods, I would like you to enlighten us to some extent and tell us just how you do purchase grain on the open market.

Mr. FARRINGTON. We purchase grain in many ways depending upon the position of the people who want to sell to us. You have got to do that in times of short supplies in order to acquire commodities.

In general, we go about buying grain in much the way that a private concern would. We ask for offers and, if the offers are in line with what we feel is the current market and our current buying policies, we accept those offers. We may contract with a firm for a half million bushels of wheat for delivery not later than the 31st of December, the price to be fixed on the basis of the current market price, plus a differential or a premium, if that is what the current market is, and then, if we get together, that we will have bought that half million bushels. The negotiations are not essentially different from what any private buyer might engage in.

The one big difference, I think, is that we, being a Government agency, of course, give full publicity to our operations, and after the deals are consummated we publicize how much we have bought.

There has been lots of talk as to whether or not we do not bull the market by disclosing what we have purchased. Frankly, we find that if we do not report promptly, rumors quickly get around the trade.

This dealer reports that he has made a sale, and pretty soon those rumors add up to several times the amount that we have actually bought, and, frankly, we feel that we have less market effect if we give publicity just as soon as possible after the purchases are completed and the price has been fixed.

No one could go into the market and buy the quantities that we found it necessary to buy without those purchases having an effect on the market, obviously. Regardless of the method you use, the supply and demand forces are there.

Senator MYERS. My question was not directed so much to the purchases but the method because it has been the method which has been criticized.

Mr. FARRINGTON. Well, usually, I do not believe it is actually the method that they are talking about.

Senator MYERS. Neither do I, but do you know of any other method that might be put into effect or anything that the Government might do in its purchasing to offset any increased price that might have been occasioned by this method of purchasing? Do you know any better way of doing it than you are doing it now?

Mr. FARRINGTON. We have tried many methods, and we have asked repeatedly for suggestions, and I believe that most any one in the trade would, who is familiar with our present operations, say that if they had to do the same job that they would do it about the same way that we are doing it.

Senator MYERS. If you do not give the information out to the public you would be severely condemned and criticized for doing it in secrecy?

Mr. FARRINGTON. That is correct.

Senator MYERS. That is correct.

The CHAIRMAN. Mr Farrington, I remember seeing a newspaper item last summer some time in which anonymous officials of the Department of Agriculture were quoted as saying that they would not be surprised to see wheat go to $4. Do you remember that? Was it called to your attention? Was there anything in it or just a newspaper report?

Mr. FARRINGTON. I remember the newspaper account. I have never been able to find out the basis for it.

The CHAIRMAN. I understand.

Representative HORAN. Is it not true that some wheat was selling as high as $3.60 within the last 3 weeks?

Mr. FARRINGTON. I am sure that is right, Mr. Horan. I imagine there is some selling for that price today because there is a very high premium on high proteins, and there have been premiums, I think, as high as a dollar a bushel on some very high proteins that are needed for milling purposes.

Representative HORAN. I am very much interested in the method that might be employed to compel the owners of livestock on the hoof to sell at certain weights.

Have you worked out any technique?

Mr. FARRINGTON. We have discussed lots of possibilities. There are none that are entirely satisfactory. They will all involve serious administrative problems, and other problems, as you are well aware. There have been certain techniques that have been used in the past, and doubtless could be applied again.

Representative HORAN. What has reduced the weights at which livestock is going to market today might be called the tyranny of circumstances rather than the policed state method, is not that so, the high price of feed?

Mr. FARRINGTON. It is the high price, and the scarcity of feed. Producers that did not get a good corn crop this year are naturally not feeding the hogs to as heavy weights, and are not planning to carry out their operations on as large a scale as last year.

Representative HORAN. You understand, of course, that I have been apprehensive for the supply of wheat for the Pacific Northwest, particularly.

Mr. FARRINGTON. Yes, sir.

Representative HORAN. And I say that without embarrassment, because it is known that we have a wheat economy rather than a corn economy out there.

Mr. FARRINGTON. Yes, sir.

Representative HORAN. I have been given s sort of left-handed assurance that we are going to come out all right. Now, that left-handed assurance, based upon the assumption that the high cost of feeding is going to force the liquidation of considerable livestock at this time, and thereby relieve the pressure on the decreasing supplies of feed.

Mr. FARRINGTON. Well, you have a peculiar problem, of course, out in the Pacific Northwest, where they are dependent upon wheat, and where they are also close to the port, and where it is a very good place to export from.

I think the real fear out there is that we will go ahead and buy and export too large a percentage of the total supply; that, frankly, could happen in the Pacific Northwest, without the country, as a whole, being in a critical position.

Now, the problem there is to avoid taking too much out of the area.

Representative HORAN. Upon the basis of our historic position out there, and the experience of last year, we should wind up the crop year, or this present crop year, with a deficit of some eight million bushels out there and yet I have been assured that notwithstanding, we are going to come out all right, and I wondered what premise that assurance was based upon?

Mr. FARRINGTON. Well, the situation is very similar to what it was 2 years ago. You remember we ran very short at that time, and just barely got through. In fact, there were some real shortages which developed there.

We are trying to gage our purchases, and more particularly, our exports for that area on the basis of the whole supplies, less what must stay there. We could miss on it, but that is certainly our objective to take not too much out of that area.

Representative HORAN. And you expect the liquidation of livestock to assist in that procedure?

Mr. FARRINGTON. Well, liquidation in terms of feeding to lighter weights.

Representative HORAN. And offered on the market.

Mr. FARRINGTON. Yes, sir.

Representative HORAN. Just how would you go about implementing a directive to force farmers to sell a lighter weight, assuming that the price of feed is a decreasing factor, perhaps?

Mr. FARRINGTON. That, I think, depends on keeping the proper incentives present at all times. If it were going to be done by some means other than either the law of supply and demand or price ceilings, it would and could be done just the reverse of what we did on finishing of beef cattle at certain times during the war when we paid to get more cattle fed, paid a premium.

The opposite could be done, in effect, pay a premium or provide a relatively higher price for the less highly finished cattle or for the higher-weight hogs.

I think unless you have your incentives adjusted so as to bring about the right results, you will not get the right results.

Representative HORAN. Mr. Chairman, this morning I made reference to the testimony of Mr. Barbare, the president of the Portland Grain Exchange, and certain charges that he had made, against the Government and Government officials.

I wonder if you would permit me to read that into the record, and in all fairness to Mr. Farrington, allow him to answer them at this time.

The CHAIRMAN. Surely.

Representative HORAN. He went to some extent and outlined the picture, Mr. Farrington, and then he cited examples that you just touched on, where stories and operations out of Washington had had the effect of raising the price of grain, and I would like to read to you some of his examples that are in sort of a narrative form, and I will pause for any comment that you might want to make. For example, he said:

> During the first week in September, wheat advanced about 10 cents per bushel; Commodity Credit Corporation buying in the Midwest indicated Government determination to proceed with its huge export program. It was announced that shipments during August were of record size, 70,000,000 bushel of wheat and flour equivalent.
>
> In a broadcast September 5 from Albuquerque, N. Mex., Secretary of Agriculture Andersou said that exports must be reduced because of short corn crops. Washington advices indicated that all grains would be cut to 400,000,000 bushels or less compared with previously stated figures of 450 to 500 million.
>
> On September 9, there was a sensational story out of Washington that more realistic Government officials handling the export program were resigned to $4 wheat by next spring, which price was cited as being comparatively low in relation to values for wheat from surplus nations other than the United States.
>
> This statement was subsequently denied, with an explanation that the USDA is not reconciled with the thought of paying such prices, and that $3 represented a truer picture of the estimate of the further price advance.
>
> Even this statement obviously had a bullish, a marked bullish, effect and was instrumental in bringing in considerable speculative buying. Chicago wheat, December wheat, advanced 8½ cents, and a further 6¼ cents next day to two dollars eighty and a half cents.

Shall I go on?

Mr. FARRINGTON. The $4 wheat announcement, the newspaper account, has already been discussed. So far as I know, and so far as I have been able to determine, there was no basis for the story within the Department of Agriculture.

There has been talk, speculation, and work all through the fall on what we can or should export. It is inevitable that people will press for an answer to that question. We have not been in a position to give a final answer, and in my testimony today, and the Secretary's statement on Friday, he still indicated, and I still indicate, that it still is dependent upon future events. What the prospective size of next year's crop of wheat will be has a lot to do with determining how small a carry-over we can get down to, and, therefore, how much we can export during the current year.

You did receive all through August and September increasingly ominous reports with respect to the corn crop, and that was a very important marketing factor.

I think that for the particular period referred to, I have data here which will show that our purchases were really very light. We made very small purchases from about the 25th of August until the 15th of September, and during that time, the market prices of wheat advanced very sharply.

The committee might be interested in just glancing over that chart which shows that the volume of purchases was very light during that period, when the market was going up, I think, largely because of the realization of the very short corn crop that we had in prospect.

Representative HORAN. He goes on here—I will not take the trouble to read it—he goes on with three or four pages of similar history and then summarizes:

> This constant buying coupled with diminished offers by farmers has steadily put the market up despite higher margins, reduced speculative programs and consumer program barely under way. As this is written, December 16, Chicago December wheat has advanced to $2.02½. President Truman disclosed today that Attorney General Clark is investigating gambling on the grain exchanges. Questioned by reporters as to whether Government purchases for foreign relief are largely responsible for prevailing high prices the President said: "While this buying has had some effect it is not considerable."

Mr. FARRINGTON. In making our wheat purchases, and other grain purchases, and in fact in buying all farm commodities, we have to the best of our ability made those purchases during the period when producers market most heavily. The records show that by and large we have been able to accumulate our grain in the periods of heaviest farmer marketings. By that very fact, which is easily demonstrated, we have made our purchases at the lowest possible cost to the Government and of maximum benefit to the producers.

Representative HORAN. That was the statement I got from Mr. Koenig, of the Department, when I asked him about this, when I came back.

Some other questions. I notice your outline here deals with limitations and controls. The only part of the President's program which dealt with the proposition of increasing production was in other countries. Is that the attitude that the Department has toward production in this country?

Mr. FARRINGTON. We know that our producers are already producing at a very high level. They have for several years now maintained a level of production from 30 to I think as high as 37 percent above the immediate prewar average.

We have the price incentives, we have done everything we can on machinery and fertilizer to get maximum production. Naturally those will be continued.

Our goals for 1948 call for the same high level of production in 1948 that we have had the last few years.

The additional steps that we see are in other areas. We have done about everything we know to do here.

Representative HORAN. Meat has dropped since this statement was statistically formulated. Is that not right? You had those tremendous increases to October 1947. Since that time meat has generally dropped on the market, has it not?

Mr. FARRINGTON. There has been some drop in livestock prices.

Representative HORAN. And so the cost of living so far as the cost of meats are concerned, right as of today it has turned downward.

Mr. FARRINGTON. The livestock prices have seasonally, yes.

Representative HORAN. How are you going to get those farmers to market that meat at that weight?

Mr. FARRINGTON. As I indicated before, it is a matter of having the incentives in the form of prices or otherwise, so that the producers will find it to his advantage to market at those levels.

Representative HORAN. In the face of a——

Mr. FARRINGTON. We do not believe that there is any direct regulation that you can go out to the farmer with and tell him he has to sell something at a certain weight that will work. We do not recommend any such procedure.

Representative HORAN. In the face of the human cry over the cost of living, how would you handle a price incentive?

Mr. FARRINGTON. Well, if in the case of beef cattle, if you had price ceilings and had a more or less flat ceiling so that the price of the highly finished beef could not be much above the price of feeders, then you would not have the incentive to put grain into the finishing of cattle and therefore you would have them marketed at lighter weights.

Representative HORAN. Because of the high cost of feed?

Mr. FARRINGTON. The high cost of feed and the lack of premium for the highly finished beef.

Representative HORAN. You would use premiums?

Mr. FARRINGTON. I said in the event you had price ceilings, by having a more or less flat ceiling over all livestock, so there could not be much premium for a high finish, then you would take away any incentive for feeding to a high finish.

Representative HORAN. Have you discussed subsidies in your Department?

Mr. FARRINGTON. Yes, sir. We have discussed nearly everything, I think.

Representative HORAN. That is all.

Senator MYERS. You were not referring to subsidies there. You just meant that there would not be any incentive for growers to finish the feeding so that the stock would be delivered, would be high premium beef.

Mr. FARRINGTON. If you had ceilings there would be no occasion for using subsidies because the ceilings could be so adjusted as to discourage feeding it to high finish.

Senator FLANDERS. I would like to ask a couple of questions of you, Mr. Farrington.

Is it practical to allocate grain for feed in grain-growing regions?

Mr. FARRINGTON. I do not think you can do it on a farm-by-farm basis.

Senator FLANDERS. You have some control of it if it is transported in interstate commerce, and goes through elevators and all the rest of it. But where it is fed right within the region where it is raised there is no possibility?

Mr. FARRINGTON. About 80 percent, I believe, of the grain fed to livestock is fed right in the neighborhood where it is produced. You cannot control that.

Senator FLANDERS. You think allocation on that basis is impractical?

Mr. FARRINGTON. We do.

Senator FLANDERS. Would it be possible to produce 156 pounds of meat per capita in an average grain-growing year?

Mr. FARRINGTON. No, sir. You would have to have more than what we have considered average in the past to produce that much meat.

Senator FLANDERS. That means that this standard of consumption of meat that we have had, say, in 1946, is impossible to maintain except in fortunate years?

Mr. FARRINGTON. It is impossible to maintain it on the basis of the kind of yields that we got prewar. Now, during the last 4 or 5 years, in fact the last 7 or 8 years, we have had——

Senator FLANDERS. Those were extraordinary years.

Mr. FARRINGTON. Well, they were good years but there have been sufficient changes in production techniques and in the seed used to lead us to believe that we can expect higher average yields in the future than we have had in the past, with any given set of weather conditions.

Senator FLANDERS. Do you think that that would lead on the average to higher practices, to 156-pound consumption?

Mr. FARRINGTON. Yes. Had the corn crop come through this year we would have been in a position——

Senator FLANDERS. Still, you had a tremendously high beef crop. You cannot expect, even with improved practices, to reach maximums.

Mr. FARRINGTON. Yes. But we had a decrease of 850,000,000 bushels in the corn crop as compared with the 250,000,000-bushel increase in the wheat crop.

Senator FLANDERS. You are not going to get the 156 pounds.

Mr. FARRINGTON. We were still short on those two things alone.

Senator FLANDERS. But you are not going to get your 156 pounds on that basis.

Mr. FARRINGTON. No, sir; that plus the export program.

Senator FLANDERS. I am wondering whether we are setting an impossibly high consumption of meat for the future for the people of the country.

Mr. FARRINGTON. I think as a future proposition, with more or less normal export and import conditions, that 156 pounds supply would not be at all impossible. I think it would be very possible.

Senator FLANDERS. You think it would?

Mr. FARRINGTON. Yes, sir.

Senator FLANDERS. That is the thing which has been troubling me somewhat because apparently if we succeed in raising the standard of living in this country and getting it onto a higher level as a norm than it ever has been, it is going to express itself very largely in a demand for meat.

Mr. FARRINGTON. Yes, sir.

Senator FLANDERS. That is almost the first thing the average family thinks about.

Mr. FARRINGTON. That is right.

Senator FLANDERS. I am not sure that the 156 pounds is going to be what the American people would like to have.

Mr. FARRINGTON. I think—they have demonstrated they would eat quite a bit more than that if it were available.

Senator FLANDERS. The price has gone up. And that is a practical demonstration of their desires.

Mr. FARRINGTON. There is one thing that a lot of us learned during this war, and that is the extent to which the consumption of these things can and will increase when people have adequate incomes. That has not only been demonstrated here, it has been demonstrated in many other countries—that when they got more income they used much more food—and in this country it was demonstrated in using more livestock products.

I do not think it is an impossible goal at all for the future to have that much available if the incomes are here to take it off the market.

The CHAIRMAN. Mr. Farrington, as I remember, up until last spring, the first part of 1947, you were predicting lower prices of meat in the fall of 1947; were you not? Up until May 1? There seemed to be doubt about a corn crop.

Mr. FARRINGTON. We were generally assuming some falling off in the total demand, and, of course, we were also assuming a normal corn crop. With those two conditions we would have expected and did indicate the probabilities.

The CHAIRMAN. You were wrong here in predicting the price would go down. You do not think you are wrong now in predicting they will go up in 1948; do you?

Mr. FARRINGTON. Senator, I recognize we can all make mistakes. We have made them many times in the past, and I hope we are wrong this time.

The CHAIRMAN. I thought these tremendous increases might have overdiscounted the shortage of feed.

Mr. FARRINGTON. But we do know now about how many livestock are in the country, and we know about what the feed supplies are. We are pretty confidant of our estimate of supplies.

Senator FLANDERS. You are surer of the prediction of bad news than you are of good news.

Mr. FARRINGTON. We do not have, of course, any exact basis for predicting what the demand factor will be, what the income level will be. If there should be a recession that causes the consumer purchasing power to fall off, that would be a major factor in causing this prediction to be wrong.

The CHAIRMAN. Would the Department go out enthusiastically and participate in a campaign for people to eat less meat right now?

Mr. FARRINGTON. I think a wise selection on the part of consumers as to what they buy could be very helpful in meeting the——

The CHAIRMAN. I mean directly campaign that everybody ought to eat less meat. Would the Department of Agriculture be willing to go out now with that slogan and sell it to the people?

Mr. FARRINGTON. Yes; I think the situation calls for eating less meat.

Senator FLANDERS. Would you begin now, or 2 or 3 months from now?

Mr. FARRINGTON. The real pinch will come several months from now as the marketings fall off.

Representative HORAN. How are you going to reduce the supply? How are you going to increase the supply of grain if you do not eat up livestock, which is the principal consumer of grain?

Mr. FARRINGTON. That is the predicament you get into, of course, Mr. Horan. You do need to eat up that which they bring into market, or else put it into storage. You can do some of the latter. But by and large you have to eat up that which is brought to market and you do not want to cut off the buying to the extent that it will discourage people from marketing that which is ready to come to market.

It is a hard thing to draw the line there. In the case of chickens, for example, we need to use perhaps more of the stewing chickens and let up a little on the frying chickens, but that is a hard thing to get across.

Senator MYERS. Mr. Farrington, an eat-less campaign now would not be a practical campaign. You want people to eat more meat right now; do you not? The cattle are coming in from the feed lots. You certainly would not institute such a program right now. I would think the contrary would be true.

Mr. FARRINGTON. You would not want to urge them to eat less of the grades and qualities that should be marketed.

Senator MYERS. That is right.

Mr. FARRINGTON. You do not want them to do their buying and eating so as to cause further inflation and cause higher prices, which, in turn, encourages producers to do more feeding.

Senator MYERS. If you had sat with the eastern subcommittees in the hearings which it had conducted from New Hampshire to Florida I think you would be convinced from the testimony presented to us by consumers that they are already eating less.

There is involuntary rationing on the part of many consumers because they just do not have the money. The take-home pay is not sufficient for them to eat as much meat as they did 6, 8, or 10 months ago. But I am wondering about these predictions—the predictions of the Department that there would be a smaller meat production this year. When were those predictions made, Mr. Farrington?

Mr. FARRINGTON. That there would be?

Senator MYERS. That there would be less meat produced. I think the Senator referred to earlier predictions that we would have——

The CHAIRMAN. Lower prices, not less meat.

Senator MYERS. Lower prices. Did the Department indicate that there would be lower prices for meats during the year 1947?

Mr. FARRINGTON. I am not sure just when that was put out. Maybe Mr. Richards knows. It must have been at the time we were working on the 1947 goals, which was in the late fall of 1946 and early winter of 1947.

The CHAIRMAN. January and February outlook, I think.

Mr. FARRINGTON. Yes, sir.

Senator MYERS. You would not think those predictions would be wasted on earlier predictions of Members of Congress that prices would be lower in 1947; would you?

Mr. FARRINGTON. I think we were going on the feed supplies and livestock numbers.

Senator MYERS. Of course, others made such predictions some few months before the predictions were made by the Department of Agriculture.

Senator O'MAHONEY. Do you keep any records of the variation of the facts from the predictions made by the Department?

Mr. FARRINGTON. We go back and check up on them every once in a while.

Senator O'MAHONEY. How do they ordinarily check up?

Mr. FARRINGTON. I think our batting average is pretty good. But we have made some mistakes.

Senator O'MAHONEY. Was this variation to which some reference is now being made in excess of 10 percent? Or do you know?

Mr. FARRINGTON. I do not know. I do not recall the exact statement, Senator. I am reasonably sure that when we put out the statement we said that with feed supplies at a certain level, and demand at a certain level, this and that would happen.

Senator O'MAHONEY. In other words, you made a qualified prediction.

Mr. FARRINGTON. Yes, sir.

Senator O'MAHONEY. Now, then, with respect to the present prediction that you are making as to the future, that prices are likely to be higher, to what extent is that based upon the supply of corn?

Mr. FARRINGTON. The supply of corn is the major factor in that prediction.

Senator O'MAHONEY. What are the facts with respect to that supply of corn?

Mr. FARRINGTON. Well, our total feed-grain supplies, supplies available for feed, are 14 percent smaller for this feeding year than they were for the last feeding year. That we know.

Senator O'MAHONEY. Your prediction, then——

Mr. FARRINGTON. Assuming that the demand conditions through 1948 are similar to what they are now, it is a pretty safe prediction that the meat supplies would be shorter and presumably then the prices would be higher.

Now, there is an assumption there on the demand factor, or the income factor. We could be off on that one, of course, very materially.

Senator O'MAHONEY. So that this prediction of higher prices is based upon your present outlook of a decreased supply of grain which is essential to putting weight upon livestock.

Mr. FARRINGTON. That is correct.

Senator O'MAHONEY. And upon the continued existence of a high demand for the meat.

Mr. FARRINGTON. That is correct.

The CHAIRMAN. I still do not quite understand whether the Department of Agriculture thinks the price of meat ought to be lower right away, now, or not. Is this an anti-inflation program, or is it not? That is what I mean. Is this a program to reduce high prices? Or is it other things to get a better distribution and make grain available for foreign shipments, and so forth?

Mr. FARRINGTON. I think, Mr. Chairman, that the case is essentially this: With the shorter grain supplies and the probabilities of, almost the certainty of, shorter meat supplies, sooner or later we will either have to bid up the price of grain still higher or hold down the price of meat. That is just about the one and two of it.

The CHAIRMAN. Do you think if the price of meat fell tomorrow, what would happen? Would that be desirable, create a more desirable situation than today? Of course, it would for the consumer in the city who is interested, I know.

Mr. FARRINGTON. Well, meat prices are relatively high from any standard of measure except grain prices.

The CHAIRMAN. I notice about grain prices that Secretary Anderson testified today that—

> Altogether, 6,154,000 tons, or about 237,000,000 bushels, of grain were shipped during the 4 months July to October this year. This compares with 2,804,000 long tons, or about 109,000,000 bushels, of grain shipped during the four corresponding months of 1946.

Furthermore—

> CCC has been steadily buying ahead of actual requirements so far this year, and we now have immediately available enough wheat to maintain shipments at the estimated rates of allocation through March.

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN. Which takes you through 5 months more of the fiscal year. They have already bought 9 months' supply.

Mr. FARRINGTON. Yes, sir. We always buy——

The CHAIRMAN. But you did not buy it last year that way. You were not so far ahead last year.

Mr. FARRINGTON. We were not able to do quite that well last year.

The CHAIRMAN. Is not the high price of grain partly due to the fact that the Commodity Credit Corporation is hoarding grain to the extent of buying 5 months ahead of time and is not that very fact likely to bring a reduction in the price of grain when that purchasing lets up?

Mr. FARRINGTON. Of course, we should all understand that in order to keep the machinery moving you have got to have a certain amount of grain in the pipe lines, so to speak. Unless you have grain bought 6 weeks to 2 months ahead you are not going to meet your shipping schedule.

The CHAIRMAN. This is 5 months ahead.

Mr. FARRINGTON. We have, through the fall months, accumulated on ahead to the extent that the current market conditions permitted.

The CHAIRMAN. What do you mean, "current market conditions permitted"? When you could by at any price? As long as you could buy at any price?

Mr. FARRINGTON. It depends on offerings. Sometimes we go for day after day and have very little offered to us, so we did not buy, of course, during those periods. We never could buy unless somebody offered it to us.

But as it is offered we have accumulated it. We felt that it was essential on the basis of our experience of the last 2 years to accumulate it well before the end of the year because we found during both of the last 2 years that when you got into the March and April and May period the buying became more difficult you were buying against a smaller total supply and you were buying at a time when it had already left the producers' hands.

It has been a policy to try to accumulate our season's requirements during the period that the producers are marketing most heavily. They market heavily during the harvesting period, and then the last 2 years they have again marketed heavily right after the first of the year.

I think that the amount we have accumulated has been in line with our total needs, and in line with the dictates of good judgment on accumulating supplies.

The CHAIRMAN. If the price of wheat dropped, would it not be likely to have a general effect in dropping the price of other products, including meat?

Mr. FARRINGTON. I do not believe so, at this time.

Senator O'MAHONEY. How much wheat did you buy during this period?

Mr. FARRINGTON. We have bought since July 1, 187,000,000 bushels.

Senator O'MAHONEY. And is that the amount that will carry you over until March?

Mr. FARRINGTON. As wheat. We bought flour also, of course.

Senator O'MAHONEY. Is that the amount?

Mr. FARRINGTON. That plus what we had on hand July 1 is what we have for carrying us through March.

Senator O'MAHONEY. And the wheat crop this year was the largest wheat crop in the history of the United States?

Mr. FARRINGTON. That is correct.

Senator O'MAHONEY. One billion four hundred million plus.

Mr. FARRINGTON. Yes, sir.

Senator O'MAHONEY. So that when your purchases are deducted there was left how much?

Mr. FARRINGTON. We have bought 186,000,000, plus the 36,000,000 we had on hand July 1, which in turn was largely from this crop because it was largely June purchases. So that we have taken out of this crop something in the neighborhood of 220,000,000 bushels as wheat, and we purchased in the form of flour the equivalent of 42,000,000 bushels.

Senator O'MAHONEY. How much of this purchasing was for the account of General MacArthur in Japan and General Clay in Germany?

Mr. FARRINGTON. The season's allocations for those areas have not been formulated definitely.

Senator O'MAHONEY. Your purchasing program included the necessity for supplying our needs in the two occupation zones.

Mr. FARRINGTON. Yes. Our general rate of shipment to those areas has been on the average of about 300,000 tons a month, which would be 3,600,000 tons for the year to Germany, and roughly half that to the Far East.

Senator FLANDERS. I thought we had been told that the Government had purchased all the grain required on this interim-relief thing.

Mr. FARRINGTON. The Secretary's statement was what the Senator read there, that the amount of wheat we now have in inventory is sufficient to continue the export program with respect to wheat through March.

It does not necessarily include the entire distribution that is required for the stopgap relief program. It is necessary to distinguish between the CCC on the one hand and the total Government's requirements on the other. The CCC has bought the quantities of wheat that we indicate; that is, we have contracted for it. We have purchase contracts covering that much. Just where that will go depends upon who has the funds to pay for it.

Senator FLANDERS. And your totals do not agree with the totals that we are told will be required in this program. They are considerably less, as I get them from you.

Mr. FARRINGTON. No; I do not believe that is necessarily the case.

The CHAIRMAN. May I read the Secretary's statement?

> The amount of grain already shipped by both Government and commercial interests or purchased by the Government totaled about 398,000,000 bushels on November 19. As of that date, the Commodity Credit Corporation actually owned or had purchased 265,000,000 bushels of wheat and flour in terms of wheat equivalent while commercial shipments of wheat and flour scheduled for the first 7 months of this fiscal year total 66,000,000 bushels, making a total of 331,000,000 bushels of wheat so far actually accounted for.

Mr. FARRINGTON. That is correct.

Senator FLANDERS. Just for information, is any great amount of winter wheat raised in Europe?

Mr. FARRINGTON. Yes, sir.

Senator FLANDERS. Where is that raised?

Mr. FARRINGTON. France, Italy, Germany, the Balkan countries, and others.

Senator FLANDERS. It is generally winter wheat rather than the spring-wheat region.

Mr. FARRINGTON. That is my understanding; yes, sir.

Representative HORAN. Do I understand that you are shipping more wheat as flour than you are wheat as wheat?

Mr. FARRINGTON. No. Our shipments this year have been about 30 percent to a third flour, two-thirds wheat.

Representative HORAN. It would have far less impact upon the cost of living here at home if you shipped it all as flour, would it not, if that were possible?

Mr. FARRINGTON. I think, Mr. Horan, that you would have to ship about the same tonnage of material either way. If you ship more as flour then I think your total wheat equivalent would have to go up.

Representative HORAN. You mean to compensate for the short——

Mr. FARRINGTON. To compensate for the mill feeds you had taken out of it.

Representative HORAN. Out of 200,000,000 bushels of wheat, as wheat, there are at least 60,000,000 bushels of shorts there that could be used very advantageously about next May and June to feed the livestock left here, especially if we have meatless Tuesday and poultryless Thursday, because we will have more livestock to feed.

Mr. FARRINGTON. That is right. Last year we shipped close to 400,000,000 bushels, of which half was flour, and the equivalent of 50,000,000 bushels stayed here in the form of mill feeds.

Representative HORAN. Will you forgive me if I think that some of the things we are doing to conserve mill grains are stupid?

Mr. FARRINGTON. I will certainly forgive you if there is any forgiveness needed.

The CHAIRMAN. Senator Kem.

Senator KEM. Along the line of predictions, Mr. Farrington, do you feel competent that if you are granted all of the powers that are asked here that you can maintain the present price level?

Mr. FARRINGTON. The allocation powers alone would not assure anything of that kind, Senator. You would have to have——

Senator KEM. All the powers asked for in the President's message.

Senator FLANDERS. If they do not, nothing will.

Mr. FARRINGTON. Yes.

Senator KEM. Do you think they could, over a reasonable period of time, not temporarily, but over a considerable period of time?

Mr. FARRINGTON. I do not know how long a period you contemplate by that. I think the answer is "Yes."

Senator KEM. Say a couple of years.

Mr. FARRINGTON. I think the answer is "Yes."

The CHAIRMAN. Thank you very much, Mr. Farrington.

Mr. FARRINGTON. Thank you.

The CHAIRMAN. Mr. Rhodes' testimony is on the extension of export control, and Mr. Crow's on the question of boxcars, and so forth.

STATEMENT OF WILLIAM C. CROW, DIRECTOR, MARKETING FACILITIES BRANCH, PRODUCTION AND MARKETING ADMINISTRATION, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. CROW. In order to meet foreign demand for American food and to combat inflation in this country it is necessary to do more than achieve high levels of production. The large quantities being produced, and those scheduled for production, must be transported to the places where they are needed. A shortage of transportation facilities and equipment not only can seriously interfere with proper distribution, but also can materially restrict the quantities produced by failure to provide at the right time the raw materials, supplies, fertilizer, containers, and other materials needed in the production processes.

It is a well-known fact that we do not have in this country sufficient transportation facilities to meet the demands of our current level of economic activity. This is particularly true in the railroad field. The railroads of the country are now operating with the smallest number of cars in service that they have had in many years, and many of the cars they are using are in a bad state of repair, which, of course, interferes with their most effective use. In September 1929 they owned 2,267,376 cars, of which 1,046,760 were boxcars. As of September 1, 1947, the total number of cars owned was only 1,730,063, of which 722,298 were boxcars.

Retirements of worn-out railroad cars exceeded replacements during 1945, 1946, and most of 1947. It was not until September of this year that new cars placed in service exceeded retirements, by about 800 cars, but in October retirements again exceeded the number of new cars produced. While 104,451 new cars were on order on October 1, monthly production has been so disappointingly small that we will continue to have car shortages for a long time. During the month of October, according to reports of the Association of American Railroads, average daily car shortages ranged from 39,202 to 41,178 cars.

To the shipper of agricultural products, the situation is even more difficult than is indicated by these figures on car ownership. The unusually heavy burdens of war and postwar traffic have made many cars now in service unfit for transporting grain and other food products which require a high class of equipment for safe transportation. Furthermore, in the handling of perishable foods, delays in obtaining cars, which are frequent in periods of car shortage, increase the possibility of loss through spoilage. The failure of canners to obtain cans at the proper time can also result in loss of food, and the failure to receive seed on time may curtail production.

Sufficient transportation to move the output of the Nation's factories and farms is essential to our domestic economy and to the export program. Since we continue to have an insufficient supply of transportation it is imperative that all possible steps be taken to use effectively such facilities as we have. The authority to allocate transportation facilities and equipment has been used to aid the distribution of products within the United States as well as to facilitate the export movement. To illustrate, order 18–A of the Office of Defense Transportation, requiring the loading of cars to their capacity rests on this authority. If this order ceases to operate at the end of February because of the expiration of the authority for it, and loadings drop back to the minimums established in the tariffs, the effect would be the same as the withdrawal of a large number of cars from the service.

During recent months we have received many appeals from farmers for assistance in getting railroad cars to meet their needs. There have been difficulties in getting a sufficient number of cars to keep the grain moving out of the wheat and sorghum grain-producing areas. Farmers in other areas have sought assistance in getting fertilizer to them at the right time. Others have had to get assistance in obtaining refrigerator cars to move their perishables. Special action has been necessary to get cans to canners, feed to dairymen, and grain to the ports. While some of the action taken was voluntary, and insofar as possible voluntary action was always tried first, the various authorities over the use of transportation had to be used in many instances, and undoubtedly the fact that such authority existed assisted materially in obtaining voluntary cooperation.

In addition to the need for transportation controls to facilitate production and distribution with the United States, such controls have been, and will continue to be, one of the most effective measures to assure an orderly export program. The coordination between interior and ocean transport facilities depends largely on such controls. This is illustrated by the order of the Office of Defense Transportation affecting the movement of freight into ports. On several occasions it has been necessary to have priorities set up to get sufficient grain moved to ports to meet our commitments abroad. During the winter of 1946–47 priorities were issued at the request of the Department for the furnishing of cars for the movement of grain to the Gulf ports from States in the Southwest and from the Pacific Northwest to Pacific Coast ports. These orders were issued by the Interstate Commerce Commission under certification of the Office of Defense Transportation because the export program had been lagging seriously and we were faced with the certainty that the minimum requirements for grain shipments to aid European nations through the crisis of that winter would not be met without them. These orders were terminated when the emergency passed.

A similar situation gave rise to the necessity for issuance of an order a week ago establishing car priority for wheat in the Pacific Northwest. This order became effective November 14 and is now scheduled to expire January 31, but in view of the critical boxcar shortage we cannot be sure that it will not have to be extended beyond that date or that other orders of like nature may not have to be applied in other areas.

It should be pointed out that the need for priorities of this kind stems not only from an insufficiency of cars in the area from which the grain is to be transported, but also from the fact that it is not within the power of the railroad to dictate the use which a shipper may make of a car. An individual shipper may have contracts for the shipment of grain to domestic customers which he may consider to be quite as urgent from the standpoint of business relations as the grain which has been purchased by the Government for export. In such a situation an order of priority is needed to assure that the needs of the export program will be met.

We have used grain as an example because it is the largest item of procurement under our program, although certain priorities have been necessary in the past on other farm commodities and processed foods. The extent of the present authority is broad enough to cover any item of food involved in the export program, and it should remain that way.

Right at the present time the Department is buying for shipment through the winter and spring months a considerable quantity of vegetable oils which are badly needed in Germany and Austria. Tank cars are all privately owned, and we have not been able to lease the cars necessary to transport the oil from crushing mills in the interior to the seaboard. There are no cars which are not under lease in other service. We are now trying to work out arrangements to use cars that are moving west from North Atlantic ports loaded with other oils for a return movement to the seaboard with vegetable oil. While we are optimistic that this may be worked out without the use of a priority, should it not prove possible, the authority to issue a priority for the use of cars for that movement should be available.

In view of the certainty of continued shortages of transportation facilities and equipment for many months, and the serious effect which such shortages can have on the domestic economy and the export program, the Department of Agriculture as the agency responsible for the food program is of the opinion that present authority for the allocation of railroad facilities and equipment and for the issuance of priorities for the movement of essential traffic should be extended beyond February 29, 1948, the present expiration date.

The CHAIRMAN. I do not know how much opposition there is to the continuation of export control, but my impression is that everybody I have talked to is in favor of it. Are there any special additional authorities or anything?

STATEMENT OF F. MARION RHODES, ASSISTANT TO THE ADMINISTRATOR OF THE PRODUCTION AND MARKETING ADMINISTRATION, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. RHODES. No, sir. This is merely an extension of the present controls.

Senator O'MAHONEY. That is one of the recommendations the chairman endorses.

The CHAIRMAN. That is the only one I have found noncontroversial up to date. I have not found anybody opposed to it.

Senator KEM. The President already has the powers. Let him use them.

The CHAIRMAN. There is that question.

Senator O'MAHONEY. Of course he did not get an appropriation sufficient to staff the act.

Representative HORAN. Mr. Chairman, on the House side there are some complaints because it is not strict enough.

The CHAIRMAN. I can understand that.

Senator MYERS. Should it be broadened?

Representative HORAN. Yes; to Russia.

The CHAIRMAN. It seems to me that you will have to probably testify anyway before the Judiciary Committee, and I think you might just state briefly what your recommendation is.

Mr. RHODES. The Second Decontrol Act of 1947, approved by the President on July 15, 1947, placed the responsibility for the administration of export controls, including the authority to determine individual commodity export allocations, with the Secretary of Commerce.

The Secretary of Commerce has established an advisory and a review committee on the Second Decontrol Act, upon which Agriculture is represented. The advisory committee consults and advises with the Secretary of Commerce on the responsibilities assigned to him under the act. It also affords other Government agencies represented on the committee an opportunity to present their views on controls exercised under the act. The review committee recommends the continuation or elimination of export controls with respect to given commodities, recommends export allocations for all commodities under export control, and recommends import allocations on commodities under import control.

The Department of Agriculture has continued to develop supply data and receives the requirements of the foreign governments and works very closely with the representatives of the Department of Commerce in the development of all allocations for food and related products. These allocations are presented to the Department of Commerce Review and/or Advisory Committees for approval.

The Department of Agriculture believes that the extension of export control authority beyond its present expiration date of February 29, 1948, is necessary to (1) protect our domestic economy, (2) aid in fulfilling import requirements of those countries in the greatest need, (3) fulfill obligations under international allocations of food, and (4) secure cooperation of other nations with respect to our import needs.

Those are the four main points we have tried to cover.

The CHAIRMAN. The last one sounds to be a little contrary to Mr. Clayton's theories. But the other reasons I would think were sufficient without it.

Mr. RHODES. Cuba is an example of the type of situation I have in mind. We depend on them for a good part of our sugar. Therefore we try to see that they get enough rice and wheat to feed their people so they will produce sugar so that we can import sufficient sugar to meet our requirements. We have a number of countries where similiar situations exist.

The Department of Agriculture believes that the protection of our domestic economy alone more than justifies continuation of export controls. Shortages in foreign countries have increased the demand for United States supplies. Prices of many commodities in foreign countries are higher than in the United States. Removal of export controls would result in excessive exports of commodities in world short supply and would result in domestic shortages and extreme pressure for domestic price increases for such commodities.

The forces involved in this situation are indicated by the current level of exports. The reported value of agricultural exports, including shipments for foreign civilian use, in 1946 was about 3.5 billion dollars. This compares with about $747,000,000 in the prewar period 1935–39. The value of total exports of agricultural products in 1947 is difficult to project, but it seems likely that the total export value during the year will be at least equal to 1946. This great increase in exports is dominated by the food component which is nearly eight times the prewar rate.

It now appears certain that, if financial arrangements in support of the European recovery program are in effect, the foreign demand for United States farm commodities in the next year or two will undoubtedly exceed the total supplies which we can safely export. Reports from foreign sources show clearly that world shortages will continue during the calendar year 1948 and that the shortages of some commodities will be as serious as they have been during the present year.

Cereals, including rice, are the most important factor in the world food deficiencies. Foreign requirements in 1947–48 fiscal year against the United States are now indicated to be larger than in 1946–47, in which a total of approximately 14,900,000 long tons of grain and grain products were shipped. Since present total supplies are insufficient to fully meet the requirements of importing countries, foreign demand will exceed the quantities of grain which can be exported from the United States in 1947–48.

Because of this fact, there is urgent need for the continuation of controls over exports in order to insure our domestic consumers adequate supplies and to protect the priority needs of occupied areas and countries where we have primary responsibilities.

Without export controls, competitive contracting by foreign buyers would so reduce supplies available for domestic consumption that there would be a strong tendency for prices to United States' users and prices for relief and military purposes to skyrocket.

In the absence of export controls, the more fortunate foreign governments would attempt to fill their bread-grain requirements entirely from wheat and rye supplies and in addition buy the coarse grains for livestock feed and other nonfood uses. Under present controls, coarse grains are available for export only as a bread-grain substitute. Lack of controls would result in a less equitable distribution of supplies to the hungry nations who find it more difficult to procure the needed supplies since they also generally are those with the least ability to pay.

World rice requirements for the present calendar year are more than double the total world exportable supplies of about 2,000,000 metric tons. The total United States' production is only about 1,000,000 metric tons, of which a little more than 300,000 tons should be available for export under the present system of controls, after supplying the domestic market and the United States Territories.

Since the United States' supplies of rice represent only a relatively small proportion of total world requirements, the relaxation of controls would immediately result in increased procurement by foreign countries to the detriment of our dependent Territories and domestic trade.

The pattern of procurement by foreign countries might well be such as to disrupt our shipments to our normal export markets and prove injurious to the interests of producers and the rice trade in general.

This increase in unrestricted demands on the United States' supplies would in addition cause an increase in prices. World shortages of rice will continue for several years as rice production in the Far Eastern areas cannot be increased at a sufficient rate to overcome the increase in population since the beginning of the war.

The unprecedented world demand for cereal grains and other foodstuffs is matched only by the world demand for fertilizer materials needed to increase food production. Nitrogen in particular is critically short. The problem is aggravated by the fact that whereas around 100 countries have to import nitrogen, there are only a few countries that have nitrogen for export.

Nitrogen fertilizer is under international allocation. While the tonnage included in the United States' export program is small, amounting to less than 10 percent of our domestic production of commercial nitrogen, it is considered of utmost importance that these quantities be made available. The prospect of a continuing shortage of fertilizer during the year 1948–49 makes it appear highly desirable that the same controls be continued to enable the United States to participate in the international allocation of world supplies in an equitable manner.

International allocations of phosphates and potash were discontinued as of June 30, 1947, nevertheless, it is strongly recommended that export control authority be continued to safeguard supplies for American farmers. In the case of potash, for example, prices prevailing outside the United States are much higher than those existing here.

The responsibilities of the United States have become world-wide. The United States participates in the international allocation of food through its membership in the International Emergency Food Council and the Food and Agriculture Organization. It appears that the only feasible manner in which we can fulfill our responsibilities with respect to international allocations of food and related products is to retain export controls to enable us to channel our exports of these commodities to those countries which are in the direst circumstances and which have the greatest need for such food.

In many countries the food shortages are retarding economic recovery and preventing stable political development. We believe that it has been demonstrated that international cooperation in food distribution is essential to international cooperation in other fields where mutual action is necessary.

The United States has definite responsibilities with regard to the food supplies for the occupied areas of Germany, Japan, and Korea. Under the proposed European recovery program, we would assume major responsibility for assisting many of the countries of western Europe in increasing their available food supplies as well as in a general rehabilitation program. Without continuing export controls, it would not be possible to insure distribution of our available export supplies to those countries who are cooperating with us in the fight for world peace and security. It is apparent that the food supplies available for export from the United States are not sufficient to meet the requirements of all foreign nations.

It should also be pointed out that the United States is a net importer of some of the items of which there is a world shortage. In order to secure the cooperation of other nations with respect to our import needs, our cooperation is essential with respect to the short-supply commodities which we export.

In other cases we make use of export controls to direct American goods to specific countries who in turn use these goods in the production of other commodities which we import and which are essential to our own domestic economy.

Although the Department is not responsible for export control on nonfood commodities, it does have a vital interest and is directly affected by the action taken on many such items. Because of the importance in the growing, harvesting, and processing of agricultural crops, or because of their relationship to agricultural commodities, we believe it is important and necessary that export controls be continued on important items of petroleum products, coal and related fuels, steel, lumber and lumber products, fibers, chemicals, tin and certain other nonferrous items, pigments, paints and varnishes, soap and related preparations, transportation equipment, and selected items of manufactured equipment.

It is the policy of the Department of Agriculture to continually review the food commodities under export control and to recommend the decontrol of any items as soon as it is determined that it will not result in undue drain on domestic supplies, unreasonable price increases, or adversely affect the status of our international responsibilities. The decrease in the number of food items under export control during the past year proves that this policy has been carefully carried out.

With continuing export controls, the United States will be in a position to protect our domestic economy by holding adequate supplies in this country to meet our needs. We will, at the same time, be in the position to continue international cooperation and the allocation of food to those places where it will meet the greatest need as well as fulfill the requirements under the proposed European recovery program.

For these reasons, the Department of Agriculture recommends that export control authority be extended for a 2-year period beyond its present expiration date of February 29, 1948.

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow morning, at which time we will hear from Mr. Marriner Eccles on the first point in the President's program.

(Thereupon, at 4:45 p. m., the committee adjourned, to reconvene Tuesday, November 25, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

TUESDAY, NOVEMBER 25, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECOMONIC REPORT,
Washington, D. C.

The committee met at 10:10 a. m., pursuant to adjournment in room 318, Senate Office Building, Senator Robert A. Taft, chairman, presiding.

Present: Senators Taft (chairman), Flanders, O'Mahoney, Sparkman, and Representatives Rich, Hart, and Huber.

Senators Ecton, Baldwin, Kem, and Representatives Poulson and Horan.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

We have this morning, Mr. Marriner Eccles, the Chairman of the Board of Governors of the Federal Reserve System, who will deal in particular, as I understand it, with the President's first point in the message, to restore consumer-credit controls and to restrain the creation of inflationary bank credit.

You may proceed, Mr. Eccles.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. ECCLES. Mr. Chairman and members of the committee, I do not, in coming before this committee today, speak for the Federal Reserve bank presidents or the Federal Reserve System, as a whole. I speak for the Federal Reserve Board of which I am the Chairman; this Board, being an independent body and an agent of the Congress, required to report to Congress annually or oftener as the occasion may require.

I did not attempt to negotiate clearance of the statement I have with the Reserve bank presidents. Time did not permit. I did not attempt to negotiate it as an administration statement.

The CHAIRMAN. Mr. Eccles, in that connection, may I ask whether the administration is going to present any other remarks on this proposal that we enact legislative action to restrain the creation of inflationary bank credit, or will you be the only one?

Mr. ECCLES. I really could not say, Senator Taft, whether Mr. Snyder or others may discuss that question. I am not prepared to say.

If I may then read the statement without interruption, and then discuss it later, I would appreciate it. It is rather a long statement because this subject is considerably involved.

You have requested me to testify, I take it, as to what might be done in the monetary and credit field to deal with inflationary forces, which have already gone so far as to cause very serious maladjustments within the economy. Correction is overdue. The longer it is postponed, the more severe will be the inevitable reaction.

I am sure this committee recognizes that a great many factors and forces contributed to the inflationary problem, and that there is no easy, simple, or single remedy.

We are already in the advanced stages of this disease. It is no longer a question of preventing it, but of moderating so far as possible its ultimate ravages.

At best, monetary and credit policy can have only a supplemental influence in any effective treatment of either inflation or deflation. In considering what can be done so far as monetary and credit action is concerned, it is necessary to make a correct diagnosis of the multiple causes of the situation with which we are now confronted.

What is inflation? It is the condition which exists when effective demand exceeds the over-all supply of goods and services. Potential over-all demand always exceeds supply. What is lacking in deflation is effective demand.

We are witnessing effective demand today when individuals and businesses, together with State and local governments, as well as the Federal Government, generally have money which they are trying to spend, bidding for an insufficient supply of goods and services.

This effective purchasing power is composed of past savings, current income, or future credit. The savings were largely accumulated during the war years in the form of currency, bank deposits, and Government securities.

At the end of 1946, individuals and businesses held about $223,000,000,000 of such liquid savings, or more than three times the prewar total.

Similarly, current national income is at an all-time high level. It is running at a rate of $200,000,000,000 a year, or about two and a half times the total for 1940, the highest year prior to the war.

It is due to a record high agricultural income, high wages of organized labor, and other workers, but not all of them, and to the unprecedented business profits.

This is augmented by a readily available supply of excessively easy credit for consumers' goods of all kinds, for housing, for short- and long-term business loans, for State and municipal expenditures, and for foreign credits and grants. The notable exception is loans to buy listed stocks, which are sharply restricted by the Board's margin requirements.

In the face of these large and expanding demands, production is practically at capacity and further growth will necessarily be slow.

The physical volume of output of manufactured goods and minerals in 1947 has averaged 186 percent of the 1935–39 average. Current output is about one-fifth below the wartime level, largely because of the reduction in weekly working hours.

Agricultural output in physical terms has continued for the past 3 years at record levels of about a third above the maximum of any prewar year.

This volume reflects general favorable weather, and further growth can hardly be expected. Construction of all kinds, including residential building, is close to any previous peacetime peak.

Expansion of building is now being retarded by shortages of essential labor and materials. Railroad transportation is limited by the shortages of railroad cars and other equipment. Employment is at very high levels with acute shortages in many fields and with a minimum of unemployment.

The source of the present inflation is war financing, and the enormous Federal deficits incurred in preparation for and prosecution of global war.

During the 6-year period, June 30, 1940, through June 30, 1946, the Government raised about $398,000,000,000, but only $176,000,000,000, or 44 percent, came from taxes. The remainder of 222 billions, or about 56 percent, was raised by borrowing. And of this total which was borrowed, approximately $90,000,000,000, or 23 percent of total needs, was raised by selling Government securities to the commercial banking system, including those purchased by the Federal Reserve banks.

As the Reserve Board stated in its 1945 annual report to Congress, it is important to bear in mind that borrowing from the banking system, whether by the Government or by others, creates an equivalent addition to the country's money supply.

To the extent that the Government did not finance its war program by taxation, it was obliged to borrow, and to the extent that it did not borrow from nonbank investors, it relied upon the banks, and thus created new supplies of money.

The Federal Reserve, by purchasing Government securities supplied the commercial banks with reserves needed as a basis for the increased money supply.

As a result, the country's money supply, as measured by privately held demand deposits and currency in circulation, increased more than two and one-half times, rising from less than $40,000,000,000 in June of 1940, to $106,000,000,000 at the end of June 1946.

In the same period, time or savings deposits nearly doubled. In addition, the general public, outside of banks, insurance companies, and Government agencies, accumulated or increased holdings of Government securities to $100,000,000,000, or nearly seven times as much as in June of 1940. These Government securities in the hands of the public are the equivalent of money because they are readily convertible into cash.

It should be strongly emphasized that the banking system was the instrument, and not the instigator, of this swollen money supply. The bankers performed a vital service in the financing of the war and, particularly, in the sale and distribution of savings bonds and of other Government securities.

If it were possible to finance a great war entirely by taxation there would, of course, be no increase in the public debt. Or if it were possible to do the financing by a combination of taxation and borrowing outside of the banking system, there would be no increase in the money supply.

In retrospect, we can see that we could have, and probably should have, taxed more and borrowed more from nonbank investors, and less from the banking system.

We are suffering the consequences today of an excessively swollen money supply which neither the bankers individually nor the Government authorities have adequate means at present of controlling.

In order to enable the banks to purchase Government securities essential to the financing of the war, the Federal Reserve System maintained easy money conditions and made Federal Reserve credit and reserves readily available to the banks.

The vast money supply thus created was held in check by an elaborate harness of controls consisting, among other things, of allocations of scarce materials, construction permits, price and wage ceilings, rationing, and the excess-profits tax.

When the harness of controls was prematurely removed and no effective substitute was devised to hold back the flood of effective demand, it was apparent, or at least it should have been apparent, that a sharp rise in prices was inevitable.

As a result, the economy was caught in a dangerous wage-price-profit-credit spiral, acutely intensified by short farm crops abroad, and reduced corn and cotton crops at home.

Critical conditions aboard, in part resulting from our rising prices impose upon us obligations which must be met even though they add to our inflationary difficulties.

It would be blindly and foolishly optimistic to believe that the spiral of inflation can continue through further general wage, price, and profit increases, and further over-all expansion of credit without ultimate serious deflation.

The longer the necessary readjustment is delayed, the longer it will take to reach a stable condition of employment and production.

The most serious maladjustments are evidenced by the increasing numbers of our people whose income do not keep pace with the rising cost of living. They are being priced out of the market for housing and many other things, and in countless instances, their savings and credit have already been exhausted.

The higher prices rise and credit expands, the greater the subsequent liquidation and downward pressure on prices is bound to be.

As the November letter of the National City Bank of New York correctly states:

> Rapidly accumulating debt is both a cause and a consequence of the inflationary pressures, for in a wage-price spiral, business constantly needs more and more money to keep going and this leads to the incurrence of more and more debt by business and more and more spending by the individual. To check this kind of spiralling—which is to the ultimate benefit of no one and to the injury of all—is not simple.

The problem we all face now is what can be done at this late stage, if necessary to curb further inflationary developments. As a practical matter, we cannot now put back the elaborate harness of wartime controls, and it seems that we are left only with the choice of certain curbs or restraints selectively applied at some of the more critical points of danger.

In the absence of a comprehensive scheme of controls we must continue to put our main reliance on fiscal policy, which is by far the most effective way to deal with the demand side of the equation, while we do everything possible to maintain and increase production.

We should have the largest possible budgetary surplus while the inflation danger exists. And this means taking from the public in taxes money that otherwise would continue in the spending stream. It means rigid Government economy. It means deferment of all expenditures, Federal, State, or local, to the greatest extent consistent with public obligations at home and abroad.

Using the budgetary surplus to pay off bank-held public debt as it becomes due will reduce the money supply by an equivalent amount. This is a reversal of the process by which the money supply was expanded.

In an inflationary boom such as we are experiencing, the Government should pay off as much of its debt as possible.

Public debt cannot be reduced during deflation. Budgetary deficits, not surpluses, are an inevitable consequence of serious deflation. Tax reduction would be appropriate after deflation sets in, not during an inflationary period.

If a reduction of taxes at this time would, in fact, call forth more production, then it would be justified. Today, we still have acute scarcities of labor and materials.

Adding to existing buying power, either by tax reduction or by aggregate expansion of credit, can only have the effect of bidding up the prices paid for both labor and materials.

If conditions were reversed and we had idle labor and a surplus of materials and productive facilities coupled with a shortage of capital and insufficient purchasing power, then reduction in taxes, particularly those which would stimulate mass buying power, would be in order.

If I were to outline a program to meet the situation with which we are now faced, I would list the following steps to deal with the causes rather than with the effects of inflationary pressures. They are listed in which I consider their order of importance.

1. Increased productivity both at home and abroad. Production is the ultimate solution for inflation. Nothing could be more effective than increased productivity of labor and longer hours of work by everyone.

In short, if all who are engaged in producing goods and essential services were to work more, and save more, and spend less, the unbalanced relationship between demand and supply would most effectively be corrected and prices would come down.

2. Suspension of future demands for wage increases, especially those of organized labor, where the increases have been greatest, is necessary if the present unbalanced relationship is to be corrected without severe deflation.

Business profits after taxes are more than double what they were in any prewar year, and almost double the profits in any war year, and therefore, business should hold prices down or should reduce them in accordance with what would be reasonable earnings.

3. A fiscal policy to produce the largest possible surplus to be used to pay off bank-held Government debt, and thus reduce the money supply.

This means the greatest possible economy in all Government expenditures. It means more adequate financial support of the tax-collection machinery of the Government to prevent tax evasion. It means no general decrease in tax rates at this time. It should also mean the elimination of the agricultural price support program unless price ceilings are reimposed.

4. Legislation giving the Federal Reserve System such authority as may be necessary to restrict further over-all expansion of bank credit.

The need for this authority would be less if Congress authorized other anti-inflationary measures such as restoration of consumer installment credit restrictions and if stricter appraisals and less liberal credit terms were applied under the Veterans' Administration, the FHA, and the home loan bank programs of housing finance.

5. Continuation and expansion of the Treasury's savings bond campaign, with adequate financial support by Congress. Funds so raised have a twofold effect: It removes these funds from the spending stream, and makes them available to pay off bank-held debt, thus reducing the money supply.

Other actions have been proposed which, however, deal with the effects rather than the causes. Allocations, construction permits, price and wage ceilings, commodity margin requirements, installment credit regulation, export and rent controls, and similar devices are all in the category of curbs rather than cures. Where they can be applied as a practical matter and enforced, they can be useful, but they do not go to the sources of the problem.

I should like to summarize what the Federal Reserve Board believes might be done in the monetary and credit field. In its 1945 and 1946 annual reports to Congress the Federal Reserve Board described the situation in which those with responsibility for monetary policy find themselves as a consequence of the war.

As the Board stated in the 1945 report:

> In common with other nations whose energies were devoted primarily to winning the victory, the United States had no choice, under the exigencies of a global war, except to use monetary powers in furtherance of essential war financing and not as an anti-inflationary weapon. There has been a widespread assumption that, with the coming of peace, such statutory powers as the Reserve System possesses should be exerted in the traditional way against the heavy inflationary forces at present confronting the country. The Board believes that such an assumption does not take sufficiently into account either the inherent limitations of the System's existing statutory powers, under present-day conditions, or the inevitable repercussions on the economy generally and on the Government's financing operations in particular of an exercise of such existing powers to the degree necessary to be an effective anti-inflationary influence.

Of late, the Federal Reserve System has been increasingly criticized for not adequately using its existing statutory powers to restrain bank credit expansion.

It is very important, therefore, that the Congress understand what those powers are and why the Board does not believe they can be used to deal with the credit problem and why we suggested in the 1945 and 1946 reports, and suggest now, that Congress consider providing other authority that may be necessary to cope with the situation.

We did not then, and we do not now, seek power, but we feel that we would be remiss, as an agency of Congress, if we failed to report the situation as we see it, and to propose alternative means of dealing with it inasmuch as we feel that our existing powers are insufficient.

The Reserve System has always had broad powers to influence the supply and cost of bank credit. Through open market operations, that is, buying and selling of Government securities, the System either gives reserves to the banks or absorbs reserves.

Reserves are the foundation on which bank credit is built. If banks have no reserves they cannot lend. But they can obtain reserves when they borrow from the Federal Reserve banks or sell Government securities to the Reserve banks. And the banking system automatically receives reserves through gold acquisitions, and also when the Federal Reserve banks buy Government securities from nonbank investors.

The Reserve System can restrain banks from borrowing by raising the discount rate sufficiently high to make the borrowing unprofitable. It could refuse to buy Government securities and shut off that source of reserves. It has no powers to deal with reserves arising from gold acquisitions.

Why, then, doesn't the System simply make the discount rate prohibitive and at the same time refuse to buy any more Government securities? Let me say that if Congress disagrees with us and feels, as do some bankers and insurance company executives, that we should more fully use existing powers, we would welcome such an expression from the Congress.

In that case, there would be no need to consider any alternative powers. On the other hand, if Congress agrees that our existing powers are not appropriate under present circumstances, full considreration should be given to any proposal that would help to meet the situation.

Senator O'MAHONEY. May I interrupt you?

Mr. ECCLES. If I could get through—I just suggest that I might finish this, Senator O'Mahoney, if I may.

First, let us consider what the effect would be of raising the discount rate by itself. Actually, the effect would be negligible, except for possible psychological reaction, because as long as the System stands ready to buy Government securities in the open market, banks can obtain reserves at will by selling such securities out of their portfolios.

Suppose then that the System refused to buy the securities, and that is the heart of the matter, what would be the consequences? Bear in mind that the total interest-bearing debt of the Government is $256,000,000,000; more than five times what it was before the war.

The public debt at the beginning of 1940 was about one-fifth of the total public and private debt of the country, whereas, at the present time it is nearly two-thirds of the entire public and private indebtedness of the country.

About one-third of the total Government debt is short-term marketable debt, and would need to be refunded into higher-rate securities. This would raise the cost to the Government, and therefore to the taxpayers, of carrying the public debt.

Already the Nation's tax bill for interst cost is approximately $5,000,000,000, or nearly one-seventh of the total Federal budget.

Just how high would interest rates have to rise to deter business and individuals from borrowing from banks? Higher interest rates do not deter the lender. Rising interest rates are like rising prices. At some point they do deter the borrower or the buyer. They do not deter the lender or the seller.

I doubt if anybody knows how high interest rates, especially short-term rates, would have to rise to discourage borrowers. Certainly, the rates would have to be substantially above the present relatively low levels.

Bank customers, particularly business, with seemingly insatiable markets awaiting their products, are hardly to be deterred by one or two points of increase in bank interest rates.

The additional costs to the Government in carrying the public debt would be difficult to estimate, but they would amount to billions a year over a period of time. If that were the only consequence, it might be argued that the extra cost to the Government would be justified because inflationary borrowings would cease.

However, this is only one aspect of the matter. In the process of leaving Government securities to the free play of variable forces in the market the Treasury would be confronted with a continuing puzzle in all of its constantly recurrent refunding operations.

It could not tell from day to day at what price it could sell its securities. It would be entirely at the mercy of uncontrolled factors in the market, if indeed, conditions did not become so confused and chaotic as to demoralize completely any refunding operations.

I recently saw a prediction by a very keen bond market analyst that failure of the Reserve System to support the 2½ percent rate of marketable Government bonds would lead to a wholesale liquidation of all Government bonds, including the nonmarketable E, F, and G bonds.

He declared that it would be the most dramatically inflationary move that could be made at this time, the repercussions of which would be, as he put it, so catastrophic as to make present fears appear as one raindrop in a storm. That is strong language. Nobody can say with certainty that it is too exaggerated.

In any case, I think it is fairly clear that withdrawing support from the Government securities market, and letting interest rates rise on Government securities would not increase the power of the Federal Reserve System to offset increases in bank reserves from gold acquisitions.

Sales of System holdings of Government securities for this purpose would have to compete with private credit demands.

Private borrowers might outbid us for these reserves. There would be no certain level of security prices or interest rates at which we could dispose of enough Government securities to offset gold imports.

On the other hand, we have to recognize what would happen if we follow the present course of policy in order to maintain the public's confidence in Government credit and avoid any unnecessary increase in the interest cost to the Government for carrying the public debt.

Commercial banks currently hold about $70,000,000,000 of Government securities. This sum is about 50 percent of their total deposits.

If they should sell half of these securities and the Federal Reserve System, in providing an ultimate market, should buy them, the banks would acquire an equivalent volume of new reserves.

On the basis of these reserves, the banks could expand credit by about six times, or by more than $200,000,000,000. This is nearly double the present net demand deposits and currencies.

While it is unlikely that the banks would dispose of so large a proportion of their holdings, it nevertheless is a measure of the potential bank credit expansion that can occur if the banks are left with complete freedom to convert their Government security holdings into reserves at will.

This bank credit expansion potential is apart from other sources of bank reserves. Gold is now flowing into our banking system in large quantities from foreign holdings. As a result, deposits are increased and on the asset side banks gain an equal amount of reserves.

Over the next year, the gold inflow is estimated at from 2 to 3 billion dollars. Multiplied by six, this would permit an expansion of bank-credit of from 12 to 18 billions.

There are two other important potential sources of increased bank reserves. Nonbank investors, mainly business corporations, hold about $13,000,000,000 of short-term Government securities.

Businesses face increasing needs for working capital under prevailing inflationary conditions. To some extent, these needs will be met by sales of short-term Government securities, which the Federal Reserve System may have to buy.

The second possible source of bank reserves is the 59 billions of marketable, medium, and long-term Government securities held by nonbank investors.

With widening opportunities for the placement of funds in private investment at increasingly attractive yields, there is a small amount of shifting by investors of their holdings of marketable long-term Government securities.

If inflation continues, this shifting will likely increase. Such sales have to be met by Federal Reserve support of the prices of marketable Government bonds so as to protect the 2½ percent rate on long-term issues. The result of these support operations is to increase bank reserves and thus to support further inflation.

Under present and prospective conditions, it is not only desirable but essential in the opinion of the Treasury and of the Reserve System, that the established 2½ percent rate on long-term marketable Government securities be maintained.

The Federal Reserve Board has one other power that it has been criticized by some for not using. That is the power to raise the reserve requirements of the banks in New York and Chicago from 20 to 26 percent of their net demand deposits.

This is a relatively minor matter and does not in any way go to the heart of the problem. Any action taken would have an effect on banking conditions only in two cities in which the credit expansion, as well as deposit growth, has been relatively less than for the rest of the country.

We have given a great deal of study to this admittedly difficult and complex problem. We are convinced that the remedy of letting interest rates on Government debt go up on the theory that this would bring an end to inflationary borrowing is dubious at best, as has been demonstrated in past monetary history, notably in the twenties, when high rates were unsuccessful in restraining speculation in the stock markets, real estate; or otherwise.

As was made clear in the annual report for 1946, we are not opposed in principle to higher interest rates if some desirable ends and the public interest can be served by such a policy.

In fact, in recent months we have cooperated with the Treasury in permitting some moderate, corrective rise from wartime levels of interest rates on short-term Government securities.

This adjustment was made to reduce the wide differential prevailing between short-term and long-term interest rates. Such a large differential was having the effect of encouraging banks to sell short-term securities, which the Federal Reserve bought, and to buy long-term securities in the process, thereby encouraging multiple credit expansion.

The differential in rates was also exerting a strong downward pressure on yields of long-term securities.

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We were aware that this decline was artificially induced by investment policies of the banking system known as monetization of the public debt, and resulted in bank credit expansion.

We also recognized the importance of checking the decline in long-term interest rates to protect educational, charitable, and pension funds, as well as insurance institutions, savings banks, and individuals depending upon interest for income.

The action permitting a moderate rise in short-term interest rates coincided, however, with strong demands for long-term funds, which put considerable strain on the market for corporate and municipal securities.

As a consequence, these issues have been made more attractive as investments. They are thus somewhat more competitive with long-term Governments than before.

We have to face this fact of the market place, and be prepared to offset any shifts in investor holdings from Government bonds to other securities.

The undesirable aspect of the situation, from the standpoint of inflationary credit conditions, is that support of Government bonds adds to bank reserves.

These developments indicate that a policy of permitting interest rates on short-term Government securities to rise has gone about as far as can be justified under present circumstances.

We have, therefore, been compelled to seek some better alternative than higher interest rates to restrain further bank credit expansion.

We believe that one is available which will not make the Government and the taxpayer bear the added cost of the restraint, that will impose very little, if any, hardship on the banks, that will, in fact, have a compensating aspect in that the restraint imposed would increase interest rates on private borrowings without additional cost to the Government.

I refer to the second alternative proposed in the 1945 annual report. We recommend for consideration, as the best alternative we have been able to devise, that all commercial banks be required as a temporary measure to hold some percentage of their demand and time deposits, in addition to present reserves, in a special reserve in the form of Treasury bills, certificates and notes, or cash, cash items, interbank balances, or balances with Federal Reserve banks.

Such a requirement would be far less onerous for the banking system than any other effective method that has been suggested in the long period in which this problem has been discussed by bankers, by economists, and public officials.

Manifestly, such a requirement would have to be imposed gradually, if at all, as an offset, for example, to bank reserves created by gold acquisitions, and by the purchase of Government securities from non-bank investors, and also to limit the too-ready availability of reserves, now enabling banks to obtain them at will. A multiple expansion of credit can be built on these reserves at a ratio of fully $6 of lending for every dollar of reserves.

We would propose that the special reserve requirement be limited by law to a maximum of 25 percent on demand, and 10 percent on time deposits.

It should be made applicable to all commercial banks. It would not be effective if applied only to member banks of the Federal Reserve System, and would be an unjustifiable discrimination.

We recognize that this proposal is no panacea, but it would be an important, available restraint, now lacking, to be applied equally to all commercial banks so that the individual banker would be in the same competitive situation he is in today.

Over the next 4 months there is likely to be little need for the suggested special reserve because of the large amount of Treasury surplus funds, taken from the market through taxes, which will be available to retire bank-held public debt.

This would temporarily exert pressure against bank credit expansion.

The proposed special reserve requirement has a number of important advantages over other methods of dealing with the problem of restricting the banks' expansion of credit:

1. The plan would have about the same effect in limiting credit expansion as an increase in primary reserve requirements, which was proposed as the third alternative in the 1945 annual report. It would enable the banks to retain the same volume of earning assets that they now hold, whereas, an increase in basic reserve requirements would make it necessary for them to reduce earning assets, with adverse effects upon the earnings position of banks.

2. The ratio of potential credit expansion on a given increase in reserves would be narrowed to the extent that the special reserve was required. At the maximum requirement proposed, it would be lowered from 6 to 1 to nearly 2½ to 1.

3. It would bring about an increase in interest rates on private debt and would increase earnings of the banks from this source where rates on loans are comparatively low. It would accomplish this purpose, moreover, without increasing the interest cost on the public debt or permitting unstable prices in the Government securities market. The plan, in effect, would divorce the market for private debt from the market for Government securities.

4. The plan would not rely on higher interest rates to restrain private borrowing, but to the extent higher interest rates restrain such borrowing, the proposal would make use of the interest rate mechanism. Hence, the cost of restraining credit would be borne by private borrowers who are incurring additional debt, and not by the Government which is reducing its debt.

5. The main effect of the plan would be to reduce the availability of bank credit. This would be accomplished by putting the restraint on the lenders, that is, the banks. They would be less willing to sell Government securities in order to expand credit because the amount of such liquid assets as they held as secondary reserves could be greatly reduced by the requirement. Such a possibility, even without action being taken by the Reserve authorities, would have a very restraining influence.

6. The plan would restore use of the customary instruments of Reserve influence on bank-credit expansion, namely, discount rates and open-market operations. Support of these instruments by the special reserve requirement would enable the Federal Reserve to make it more difficult and costly for banks to borrow Federal Reserve funds.

7. No alterations in the banking structure, in the authority of the supervisors, in customary methods of bank operations, or in established interbank relationships would be introduced as a result of imposing the requirement.

8. The banks would be left by the plan with sufficient latitude to meet essential needs of the economy for credit, and the public would be assured of a high degree of liquidity and safety for the banking system.

Many bankers argue that this proposed requirement is unnecessary because the banks themselves have a vital interest in the conservative extension of credit, and will prevent excessive credit expansion as a matter of ordinary banking prudence.

The banks, however, are confronted by a situation in which they can readily meet unlimited private credit demands and in which such demands are vigorously sustained by inflation while, at the same time, these demands are contributing to inflation. They are both cause and effect.

The banks are not in a position to refuse legitimate, sound credit demands of individual customers, and current loans, taken separately, which in the light of the customer's satisfactory credit risk do appear to represent legitimate credit needs. But in accommodating these credit demands freely, the banks as a system are expanding bank deposits and adding to the money supply.

From the beginning of 1946 through October of this year, the banking system as a whole has increased its loans and investments—other than Treasury obligations—by an estimated $12,000,000,000. This has added a like amount to the money supply.

This, together with gold acquisitions, is largely responsible for an increase in privately held deposits of $14,000,000,000.

Reconversion of the economy from war to peace required aggressive bank financing of agriculture, commerce, and industry in order to facilitate the earliest possible attainment of peacetime activity on a much higher level than prevailed before the war.

Some of this bank credit expansion for private purposes, therefore, was justified. High levels of peacetime activity have long since been attained, however; yet, bank credit expansion is continuing and in recent months has gained rapid momentum.

None of us likes restraints. I am sympathetic with the bankers who resent seeming to be singled out for a special restraint on their wares, which are loans and investments. To the uninformed, it might appear that the banking system has been or is now to blame for the oversupply of money. This is not the case.

Instinctively and naturally, bankers do not relish restrictions on their activities, any more than labor likes wage controls, or agriculture likes price ceilings.

We realize that the special reserve proposal which we consider the best alternative, after considering all of the circumstances, will be very strongly resisted by those bankers who fear that it points accusingly at them, or that it is more regimentation, more bureaucratic reaching for power, or an encroachment on State rights, or an opening wedge to force nonmember banks into the Reserve System.

All these things have been said to us privately or publicly and we can only say that if a better alternative can be devised, we would welcome it.

The Board recommends that the administration of the special reserve plan be placed in the Federal Open Market Committee, whose members, in addition to the Reserve Board, are five presidents of the

Federal Reserve banks. This should help to remove some of the misgivings of bankers.

The opposition of some very prominent bankers to any new power for the Federal Reserve is expressed in a statement which they have asked me to submit for the record. It is a statement of the Federal Advisory Council, composed of 12 bankers, one from each Federal Reserve district.

Often we agree. In this case, they unitedly oppose the remedy we advocate. They contend that banks are not indulging in inflationary expansion of credit; that, therefore, the problem should be attacked on other fronts, and that no legislation is required on the banking front. They differ with us also in unanimously opposing reinstatement of installment credit regulations.

I am sure that the Council's views reflect the opinion of a great many bankers, who are entirely sincere in the belief that the loans they are extending are safe, deserving risks necessary to sustain full production.

That conviction, honestly held, is unhappily characteristic of boom psychology. In 1920, or in the latter part of that decade, bankers would have made the same replies that they give today if asked whether they thought the loans they were making should not be made. A short time later, they were trying desperately to liquidate some of these loans. The individual banker is judging by standards applying to the individual borrower and risk.

The Reserve Board, the Congress, and all responsible for public policy must necessarily approach the whole problem from a different standpoint.

The question we must ask is whether any further expansion in the aggregate amount of credit is desirable or dangerous. If it, in fact, calls forth more production it would be desirable. If it only permits one borrower to bid against another would-be buyer for scarce goods and thus adds to upward pressures on prices, it is dangerous.

It is our best judgment that over-all expansion of the money supply at this time is inflationary and dangerous.

It is unfortunate, I think, that banking leaders oppose protective measures against inflationary forces arising in the credit field. They seem to forget that in order to assist in war financing, the Government provided the banking system with additional reserves which enabled the banks to buy Government securities; that this created new deposits in the banks; and that banks have had also the benefit of interest received on the government securities they have held and will continue to hold for an indefinite period.

They object even to a temporary limitation on the further use of these funds as a basis for loans to private borrowers, which would in turn create more and more deposits.

The Government has an obligation and a duty to step in at this time of national danger to say to the banks, "We are not proposing to deprive you of benefits you have already derived and will continue to derive from the vast increase in bank deposits resulting from your purchases of Government securities, but we do say that you should be willing to accept a reasonable limitation on using a war-created situation to multiply private loans in peacetime when they serve to intensify inflationary pressures."

To sum up, the proposed special reserve requirement is only a part, though a necessary part of any effective anti-inflationary program.

As I have indicated, action on other fronts, by far the most important of which is fiscal policy, is necessary to the success of that program. And the need for action on the monetary and credit front would be reduced to the extent that needed action is taken on other fronts.

I want to apologize for such a long statement, Mr. Chairman, but I did not feel that otherwise I could cover this situation adequately. I wanted, for the sake of the record, and the Board wanted for the sake of the record to make this rather comprehensive statement. It is one of the most important statements, I think, that we have ever made.

Senator O'MAHONEY. I think it was comprehensive.

The CHAIRMAN. I think it was comprehensive and sets out the arguments on both sides very completely, which presents problems that are not easy to decide on our part.

Mr. Eccles, I wanted to get the amounts of these credits. Have you the figures supporting and showing the statements made toward the end of your statement regarding the increase in bank loans, currency in circulation, deposits, and so forth, by months?

Mr. ECCLES. Yes, we have them.

I would like to put something in the record. I referred in my statement to a statement of the Federal Advisory Council, which was addressed to the Board on November 18, and we submitted to the Council, which meets with us four times a year, this question for their consideration and advice:

> The Board is very much concerned about the rapid expansion of bank credit. The Board, therefore, desires to have the views of the Council as to the further steps that might be taken to correct this serious situation through monetary or fiscal means.

That was the question, and that brought forth this reply from the Council, which they have asked that we put in the record, and we also told them that we would expect the Board to reply specifically to their answer to our question, and therefore, I should like to put into the record the answer of the Council to the Board's question as well as the answer of the Board to the Council's reply, if I may do so.

(The documents are as follows:)

STATEMENT OF FEDERAL ADVISORY COUNCIL, ADDRESSED TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, NOVEMBER 18, 1947

INQUIRY OF BOARD

The Board is very much concerned about the rapid expansion of bank credit. The Board, therefore, desires to have the views of the Council as to the further steps that might be taken to correct this serious situation through monetary or fiscal means.

ANSWER OF COUNCIL

The Council has reviewed the question of the volume of bank credit both in the aggregate and as shown in the banks with which they are familiar.

We do not know what "serious situation" in bank credit the Board has in mind. For the past year the total volume of bank credit (i. e., the available amount of bank money) as measured by adjusted demand deposits has shown only a moderate increase. As bank loans have increased, the banks have decreased their investments.

We find nothing in bank loans themselves to suggest that growth of loans has been an active inflationary factor. It rather appears to have been a reflection of the very high level of business activity and high prices.

To a large extent growth of loans is a direct result of Government policies. For example, an increase of nearly $4,000,000,000 in the real estate loans by insured banks since the end of the war reflects directly the purchase of FHA and GI mortgages in the housing program.

The Reconstruction Finance Corporation is encouraging bank lending by guaranteeing risky loans.

Commercial loans are influenced by high prices and active movement of agricultural and manufactured products for the foreign-aid program.

High wages and high costs of materials have meant that business needed more money to take care of its customers.

There is nothing in the figures or our experience to suggest that there exists any substantial lending for speculation or for unnecessary uses. Loans for carrying securities are much reduced.

In this period the Government, through various agencies, has been making loans that the banks refrained from making because of their speculative nature. The Reserve System itself is asking for more power to guarantee loans on the presumption that bank lending is too cautious.

The causes of our present inflation are not in current banking policies but are found in the great wartime expansion of buying power together with unusual events and public policies since that time. Among recent inflationary causes may be listed the following:

The foreign-aid program.

A cycle of wage increases in excess of increases in either the cost of living or productivity.

A shorter working week.

A short corn crop.

Veterans bonuses and relief payments.

Agricultural price subsidies.

United States Government spending of $36,000,000,000 a year.

Housing subsidies.

In the face of these developments a substantial increase in bank loans was inevitable and the banks have shown restraint. The dangers in the present situation are understood by bankers and there is hardly a bank in the country which has not been warning its customers against overexpansion. The loans being made are mostly for direct production.

The first thing to do is to reconsider Government policies which are inflationary and especially excessive Government spending and subsidies.

We recognize that even though the causes of inflation are largely outside the sphere of monetary policy, the Reserve System has a special responsibility for bank credit and in this situation should take all reasonable care to assure conservative credit policies.

In this special area we suggest that the System and the Treasury already have large powers, without new legislation, to place credit under broad restraints.

One of these powers is the discount rate which is a recognized instrument for serving notice on the public of the need for restraint in the use of credit.

Similarly by open-market operations the System can control the reserves of the member banks and limit their lending power.

The Board also still have the power to raise reserve requirements in central Reserve cities and so tighten money.

The Treasury by the pricing of new issues and the handling of its balances has great influence on the rate and volume of money.

In the past year the System and the Treasury have used these powers effectively.

The money markets and the policies of businessmen are today so sensitive to action of these sorts which the Reserve System and the Treasury take that present powers are ample to place all restraints on credit expansion which the System and the Treasury may consider necessary.

The Council wishes it clearly understood that it shares the apprehension of the Board of Governors with respect to inflation dangers. It does, however, most strenuously object to the singling out of the increase in bank loans as a principal contributing factor; and it has attempted to point out above, the vastly more important elements of inflation—of which bank loans are a barometer.

This is not to say that there have not been unwise bank loans in some cases. After all, banking is a form of human endeavor, operated by human beings. It would be amazing if there were not some errors in judgment. But we submit that, on the record, there is no evidence of bank-credit expansion beyond that which could be expected under all the circumstances. There is every evidence that loans are today doing a wholesale and constructive work in their intended place in the economy.

The Council has studied the increase in consumer credit in relation to the termination of regulation W. While consumer credit has increased substantially, much of this reflects the availability of automobiles and household appliances. There is so far too little experience on which to judge the effect of the termination of regulation W. The American Bankers Association is undertaking with considerable success to insure maintenance by banks of sound lending standards. This effort toward voluntary cooperation seems to the Council the sensible and the democratic method of dealing with this problem, both with respect to the banks and other lenders. The Council is opposed to legislation giving the Board new regulatory powers in this matter.

Suggestions in the President's message to Congress with respect to credit control indicate the possibility that the Federal Reserve Board may present to Congress the proposal in its 1945 annual report for a required bank reserve of short term Government securities. The Council therefore wishes to state its views on this proposal.

The proposal as we understand it is that banks should be required by law to maintain, in addition to cash reserves, reserves of short term Government securities in a percentage relationship to deposits, to be fixed from time to time by the Federal Reserve Board.

The Council is unanimously opposed to this scheme for the following reasons:

1. It is impractical. The operations of banks are so different, reflecting as they do adaptation to the varying needs of their communities and customers, that no percentage of short-term Government security holdings can be applied fairly or practically to all banks. Any percentage high enough to offer any measure of restraint on a substantial number of banks will have disastrous effects on many other banks, compelling them to liquidate sound and necessary loans and thus actually check production. The very banks which have served the business in their communities most aggressively and helpfully would be hardest hit.

2. Such a plan would substitute the edicts of a board in Washington for the judgments of the boards of directors of 15,000 banks throughout the country as to the employment of a substantial part of the funds of their banks. This is a step toward socialization of banking.

3. As indicated earlier, the Federal Reserve System and the Treasury already possess large powers of credit control not now being fully used. Such new powers as those proposed are not necessary.

Relation of Bank Credit and Inflation—Reply by Board of Governors of the Federal Reserve System to Statement Issued by Federal Advisory Council

Board of Governors of the Federal Reserve System, November 25, 1947

The Federal Advisory Council, composed of one banker from each of the 12 Federal Reserve districts designated under statutory authority to advise the Board of Governors of the Federal Reserve System, was recently asked by the Board for an expression of the Council's views as to the present credit situation. The Board stated that it "is very much concerned about the rapid expansion of bank credit. The Board, therefore, desires to have the views of the Council as to the further steps that might be taken to correct this serious situation through monetary or fiscal means."

The Council's reply, which has been released for publication by the Board and presented to Congress by the Chairman of the Board, states that the Council finds "nothing in bank loans themselves to suggest that growth of loans has been an active inflationary factor. It rather appears to have been a reflection of the very high level of business activity and high prices." While the Council shares the apprehension of the Board with respect to inflation dangers, it believes that "the causes of inflation are largely outside the sphere of monetary policy." Nevertheless it recognizes that "the Reserve System has a special responsibility for bank credit and in this situation should take all reasonable care to assure conservative credit policies." The Council expresses the view that in this special area present powers are ample, without new legislation, to place all restraints on credit expansion which the System and the Treasury may consider necessary.

Recent credit expansion.—The rapid expansion of bank credit, about which the Board is concerned, is indicated by the growth of bank deposits held by businesses and individuals at all commercial banks in the United States, which increased by $14,000,000,000 from the end of 1945 to the end of October this year. The growth exceeded $3,000,000,000 in the last 4 months and is continuing. This growth was on top of a nearly threefold wartime expansion in deposits and currency which was greatly in excess of needs and has been an important basis of postwar inflationary pressures.

The basis of this continued expansion in bank deposits has been primarily the growth in bank loans, which has been at a more rapid rate than at any time in American banking history, amounting in the aggregate to $10,000,000,000 since the end of 1945. Other factors in the deposit increase have been an addition of nearly $2,000,000,000 to bank holdings of securities other than those of the Federal Government and gold acquisitions amounting to about 3 billions.

These increased loans have been made to businesses, to holders of real estate, and to consumers. Only loans on securities have declined. This decrease is due to liquidation of loans made to purchase Government securities in war loan drives, but loans on other securities have also failed to advance. This is an exceptional situation for a period of inflationary development and is in large part due to the Board's regulation of margin requirements.

It is true, as the Council points out, that banks have reduced their holdings of Government obligations as loans have increased. This decline, however, followed a temporary peak reached during the Victory loan drive and resulted almost wholly from Treasury use of its excessive balances at banks temporarily built up to a high level during the drive. It has not had any effect in reducing private deposits.

Inflationary impact of bank loan expansion.—The Board agrees with the Federal Advisory Council that the basic causes of inflation lie primarily outside of the area of current monetary and banking developments. However, the Board believes that all possible measures and policies should be adopted by Government, business, farmers, and workers to produce more, consume less, and save more, and to avoid cost- and price-raising actions. Furthermore, the Board considers that the most effective means of diminishing the basic causes of inflation is maintenance of the largest possible surplus in the Government's budget. This important means of dealing with the problem is entirely ignored by the Council.

The Board also recognizes that individual banks in making loans are no doubt being guided by the aim of meeting the necessary and constructive needs of borrowers, and that many banks are aware of the dangers in the present situation and are exercising some restraint on borrowers. Expansion in lending has to a large extent been necessary to supply working capital needed by business to maintain or increase production at rising prices. As accumulated cash balances are drawn down funds must be borrowed. Consumers also borrow to supplement incomes and purchasers of homes borrow more than sellers repay because of advancing real estate prices.

In the Board's opinion it is not correct to contend that because inflation calls forth an increased demand for bank loans, these loans do not contribute to inflation. The economy now is caught in a partly self-generating spiral of rising wages, costs, prices, and profits supported by active use of previously accumulated liquid assets and by expanding bank loans. Credit is contributing to the continuation of inflationary pressures. As was well stated, in a recent monthly letter of the National City Bank of New York:

"Rapidly accumulating debt is both a cause and a consequence of the inflationary pressures, for in a wage-price spiral, business constantly needs more and more money to keep going and this leads to the incurrence of more and more debt by business and more and more spending by the individual. To check this kind of spiraling—which is to the ultimate benefit of no one and to the injury of all—is not simple."

Although each loan, taken separately, may aid in the production and movement of goods, yet in view of the limited supplies of goods available, a loan to one business or individual to finance the purchase or holding of goods permits the borrower to bid against someone else who has or is able to obtain funds. Credit expansion thus is called for by price increases and provides the basis for further increases. This process, unless checked by positve limitations on the available supply of credit, could easily lead to catastrophic collapse.

Bankers, businessmen, farmers, wage earners, who in their operations unwittingly contribute to the rising spiral of inflation, cannot individually be held responsible for its course. That course is the result of reliance on the free-enterprise, competitive price system in a situation where demand, supply, and price are not in equilibrium and where a rise in prices can be prevented only through the maintenance of a harness of controls by Government.

For these conditions, the bankers are not responsible either individually or as a group. Their job is to meet the credit needs of their communities constructively, competitively, and profitably; they are not individually in a position to refuse the legitimate, sound credit demands of their customers. They find themselves in a situation in which they can readily meet unlimited credit demands from the public and in which the public's credit demands are vigorously sustained. That situation was created by war, by the necessities of war finance, and by premature abandonment of controls, thereby releasing inflationary pressures. Responsibility of the individual banker for developments can go no further than observance of prudent policy in the extension of credit and the maintenance of proper soundness of loans and liquidity and safety of individual banks.

Responsibility of Government for credit expansion.—The Federal Advisory Council states that Government agencies have been making loans that banks refrained from making. Except in the field of foreign lending, the volume of loans by Government credit agencies is very small relative to the volume of bank loans and the total has not increased. It is true that some of the activities of Government agencies, furthering objectives set forth by Congress, have encouraged unhealthy credit expansion in the field of housing, primarily to aid veterans. Foreign lending by the Government has expanded because of the urgency of restoring production abroad and the difficulties and inadvisability of obtaining private credits for these essential purposes.

The Council refers to the Board's request for authority to guarantee loans in cases where credit is needed but cannot be obtained from banks. The Board wishes it clearly understood that it is requesting merely an amendment of an existing provision of law, for the purpose of rescinding a power which the Reserve banks already have to make loans and revising somewhat their power to guarantee loans. Under existing conditions these powers are not likely to be used but some such power will be needed at times in the future to provide for small business a source of capital, which large corportions can obtain through sales of securities in the market. Amendment of existing law has been recommended to enable the System to return certain funds to the Treasury and this provides an appropriate opportunity to make other long-needed revisions. With reference to this bill the Federal Advisory Council expressed its views on November 18, 1947, as follows:

"The Council is cognizant of the investigation of the activities and powers of the Reconstruction Finance Corporation now being made by a congressional committee. Until Congress has determined whether the Reconstruction Finance Corporation should be continued, and, if continued, what powers to make or guarantee loans should be given it, the Councul feels that no action by Congress should be taken on Senate bill 408. The Council feels that Senate bill 408 should be considered only as an alternative to legislation continuing the present loan and guarantee powers of the Reconstruction Finance Corporation. If the Congress should decide to continue the Reconstruction Finance Corporation without greatly curtailing its loan and guaranteeing powers, the Council would be opposed to the passage of Senate bill 408. The majority of the Council would prefer Senate bill 408 to the continuation of the Reconstruction Finance Corporation powers, but it should also be noted that a minority of the Council is against giving any guarantee or commitment powers to the Federal Reserve banks under any circumstances, as proposed in Senate bill 408."

Means of restricting inflation.—The Board cannot agree with the Council's view that the Reserve System and the Treasury have ample power to place all restraints on credit expansion that the System may consider necessary. As the Board has pointed out in its annual reports for 1945 and 1946 and in other statements, banks are in a position to provide any additional credit demanded by borrowers and the System cannot prevent such expansion. This is the case because commercial banks of the country now hold $70,000,000,000 of United States Government securities, any part of which they can readily sell in order to obtain funds to make loans.

When banks sell Government securities, the Federal Reserve, which provides the ultimate market for Government securities, must purchase them in the absence of other buyers in order to prevent a break-down of the securities market. Federal Reserve purchases create bank reserves which can be expanded by the banking system into more than six times as much in loans and investments.

The Council suggests that the System can restrain inflationary credit expansion through use of existing powers, including authority to increase the discount rate, to sell securities in the open market, and to raise reserve requirements at central Reserve city banks. None of these powers can be used effectively if banks continue to sell Government securities to the Reserve System and thus create additional bank reserves.

In fact attempt to use these powers would increase sales of Government securities in the market by banks and others. If the System refused to purchase any more securities, bond prices would decline sharply. The threat of such a policy would induce a wave of selling of marketable bonds, and if prices on these bonds declined there might be widespread redemptions of savings bonds, which are redeemable on demand. The Reserve System would have to purchase securities in order to meet the drains on the Treasury, and new reserves would thereby be created.

Recent measures by the System and the Treasury to raise interest rates on short-term Government securities have diminished somewhat the inducement to banks to sell short-term securities and to purchase longer-term higher-rate issues. Higher rates on short-term securities, however, have but little, if any, influence in discouraging banks from selling them to make loans. Moreover, a recent increase in capital demands has put some pressures on the long-term securities market, and has resulted in a decline in bond prices. This places a limit on the extent to which short-term rates may be permitted to rise without causing an undue drop in Government bond prices.

The Board has proposed a means of curbing the ability of banks to create additional reserves by selling Government securities to the System and of reducing the amount of credit expansion that may be possible on the basis of reserves thus created or arising from a continued gold inflow. This proposal calls for granting to the System a temporary authority to require all banks to hold a special reserve in Treasury bills, certificates, and notes or in certain cash assets, in addition to present basic required reserves.

This measure would enable the System to impose some restriction on undue credit expansion without depriving banks of earning assets. It would permit a rise in lending rates to new private borrowers without raising the interest cost on the outstanding debt of the Government, which is not now increasing. It would not prevent banks from meeting essential credit needs of the economy but would discourage unrestrained expansion of credit for any purpose.

Use of an instrument such as the one proposed would enable the System to curb credit expansion with much less burden on banks and less threat to Government credit than would result from attempt to use effectively any of the existing powers mentioned by the Federal Advisory Council.

Senator O'MAHONEY. Are the names of the members of the Council attached to the statement?

Mr. ECCLES. No, but they are a matter of record.

Senator O'MAHONEY. I think it would be well if they were made a matter of this record at this point.

Mr. ECCLES. Will you make a note of that and see that that is put in the record?

We will see to it that the names of the members of the Council are put into the record.

(The names of the members of the Council are as follows:)

Federal Reserve district:

No. 1. Charles E. Spencer, Jr., president, the First National Bank of Boston, Boston, Mass.

No. 2. W. Randolph Burgess, vice chairman, the National City Bank of New York, New York, N. Y.

No. 3. David E. Williams, president, Corn Exchange National Bank & Trust Co., Philadelphia, Pa.

No. 4. John H. McCoy, president, the City National Bank & Trust Company, Columbus, Ohio.

No. 5. Robert V. Fleming, president, the Riggs National Bank, Washington, D. C.

No. 6. J. T. Brown, president, the Capital National Bank of Jackson, Jackson, Miss.

No. 7. Edward E. Brown, chairman, the First National Bank of Chicago, Chicago, Ill.

No. 8. James H. Penick, president, Worthen Bank & Trust Co., Little Rock, Ark.

No. 9. Henry E. Atwood, president, First National bank of Minneapolis, Minneapolis, Minn.

No. 10. James M. Kemper, president, Commerce Trust Co., Kansas City, Mo.

No. 11. Ed H. Winton, president, Continental National Bank of Fort Worth, Fort Worth, Tex.

No. 12. Reno Odlin, president, Puget Sound National Bank of Tacoma, Tacoma, Wash.

Senator FLANDERS. Do you have enough of those for the members of the committee?

Mr. ECCLES. I do not. This reply to the Board was finished late last night, and some time this morning.

Senator FLANDERS. Can you get some extra copies for us?

Mr. ECCLES. We can. We would be glad to give you some copies.

Please send copies of the Council's statement and the Board's reply to all of the members of the committee.

The CHAIRMAN. Mr. Eccles, the first question that I want to discuss is whether this increase in bank credit is a serious problem.

The increase in the total bank loans that I have, considering January 1946, nearly 2 years ago now, is from $30,355,000,000 in January 1946 up to, as I gather from your over-all statement, though I do not have the figures on all banks, about $42,500,000,000 in November. In any event, in 2 years, the bank loans have increased about $10,000,000,000; is that correct?

Mr. WOODLIEF THOMAS. Yes.

The CHAIRMAN. Is there anything to support the statement that that is increasing?

The bank loans for 101 cities seem to be almost the same in November as in September.

Mr. ECCLES. Do you have the latest figures on that?

Mr. WOODLIEF THOMAS. There have been some fluctuations, yes.

The CHAIRMAN. Mr. Eccles stated in his statement that it showed signs of a growing inflation and I wondered what figures supported that.

Mr. WOODLIEF THOMAS. Commercial loans have been increasing. Real estate loans have been increasing. Consumer credit loans have been increasing.

The CHAIRMAN. I want to get the figures of the amount, whether it is an increasing amount over the previous periods or not.

It seems to me we ought to have the whole thing by months from January 1946, with some reference back to 1939.

Mr. ECCLES. Well, you see, we get these calls for all banks about twice a year. There are nonmember banks, and we have to wait until the calls are made by the State bank commissioners, and June 30 is the last report.

So, from then on, you estimate it, based upon the 450 odd weekly reporting banks. The figures are as follows:

Loans at all insured commercial banks, by kind

[In billions of dollars]

Date	All loans	Kind of loan				
		Commercial, industrial and agricultural	Real estate	Consumer	Loans on securities	All other
1939, June 30	16.0	6.9	4.0	[1] 2.4	1.6	[1] 1.1
1945, Dec. 31	25.8	10.8	4.7	2.4	6.8	1.2
1946, June 29	26.8	11.7	5.7	3.1	5.1	1.2
Dec. 31	30.7	15.4	7.1	4.1	3.1	1.1
1947, June 30	33.3	16.3	8.2	4.9	2.8	1.0

[1] Estimated.

NOTE.—Excludes loans at noninsured commercial banks which comprise about 1 percent of the loans at all commercial banks.

Loans at member banks in leading cities [1]

[In millions of dollars]

Date	All loans	Kind of loan				
		Commercial, industrial, and agricultural	Real estate	Other—largely consumer	Loans on securities	Loans to banks
1947—June 26	20.2	11.8	3.0	3.1	2.3	0.2
July 30	20.5	12.0	3.1	3.1	2.1	.2
Aug. 27	21.1	12.4	3.2	3.2	2.2	.2
Sept. 24	21.6	12.9	3.2	3.2	1.9	.3
Oct. 29	22.6	13.8	3.3	3.3	1.9	.2
Nov. 19	22.9	14.2	3.4	3.4	1.8	.2

[1] Includes 441 member banks in 94 leading cities.

The CHAIRMAN. Well, it seems to show, just summing up the general effect, it seems to show that the total expansion of credit, bank credit of all kinds, is at the rate of $5,000,000,000 to $6,000,000,000 a year, for the last 2 years.

Mr. ECCLES. That is right.

The CHAIRMAN. That is about right. Is that $5,000,000,000 or $6,000,000,000 a year; is that any reason to think that is excessive? That is, where you are developing a new economy and making new loans?

Mr. ECCLES. Well, it would not be excessive in a normal condition where you were not experiencing a rapid inflationary development; but any expansion of bank credit added to the total volume of the bank deposits and currency is excessive today. As a matter of fact, if there were no further extension whatever of bank credit, with any normal velocity, and that is the velocity that we have been accustomed to in the past, on the existing supply of money, if there were no further increase in it at all, we could have a much further inflationary development.

The CHAIRMAN. That may be; but in the war, the banks were lending the Government money, because they had to have it. Now there is no longer a war and they are lending it to the private people who want to borrow, and presumably for legitimate purposes, because you check all of the loans yourself to see whether they are sound loans.

Is there any real evidence that $5,000,000,000 a year in the post-war period, where people are going back to peacetime production, is in any way an excessive increase in credit?

Mr. ECCLES. I think it is at this time. I do not think it was in the first part of 1946, when the reconversion was going on. I think it is only an excessive extension of credit when you already have such a shortage of labor and materials in nearly every field.

The CHAIRMAN. But you would not just say to the banks, "You shall no longer increase credit at all"?

Mr. ECCLES. On the over-all credit there are many things to be considered. There are loans being paid all the time, and there are loans being made. We are not saying that banks should not make loans.

The point is that the banking system as a whole should have some restraint. Our plan here does not put them in a vise, where they can make no loans, but it puts the lender under a restraint which today he is not under.

Today, he is under pressure to make loans, not only because of the demand of the borrower, but because he finds that he has reserves. He does not know where they come from, but when gold comes into the country, and that is coming in at the rate of $200,000,000 a month, as that gold comes in, it immediately goes into the banking system and becomes reserves. Therefore, the banks have money to invest.

The CHAIRMAN. They have not, however, been hampered in making loans by any reserve requirements?

Mr. ECCLES. No. They have not been hampered at all.

The CHAIRMAN. They can sell governments?

Mr. ECCLES. That is right, but this gold only adds reserves to those created by selling of governments. The gold gives them the reserves without the bank selling governments at all.

In addition to that, any purchase that the Federal Reserve will have to make to support the long-term rate of securities, that are not bank eligible, increases it.

Now, the extent to which we may have to support the long-term market is, of course, unknown. Today it is not an important factor, but it is becoming increasingly important because, as inflation develops, the demand and the need for money become greater in order to do a given, like amount of business.

Therefore, the corporations that have not borrowed, and who have governments, sell those governments, and that puts reserves in the banking system.

The CHAIRMAN. I understand that, but what I am concerned about is this: Is there really a problem? That is the question we have to start with. Is there any abuse of this power? Is this expansion excessive?

You, yourself, are exercising authority, and you are asking for authority before the Banking and Currency Committee to increase the lending power of the Federal Reserve System to your small businesses, presumably to increase production, and is not lending necessary to increase the production?

Mr. ECCLES. We are asking for less authority than we have. We have today an authority to make direct loans under 13 (b), and we are asking the Congress to take over that $139,000,000 of gold that was set aside for that purpose, and put it into the revenue of the Government, and repeal the Board's authority to loan and substitute therefor as a stand-by service for deflationary requirements, the right to insure loans that are submitted by the banks.

That does not necessarily mean to say that you will insure them, but it is a substitute that is a less power than we already have.

The CHAIRMAN. But it would increase, then, the loans that the banks would make, guaranteed by the Board.

Mr. ECCLES. Yes, but it is much worse if we make loans now. If we make direct loans today, the Federal Reserve, we would put reserves in the banking system so that every dollar of direct loan the Federal Reserve makes today would put that amount of excess reserves in. We are asking that that power to create multiple expansion be taken away.

The CHAIRMAN. Which you are not exercising.

Mr. ECCLES. No, sir, we are not exercising it.

The CHAIRMAN. You want a more practicable power to increase loans through the banks, which has the same inflationary effect.

Mr. ECCLES. It does not have any multiple effect at all. The loan would originate from the bank. The only purpose for which we want it is on the books as a stand-by service.

We are not very particular about it as a matter of fact.

The CHAIRMAN. You might as well put it off for another year, when there is a deflation.

Mr. ECCLES. The only thing is, it is a question of repealing what we have. The only reason it came up at all was that the budget wanted to get this $139,000,000, and in order to get it, you had to repeal section 13 (b), and we merely suggested to the Congress that in its repeal that they give the Board this stand-by service of insuring loans if need be. So it is not that we brought it up. It was brought up in an effort to get this $139,000,000 into the Government's revenues.

The CHAIRMAN. Mr. Eccles, I still go back to the question as to whether we really have an abuse here or a problem that we have to do something about.

I notice the total bank loans in 1939 were this figure of $22,000,000,000. Now they are about $42,000,000,000. They have not quite doubled.

Considering the increase in the national income, the increase in production, which is more than double in the output, do you think the present volume of bank loans is excessive?

Mr. ECCLES. I think, in view of the amount of government, they are. It seems to me that an expansion of bank loans, in view of the existing volume of deposits already in the banking system, because of the huge amount of credit created to finance the war, should make any further bank credit expansion unnecessary on balance, because you are adding to the means of payment in the economy whenever you expend bank credit on balance.

I think when you get a situation of inflation as acute and as dangerous as the present situation is, that you cannot say that 14,000 banks should have the ready access that they have today to reserve credit. They should not have the reserve credit that they get from gold imports, and from the Federal Reserve's purchase of market securities without some offsetting means of curbing that easy credit situation that we are forced to put them in.

The CHAIRMAN. I understand that, but in comparison to the prewar condition as to the amount of loans in 1939, the amount today is in no way exceptional.

Mr. ECCLES. If the Government credit is compared with 1939, no. But when you look at the private credit structure, you have to take into account the Government credit structure which created money.

If it were not for the Government deficit financing that increased the amount of deposits of currency over 300 percent, if it were not for that, then I think the economy, with the kind of production we have, would be such that the bank loans would have to be far greater than they are, but industry, today, and individuals, own this 300 percent increase in deposits, and there they are. It is in the form of money, and they own it, and any time that the banks make further loans, they add to that spending stream.

I can understand how any one banker says, "This loan is good and I am only loaning my surplus money." I can perfectly understand his attitude, because he does not see the over-all picture which we have to take a look at.

The CHAIRMAN. What bothers me more is shutting off of loans from people who say they need them and who, presumably, have the assets on which to borrow.

Mr. ECCLES. You will not shut off loans.

The CHAIRMAN. Is that not a serious limitation?

Mr. ECCLES. You will not shut off loans to them at all with any such program as we have.

The CHAIRMAN. Then what is the purpose of it?

Mr. ECCLES. There is no prohibition of loans.

The CHAIRMAN. What is the purpose of it?

Mr. ECCLES. There is this restraint; let me put it this way: The banks today have about 50 percent of their assets in Government securities.

The banks, as I showed in this statement, could sell one-half of those Government securities, and create reserves upon which they could build $200,000,000,000 of credit.

Now, it is only natural for each individual bank to be seeking all of the good loans it can get, and to sell Government securities which they have, bearing a much lower yield than some of the loans, and make these loans.

Now, they would be restrained, certainly, in undertaking to shift from governments into loans, if there were a prospect of this plan. That is, if the Board had authority to require an increase in their reserve of either cash or short-term Government securities. It would be at their option. To shift from governments in order to make loans would then reduce what is now a secondary reserve of 50 percent of their deposits.

It would have the possibility of reducing it to 25 percent. And the banks, with the amount of governments that they have, are free to sell to meet shifting deposit requirements, and there would be a very great restraint on further lending.

Certainly they would be very much more selective, and as a lot of loans were paid, they would use the funds to buy short-term governments.

I do not think there is any question but what they would finance all of the needed corporation movements and that type of production, but when each business finds that the cost of doing business is more, because wages go up, and inventory costs go up, and open account credit goes up, and outstanding credits are increasing, both due to inflation and due to an increasing slowness of collection, each corporation finds itself in need of more money.

And as the National City says, the need of more money creates inflation. It is part of the cycle. It is as much a part of the cycle, this expansion of credit, as increased wages are a part of increased prices, and profits are a part of increased prices.

It is the credit that sustains it. An advancing credit sustains higher prices and higher prices call for more credit, and more credit sustains higher prices.

The CHAIRMAN. If a man comes along with perfectly good assets and perfectly good credit and wants money, should not he be able to get it?

Mr. ECCLES. Not necessarily.

The CHAIRMAN. We can draw a distinction and say that is a loan that is not quite safe, and it is not a good loan, perhaps. We can draw a distinction between loans, but basically, do we want to cut off the right of business to borrow?

If their inventory does go up, over which they have no control, do they not have to borrow money to carry it?

Mr. ECCLES. That is right, and I have said that this is only a part of the program. Fiscal policy is a very essential part of the program. It would be a great mistake to try to control the entire inflation, merely by clamping down on bank credit.

Today, there is no real restraint on it, and all we are saying here is that there should be some way and some means to put some restraint on it if the need develops.

Now, certainly the Board would prefer not to have to enforce such a power. I will be perfectly frank to say the administration of this power would be a very, very unpleasant task.

The CHAIRMAN. Do you think the administration feels that way about the other powers they are asking for, too?

Mr. ECCLES. I could not say how they feel about them at all.

Senator O'MAHONEY. May I ask a question at this point, Mr. Chairman?

Mr. ECCLES. Just let me finish that one point.

We do not seek this power and as a matter of personal preference, there is not a member of the Board who would not hope that they do not get it. We cannot win. If we get it and inflation goes further, we will be blamed. If we use it and we get deflation, we will be blamed. But we, as an agent of Congress, could not do other than point out what this situation is and suggest to you the only way that we thought that we could contribute to restraint, was by getting this type of power. We wanted to make that perfectly plain, that the powers we have are not adequate without causing the problems which I have pointed out, and we do not want to be crucified for not stopping this inflation, and we are giving the reasons here why we do not think we can do it with the power we have, and what we think would be an adequate substitute.

I am not pressing for this legislation. I want to lay the thing on the table as the agency of Congress, and certainly we will be very glad from an administrative standpoint if Congress sees fit not to give us these powers.

The CHAIRMAN. Mr. Eccles, I raise one question about your testimony, which is the last question I want to ask.

You said, "an increasing rate." My figures seem to show that there was a very rapid increase in demand deposits, and making of loans, up to July, but that since July, it has been substantially retarded as a matter of fact, and the growth today is at a very much less rate than it has been in the past.

Mr. ECCLES. It is much faster. It is the most rapid it has ever been in our history.

The growth at banks in leading cities from September 10 to November 12, a period of 2 months, has gone up in commercial loans \$1,430,000,000; real estate loans, \$160,000,000; in all other loans \$145,000,000.

In security loans it has gone down \$175,000,000. That is the one we have control on.

So that you have here an expansion in a 2-month period of better than one billion five hundred million dollars.

Now, then, we have to look at this credit situation at more than just a month at a time. You have to take it over a cycle, because there is a certain seasonal fluctuation.

The CHAIRMAN. I understand that.

Mr. ECCLES. Therefore you have to make your comparisons over the year as a whole.

Now, it is true that there will be certain seasonal liquidation, but you have to compare the outstanding credit from year to year, and the way the situation is developing now, the way it has developed, is that it looks as if in the past 2 years there has been an over-all expansion without fluctuation of about \$5,000,000,000 a year.

The CHAIRMAN. Yes, that is what I have here.

Mr. ECCLES. That is correct.

There is every indication, however, that with the speed with which the inflation has been going lately, that one of two things will have to happen.

Either business and construction, because the cost of construction is fantastic, and this housing situation is just unbelievable when it comes to the inflation that is in it, there is going to be required more and more money with the inflation, and it can gain momentum.

There is a possibility and a danger of it gaining momentum. We are not sure of it, but there is that possibility, and if it gains momentum, more and more bank credit would be required to do the same amount of business.

We merely point out that some restraint in this field along with other restraints is needed, that this should supplement fiscal policies, and it should supplement other policies.

The banks, naturally, are opposed to it. As I say, they have nearly always been opposed to any change. They were opposed to the original Federal Reserve Act. They were very much opposed to some of the powers we got in the Banking Act of 1935.

Senator O'MAHONEY. Mr. Eccles, you have about convinced me that you are right, and I hope that you are not going to back away from this proposal merely by laying it before this committee.

I think it is clear that the country faces a very unpleasant situation here. Inflation is here, and if we do not act intelligently, it is bound to get worse with disastrous effects.

Mr. ECCLES. It may.

Senator O'MAHONEY. The further it is permitted to run.

Mr. ECCLES. Well, I would not say it is bound to.

Senator O'MAHONEY. I say, if it is permitted to run.

Mr. ECCLES. I say it is very likely to.

Senator O'MAHONEY. Let us get my question clear. If inflation continues without restraint, it is bound to result disastrously; is it not?

Mr. ECCLES. Oh, definitely. Definitely.

Senator O'MAHONEY. Now, let me see if I understand your basis correctly.

Mr. ECCLES. It has already gone so far that we are facing some disasters, I think.

Senator O'MAHONEY. Now, that is a much better answer from my point of view.

Mr. ECCLES. Already it has gone that far.

Senator O'MAHONEY. You have convinced me of that.

Mr. ECCLES. It could become cataclysmic and the whole system would be jeopardized.

Senator O'MAHONEY. If I understand your proposal, you do not propose in making this recommendation to prevent loans to sound borrowers from the banks. Your fundamental desire is to prevent the accumulation of monetary reserves so as to increase the total over-all debt against the economy; is that right?

Mr. ECCLES. The total over-all bank credit which creates money.

Senator O'MAHONEY. Yes; but you are advising us that as we consider this problem of inflation, we must take into consideration both the Government debt and the private debt?

Mr. ECCLES. That is right.

Senator O'MAHONEY. So that if bank credits are expanded now, they have the effect of piling on a new debt, a new total debt beyond our already excessively high debt.

Mr. ECCLES. That is right. That is exactly right.

Senator O'MAHONEY. So that these restraints which you propose are intended not so much to prevent any proper borrower or business man from getting a loan from a bank, but to require the bank, if it makes such a loan, not to use a certain proportion of its reserves for other expansion of credits.

Mr. ECCLES. Buying other investments. They are out buying other investments, such as municipals and other investments. They, of course, have been expanding consumer credit, not to customers at all, but just out seeking the credit. They are expanding mortgage credit at a very rapid dangerous rate, and it is not to customers. It is merely a seeking of an outlet that is more profitable than the holding of short-term Government securities.

Now, there would be a great restraint on that seeking of credit if they did not have this 50 percent of their total assets in governments, and they feel a great liquidity or ease to dispose of them for other loans and investments.

The individual banker is not thinking about the multiple expansion. He is just thinking that he is transferring a Government bond to a loan, and he does not realize when he makes that loan, that becomes a reserve in another bank, and you get six times multiple expansion for every dollar of Government securities they sell.

The banker does not realize that individually at all.

Senator O'MAHONEY. But if that process is permitted to continue and all the banks of the United States, State and local, and national, continue this practice, the inflationary process also continues; is that right?

Mr. ECCLES. There is no question about it, but you have today a great expansion in municipal financing which is inflationary because they are spending more than they are collecting in taxes.

They are putting out new bond issues, for veterans and other purposes, in very large amounts. They are putting out issues to finance all kinds of public activities and at very high costs, and these securities are competing with private financing for funds.

Senator O'MAHONEY. Did I understand you in quoting from the November letter of the National City Bank to cite that institution as authority for the fact that these debts are rapidly accumulating now?

Mr. ECCLES. That is, they make inflation. I do not know how rapid. That is right, the implication was that this credit was expanding and it was creating more inflation.

Senator O'MAHONEY. Now, will you, for the record, provide us with the specific month to month figures so that there will be some possibility of measuring this rapid momentum of which you speak?

Mr. ECCLES. Well, I would say this: We would be glad to furnish those figures.

(The figures are as follows:)

Principal assets and liabilities of all commercial banks (figures partially estimated)

[In billions of dollars]

	Loans and investments				Reserves, cash, and bank balances	Deposits				Total capital accounts
	Total	United States Government securities	Other securities	Loans		Interbank	United States Government	Demand adjusted [1]	Time	
1939—June 30	39.4	15.7	7.2	16.4	19.8	8.2	0.8	27.4	15.1	6.9
1945—Dec. 31	124.0	90.6	7.3	26.1	34.8	14.1	24.6	75.9	30.1	9.0
1946—June 29	119.4	84.5	7.8	27.1	32.4	12.3	13.4	79.5	32.4	9.4
Dec. 31	114.0	74.8	8.1	31.1	34.2	12.7	3.1	83.3	33.8	9.6
1947—Jan. 29	113.8	74.3	9.0	31.5	32.2	12.2	3.1	82.5	33.9	9.6
Feb. 26	113.0	73.0	8.1	31.9	32.2	12.0	3.9	80.6	34.2	9.6
Mar. 26	113.1	72.4	8.3	32.4	31.6	11.8	3.8	80.4	23.3	9.7
Apr. 30	113.0	71.8	8.4	32.8	32.2	11.8	2.8	81.3	34.5	9.7
May 28	112.7	71.3	8.3	33.1	31.7	11.5	2.1	81.5	34.6	9.8
June 30	112.5	70.3	8.5	33.7	32.7	11.6	1.0	82.5	34.7	9.8
July 30	113.2	70.5	8.7	34.0	32.0	11.3	1.1	83.2	34.7	9.8
August	113.8	70.2	8.7	34.9	32.2	12.1	1.5	83.4	34.8	9.9
September	115.1	70.6	8.9	35.6	33.2	12.7	1.6	84.2	34.9	9.9
October [2]	116.4	70.5	9.0	36.9	33.8	12.4	1.5	85.5	35.3	10.0

[1] Gross demand deposits, other than interbank and United States Government deposits, less cash items in process of collection.
[2] Preliminary.

Mr. ECCLES. I would say this: that even aside from any rapid expansion, and that is a relative thing, that the monetary authorities in this kind of a situation should have a standby power as a substitute for a power that they cannot use because of the huge size of the public debt. In other words, Congress gave to the Reserve System in the beginning, 1913, and again in 1935, certain powers. It was expected that those powers would be used in the judgment of the Board to restrain excessive bank credit expansion.

Now, we cannot use those powers, as I have indicated. Therefore, all we are saying is that we would like the Congress to know that we cannot, the way the situation is today, restrain bank credit expansion.

Now, I do not know whether the bank credit expansion is going to continue at a rapid rate. We are going to do everything we can, whether we get these powers or not, to advise, to counsel, and by means of propaganda and otherwise, to restrain them.

Senator O'MAHONEY. You are trying to put the brakes on?

Mr. ECCLES. Maybe we will be partly successful, but my only point is I want the Congress to know and the public to know that we do not have adequate powers unless we breach the Government interest rate, with all the dangers involved, and we do not recommend that.

Senator O'MAHONEY. May I interrupt?

I want to refer to another part of your testimony. You spoke of the four aspects of the inflationary condition in which we find ourselves. Wage, price, profits, and credit.

Mr. ECCLES. That is right.

Senator O'MAHONEY. Now, do you regard those as all contributing toward the condition in which we find ourselves?

Mr. ECCLES. I certainly do. They are all cause and effect, and it is difficult to say which is first.

It is like, which is first, the hen or the egg? They are all intermingled. I would say credit came first, because when the war ended, there was the huge volume of money that the war had created.

Senator O'MAHONEY. Now, is it not a fact that those who are interested in better wages are inclined to say, "We are not responsible"?

Mr. ECCLES. That is right.

Senator O'MAHONEY. Those who are interested in increasing profits, or increasing prices, are likely to say, "Well, wages are responsible for the condition."

Mr. ECCLES. That is exactly what they do say.

Senator O'MAHONEY. And those who advocate increased credit, they say, "We are not responsible but some one of the other factors is the responsible one."

Mr. ECCLES. Exactly.

Senator O'MAHONEY. But you are telling us that we must treat all four together.

Mr. ECCLES. That is right. I am trying to give the whole inflation picture and say that you cannot treat each segment of it separately.

Senator O'MAHONEY. Are you not coming to us now at the beginning of the increased credit spiral and saying to us, "Now, you can put on the brakes before it goes too far?"

Mr. ECCLES. Well, we came to you in the report of 1945 and 1946 and reported exactly what the situation was and its dangers. We did not press at that time for legislation because it was not until the latter part of 1946 and early in 1947, when the inflation really began and there was a feeling on the part of a lot of people that maybe production would finally catch up and people would defer their buying and spending until prices were better.

There was a feeling last spring, if you recall, that maybe we could stop the inflation spiral, and due to several factors, though particularly I think the round of wage increases and the new wage increase of the coal miners, and the deal with the steel companies, and when coal prices went up and steel prices went up even more, that reflected itself all down the line.

There are the railroad rates.

It is just one of those things that feeds itself.

Now we are confronted with a situation which I think is more acute than anybody imagined and that is the world picture. That is another story, but it is the world picture that has really brought about in a very bold outline now this inflation problem.

Senator O'MAHONEY. I would like to keep you on this point before you discuss that world problem.

Mr. ECCLES. I am not going to discuss it.

Senator O'MAHONEY. Let me keep you right on these recommendations.

I have here a reprint from the Harvard Business Review for the winter of 1947, written by the chief of staff of this committee, Mr. Charles O. Hardy, who at that time was with the Chicago Association of Commerce. This was an article on the Federal Reserve System report for 1945.

Defining one of your recommendations included in the report, he wrote this:

Another suggestion which strikes at the root of the problem is that all commercial banks be required to hold a second reserve against their demand deposits consisting of vault cash, excess reserve balances, or short term Government securities. Presumably this reserve would be held chiefly in securities, since otherwise it would earn no revenue. Assuming that the reserve would be big enough to absorb the bulk of the short-term securities, this procedure would isolate the markets for certificates from the rest of the money market and make it possible to apply credit restriction of the traditional type without raising the cost of short-term money to the Government.

That is a correct summary of your recommendation?

Mr. ECCLES. That is right. What date is that?

Senator O'MAHONEY. This was printed in the Harvard Business Review for the winter of 1947. It was his analysis of the Federal Reserve System Report for 1945.

Mr. ECCLES. Yes, that is right.

Senator BALDWIN. 1946, you mean, Senator?

Mr. ECCLES. No. 1945.

Senator BALDWIN. You said it was printed in 1947.

Senator O'MAHONEY. That is right. All I know is what I read on the title page. I did not see it in the Harvard Business Review.

Mr. Chairman, I think I should say for the record, that when I refer to the article by Mr. Hardy, that I do not understand his article to have been an endorsement of the plan but an analysis of the plan suggested by the Board.

Mr. ECCLES. Yes. I had understood that.

Senator O'MAHONEY. Now, would you tell us again how this second reserve system would operate as against the restraint upon business borrowing? In other words, some of the criticism which has been directed against this suggestion, as I understand it, is that it would have the result of almost prohibiting business credit.

Mr. ECCLES. No; it would not at all, because in the first place, it would only prohibit to the extent that reserves were unavailable.

The only way you prohibit bank credit completely would be a 100-percent reserve requirement. That would mean, of course, the banks had no means of getting credit.

Now, there is no such proposal and the banks would have access to sources of credit with this reserve requirement in effect. One would be the discount rate. The discount window of the reserve banks. Banks can borrow from the reserve banks.

Now, they could not borrow with the ease with which they borrow today, with the 1 percent discount rate, which is tied to the short-term Government rate. So that you could then raise the discount rate substantially, if this were in effect, whereas you cannot do it today, because the banks prefer to obtain reserves by transferring from governments. So the discount rate is ineffective. It would then be effective as a restraint upon the bank lender. It would not mean he could not get credit, but he would be restrained. He would not get it with the ease and at the rate he would get it today. And he would pay a much higher rate, which he would pass on to the borrower, and there would be that general restraint there, which does not exist today.

Senator O'MAHONEY. What would be the effect upon the demand for scarce raw materials and labor?

Mr. ECCLES. There could be speculation in this credit. Of course, the banks say there is none, but it is very difficult to say when an inventory is a little bit bigger than it needs to be. It is just one of those things that if credit were a little more difficult, and costlier, there would certainly be less future buying, and there would be less speculative pressures.

If the short term rate for private borrowing went up considerably, it would have some influence upon the long rate, and if the long rate for capital financing went up, it would be a real deterrent on long term commitments.

Senator O'MAHONEY. What would be the effect on price?

Mr. ECCLES. Well, the effect on price would come if you reduced the demand for raw materials or for construction, for the products that are in short supply. If you reduced the demand you certainly would stop the inflation. Inflation is only the effect of demand and demand is created by having the money and credit available.

If you made it less available, you would reduce the pressure, and prices might go down. At least, you would stop them from going up.

Senator O'MAHOENY. If this policy is not followed, what is the alternative?

Mr. ECCLES. I do not know of any as a substitute in the credit field.

Senator O'MAHONEY. I do not mean as a substitute. Suppose this policy is not followed. What other policy is there to restrain the continuing spiral of prices?

Mr. ECCLES. Well, the most effective one is fiscal policy. The fiscal policy that has been in effect has been the only important anti-inflationary factor we have had in the entire economy, because during the past year, there has been a fairly substantial budgetary surplus.

In other words, the Goverment is collecting from the economy in taxes more than it is spending by five or six or seven billion dollars.

The figure is certainly running at that rate.

Now, that money is taken out of the economy and it is not put back into the economy. That money is used to retire the governments held by the Federal Reserve. It just does not go back. Or it is used to retire the bank held debt. So the bank loses a deposit on one side when the taxpayer pays his taxes and when the Government retires its maturing short term Government debt. The bank loses a Government security on the other side of the ledger.

In other words, this is a reversal of the wartime bank-financing process. That is exactly what you do when you get budgetary surpluses, and it is an anti-inflationary factor and it is the most important single element as a means of controlling both inflation and deflation.

Senator O'MAHONEY. Now, the Government has reduced the national debt by about $20,000,000,000 through the application of surplus and excess balance.

Mr. ECCLES. Well, most or the biggest part of the reduction in the public debt was, of course, not out of surplus.

Senator O'MAHONÉY. Out of excess balance.

Mr. ECCLES. Out of excess cash balance that the Government got in the eighth war loan drive which it did not need.

Senator O'MAHONEY. But by whatever the source, the payment of that $20,000,000,000 on the debt was anti-inflationary.

Mr. ECCLES. No. Now, let me make this clear.

Senator O'MAHONEY. Was it not?

Mr. ECCLES. Let me make this clear. Not entirely. To the extent that the Government had blank billions of dollars in its war-loan deposits, that was not an inflationary deposit, because it could not be spent by individuals and corporations.

Senator O'MAHONEY. But it could have been spent by Congress.

Mr. ECCLES. That is right. But to the extent that the Government pulled out that balance, which did not come from taxes, since a substantial part of it came from banking finance, in the first place, practically half of the Government's balance came from an inflationary process, and they reversed the inflationary process when they paid the banks off.

Senator O'MAHONEY. So, to the extent that that $20,000,000,000 was not paid, it had a deflationary effect?

Mr. ECCLES. Yes. If that $20,000,000,000 had been spent by the Government, it would have been $20,000,000,000 more of inflation.

Senator O'MAHONEY. I understand. Your testimony now, this morning, is that the expansion of bank credit through October has been about $12,000,000,000?

Mr. ECCLES. In the two-year period.

Senator O'MAHONEY. So that the general over-all debt of the entire economic system, after having been reduced on the one hand, is being increased on the other?

Mr. ECCLES. As a matter of fact, the Government surplus has been less deflationary than the bank credit expansion has been inflationary, because the bank credit expansion has been greater than the Government's surplus which was applied on the bank debt.

Senator O'MAHONEY. They represent the opposite extremes.

Mr. ECCLES. That is right, exactly. To the extent that bank-credit expansion is greater than the budgetary surplus it nullifies the effect of the budgetary surplus.

Senator O'MAHONEY. So if bank-credit expansion is permitted to increase, unless we reduce the public debt at the same time or reduce other outlays, the general net effect will be inflation.

Mr. ECCLES. That is right. The more bank credit expands, the bigger your budgetary surplus has to be to offset it.

The CHAIRMAN. Did you take account of the fact that some $2,700,000,000 or so of taxes taken in go into these old-age reserve funds?

Mr. ECCLES. Oh, yes.

The CHAIRMAN. That must be added to any budgetary surplus.

Mr. ECCLES. That should, and we do add it in and consider it. Any money collected out of the spending stream used to pay bank-held debt or Federal Reserve debt is anti-inflationary, and is a complete offset to bank credit expansion to industry or otherwise.

Senator FLANDERS. Mr. Eccles, there are two or three questions I would like to ask you.

On the foot of page 4, I gather that the measures you are proposing might restrict the credit going into housing.

Do you think it would decrease the amount of housing we build?

Mr. ECCLES. I am glad you brought that question of housing up because I hurriedly, late last night and this morning, had a statement made up. I thought housing might come up. In fact, I think Senator Taft mentioned to me that he would like me to be prepared to say something on housing credit.

If I may, I will just make a statement on this housing thing. I am not speaking for anybody but myself on this, because I have not had a chance even to discuss it with anybody else.

I want that understood, that it is just my own views that I have put together in a hurry.

One of the most inflationary factors—perhaps the most inflationary single factor—in the present situation is excessively easy mortgage credit for housing. During the past 2 years the amount of such mortgage debt has increased by more than $9,000,000,000 and the rate of current mortgage lending has risen from about $550,000,000 per month to about $1,000,000,000 per month. Terms of lending have eased substantially as compared with prewar. A large proportion of recent loans has been made on an installment basis at 4-percent interest on the unpaid balance for a period of between 20 and 25 years. Most of these loans have been made for a very high percentage of current sale price which is greatly inflated.

More than half of the current unprecedented volume of mortgage lending is sponsored by the Federal Government under legislation enacted by Congress. The Government must therefore assume much of the responsibility for any adverse effects of this type of lending. Prices of houses have advanced from 25 to 35 percent during the past 2 years. A large number of families of moderate and low income have been encouraged to assume mortgage debt which will be beyond their means when the present inflationary period is over, and is becoming increasingly burdensome as the cost of living goes up. Sellers and builders of houses have been enabled to make exorbitant profits. The Government has assumed and continues to assume contingent liabilities of great proportions.

It is entirely inconsistent to restrict credit terms on automobiles and other consumer durable goods partly to reduce the inflationary pressures and partly to protect the buying public, and at the same time to make housing credit terms so easy as to stimulate inflation and encourage people to go too deeply in debt. Any anti-inflationary program of the Government will lose much of its effectiveness so long as the Government sponsors the present inflationary housing-credit program.

Easy credit has greatly increased the effective demand for both old and new housing far beyond the supply and this has greatly inflated prices. In an effort to meet the demand and take advantage of this profitable market, builders have undertaken to construct a larger volume of housing than there are resources readily available to finish. As a result, published prices of materials have advanced and, in addition, a gray or premium market has developed for many building materials. In this competitive market, the services of labor are also being actively bid for and bonuses and other extras have become common.

The predominant feeling in the building industry is that only by building at current rates or even higher can the housing shortage be met and only by keeping demand high can the current levels of production be maintained. The prices that are being established now, however, are too high for long-sustained building. At inflated prices of materials and labor and inflated profits for builders a few more houses may be produced than would be the case if prices and profits were lower, but that condition makes it less likely that the market next year, and the year after that, will be able to pay the prices necessary to keep building going at the rate needed to overcome the housing shortage and stabilize this segment of the economy. An increasing number of families are being priced out of the market now, in spite of the extremely easy financing terms, even though their need for housing is very great.

If the easy credit situation were producing a substantial additional volume of housing at supportable values in the long run, it would be justified, but because of the limitations of labor and materials it produces, instead, a dangerously inflated market which cannot be sustained for both new and old houses. I believe that by curtailment of credit for housing in closer relationship to the supply of labor and materials, the price trend would be reversed and a market for houses assured over a long period of years. Good low-cost housing cannot be built with high-cost materials and high-cost labor. Neither Government nor private industry can produce this miracle.

For the reasons which I have stated, Congress should reconsider in the longer term interest of the county the present policy and program of the Federal Government in the field of housing credit. I shall be glad to be of any assistance I can in making suggestions for changes in the present housing credit programs. At this time I am merely indicating the nature of some of the changes that seem desirable.

Operations under the National Housing Act and the GI bill of rights are closely related in practice but not in law or in administration. These two programs sponsored by the Federal Government should be brought together so that appraisals are made by only one agency.

The 100 percent loans under the program of the Veterans' Administration for both old and new houses and the nominal 90 percent loans on new houses under title VI of the National Housing Act should be revised so as to reduce the demand for housing and thus bring prices down. This means that both buyers and builders should have more equity in their properties than under the prevailing lending policies so long as present inflationary prices continue for housing.

Lending by members of the Federal Home Loan Bank System should be subject to greater restraints by the use of a conservative uniform appraisal system, and by selective restriction on the terms of their loans.

Finally, from the long-range standpoint it is vitally important to prevent inflation in the housing field from getting any worse than it is. The greater the inflation, the more severe will be the aftermath of defaults, foreclosures, liquidations, and bankruptcy. Over the years, the construction industry, which is a major outlet for investment, and supports a wide variety of related manufacturing, transportation, and distributing activity, has been characterized by violent upswings and downturns. If greater stability could be introduced into this field, it would go far toward achieving the national objective of stabilizing production and employment at high levels. The more the backlog of demand for housing is filled at exorbitant prices now, the smaller will be the cushion under the entire industry when prices come down, and, therefore, the more intense the deflation in the industry will be.

Manifestly, this is not in the best interest of the general economy, and what is not good for the country as a whole is not good for any group—veterans or otherwise. As has been well said, there is no such thing as easy credit—true, it is easy to get into debt but the easier it is to get in, the harder it is to get out. That applies to all of us, including war veterans.

Senator FLANDERS. You are evidently not living with your mother-in-law.

Mr. ECCLES. Well, I am not, but if you get a foreclosure on your property you may have to go back to your mother-in-law.

Senator FLANDERS. But you have had a little vacation.

I think you have given me an answer to the question I asked, and it is a discouraging answer.

Now I want to ask you another question. I am afraid I will get a discouraging answer, but I may not.

Will the restraints on the granting of credit which you have described have any result on employment?

Mr. ECCLES. It may. You may get some temporary unemployment. I would sooner get some unemployment in a temporary deflation than get mass unemployment in a catastrophic deflation. I just do not know how to avoid these things altogether in a free enterprise system, a capitalistic economy. I do not know how you can maintain full employment and bring about an adjustment in prices. You cannot do it and we might as well be frank about it. It is a question that you have to deal with. It is a question of alternatives, and the alternative to me would be to put the whole system in a complete harness of controls. That is the alternative to your booms and busts, it seems to me, unless you restrict on the up side before it gets calamitous, and correct it on the down side before it gets calamitous.

Senator FLANDERS. On your page 4, if you could have the other four things going to the subject of your presentation, what would happen?

Mr. ECCLES. It would be far less important.

Senator FLANDERS. Might it not be possible to arrest deflation? They are not all of them subjects of legislation.

Mr. ECCLES. That is right. I do not think it is possible to get some of them.

Senator FLANDERS. Would it be possible to arrest deflation without unemployment?

Mr. ECCLES. You might arrest it if you could get the voluntary response. That is rather wishful thinking, from the standpoint of anyone who has been around as long as I have.

Senator FLANDERS. All right. Now, two more questions.

The next question is, How are you going to bring the State banks under control?

Mr. ECCLES. Well, under regulation W, we have covered not only the State banks, but we have covered all of the consumer credit concerns. All we would do is apply the regulation here with reference to the portfolio of short-term governments, or if the banks chose to do otherwise, to maintain balances.

The administration of that would be left up to the State bank commissioner. We would impose it, and the penalties for failing to comply with the requirements would be some interest penalty for deficiencies on the basis of an average over a month's period.

Senator FLANDERS. You could do that without State law?

Mr. ECCLES. Oh, yes, you could do it without State law, for the reason that it has already been determined that banking is interstate. It was the question in the wage-hour law. It has already been determined by the Supreme Court that State banks were subject to the wage-hour law, and there is no question on that, I think. At least, our lawyers think there would be no question about the Government's right to impose these requirements on State banks just as in the case of consumer credit requirements.

Senator FLANDERS. Now, just one more question.

You spoke of comparative ineffectiveness of control of interest rates. That was ineffective in the late twenties. Was it not effective in the early twenties, in braking the 1920 inflation?

Mr. ECCLES. I do not know how effective it was. It might have brought it forth a few months sooner than would otherwise have been the case, but I think that even without the high discount rate in the early 1920's, you still would have had the break that we did get, because in the field of agriculture there was a huge excess of agricultural products that came on the market with the end of the war.

You did not have the world left in as devastated a position as it is today, with the number of people to feed and clothe. The price of agricultural products would have broken, and were in a very weakened condition at the time.

Excesive inventories of raw products were accumulating throughout the world. It is exactly the opposite of what it is today, and the very things that broke the boom after the last war are the very things that are the shortest today throughout the world.

The CHAIRMAN. I am afraid that we will have to recess.

What does the committee desire to do? Do you wish to ask Mr. Eccles to return at some time? I do not believe we could return this afternoon, and possibly some one of these bankers will wish to testify, Mr. Eccles, on these questions of interest and so forth.

Mr. ECCLES. Well, I would be very disappointed and surprised if they did not.

The CHAIRMAN. We might postpone your further appearance, then, until after that, so that you will have an opportunity to reply.

Mr. ECCLES. Thank you.

The CHAIRMAN. Is that satisfactory to the committee?

We can question him at that time.

Very well, then, the committee will adjourn until 10 o'clock tomorrow morning at which time Mr. Harriman will appear.

(Thereupon, at 12:24 p. m., an adjournment was taken until Wednesday, November 26, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

WEDNESDAY, NOVEMBER 26, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10:05 a. m., pursuant to adjournment, in room 318, Senate Office Building, Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft, Flanders, O'Mahoney, Sparkman, Watkins, and Representatives Rich and Huber.

Senators Ecton, Baldwin, Kem, and Representatives Poulson, Horan, and Karsten.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

The CHAIRMAN. The meeting will come to order.

Will you proceed, Mr. Harriman.

STATEMENT OF HON. W. AVERELL HARRIMAN, SECRETARY OF COMMERCE, WASHINGTON, D. C.

Secretary HARRIMAN. Mr. Chairman, with your permission, I should like to run through a brief statement that I have prepared.

I appreciate the opportunity to present to this committee my views on the proposals of the President to implement the program of foreign aid and to promote domestic economic stability.

As a prelude, I shall present a brief review of the recent trends in the economy to highlight present tendencies. Then, I shall review those sections of the proposed program which come within the purview of the Department of Commerce and indicate how the additional authority would be used, if granted by the Congress.

Now, in reviewing the inflationary trends, as early as the second quarter of 1946 the physical volume of national output was already approaching the ceiling imposed by availability of manpower, basic materials, and other productive resources.

This output was insufficient to satisfy the pent-up demand for goods, backed by high incomes and large accumulations of liquid assets in the hands of the public. The full impact of the excess demand, however, was limited by price controls.

The subsequent relaxation and elimination of controls was followed by a sharp increase in prices. In the 9 months from June 1946 to March 1947 the Bureau of Labor Statistics consumers' price index rose 17 percent, or half as much as in the previous 7 years.

A temporary peak in March 1947 was followed by a period of hesitation in the second quarter. An extraordinarily high level of export demand was offset by the cautious attitude of domestic buyers.

The rate of inventory accumulation, which had been an important source of demand in the last half of 1946, was greatly reduced.

The sharp increase in construction costs, and the hope or expectation of some decline in those costs in the near future, resulted in postponement of some construction projects.

The net effect was very little aggregate change in either prices or the physical volume of business. Individual prices did, however, move sharply in both directions.

The period of hesitation proved short-lived. Beginning around midyear there was another wave of buying for inventories. The upward trend of construction activity was resumed as the hope or expectation of lower costs faded in the face of demands that could not indefinitely be postponed. Consumers' incomes were expanded, by wage and salary increases, by the effect of rising prices on entrepreneurial incomes, and, later, by redemption of terminal-leave bonds, thereby giving them more money to spend for the limited supply of goods.

These changes more than offset the decline in export demand which resulted with the running out of foreign holdings of dollar exchange.

The rise in prices was further stimulated by the short corn crop, with its implications for living costs and a wage-price spiral.

In the 3 months from June to September, which is the latest month published, the consumers' price index rose more than 4 percent, bringing the cumulated increase since mid-1946 to 23 percent.

A partially offsetting influence has been the Government surplus. It seems clear that inflationary pressures would be even greater than they are today if the Government cash surplus were smaller than it is.

I want to cover the increase in value of national output. Now, between the second quarter of 1946 and the fourth quarter of 1947, the privately produced gross national product, which is, in fact, the market value of the goods and services produced, excluding compensation of Government employees, has increased more than one-fourth, or, in terms of annual rates, by almost $50,000,000,000. The bulk of this rise is due to higher prices for the same physical volume of production.

Granting the desirability of increased production, this has proved a far from adequate solution to the problem of excess demand. For some time there has been relatively full employment of those people who are able and willing to work. The unemployment is of a magnitude which is associated with those frictions which are inherent in a free economy.

The CHAIRMAN. Can you say how much of that raise of fifty billion is due to higher prices and how much to the increased volume of production?

Secretary HARRIMAN. I am not sure that I can give you a definite answer; I can give you somewhat of an answer. About 20 percent of the increase would be increased volume; and about 80 percent, increase in prices.

Significant increases in production have been achieved in some areas; but, in the aggregate, any expansion of the physical volume is limited to the slow growth in the labor force, plus any improvement in output per worker which results either from the improved organization of production or from more efficient operations.

The inequities and the dangers inherent in this spiraling of prices, costs, and incomes should be clear.

In any attack on prices as they enter into the cost of living, it is important to have some perspective as to the relative importance of individual commodities or commodity groups in the family budget.

For, this purpose, two tables are appended to which I should like to direct attention. It is on the last page of the printed document that I gave you.

The first shows how consumers, in the aggregate, distributed their expenditures in the third quarter of 1947.

I would like to say in passing that on table 1—that is, the distribution on a national basis, as you know the Labor Department's Consumer Price Index deals with expenditures of moderate-family incomes, whereas this is for the Nation as a whole.

The second shows the contribution of the major components to the rise in the consumers' price index, both over the prewar level and since June 1946.

Food is by far the most important element in the consumer budget. It is almost one-third of total personal consumption of expenditures, and an even larger part of the consumers' price index, which is designed to reflect the budgets of urban families with moderate incomes. And, as Senator Flanders pointed out, in lower-income-bracket groups, it is even greater.

The importance of food is even greater than these figures would indicate, because food prices are particularly sensitive to changes in demand.

Food accounts for almost two-thirds of the rise in the combined consumers' price index since 1939 and over two-thirds of the rise since June 1946.

Clothing is the next important category. You will note that it accounts for 15 percent of the increase in the consumers' index since 1939.

Rent would, of course, be more than the 8 percent shown if rental rates were not controlled. The remainder of the consumer budget is made up of an extremely wide variety of items, no one of which is of major importance.

The foregoing summary of recent economic developments indicates the reason for our concern about the recent trend. The potentialities of the situation are clearly such that we should be in a position to act to arrest adverse developments.

It is essential, therefore, that consideration be given measures necessary to promote stability in the domestic economy and to implement the foreign aid program with a minimum effect upon domestic supply and demand.

It is apparent that some steps are essential, since we lack assurance at the present time that these ends can be achieved without positive Government action.

Presentation of the existing situation and proposed action are being made by the agencies principally concerned with particular segments of the economy.

Some of these analyses and suggestions have already been placed before your committee for consideration, and my testimony will be directed, therefore, toward those areas of primary concern to the Department of Commerce, although, first, I shall refer to two proposals. One of these, though not the direct responsibility of the Department, is related to its work, and the other is a field in which I share a joint responsibility.

The first relates to credit controls and relates specifically to the recommendation that consumer credit controls which have lapsed be reestablished.

Restraints used prior to the current month were a factor in restricting the expansion of such credit; and relaxation under present conditions, when the supply of goods, and particularly consumer durable goods, cannot be substantially expanded, adds to the upward pressure on the price level.

Should terms of sale be changed to prewar norms, the potential credit expansion, without any increase in the volume of installment sales, would amount to well over a billion dollars within a year's time. I share the conviction that these controls should be promptly reenacted.

The second of these proposals relates to the extension of the authority to allocate transportation facilities and equipment.

The Second Decontrol Act of 1947 authorized the continuation of controls over the use of transportation equipment and facilities by rail carriers, which controls are administered by the Office of Defense Transportation, subject to my over-all review.

In the first quarterly report to the Congress under the Second Decontrol Act of 1947, I stated that, with the shortage of railway freight cars already acute, and with prospects for continued heavy utilization of rail facilities that existed at the time of the enactment of the Second Decontrol Act of 1947, I therefore recommend that these powers be continued.

It is appropriate to point out, therefore, the results achieved in this instance with the aid of limited controls, through the active cooperation of the railroads with the Office of Defense Transportation; and I should like to say, in passing, that that relationship is the type of relationship which should be the objective of all controls.

In general terms, the Office of Defense Transportation indicates the ends that are desired, points out certain weaknesses in the situations, and makes definite suggestions as to improvements, and then the railroads cooperatively carry them out under the close scrutiny as to results of the Office of Defense Transportation.

But these many cases are actions which the railroads could not take because the laws prescribe that there should be no discrimination between shippers.

This program has increased the average load per car, reduced car detention, and accomplished the distribution of available freight cars in a manner so as to spread equitably among shippers the burdens resulting from the deficiency in freight-car equipment.

But, while this program has alleviated the freight-car shortage, it has not effected a solution. True, the present voluntary program for the construction of new freight cars for use in this country has shown substantial results, but it has not fully met our hopes.

Clearly, transportation occupies a central place in both our international program and in the stimulation of the domestic output of goods and their distribution.

I shall now turn to areas of immediate and primary concern of the Department, and discuss, first, the export control program; what the Department has done, and is now doing, and how this authority and the administration thereof should be strengthened.

Before I enter into the details of this problem, I want to call attention to that portion of the previously mentioned quarterly report under the Second Decontrol Act.

This report contains an analysis of each of the export controls, together with my recommendations as to the continued need for the control.

It explains our organization and our method of operating export controls, the criteria for approving export licenses, and the nature of our more important export programs, such as steel, coal, petroleum, chemicals and drugs, and lumber.

A copy of the report is included in the material on export control which has been prepared for this hearing and which is in the hands of your committee, sir.

The Second Decontrol Act, as you know, gave to the Secretary of Commerce, under the President's direction, certain broad export control powers which enable us to specify what commodities may be exported, and in what amounts, to what countries, and for what purposes, and to grant or deny licenses to exporters accordingly.

These powers had been exercised throughout the war in conjunction with the various war powers, such as allocations and priorities, rationing, and price control. These latter powers, however, except as to a very few items, were terminated before that time by the terms of the First and Second Decontrol Acts and by the enactment of a limited Price Control Act.

In this connection, I should like to call to your attention particularly the provisions of Public Law 475, Seventy-ninth Congress, approved June 29, 1946, to the effect that, except as permitted by the Price Control Act, as then limited, no other Federal law shall be construed to authorize the establishment of maximum prices for any commodity, and I wish later on to refer to how that affects the present export situation and the prices of commodities going for export.

I call your attention also to the stated policies of this Congress in passing the Second Decontrol Act, and which were made specifically applicable to our administration of export controls:

> The Congress hereby declares that it is the general policy of the United States to eliminate emergency wartime controls of materials except to the minimum extent necessary (1) to protect the domestic economy from the injury which would result from adverse distribution of materials which continue in short world supply; (2) to promote production in the United States by assisting in the expansion and maintenance of production in foreign countries of materials critically needed in the United States; (3) to make available to countries in need, consistent with the foreign policy of the United States, those commodities whose unrestricted export to all destinations would not be appropriate; and (4) to aid in carrying out the foreign policy of the United States.

In other words, we were told to eliminate all but the most essential commodities from export licensing controls, and, as to those that remained, we were authorized to control their export from this country for two main purposes: In the first place, to limit the quantity exported in relation to our own supplies thereof; and, secondly, to direct their flow to the countries where need is greatest and where our foreign-policy interest would be served best.

The CHAIRMAN. Just raising a specific question, what is there in it, in other words, to eliminate all but the most essential commodities? Where is there anything like that?

Secretary HARRIMAN. In the opening sentence, Mr. Chairman:

> The Congress hereby declares that it is the general policy of the United States to eliminate emergency wartime controls of materials except to the minimum extent necessary.

The CHAIRMAN (reading):

> To protect the domestic economy from the injury which would result from adverse distribution of materials which continue in short world supply.

It does not say anything about essential commodities. I do not see anything that justifies that conclusion.

Secretary HARRIMAN. Well, if I have not paraphrased it, Mr. Chairman, in a manner that is clear to you, I would be glad to stick to the words of the Congress:

> The Congress hereby declares that it is the general policy of the United States to eliminate emergency wartime controls of materials except to the minimum extent necessary—

for these two main purposes.

The CHAIRMAN. But the important thing is "to protect the domestic economy from the injury which would result from adverse distribution of materials which continue in short world supply." That has not been done; and that is the first thing Congress said, and it does not seem to me it has been done. It does not say anything about limiting ourselves to essential commodities in your export controls that I can see in that purpose.

However, I only mention that in passing.

Secretary HARRIMAN. It was, however, no longer permissible directly to regulate prices on export sales.

Nevertheless, export controls have indirectly assisted in the control of inflation. By spreading foreign purchasing power over many kinds of goods and preventing a concentration of foreign buying on those goods which are scarcest here, export controls have helped to protect the United States domestic economy against the danger of runaway inflation as well as extreme scarcity in the most critical items which, while scarce here, are much more scarce and much higher priced abroad.

The rules and regulations governing export controls are published in the Federal Register, including the regulations governing the issuance of licenses, and the composition of our so-called Positive List, the list of commodities whose export we specifically license.

Such information, with detailed explanations for the use of the export trade, is also published by the Department of Commerce in our quarterly Comprehensive Export Schedule, a copy of which has been furnished you.

We have also submitted to you detailed information as to the supply, demand, and production situation in the major categories of commodities now under individual licensing control.

You will note that among the goods still subject to export restrictions are essential foods, including meat products, fats and oils, butter, wheat, and other essential grains and preparations; fodders and feeds; seeds and fertilizers; soap, lumber and lumber products; coal, petroleum, many of the more important chemicals; steel-mill products, and iron and steel manufactures; copper, brass, lead, zinc, tin and tin manufactures; building materials and plumbing supplies; and certain types of machinery still in short supply.

These are items which are in short supply in this country, and for which, at the same time, there is an even greater foreign demand than at home.

Although most countries of the world are very short of dollars, and have accordingly established import and exchange controls, such controls generally are not applicable to the foregoing types of commodities.

In other words, in the absence of our export controls, the exports of these commodities would not otherwise be impeded, and would surely be greater than at present, and not short as at present.

There has been included in the material furnished you a table showing the total production and exports of leading nonagricultural commodities, and such exports as a percent of total production for the years 1929, 1939, 1946, and first half of 1947. There is also another table showing apparent per capita consumption of foods.

Generally speaking, you will find that the percentages exported have been running at more than prewar on these commodities, although less so, I might add, than in 1920, the comparable year after World War I.

Domestic production and consumption in the aggregate have risen far more than the volume of exports. Our economy, because of its tremendous increases in production, is supporting the current rate of export with relatively few areas of strain, but in these areas the effect is substantial.

There are certain commodities which are not in critically short supply but for which the demand is heavy throughout the world. The prices of these commodities have been rising steadily despite the efforts of producers to limit the amounts of these commodities they allocate for export.

The use of export controls further to reduce the quantity of such commodities now being exported would have the result of increasing the domestic supply, and to that extent, ease the pressure on prices.

Furthermore, there is a tendency for inflated world prices of commodities to infiltrate into the domestic economy. Foreign purchasers are often willing to pay prices substantially above the domestic price of scarce materials.

Exporters are, therefore, in position to sell them at excessive prices and, hence, to pay excessive prices for their supplies, thus bidding the available supplies away.

The world needs goods from the United States. If our goods are sold at inflated prices, the result is a more rapid depletion of dollar-exchange reserves of receiving countries.

We have a direct interest in providing necessary goods to foreign buyers at fair prices. This is in our long-term foreign-trade interest.

I also want to point out, in connection with our foreign-policy objectives and, in particular, the accomplishment of any program of world recovery, the extent to which we have been exercising our power to channel those exports which we license.

There is a chart included in the material furnished you which shows that in July 1947, for example, more than two-thirds of the exports which were controlled moved to Europe, as compared to shipments to Europe of a little more than one-fourth of the exports of non-controlled commodities.

The adoption of a European recovery program would, of course, emphasize the need for directing exports in that manner. The requirements of such a program on the United States can thus be fitted into the quantity of any commodity which the economy of the United States can spare, and this quantity can be directed most effectively to accomplish the objectives of the recovery program with the least harm to the economies of other countries which are dependent upon United States supplies.

Some commodities that are not now subject to individual license control will be sought in sufficient volume by European countries as to make necessary the imposition of controls to limit total drain and to direct exports most effectively.

In order to make sure that countries which participate in a recovery program make the most effective use of their dollar resources, consideration is also being given to a broad extension of export controls over the principal items which are now purchased by those countries in the United States, whether in short supply or not.

On this subject, the President's Committee on Foreign Aid said:

> Control over the issuance of export licenses to participating countries may be of the greatest importance. * * * Where a participating country proposes to use substantial portions of its funds to get from the United States goods not relatively important in the achievement of its promised production and monetary goals, it seems clear that the (Government) should have power to prevent this, thereby supplementing the import controls established by the participating country.

There are two ways in which we could strengthen our exercise of export control. In the first place, with increased funds, we could undertake a broader program of export control along the lines previously mentioned.

In this connection, I would like to point out that on VJ-day there were about 800 employees engaged in this work, and I might add that that had been reduced since VE-day from 3,500 items, with 798 commodities on the classified list, and that had been reduced from a peak during the war.

At the present time there are less than 200 employees and 352 commodities under control.

In the second place, with increased statutory authority, we could strengthen the drive against profiteering in exports, and I feel very sure in saying that the people of the United States, generally, do not want us to profiteer, and see us profiteering in the goods that we send abroad, either on Government loan or grant, or in any other manner. We want to be farsighted citizens of the world, and let the world have access to our prices rather than to have profiteers make exorbitant profits; and that would be rather simple to administer if you were permitted to ask the price for export.

The CHAIRMAN. What would prevent the purchaser from making a profit in the Argentine?

Secretary HARRIMAN. That would depend on the laws of the countries involved.

The CHAIRMAN. I know; but an exporter buys something, and he then turns around and sells it at a profit. I do not see that we are preventing anything. I do not say it is something that ought not be prevented, but I do not see how you are going to control it by taking it away from the American manufacturer.

Secretary HARRIMAN. One thing, Mr. Chairman, is that at least our honor is clear. In many countries, of course, there are controls, but at the present time——

The CHAIRMAN. I mean, take the automobile companies: They sell their automobiles in Mexico, and they do their best to sell them, as far as I know, at the regular price. But automobiles are selling in Mexico at twice what they are in the United States, and somebody makes that profit before the consumer gets it.

Secretary HARRIMAN. Of course, whatever profit is made in those countries does not disturb the dollar balance.

The CHAIRMAN. I mean, are you not trying to do something that is impossible in trying to get goods to the ultimate consumer in foreign countries at a reasonable price?

Secretary HARRIMAN. We cannot police what is going on in other countries, but at least we can police the price at which it is sold here and, of course, it does have an effect on the dollar balances.

If there is profiteering within Mexico, it is a diversion of income between Mexicans, but it does not limit the ability of the Mexicans, as a whole, to buy the necessities, those things, from this country.

The CHAIRMAN. Would there be any serious difficulty, for instance, if Mexico wanted to buy their automobiles here, of coming up through your negotiations here in making a deal with the automobile companies to buy them directly for their government?

Secretary HARRIMAN. We are not controlling automobiles at all at the present time under our export controls. That is left at the present time entirely within the discretion of the automobile companies.

I have been told that there have been some automobiles sent down there by dealers who have sold them at excessive prices. I know the automobile companies are trying to stamp that sort of thing out.

The CHAIRMAN. I was in Mexico last year, and certainly they were being sold at outrageous prices, but who made the profit I do not know.

I do not see how you are going to prevent it.

Secretary HARRIMAN. Well, in the items that we control, for instance, coal going there, I am told and I understand, that the foreign buyer of coal pays substantially more than the domestic price, and the principal amount of our coal is going to Europe, the area which we have now under consideration, and it would be possible, through our export controls, to see that the price was not unreasonably above the domestic price. I have also been told by men that I know in the coal industry that that tends to increase the domestic price.

I do not want to dodge your questions, Mr. Chairman, but insofar as automobiles are concerned, we are not controlling automobiles at the present time, and I am thinking only in terms of those commodities which we are now controlling for export.

The CHAIRMAN. You would suggest that in granting export licenses you might use the price at which they were sold as one of the conditions under which you grant the export license.

Secretary HARRIMAN. Yes, and I want to make clear that the exporter is entitled to a profit but not to a speculative profit. When a man gets an export license, it does give him an opportunity in certain areas to use that to hold up the foreign buyer.

Senator O'MAHONEY. Mr. Secretary, is it not a fact that when dollars in a foreign country are limited, the effect of profiteering on exports would be to limit the amount of goods which the foreign country could buy?

Secretary HARRIMAN. That is correct.

Senator O'MAHONEY. And is not that the reason why you have also offered this suggestion?

Secretary HARRIMAN. That is correct. The dollars will go further.

We have a great interest, as has been already shown by certain committees of Congress, in seeing that our dollars go as far as they can. It is important that the foreign purchaser pays only a reasonable price in this country.

Again, I want to make plain that there is greater expense in handling exports than domestic business, and the exporter is entitled to a reasonable profit, but not an exorbitant profit.

Senator O'MAHONEY. In other words, if we are making appropriations out of the Federal Treasury to finance the exportation of commodities that are sadly needed abroad, anything that we can do to help prevent profiteering in any one of those commodities will have the effect of making our relief program more efficient, will it not?

Secretary HARRIMAN. That is correct, sir, and the taxpayer gets the full benefit of money that he has appropriated for that purpose.

Senator O'MAHONEY. So, your purpose is not to prevent profiteering abroad, but to make our program more effective.

Secretary HARRIMAN. That is correct, sir.

Representative RICH. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes.

Representative RICH. Mr. Harriman, I understood you to say that you were interested in stopping profiteering in this country, but after we ship the merchandise to foreign countries, we have no control over it. Do you mean by that that we will hold our people down in this country so that they cannot make anything more than a legitimate profit, but after the merchandise gets into the hands of the ones in foreign countries, they can do what they please with it and profiteer there?

Secretary HARRIMAN. Of course, in the European recovery program, it is our intention to, and it is our recommendation, to see that the goods go to the people in the manner in which they are intended to go, and we can influence the situation there.

We can, of course, in connection with licensing, if we find that a country has practices which are profiteering practices, stop exports of those items if we found evidence that there was profiteering. But, of course, those controls are on the other side; I am talking of the areas where we can exercise control, in those areas where we have items on the positive list.

Your chairman mentioned automobiles, and at the present time we have no controls over automobiles and, therefore, we do not, and my suggestion does not, include control over the sales price of those items which are not on the positive list of export controls.

Representative RICH. I have been informed by people who have visited these foreign countries that in every country except Great Britain today the black market flourishes, and the men with money can get anything they want in any of those countries as long as they have the money.

Secretary HARRIMAN. That is my observation, too. Britain is the one country that has been able, through their methods established during the war and through the discipline of the British people, to maintain an equitable distribution of their goods. When I was there, there was practically no black market. There were a few cases which were brought up and people brought to court, but, I think, it is fair to say that generally speaking there is practically no black market in Britain.

In other countries, however, because of the demoralization of war, and the fact that the governments are not too strong, there are, as you said, black markets, and people with money can buy almost anything.

Representative RICH. Are we going to continue to ship merchandise into those countries and permit that to go on? If we ship commodities that are scarce here, over into those countries, refusing to let our own people make a profit, are we going to permit them, the people in the country to which we ship the merchandise, to do the thing which we prohibit being done here?

Secretary HARRIMAN. We are not refusing our people making a profit.

I think it is perfectly clear that we must come with clean hands when we go to other countries and insist that they establish stable currencies and eliminate black markets, and do all the things, Mr. Rich, which I fully agree with you are improper, but we must come with clean hands in order to be able to accomplish the maximum results.

Representative RICH. The point I am making is this: If we prohibit in this country those acts, we should prohibit it in the countries to which the merchandise goes from this country, to make it consistent.

Secretary HARRIMAN. Mr. Congressman, I want to make it plain that we can use our influence, but we are not the governments of other countries, and those matters have got to be worked out by those governments, and over a period of time.

There has been demoralization as the result of the war and many of these governments are weak, and they cannot accomplish what they themselves would like, and what you, Mr. Rich, are quite correct should be done; but it must be done, and we must recognize that it can only be done, over a period of time.

The CHAIRMAN. Mr. Harriman, I would like to go back, if I may, to an argument that you made to this question of, say, automobiles. They are not controlled, but other things are.

If an automobile is sold in Cuba, and the man in Cuba then turns around and makes the profit, sells the automobile in Cuba, for what automobiles can be sold for in Cuba, naturally, that means just the same as our manufacturer making the profit.

Why take it away from our manufacturer and give it to him? He can translate that profit into dollars as far as Cuban money is concerned, and he makes the profit instead of the manufacturer. Unless you have some means of controlling the price at which goods are sold to the consumer in these countries, and I do not see what you can accomplish by your price control.

Secretary HARRIMAN. Cuba may be a case where there are enough dollars, but in most cases there are not enough dollars.

The CHAIRMAN. I question that as to South America. I think most South American countries have plenty of dollars.

Secretary HARRIMAN. Some have and some have not.

The CHAIRMAN. Some have not, but I am suggesting the places where they have.

Secretary HARRIMAN. Mexico is a case in point.

The CHAIRMAN. Unless you can carry this thing through to the consumer, I do not see quite what you accomplish by price control. Of course, if you are going to finance the purchase to European countries under our purchasing control, why then, of course, we do not have to buy it unless they will sell it at a reasonable price.

Secretary HARRIMAN. Senator, may I make this point: I am differentiating between those items which are under export controls and those that are not. I am not suggesting that we exercise any control over the areas which are not under export control as we exercise over the areas which are.

The CHAIRMAN. I am suggesting that you do that; I am suggesting that export of automobiles is just as much of a drain on our resources, automobiles to South America, as the export of steel to Italy.

Secretary HARRIMAN. Senator, we were so limited by the amount of money that was appropriated for export controls that we had to throw off all the items that we possibly could.

Now, it is a fact that the automobile companies have an interest in maintaining a fair price. I do not believe any automobile company that I know of would sell for export at an excessive price because they want to maintain the good will of those countries.

Senator O'MAHONEY. Mr. Secretary, let me interrupt you to suggest that you are operating under a law which the Congress called the Second Decontrol Act, and you are here testifying in favor of changing that principle from the policy of detrol to an extension of controls.

Secretary HARRIMAN. You are quite correct, sir. We want, and we believe it is desirable, and I agree with Senator Taft, that we should expand it. It would take some time to discuss each item.

May I go on and say this: We must recognize, and I am not familiar with the condition in each country, but we do know that even in this country, in the resale of automobiles, there is a black market in new cars; dealers or individuals who have bought cars, put them on the second-hand lot, and they are sold for substantially more money and, therefore, when we ask other countries to control that sort of thing, we must see that we stamp out our own abuse in this country as well as in other countries.

The CHAIRMAN. The only thing we continued export controls for, and it was only for one reason, was because we felt as long as we were distributing dollars around the world so freely that it would have an adverse effect on our economy if those dollars came back in unrestrained amount to buy anything they wanted to buy. I think that is clearly the purpose of the continuation of the act.

It was not a decontrol act; it was an act to protect us against the distribution of dollars.

Senator O'MAHONEY. It was called the Decontrol Act.

The CHAIRMAN. But the purpose is very clearly stated in the act, to protect the domestic economy from the injury which would result from adverse distribution of materials which continue in short world supply, and I suggest that has not been done.

Secretary HARRIMAN. Mr. Chairman, may I say that except to the minimum extent that word was put in; in addition to which the Congress gave us so little money that it was impossible for us, and it is today extremely difficult to do a good job even on the limited number of items that we have under control. It is axiomatic that if you control an item you must have staff enough to deal with the applications, and give the consideration that is necessary to the effect on the domestic economy so as to determine the amount of exports that can be permitted. Then, too, you have to consider the distribution among different countries, and it is essential to issue the licenses quickly or else you completely clog trade. The combination of those words "minimum extent" which were in the act, and the amount of money that was appropriated has made it impossible for the Department of Commerce to go beyond the items which are now under control. We are asking, as Senator O'Mahoney says, for an extension and expansion, and the most important part of it is the requirement for additional funds to cover the areas which now seem desirable to cover.

Therefore, I agree with your suggestion that there are more items which should be controlled. But we cannot do it, sir, unless we have more money to do so.

Senator O'MAHONEY. I might also call attention to the fact that when that decontrol bill passed the House, it was to be in force only to the end of January 1948.

The Senate bill, on the other hand, extended the controls to June 30, 1948; and the whole controversy in conference was whether the controls should be lifted at the earliest possible date or should be extended.

The Senate was not able to persuade the House conferees to extend these powers, these limited powers, to June 30, and had to be satisfied with an extension for an additional 30 days, namely to the end of February. The whole emphasis, in other words, was placed on lifting controls completely.

The CHAIRMAN. All right, you may proceed.

Secretary HARRIMAN. I can assure you, sir, that is correct; and it was not until very late that we got the authority to extend it, and we were running out of money. We had to release our employees just as rapidly as we could or else we would find ourselves with no money to pay our terminal leave.

I would like to go to the question of priorities and allocations.

In the seventh point in his message, the President recommended legislative authority for "allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production."

It is planned that any allocation powers which may be authorized over any commodity will be delegated to the Department which is regularly concerned with the commodities. That would be the recommendation of the administration.

Under the arrangement, the Department of Agriculture would handle foods, the Department of the Interior would handle fuels, and the Department of Commerce other materials and products. As a result, my testimony is limited to this last area.

Senator FLANDERS. Mr. Harriman, under what Department would cotton come, which is not a food? Would that come under Agriculture?

Secretary HARRIMAN. That would come under Agriculture, but it would mean working together with the Department of Commerce in terms of supply and use. We are working very closely with the Department of Agriculture in many items where we have overlapping authority, and it works extremely well.

It is not contemplated that a comprehensive system of controls over materials, products, and productive facilities, such as we had during the war, will be necessary to achieve the objectives indicated by the President.

But authority to carry out restricted priority and allocation controls is necessary, in my judgment. Such controls would permit the direction of materials for use in meeting the most urgent and critical needs of our domestic economy, and I think would aid in increasing production, in order to combat inflation and also to carry out our foreign policy.

Inventory controls and authority to limit and curtail the consumption of short supply materials in less essential uses would conserve such materials for the most essential uses.

Government controls are now exercised over a few materials. Tin and tin products, antimony, cinchona bark, and quinidine, nitrogenous fertilizer materials, rice and rice products, and fats and oils have remained under various kinds of emergency controls by authority of the Second Decontrol Act of 1947, Public Law 188, Eightieth Congress. This act expires February 29, 1948.

For example, full emergency controls are now authorized over tin, which continues in very short supply. I might add, tin is a critical material and it is the policy of the Government to build up a stockpile of tin. These powers are exercised to a very considerable extent. Pig tin is allocated almost completely, rigorous specifications are imposed on the use of tin in many uses, and the use of tin for many purposes is prohibited entirely.

Since the outlook for increased supply of tin to meet our full needs is not promising, these controls should be extended.

My report on the Second Decontrol Act contains recommendations for the extension of controls on tin and other limited controls now in effect. As these recommendations are a matter of record, I shall not review them or repeat them here.

I want to emphasize, however, that I do not anticipate that under existing conditions the very broad controls exercised over tin will be necessary for other scarce commodities.

To achieve the objectives set forth in the President's message, controls should be limited in character and applicable only to scarce commodities.

Adequate authority within these limits will be requested to order set-asides and to issue priorities; to issue limitation orders, and to control inventories, and to allocate scarce materials.

Before describing the ways in which these powers would be used, and the benefits which might be expected from their use, I would like to state my firm conviction that these controls should be imposed only after careful consideration by the Government of their effect on business; and only after consultation with the industry affected. That is now our practice.

In the Department of Commerce we have been making use of some of the industry advisory committees set up during the war. These committees, composed of representatives of all segments of the industry in question, large and small, and representative in other respects, have been of great value to us in bringing to us the experience and knowledge of the industry.

They serve as a valuable forum for discussion of the problems facing us and the methods we have devised to solve them.

In addition to suggesting alternative solutions which may be better than those we have devised, or suggesting improvements and ways to make the proposed solutions more workable and effective, these meetings have the great advantage of setting before the industry the problems facing us, and obtaining their cooperation and assistance in carrying out our programs.

I might say that we find that the overwhelming majority of industry are ready to cooperate when they understand what the problems are, and I have no doubt in the exercising of these powers that we can obtain the cooperation of practically all of the industries, and the overwhelming majority of the individual units of each industry.

It is my earnest hope that the Government will be able to assist and encourage industry to solve many of these problems by cooperative effort. But in many cases it requires a Government order to carry out what the majority of the industry desires to do, because there are always, or frequently there are, some who are uncooperative, and the actions of the others may be negated by the actions of a few.

Allocations, priorities and set-asides are required chiefly in order to have the legal right to direct materials to certain end uses which are determined to be critical for meeting our own urgent needs as part of the anti-inflation program, as well as to carry out our foreign policy.

The Second Decontrol Act authorizes the use of priorities powers for exports designed to increase or expand the production abroad of materials critically needed in the United States; and for exports where the Secretary of State certifies that the prompt export of material or equipment is essential to the success of American foreign policy.

The power to require the shipment of materials abroad has been used very sparingly, principally for tin plate, earmarked exclusively for food preservation abroad, for nitrogenous fertilizer materials, and for a few items of equipment needed abroad to expand the production of critical materials which we need here.

There is no present authority to use priorities powers for similar purposes in the domestic field.

It is proposed to extend existing limited priority powers in order to be able to increase or prevent breakdown in domestic production of short-supply materials and products.

The most important place in which this power can be exercised in our field is over steel, which is the basis of our industry and is needed abroad in many areas which have depended upon us, and in other areas where the war has reduced the production of steel.

By the use of limited priority and allocation powers over steel, I believe we could direct a small proportion of steel to the most essential programs, and also reduce the amount of steel going into a few less essential purposes.

The increased production of freight cars, so greatly needed by our domestic economy, is a case in point. Another example is that steel may be available for increased production of farm equipment so essential to maintain our own food production on high levels, so all important, and to increase food supplies in other countries, to make them thereby more self-sufficient.

Limitation orders to conserve scarce materials, and inventory controls will be helpful in carrying out the anti-inflation program.

If materials in short supply are to be used to the best advantage, authority must be granted to conserve the supply by eliminating the less essential uses.

Under existing controls, for example, tin is prohibited for use in the manufacture of toys, jewelry, and some other fields, thereby conserving tin for food preservation and other important and necessary uses.

During the war period, the use of limitation orders made it possible to divert scarce materials to the most urgent needs of our domestic wartime economy and, of course, our military requirements.

The impact and inconveniences of such limitations would now be much less. There are more substitute materials available than during the wartime, an example of which is aluminum, so that the possibility of substituting less scarce or plentiful materials would be an important consideration in any conservation measures.

Diversion of critical materials from less essential items for the purpose of increased production of more essential products may reasonably be expected to combat inflationary trends.

Any program to conserve critical materials in short supply would be undertaken only after a very careful survey and study and consultation with affected industries, and we do that, of course, in connection with tin and have had considerable experience in that respect.

Furthermore, I do not believe that it will be necessary to exercise these broad allocation powers over more than a very few materials, far less, of course, than the innumerable controls exercised during the war.

At that time, a very large part of the production of the country was required for the war effort, in fact, over forty percent.

Now, I believe, with the cooperation of industry, it will not be necessary to use these priority and allocation powers for more than a very few purposes, leaving the vast majority of business transactions free from controls.

General authority to limit the size, accumulation, and distribution of inventories is a necessary adjunct to the other powers mentioned.

Inventory control would be especially applicable to scarce materials. Experience indicates that it is an almost universal human trait, and I have seen it in all my business experience, to overbuy and hoard things in short supply.

This results in accentuating the short-supply situation. The use of inventory controls would help prevent the accumulation and holding of unwarranted inventories in the hands of users, effect a more efficient distribution of available supply, and reduce or eliminate speculative operations, or, perhaps, eliminate them.

I have outlined the type of controls that will be requested, the method of operation by citing examples, and the general objectives of these controls.

I firmly believe the results would be of substantial benefit. I would expect the critical programs I have mentioned can be expanded and the goals achieved without unreasonable impact on other segments of our business structure.

I am hopeful that the judicious exercise of these controls would result in reducing inflationary pressures on some of the items which affect the cost of living.

Now, in conclusion, I have stated my reasons for urging the use of consumer credit controls, the allocation of railroad equipment and facilities, export controls, and the priority and allocation powers in order to assist in the anti-inflation program.

I do not want to give you the impression that these controls can be exercised without any inconvenience to anyone. In spite of the inconveniences, which can be reduced greatly by enlisting the cooperation of the public and by voluntary cooperation assisted and encouraged by the Government, and without expecting these controls to accomplish too much, I am firmly convinced that these controls can make a substantial contribution to the anti-inflation program.

I have outlined the type of controls that will be requested, the method of operation, by citing examples, a few, and the general objectives of these controls. However, I feel that it is the better part of prudence that precautionary measures be taken in case a program involving rationing and price and wage control as outlined in the President's message should prove to be necessary, and in certain areas price controls are needed now, as I have indicated, in the export field.

These would be used to supplement other advantages I have discussed.

I understand your committee, however, does not intend to consider these measures. At the present time, we are working on the presentation of these more far-reaching proposals, which will be submitted later to the appropriate congressional committees.

The CHAIRMAN. Mr. Harriman, it was indicated to me that you would tell us who has to present these 10 points in the President's message, and I think your office has arranged for the appearance of the Secretary of Agriculture, and Mr. Eccles.

Starting off with number one, to restore consumer credit controls and to restrain the creation of inflationary bank credit, Mr. Eccles hardly referred to that yesterday, though, I think, the Board has testified to it before the Banking and Currency Committee.

"To restrain the creation of inflationary bank credit," who is going to present the President's program on that question?

Secretary HARRIMAN. Mr. Snyder, the Secretary of the Treasury, will deal with point one during the presentation to the Congress.

The CHAIRMAN. Mr. Eccles presented a plan yesterday which he said was not the Administration plan. I wondered if it was the Administration plan or whether it was not the Administration plan.

Secretary HARRIMAN. I am not familiar with, and have not had an opportunity to study, Mr. Eccles' proposals. Mr. Snyder will be able, Mr. Chairman, to present the Administration's position.

The CHAIRMAN. Mr. Snyder on Friday will present the Administration's position on restraining bank credit.

Secretary HARRIMAN. The entire point one.

The CHAIRMAN. Yesterday Mr. Eccles pointed out, and you referred, to the fact that you yourself advocated the extension of controls over consumer credit. You said that it amounts to well over a billion dollars in the increase in the volume of installment sales in a year's time.

Mr. Eccles pointed out yesterday that the rate of increase in housing credit today is at the rate of $5,000,000,000 a year, so that consumer credit is very small compared to housing credit.

What is your position, or the position of the Administration, or are they going to take any, on whether housing credit should be restrained?

Secretary HARRIMAN. Well, I can only express a personal reaction. We are in a situation, Mr. Chairman, where we are attempting to do a great many things which are essential and desirable in the national interest.

We are in a normal inflationary period where people are spending and prices are going up, and the situation is not in balance.

It is certainly a fact that any houses that are built add to the inflationary pressure, but it is the Administration's position that we must do everything humanly possible to take care of the veterans and to help ease the present housing situation.

May I say that there are areas where we also want to have the manufacturers expand, where their manufacturing is essential to increased production. There well may be areas in the commercial construction field which are not essential and, perhaps, some steps might be taken in that field.

I only wanted to say generally, Mr. Chairman, that the normal central banking processes of reducing credits, and thereby reducing expenditures, is really not an easy solution in the present situation.

We want to direct our energies to the most essential uses, both in the interests of our whole economy, in the interest of certain segments of our economy, such as the veterans and others who are short of homes to live in, and in carrying out our foreign policy which is so essential to the future well-being of this country.

We are not in a period, as I say, where you want to slap on general contra-inflationary measures beyond what we are capable of or beyond what is desirable to do.

The CHAIRMAN. What I do not understand is why it is bad to permit the consumer credit to be extended, to permit a man to buy an automobile on a year's time, to permit a man with a substantial down payment to do that, when we permit a man to buy a house with nothing down with payments over 20 years, especially when the latter is five times as inflationary as the consumer credit. What is the distinction between them?

Secretary HARRIMAN. As I say, Mr. Chairman, I firmly believe that we are in a period of selective direction of our activities. There is a difference between a family not having a place, a decent place, to live in, and one having to wait for a period in order to turn in his second-hand car for a new car.

I think there is a definite difference in social values in those two areas.

The CHAIRMAN. But if we are not willing to stop inflation in popular things, I do not see what the hope is in any program. You are willing to let $5,000,000,000 go into housing and create that much purchasing power in thin air, and I do not see how your anti-inflationary program is ever going to work if you are not prepared to really face the unpopular things as well as the popular things.

Secretary HARRIMAN. I think that perhaps you will not recognize and accept it, but I believe myself that it is like a traffic congestion where you have the local police—you have your red and green lights, and you have your policemen out to direct the traffic, and to get the flow in the direction that it should be moving.

Sometimes you have to ask some people to wait for a while, and other times you let people go ahead, go forward, and I am quite convinced that we have many areas close to productive balance, while in other areas we do not have such a balance. It will be several years before we get to that point, and housing is one case.

Senator O'MAHONEY. Mr. Secretary, I think I might point out that the President, in his economic report of last January to this Congress urgently recommended that Congress pass the housing bill to which the chairman of this committee gave his very effective support, and which had been passed in the Senate in the Seventy-ninth Congress, and which failed in the House, as was popularly said, because of the real estate lobby, and concerning which the Eightieth Congress has done nothing.

The CHAIRMAN. In any event, Mr. Harriman, you disagree with Mr. Eccles on the necessity of restraining and cutting down housing credit, is that right?

Secretary HARRIMAN. I must confess that I have not read Mr. Eccles' testimony and, therefore, I cannot comment on it.

If anything that I have said appears to be in disagreement, why, I have expressed my personal views about it. I think we can do a great deal with the banks and central banking, with the regional banking groups, in placing the questions before them, and getting them to use their credit facilities in the directions that are in the national interest as defined by the Congress.

Senator O'MAHONEY. You must expect to be criticized whichever way you go.

Secretary HARRIMAN. We must be expected to be criticized in every way, but all we can do is do the things we think are right to do in the immediate interests of the people and in the long-range interest of the Nation.

The CHAIRMAN. Mr. Harriman, No. 2 on the President's list was regulation of speculative trading on the commodity exchange.

That was presented by Secretary Anderson.

Secretary HARRIMAN. That is correct.

The CHAIRMAN. That presents the administration view?

Secretary HARRIMAN. That is correct.

The CHAIRMAN. No. 3 is to extend and strengthen export controls on which you have testified today.

Secretary HARRIMAN. That is correct.

That is my responsibility.

The CHAIRMAN. Apart from this price question, what occurs to me to be the great inflation in the export program—I have before me the report to the President by his Council of Economic Advisers, which shows in the first three quarters of 1947, exports of goods and services and food averaged 19.3 billions and the imports only 8 billions, leaving a difference, the rate at least for the three quarters, of $11,300,000,000.

As far as I can find, taxes may have financed about half of that to something like $5,000,000,000 in the budget, but the other $6,000,000,000 seems to be clearly inflationary.

Secretary HARRIMAN. Those figures are made up roughly by the drawing down of accumulated dollar balances in this country.

The CHAIRMAN. That is purely inflationary, is it not?

Those dollars were accumulated during the war just like savings in this country. They come in with no corresponding products.

Secretary HARRIMAN. I do not differentiate between, when you talk about inflationary prices, anything that is sold, anything domestically or for export. It all adds to the inflationary pressures.

The CHAIRMAN. What was that?

Secretary HARRIMAN. I say any business done, whether domestic or export, adds to the inflationary pressures.

The CHAIRMAN. Not if it is balanced by imports, for instance.

Exports do not add to the inflationary pressures to the extent they are balanced by imports which mop up consuming purchasing power.

Secretary HARRIMAN. I might say the imbalance of exports, whether done by Government credit or whether done by private investment abroad which is substantial, in any area adds to inflationary pressures.

That is in the same way as capital expenditures in this country.

The CHAIRMAN. Why would it not have been wise to limit this tremendous imbalance, this inflationary pressure?

Is it not a fact that this $11,000,000,000 in 1947 was the largest single item which has caused the rise of prices in the United States?

Secretary HARRIMAN. That is not my judgment, sir.

The CHAIRMAN. Can you point to a larger item?

Secretary HARRIMAN. The inflationary pressures come from the general increase of consumer buying. We have practically 60,000,000 people employed at fair wages, and they have wants.

Their wants in the food area is the biggest inflationary pressure, and that is the area where as soon as a man gets a lot of income he quite properly and appropriately wants to improve the character of his diet and his family's diet.

The CHAIRMAN. But every man that gets that income and wages is producing something to go out and take up the purchasing power of other people, which is very different to my mind from the inflationary effect of this export trade against which no goods are produced.

Secretary HARRIMAN. Senator, I cannot add to the discussion as to the percentages of this effect on the domestic situation.

The pent-up demands of the war, the greatest employment we have ever had, and the fact we have not sufficient production in many lines to take care of those demands, has a great effect.

I am quite ready to fully agree that our imbalance in exports is substantially an addition to our inflationary pressures.

The question is, Mr. Chairman, as to whether it is in the national interest to continue exports that are financed either by Government or by lending agencies or by private investment abroad.

If that is in the national interest, and that is a matter on which I feel deeply, we should.

The CHAIRMAN. You feel what?

Secretary HARRIMAN. I feel deeply we should.

The CHAIRMAN. Should limit exports?

Secretary HARRIMAN. That we should continue our policy of assisting the rest of the world in recovery. That cannot be done within the area of what they have today to ship back in return. In time they might. Plus, of course, our travel expenses abroad, and plus, of course, what might eventually become a normal, private investment abroad.

The CHAIRMAN. Mr. Harriman, how can you possibly hope for a reduction of prices, controls or no controls, if against the balance of domestic production on top of that you throw $11,000,000,000 a year of export demand against which there is no balance?

Secretary HARRIMAN. You can only do it by limitation of consumption in this country, plus certain controls on prices in certain areas.

The CHAIRMAN. Should not we ration these foreign countries before we ration our own people?

Secretary HARRIMAN. Every foreign country involved in the recovery program has the most drastic rationing of the items that are in short supply.

I lived in England during the war, and I have lived there since, and the present consumer rationing in England is even more drastic today in most lines than it was during the war.

A man cannot drive his automobile unless it is on business purposes.

Food, clothing, and all items are rationed very, very tightly.

The CHAIRMAN. Mr. Harriman, now let me call your attention to the table of these economic advisers as to where these exports go.

In 1947 there is some 8,000,000,000 which goes to Europe, against which there are imports of $1,600,000,000, or a deficit of $6,400,000,000.

Thirteen billion goes to the rest of the world as against which there are imports of $6,400,000,000 a deficit of $6,600,000,000 to the rest of the world outside of Europe entirely, outside of these countries that are in such condition.

I am suggesting a rationing, not necessarily to Europe because they have been rationed practically by the money we give them, but the rest of the world has been permitted to come in and build up inflationary pressure on our country without any apparent limitation by this export control that you have.

Secretary HARRIMAN. I have not the figures before me, but I can say from memory that part of those were UNNRA shipments which went to countries outside of the 16 nations involved in the European recovery program.

A substantial part of those exports went to them.

The CHAIRMAN. Where?

Secretary HARRIMAN. Russia, Yugoslavia, Poland.

The CHAIRMAN. Yugoslavia and Russia are included in Europe, I take it, are they not?

Secretary HARRIMAN. I do not know what your figures are, sir. I do not have that form, unfortunately.

The CHAIRMAN. They are the figures of the President's Council of Economic Advisers submitted to the President and to your committee.

Secretary HARRIMAN. I must confess I am not a walking encyclopedia and have not the figures before me, and I do not have a visual memory that remembers them.

In addition to which there were shipments to the Far East which are important.

I certainly do not think we should scrap the good neighbor policy. There are requirements for South America which have always depended upon the United States for many items, and they are going through a period of readjustment and are anxious to build their economy so that they can have a better standard of living in those areas where they are now having low standards of living.

The CHAIRMAN. What percentage of applications for export licenses have been turned down and as to what commodities?

Secretary HARRIMAN. What percentage turned down?

The CHAIRMAN. Yes.

Secretary HARRIMAN. Of course, I do not know that I can fully answer that question.

It is not necessarily the percentage turned down, of course, but it is the areas of control.

The CHAIRMAN. Was it of any substantial importance to anywhere?

Secretary HARRIMAN. From my mail, I would think it was a very substantial quantity because I have the unhappy duty, or the Department has, of dealing with export controls, and we have a very heavy mail not only from the general public but from the Members of Congress.

The CHAIRMAN. I do not mean mail. I have mail, too. I mean, is there any way to tell how many dollars have been turned down in exports.

Secretary HARRIMAN. May I ask Mr. McIntyre to attempt to answer your question?

The CHAIRMAN. Yes.

Secretary HARRIMAN. Mr. McIntyre is director of our export controls.

STATEMENT OF FRANCIS E. McINTYRE, EXPORT SUPPLY BRANCH, OFFICE OF INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE, WASHINGTON, D. C.

Mr. MCINTYRE. Mr. Chairman, we have under export control only one item in eight of the commodities which enter into foreign trade.

This decision has been based primarily upon staff considerations.

The CHAIRMAN. Might I interrupt a moment?

Mr. MCINTYRE. The biggest volume of exports are in the first and second quarters of this year which had no relation to the present act we are discussing now and no relation to the appropriations made by the Republican Congress at all.

It was under the previous act, the War Powers made by the previous Congress.

Secretary HARRIMAN. May I say, it had a definite effect upon the second quarter.

We were on notice we possibly would not have extension of export controls and did not have enough men to carry it on, on the staff.

The staff had to be reduced very materially in the second quarter, and we had to throw off a great many items very rapidly in order to stay within our appropriations.

The CHAIRMAN. May I say the export control question came up, the Republican Policy Committee and Steering Committee, at least, announced they were in favor of extending export controls.

There was never a moment of doubt as far as the Senate was concerned—I cannot speak for the House—about the intention to extend export controls.

I cannot remember a single question being raised about it.

Secretary HARRIMAN. There were definite questions raised as to the areas and amounts, and we had great difficulty in getting money enough to carry through the second quarter.

Mr. McINTYRE. These commodities subject to export control, while they constitute only one item of eight entering into foreign trade, constitute 25 to 30 percent of the value of such shipments.

So that more than one-fourth of exports leaving this country are subject to licenses.

I would estimate, and it is impossible accurately to give this percentage, that we denied from five to ten times the quantity of material which we approved for export.

In other words, each of our export quotas was oversubscribed by license applications from 500 to 1,000 percent.

The CHAIRMAN. To whom are they granted, exporters?

Mr. McINTYRE. Export licenses are granted to applicants, subject to the jurisdiction of the United States.

In most cases, the licenses are granted private American exporters.

The CHAIRMAN. Those exporters put in a general demand for as much as they can get, do they not?

Mr. McINTYRE. They make applications for very substantial quantities.

There is no doubt that the exporter permits an element of optimism to influence the quantities for which he requests approval.

However, it is widely known in the trade that the size of the application is not a consideration in the quantity approved.

So there is no inflation in that sense.

The CHAIRMAN. But in the first three quarters, did not the actual exports take all of the shipping available? Was not this tremendous export in the first 9 months of this year as much as we could have shipped physically under the conditions existing?

Mr. McINTYRE. I cannot say precisely as to the amount of excess shipping which might have been available. I can only point out that the bulk of the shipping was used entirely by commodities not subject to control.

The CHAIRMAN. But subject to the act, subject to potential control if you wished to exercise it.

Secretary HARRIMAN. If we had the money to exercise it.

The biggest period of export imbalance was in the second quarter. At that time it was the accumulation of demands plus the fact we were attempting to take care of the necessities and needs of certain areas, including western Europe.

You will recall we attempted, because of the food situation and the hunger situations that were in certain areas due to the bad winter, we attempted to accelerate our exports of grain particularly, and coal.

In that second quarter our unbalance reached the point of $13,000,000,000, at the rate of $13,000,000,000 a year.

The unbalance dropped in the third quarter to about the annual rate of $11,000,000,000, a little less than $11,000,000,000, and I think indications are the fourth quarter will be slightly less or about the same as the third quarter.

The prospects for the first quarter of 1948, including estimates which are based on the possible action of Congress on the interim-aid program, would be somewhat less than the third and fourth quarters.

The CHAIRMAN. Is not that based partly on the theory that the dollar resources abroad have been exhausted?

Secretary HARRIMAN. That is definitely involved.

The CHAIRMAN. Then is that actually a fact?

I notice something like $17,000,000,000 still available to various countries, and there seems to be a good many hidden assets in France and other places.

Secretary HARRIMAN. Of course, they are getting down to their reserves to maintain their currencies.

The CHAIRMAN. The European countries are, but I question whether the rest of the countries are.

Secretary HARRIMAN. I cannot give you this in detail, but the countries of South America have reduced their position.

As you noticed in the press recently, Canada has been fast exhausting her dollar resources.

So there has been a general drain on dollar resources which has been going on.

The CHAIRMAN. A drain on dollar resources. You mean they are not working hard enough to make the stuff that they can pay us for them with, or what is the drain on dollar resources?

Secretary HARRIMAN. Part of it is due to the demands which are similar to those that we have in this country, of pent-up demands deferred during the war, and a part of it is due—you are quite right, Mr. Chairman—to the fact that with the increased needs at home, production has not come up to the amount that is necessary to provide sufficient to pay for these necessitous imports.

I do want to say there has been a great deal of attention given to the fact that production is not high enough. At the same time substantial progress has been made in many of the countries that we are considering assisting.

The CHAIRMAN. Mr. Secretary, for the record, my figures from this report show that the exports of goods and services in 1946 were $15,250,000,000.

Imports were $7,100,000,000, deficit $8,150,000,000.

In 1947, the first 9 months at the rate of $19,300,000,000 exports, a very substantial increase over 1946, $8,000,000,000 imports, and a deficit of $11,300,000,000.

Secretary HARRIMAN. That is at the annual rate.

The CHAIRMAN. I would also like to verify your impression of the fact that of these exports only 40 percent go to Europe and the other 60 percent go to the rest of the world. Is that correct?

Secretary HARRIMAN. I would imagine that is correct.

The CHAIRMAN. Is that not the percentage figure used as a rule?

Secretary HARRIMAN. That is about correct. I imagine they get those figures from us.

The CHAIRMAN. I have only one general question.

Do I understand from your attitude you do not favor any substantial cut in the exports to other parts of the world, leaving out this Marshall plan question to be determined later; but to other parts of the world you do not favor any substantial cut of exports?

Secretary HARRIMAN. I had not intended to give that impression. I have intended to give the impression that I believe the larger area of our exports should come under control, and we should know more about what is being done with our exports in many areas which we are not now able to know much about.

Senator O'MAHONEY. Is it not a fact, Mr. Secretary, that what you are trying to do is to bring exports and imports into balance?

Secretary HARRIMAN. We hope eventually to do that, Senator, but I believe I made it plain that during this period we must add to our difficulties in our long-range interest by assisting world recovery, and that for a considerable number of years that will mean that we will have a substantial unbalance of exports and imports.

Senator, may I say in answer to your question also, although we have before us the needs of the 16 nations, I do want to indicate that it is very much in our interest to assist and to continue trade with other parts of the world. That includes the Far East, and, of course, South America.

We certainly want to cement our relations with Latin America which are so vital to our national interests. Even though we are now concentrating our attention at the present time on the recovery of western Europe, we should not neglect or disregard the fact there are other nations that do need our goods, or do need the possibility of trading with us. We have a great interest to cement our relations with these nations.

The CHAIRMAN. The question I have is whether that demands the increase of exports from $4,000,000,000, the 1936–38 average, to $19,000,000,000 in 1947, whether there is not something like moderation in that trading.

Secretary HARRIMAN. The unbalance for the year will come out somewhat less than $11,000,000,000.

Senator, you have to deal with the individual countries, country by country, what we buy from them and what we need to buy from them.

They will not sell the materials we need badly unless they can buy something in return.

And there are other areas in which there is a real interest to make it possible for them, where their credit is good and where they want to buy from us things they need, to promote their proper economic development.

The CHAIRMAN. You are asking for authority to take away steel from various American industries, and I just wonder whether it is not better to take it away from some South American industries or industries throughout the world first, at least, before we go about taking it away from our own producers, incidentally, employing American men whom you will have to put out of work if you put in this allocation power, the power to reduce the steel.

Secretary HARRIMAN. In our present export allocations it has been our earnest attempt to direct steel in line with our foreign policy.

Senator O'MAHONEY. Is it not a fact, Mr. Secretary, that in allowing exports of steel or of any other commodity covered by this act, it has always been the policy of the Executive Branch of the Government to make those exports go to countries which could ship back to the United States commodities of which we were in short supply?

Secretary HARRIMAN. That is correct, Senator, and in the case of steel, many of these countries have traditionally and at all time been dependent on us for steel.

Of course, there are certain other areas that used to get it from Europe, which is not possible now.

Senator O'MAHONEY. Is it not the policy to enforce this act in such manner as to encourage production abroad of items which will relieve the drain upon our resources?

Secretary HARRIMAN. That is correct, and, of course, one of the authorities that the President has asked for is to take an interest in agricultural production in other areas in order to help control the world food situation and give sufficient resources of food so our needs may be taken care of at such time as we may have disastrous crops.

Senator O'MAHONEY. Can you tell this committee what proportion of these exports were financed in the normal channels of international trade?

Secretary HARRIMAN. I haven't got the figures with me, Senator. I might be able to develop something for you on that subject.

May I say in Bolivia, for instance, we have sent steel there particularly to maintain their tin production which is so important for our economy.

Senator O'MAHONEY. Because we need the tin back here?

Secretary HARRIMAN. Because we need the tin back here, and because we want them to maintain their production and possibly increase it.

It is one of the most critical items, as you know.

Senator O'MAHONEY. Exports to South America are not gifts, are they?

Secretary HARRIMAN. There are no gifts except as were included in the past in UNRRA.

Senator O'MAHONEY. I am speaking of South America.

Secretary HARRIMAN. There are no gifts.

The CHAIRMAN. Do not we give dollars to England so they can pay those dollars to Canada for their wheat?

Is not that a gift to Canada for all practical purposes?

Secretary HARRIMAN. Canada buys from the United States things she needs. It is a triangular trade relationship which has been historic. Canada has bought in this market many of the industrial goods, including steel, coal, and other things which are vital to our economy, and has exported to England and Europe raw materials such as wheat.

It has been a triangular trade. If we were to stop all of that, Canada would be in economic difficulty.

Senator O'MAHONEY. How about South America?

Secretary HARRIMAN. You have to deal with each country individually. We are dependent upon Brazil for coffee, and we get manganese which is very important, and there are other things we get from Brazil.

There have been periods when the trade relationships run in the opposite direction.

Senator O'MAHONEY. I take it you would not favor a policy of economic isolation?

Secretary HARRIMAN. I would not favor a policy of economic isolation, and I think it would be disastrous to establish that policy.

Senator O'MAHONEY. Mr. Chairman, for the record, I desire to read into it a paragraph from the report of Mr. Springer from the Committee on the Judiciary in the House, filed in the House on June

24, 1947, 6 days before the termination of the effectiveness of title 6 of the Second War Powers Act.

Mr. Springer says in his report, and I am reading from page 2:

This law insofar as it affected title 3 of the Second War Powers Act, extended the controls thereunder in limited form until June 30, 1947.

He was referring to the act passed previously. Subsequently his report goes on:

At the instance of the administration, the present bill was introduced to further extend certain of the existing controls to June 30, 1948, and comprehensive hearings were held before a subcommittee of this committee on June 6, 1947.

It will be observed that the administration was asking for a full year's extension.

Mr. Springer goes on in his report:

The announced attitude of the subcommittee was to favor a termination of controls wherever possible in the absence of a compelling reason for continuation.

As a result of the hearings, the committee has modified the bill and it was introduced by means of shortening the termination date to January 31, 1948, and by eliminating some products from control entirely, while retaining or abbreviating the control over certain of the others.

Then the report goes on to describe the conditions.

Now the fact of the record is that the House of Representatives last year in the first session of the Eightieth Congress was seeking to reduce controls to a minimum, as stated in the section of the act that you have quoted in your statement.

The Senate was more liberal. The Senate sought to extend the controls to the 30th of June, but the Senate view did not prevail and the bill which finally was enacted into law narrowed the jurisdiction of the export control administration greatly beyond that which was recommended by the Administration.

And, as I have also pointed out, when the appropriation bill was passed, your budget request was not allowed.

So what we are dealing with now is just the plain question of fact—whether or not in the public interest it is desirable to extend controls beyond those which were allowed in the act which expires on February 29, 1948.

I am hopeful that the Senate will display the same liberal attitude which it displayed at the last session, and that difficult as these powers may be to administer and annoying as they may be, those who operate under them the powers should be extended so that we may carry on the general program.

Representative RICH. Will the Senator yield on that point? You are speaking about the House of Representatives, and I would like to have a word to say to you in reference to that.

Senator O'MAHONEY. I am reading from the report.

Representative RICH. That is all right, but you are criticizing the work done by the House of Representatives.

Senator O'MAHONEY. Not at all, I am stating the facts.

Representative RICH. The fact of the matter is, you have said the Senate was very liberal. It always has been liberal, away beyond the extent of the House of Representatives, and that is the reason we are in such difficulties, because of the great debt we have. And we do not assume the responsibilities of that, and we want you to know you fellows in the Senate are more responsible than we in the House.

Senator O'MAHONEY. As one Member of the Senate, I will be glad to accept the responsibility of the liberality of the Senate as far as I can.

Secretary HARRIMAN. May I state this in addition to what you have said concerning the extension of the act. The effects of the policies you indicate were already felt early in the year, and that relates to something Senator Taft said.

My partial answer to that is: We asked for a supplementary appropriation in order, earlier in the year as an emergency measure, to be able to keep under control more of the items which we felt should be under control. Since we got no adequate action from the Appropriations Committees on that, we had to decontrol more items than we felt desirable.

Representative RICH. May I ask a question right there, Mr. Chairman?

The CHAIRMAN. Go ahead, Mr. Rich.

Representative RICH. Mr. Harriman, how much money do you want to control the exports of this country?

Secretary HARRIMAN. We have certain estimates I will be glad to present. They are being assembled to give the Appropriations Committee.

The answer to your question is we now have somewhat less than 200 employees, and we are going to ask for additional appropriations to about double that number. We estimate it will take about 600 to carry out a full program.

Representative RICH. Six hundred what?

Secretary HARRIMAN. Employees.

Representative RICH. Six hundred employees?

Secretary HARRIMAN. We now have 200.

Representative RICH. What does it cost for those 600 employees, the ones you have now?

Secretary HARRIMAN. It is about a million dollars a year for the present staff of 200. Presumably it would be three times that figure.

Representative RICH. And you want $3,000,000 to regulate the exports that are going from this country?

Secretary HARRIMAN. Going from this country and to implement the European aid program.

Representative RICH. And you want to increase your employees from 200 to 600?

Secretary HARRIMAN. Yes; and that is less than what it was.

Representative RICH. How many hours a day do your employees work?

Secretary HARRIMAN. Forty hours a week supposedly, but I know that Mr. McIntyre and Mr. Foster and I work many more hours than that.

Representative RICH. Everybody has to do that, and I am wondering why you said "supposedly." What do you mean by that? Do you not know whether they are working 40 hours a week or not?

Secretary HARRIMAN. I mean that is the amount they are paid for 40 hours a week. That is the amount they are paid for, and that is what they work, but I am simply indicating that plenty of the officers work substantially longer hours than that. But the clerks work 40 hours a week and are paid for 40 hours a week.

Senator FLANDERS. Mr. Secretary, I can think of two types of legislation you might ask for. One is general powers and the other is on a list of items which you might present on which you ask for these powers.

Would you be prepared to submit to the Congress the items on which you would like these powers of allocation, inventory control, export control, etc.?

Secretary HARRIMAN. On the area on allocation, we will ask for immediate powers in connection with steel, and then general authority after full public hearing, and after the finding of the need for allocation, to expand to other areas.

The only one we will be asking will be specific authority on steel. But I do not want to give you an impression that it would be limited to that because we do not feel that we know enough, based on information we have, as to what useful purpose would be served on expanding it.

Senator FLANDERS. You would not be prepared to give rigid specifications at this time as to the powers you would exercise?

Secretary HARRIMAN. On the over-all area we are making requests in regard to the areas we now have, such as tin—I think we are dropping antimony—and the extension of the other specific items where we have over-all control of the domestic economy.

Senator FLANDERS. What are your present powers over steel?

Secretary HARRIMAN. The only powers we have over steel are export control.

Senator FLANDERS. Export controls?

Secretary HARRIMAN. Yes.

Senator KEM. Is steel being controlled now to any large extent?

Secretary HARRIMAN. Yes; yes indeed.

Senator KEM. Have we stopped the shipment of steel pipe to Arabia for oil purposes?

Secretary HARRIMAN. No; we are authorizing the export of steel pipe to Arabia for the expansion of the production of oil in Saudi Arabia.

Senator KEM. We have a shortage of pipe for the conveyance of oil in the United States?

Secretary HARRIMAN. That is correct.

Senator KEM. Particularly in the central west?

Secretary HARRIMAN. That is correct.

Senator KEM. What steps are being taken to take care of that situation?

Secretary HARRIMAN. The only step we are taking generally is to attempt to help the steel companies keep their production up to maximum extent they can. We have been working with them on getting more scrap, and we have had other discussions with the principal steel companies.

The senior officials and I met yesterday to consider other means of helping them increase their production to their capacity, but except for that type of cooperation we have no powers to direct steel within the United States. If we had powers, it might well prove to be the fact that the pipe requirements of our oil producers might be considered so acute that they might need some priorities.

Senator KEM. If we stop the export of steel pipe until we get up in the United States, that would help, would it not?

Secretary HARRIMAN. That might help certain areas, but it is very questionable whether it would help the whole fuel oil situation.

The known reserves in the United States are about one-third of the known reserves of the world, and I think we probably know more about our reserves here than in other parts of the world. We are using about two-thirds of the oil that is being consumed in the world, and it is the opinion of the people involved in defense, and it is also our opinion, that it is desirable in the national interest to increase the amount of production in the Middle Eastern areas so that we do not drain the resources of the United States or the reserves in the Caribbean, which is close by.

We have a great interest to see that the world supply is adequate to world demand which it is not today.

It is a fact that the steel going to Saudi Arabia produces substantially more oil, many times more oil, from the information I have, than similar use of the steel domestically. With the shortage situation, it is important that we get relatively more oil production from the new oil fields. I cannot say how much but it is a number of times more.

Senator KEM. It is true, is it not, Mr. Harriman, in this country we have plenty of oil if we can get it to the localities where it is needed? Was that not brought out before the national resources subcommittee which was holding hearings earlier in the year?

Secretary HARRIMAN. We have plenty of known reserves if we are able quickly to get them into production to take care of our domestic needs, but we are importing a considerable amount of oil and refining it here and exporting certain refined products.

In order to maintain our requirement in this country we import oil from other areas.

This matter in Saudi Arabia has been studied more carefully than any other single item, and it was the opinion of those involved in our national defense, as well as those in the State, Commerce, and Interior Departments that it was in the national interest to increase the production in the Saudi Arabian field.

That is our national interest. It does have some effect on the individual producers of this country, but in our national interest it is most desirable to promote that enterprise which, as you know, has been under consideration for many, many years.

Senator KEM. I note in the morning paper that the suggestion has been made we have rationing of gasoline east of the Rocky Mountains. Is there any basis for a rationing of gasoline?

Secretary HARRIMAN. The fuel area is in the Department of the Interior and they can give you more information than I can. The export controls are ours. We have reduced our exports in the fourth quarter substantially from what they have been previously.

Senator KEM. What are our exports now in oils? Can you give us that figure?

Secretary HARRIMAN. I do not know that I brought them with me. There is roughly a balance between imports and exports in the overall at the present time.

In terms of products, we are exporting such things as lubricating oil which are in excess supply.

There appears to be an acute shortage of oil products particularly in certain areas. The consumption of these products is in excess of what anybody estimated, including the oil companies. There has been a shortage of tankers throughout the year, and as a result of that situation the Maritime Commission and the Navy have broken out more tankers in order to ease the situation. But as these tankers have had to be repaired, they were not available as early as desirable, and it is a fact that as a result of increased demand in this country, it appears that we will have a tight situation this winter.

I have the figures here. The exports for the fourth quarter are 12,000,000 barrels, which is about 3.4 percent of our production, and I believe our imports will be that much and somewhat more.

Senator KEM. Where do we get most of our imports?

Secretary HARRIMAN. Most of them from the Caribbean area. The Navy, I think, takes some oil from the Middle East.

Senator KEM. Mr. Chairman, I had some other questions, but I note that we will probably not have time.

The CHAIRMAN. We probably will have to go to the floor, Mr. Secretary, soon. Are you going to be in town Friday?

Secretary HARRIMAN. I am going to be in town Friday, but I was to appear before the Appropriations Committee of the Senate in connection with the interim aid program.

The CHAIRMAN. We have Mr. Snyder Friday morning, but a good many of the Senators and Congressmen would like to ask questions if you are available Friday afternoon.

Secretary HARRIMAN. That is the time I am going before Senator Bridges' committee.

Representative RICH. Mr. Chairman, could we not continue this afternoon?

The CHAIRMAN. We will probably have a final vote on this interim aid bill, and final debate, and perhaps some amendments. I think we would be called in and out if we tried to meet this afternoon.

How about Monday?

Secretary HARRIMAN. Mr. Wolcott has asked me to appear on Monday morning.

Senator FLANDERS. What else do you do besides appear before committees?

Secretary HARRIMAN. I try to prepare myself as best I can.

Representative RICH. You are going to be before the Appropriations Committee this week for more money, and there are several questions that I would like to ask before you go before the Appropriations Committee.

Secretary HARRIMAN. It is the interim-aid appropriation. It is not our own Appropriations Committee, Congressman Rich. It is in connection with the interim-aid program.

Representative RICH. May I ask this one question. I do not want to hold you here.

The question is this: The 600 employees you want. You now have 200 and it costs you a million dollars. That is an average of $5,000 apiece. You want $3,000,000 for 600 employees and that is an average of $5,000 apiece.

Is the reason you want those employees because you are going to export more stuff out of this country?

Secretary HARRIMAN. It is to control and direct the exports. First to control the exports to protect our domestic economy and to direct them in those commodities which we are not now able to control into those areas to do this Nation the most good.

Representative RICH. On page 5 of the report you just read a few moments ago—"to implement the foreign-aid program with a minimum effect on domestic supply and demand."

The greater you increase our foreign aid the more difficult it is going to be for us to regulate our prices in this country, is it not?

Secretary HARRIMAN. Our estimates indicate that the unbalance which Senator Taft spoke about will be less in 1948 than it was this year, certainly less than the peak of this year, and on the assumption the Congress authorizes the interim aid and recovery program. The committee of 19 private citizens, which I spoke of before, agrees with that estimate.

I have the exact figures. We have now a staff of about 200. We are asking for an appropriation to cover an increase from 200 to 410 as promptly as possible, and for the balance of the fiscal year 690, and for the next fiscal year 850.

Representative RICH. I thought we were trying to cut down the expansion of these Government bureaus and Government departments, and I see you are trying to build them up.

I think you want to cut down your exports and try to take care of the people in this country. You would need less employees.

Secretary HARRIMAN. The more you try to cut down exports and the more you try to regulate exports, the more employees you need to do it.

Senator O'MAHONEY. How many export applications are pending?

Secretary HARRIMAN. Approximately 50,000 applications are on hand and not acted upon.

Of course, the requests are made in order to be prepared and they will be needed if the Congress agrees to the interim aid and the foreign reconstruction program.

Representative HORAN. Mr. Chairman, I have noted with considerable interest the fact there are 50,000 applications unacted upon, but why are American producers so anxious to export at this time?

Secretary HARRIMAN. There are a great many of them who are anxious to export. They have the supplies. They can make more money in some cases, and in certain areas there is enough to export.

Representative RICH. I think we ought to hold that material here.

Representative HORAN. The reason for the export controls, as I understand it, is because we recognize a short supply here at home and the desire to make them highly selective.

Secretary HARRIMAN. That is correct.

Representative HORAN. It is not a matter of how much we can export, it is what we can afford to export. Is that not right?

Secretary HARRIMAN. That is correct, and therefore we believe that it is in the national interest to expand the controls and to direct them. Of course, there are certain industries that can export because they have got excess capacity to do so.

Representative HORAN. Is there not a direct relationship between No. 7 which gives you authority to allocate and inventory control all scarce materials, and No. 3 to extend and strengthen export controls?

Secretary HARRIMAN. In a certain sense it is doing domestically what we are now attempting on a limited basis to do abroad.

Representative HORAN. You use the phrase which I thought was quite good: "Selective direction of our domestic production." That would be done through your authority granted to give priority to allocate scarce materials?

Secretary HARRIMAN. Yes; that would be done through the authority to direct to the areas of the greatest need. But I do want to emphasize the fact I feel it should be done very selectively and not interfere any more than is absolutely necessary. We might need some set aside for export and at the same time we might need some set aside for freight cars and possibly oil or machinery, but I think we should limit it to the most urgent needs where the Nation is involved in the question.

Representative HORAN. How much money, Mr. Secretary, and how much personnel will you ask for to implement the authority to give priorities and control inventories?

Secretary HARRIMAN. We have not made any estimates on that and cannot do so until we see just what authority the Congress gives us. I believe we can do it more economically than a new organization.

Representative HORAN. Do you not have the remnants of WPB in the department now?

Secretary HARRIMAN. We have the remnants of WPB, but they are only personnel working on specific powers. Each one of them is busy and the staff has been reduced to handle such things as tin and rubber and these other items I mentioned, and we have no surplus employees at the present time.

We are custodians of the files, but that takes space.

Representative HORAN. Will there not be a direct relationship between the work of that department and the work of the Export Control Division?

Secretary HARRIMAN. There will be overlapping of problems and over-all direction. It will need to be synchronized even though the clerks working in the different areas will be in different sections.

Representative HORAN. Is it not true the more you simplify your production and consumer pattern, that the less over-all expenditures and force is necessary to exert controls over known scarce materials?

Secretary HARRIMAN. I do not fully understand the question, sir, but if we are going in to attempt to reduce the consumption of steel on nonessential production, that requires a staff to analyze the situation and to work with the industry.

We have recently been through it with tin. We have called in the beer people who use tin cans to see whether they cannot reduce the consumption of tin in that area. And the same with pet foods, petroleum products, and other containers that use tin, and it takes a staff to do that.

In the same way, if you are considering priorities a staff has to analyze the need for it.

If my simile is correct, you have got a traffic congestion and you need a staff to try to straighten it out. It will lead, I believe, if it is well done, to greater availability of material for the general use of business.

This is the area of steel [indicating] and you limit the use of certain areas and divert into other directions. The two are kept in balance for if you get a little more savings it does lead to freer flow in the middle area, but it does take more staff than we now have to control those two end areas.

But the savings to the Nation as a whole is very great compared to the relatively few additional employees.

Representative HORAN. As you know, I am a member of the Subcommittee on Appropriations that will have to pass some judgment on your request.

I was disappointed in your answer to Senator Flanders' question.

I wonder if upon the occasion of your next appearance before this subcommittee you could not be more specific regarding commodities and scarce materials, so that we will have a better concept of this problem and can speak more wisely in the name of the people of this Nation.

Secretary HARRIMAN. We are clear that the effective use of these powers will be productive of desirable results in steel.

We are not clear in other areas.

I mentioned certain other areas we want to explore, but we go at this thing pretty cautiously and we have not had the staff of experts that would be necessary to call the industry down to see what we could do in those areas, and therefore it is very difficult.

I can say that we are already studying and have discussed it, the question of the direction of freight cars, for instance, to get more high volatile coal for the steel industry.

That, I think, can be handled through spotting freight cars. That is typical of what we would want to do.

Representative HORAN. One of the real tense positions we find ourselves in now is trying to operate way above our previous peacetime capacity with a freight car inventory that is only about two-thirds what it should be or has been.

Is that not right?

Secretary HARRIMAN. The railroads are making better use of their freight cars, and as the Nation has gone to a 40-hour week, they do not unload and load cars on Saturdays and Sundays as they used to.

So it has that restraint.

There is a need for more freight cars, for boxcars, ar d open-top cars.

May I say that steel and wheat are the two great basic shortages in this country. There are others, but those are the two great basic shortages, both in terms of our domestic economy and in taking care of the foreign needs that are in the Nation's interest.

We are going to go into these things very carefully, Congressman, and I could have brought a list of things we intended to do but I do not want to be put in that position and scare a lot of business people about what we may go into.

Do you see what I mean?

If I announce we are going to go out and try to regulate the textile industry, that will be a terrifying thought to many people. But we certainly will want to call the textile people down and find out what is going on to see whether cooperatively we can improve the price situation.

But I would not want to say we were going to use any powers until we have discussed it with them.

Representative HORAN. I merely say you will have to become specific before we can act, and I do not think we have been adequate and specific today with regard to definite items.

Secretary HARRIMAN. I can give you the areas in which we would want to undertake immediate and prompt investigation to see what could be done, and that would require personnel.

The CHAIRMAN. What are they?

Secretary HARRIMAN. I can get that for you. I would rather do that next time.

Representative HORAN. May I suggest when you review this testimony that you review Senator Flanders' questions and give us specific answers to them.

I would also like to have the relationship between the work that will be done under request No. 7 and that under No. 3.

There is one other thing I object to in your testimony.

On the last page you use a comparison between 1939 on food and 1947. I assume that is an average market place price, is that right?

Secretary HARRIMAN. It is taken from the consumer price index of the Department of Labor.

Representative HORAN. In all fairness to our farmers, I want you to correct it to read what the parity price at that time should have been.

There is altogether too much tendency on the part of people to regard prices of farm products in 1939 as what they should have been as a sound figure.

As a matter of fact, we were grappling with parity all of that time and farm prices were behind the eight ball then, and it is not fair to bring such a comparison before the Congress, and we are going to have that corrected.

Secretary HARRIMAN. Congressman Horan, I want to make myself very clear.

I do not believe on a price basis in the interwar period the farmers had a fair break on the prices, and I would never attempt to put any testimony in that was unfair.

Representative HORAN. Will you correct those percentages?

Secretary HARRIMAN. I can give you the extent to which farmers' prices in 1939 were below parity. But I think the prices are now about 20 percent above parity.

Representative HORAN. I think that is correct, and I think it would be fair.

If you are going to judge the farmers, you should use the proper testimony.

Secretary HARRIMAN. I want to make myself very plain because when you bring figures together, you cannot bring everything together, and there is no intention to indicate that I thought 1939 was a fair comparison, and I assure you I did not intend to make any such inference.

Representative HORAN. It became so apparent as we held our hearings in the West that people were comparing a price that was not fair to a large and productive, continuously so, segment of our population, and they were using an unfair comparison.

The CHAIRMAN. Mr. Harriman, would it be possible for you to return Friday morning at 10 o'clock?

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I do not think it would be very long, but I would like it, if possible, to permit a number of questions of several men who are not here.

They asked if they could have an opportunity of questioning you, and I am afraid we will have to go now.

We will have Mr. Snyder here also, and we will try to finish you up in a half an hour or so.

Secretary HARRIMAN. You want me to come before Mr. Snyder?

The CHAIRMAN. Yes.

Secretary HARRIMAN. I will be here promptly at 10 o'clock.

The CHAIRMAN. We will adjourn until 10 o'clock Friday morning.

(Thereupon, at 12:20 p. m., an adjournment was taken until Friday, November 28, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

FRIDAY, NOVEMBER 28, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10:05 a. m., pursuant to adjournment in Room 318 Senate Office Building, Senator Robert A. Taft, chairman, presiding.

Present: Senators Taft (chairman), Watkins, O'Mahoney, Sparkman, and Representative Huber.

Senator Ecton, and Representatives Horan and Poulson.

Also present: Charles O. Hardy, Staff Director; Fred E. Berquist, Assistant Staff Director; and John Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Secretary Harriman has returned at our request, and will further testify this morning.

Have you any further statement to make, before we proceed with the questioning, Mr. Secretary?

STATEMENT OF HON. W. AVERELL HARRIMAN, SECRETARY OF COMMERCE, WASHINGTON, D. C.—Resumed

Secretary HARRIMAN. Mr. Chairman, there were several questions which were left unanswered which, perhaps, I could take a few minutes for, bearing in mind that you wish me to hurry through it as quickly as possible.

Representative Horan asked me to bring the relative farm prices between 1939, in relation to parity, and 1947. With your permission, I would like to put this statement in the record.

It shows that in 1939 farm prices were only 77 percent of parity, whereas now, of course, they are above parity. They are about 120 percent of parity. The prices to farmers, of course, have gone up more than the farmer pays. This statement shows that, and with your permission, I will put it in the record.

(The statement referred to follows:)

STATEMENT RE RELATIVE POSTWAR FARM AND OTHER PRICES

In reply to a question raised by Representative Horan, I indicated that the use of 1939 as a base period in table 2 of my prepared statement was not intended to imply that prices were in balance at that time. Farm prices at that time were low relative to other prices. A measure of the relationship then prevailing is available in the parity price formula. In terms of that formula, prices received by farmers in 1939 were 23 percent below parity.

Since then the index of prices received by farmers has about tripled. These are prices at the farm rather than the retail prices which go into the Consumers

Price Index. Over the same period the index of prices paid by farmers has gone up 92 percent. The result is that prices received by farmers in October 1947 were 21 percent above parity. The indexes of prices received and prices paid by farmers, together with the parity ratio, for the same periods given in table 2 of my testimony, are as follows:

Relative movement of farm and nonfarm prices

[Indexes, 1910-14=100]

	1939	June 1946	September 1947
Prices received by farmers	95	218	286
Prices paid by farmers [1]	124	188	238
Parity ratio [2]	77	116	120

PERCENT OF INCREASE

	1939 to June 1946	June 1946 to September 1947	1939 to September 1947
Prices received by farmers	129	31	201
Prices paid by farmers	52	27	92

[1] Covers commodities used in production and living, plus interest and taxes.
[2] Ratio of prices received to prices paid, including interest and taxes.

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics.

Representative HORAN. Mr. Chairman, I want to express my appreciation for the cooperation of Secretary Harriman. I think that is a fair presentation of this position, and we just take an over-all average of 1939 farm prices, and compare that with today's higher levels.

The CHAIRMAN. Thank you.

Senator Watkins, do you wish to proceed with the questions?

Senator WATKINS. Mr. Secretary, the last time you were before the committee I asked you some questions about the export of steel from the United States.

Secretary HARRIMAN. Mr. Chairman, may I ask whether you want me to answer the unanswered questions of Senator Flanders and of Mr. Horan regarding the various things that we would study to put under control. If you recall, that was the open question, which I can answer.

Senator WATKINS. I prefer to withdraw my questions.

The CHAIRMAN: All right, we will cancel it out, and let Mr. Harriman proceed.

Secretary HARRIMAN. That was the question we wish to tell you specifically about, the areas that we would immediately begin to work with in connection with the use of the powers if they were granted, if you recall, and I have a statement on that, if you wish me to make it.

Representative HORAN. Then, I have one other question, Senator Watkins, after which I will relinquish it.

Secretary HARRIMAN. I think it will be quicker if I read very quickly this prepared statement on that.

When I appeared before this committee on Wednesday, Senator Flanders and Representative Horan asked that I submit information regarding the scope and character of the work which would be involved in administering the various types of domestic controls which might be authorized by Congress, and the relationship between this activity and the administration of export controls.

I shall confine my remarks, of course, to the areas of domestic control with which the Department of Commerce is concerned, and shall not be concerned with commodities under the jurisdiction of other departments.

It is my belief that the controls should be extended on all items under control, with the exception of quinine. These include tin and tin products, antimony, cinchona bark, quinidine and nitrogenous fertilizer materials, and rubber, by virtue of Public Law 24, which is under the consideration of the Armed Services Committee of the House.

I believe the controls should be extended to include limited authority over iron and steel. It is also my view that the Government should have authority to extend these controls if, after a public hearing, it is found that it is necessary to prevent an unbalance in the supply and demand situation from limiting production in important areas.

This authority should be coupled with authority to limit excessive inventory accumulations.

It is also my belief that in all these areas any authority granted should be granted only after extensive discussion with the industry, and that emphasis should also be on obtaining the desirable results through cooperation of the industries themselves.

If, however, authority is of the nature outlined, we would immediately undertake steps to see to what extent uses of steel could be curtailed so that adequate amounts of steel could be made available for important programs such as freight car production and, perhaps, a few others such as the production of agricultural machinery and, possibly, petroleum production.

Investigation should also be undertaken to see whether this authority could be used to stimulate steel production. Steel is the only area in which we have sufficient information to be able to state specifically and definitely that a new program of control should be instituted.

There are other areas in which I believe it would be advisable to undertake immediately extensive investigations to see if the institution of any form of industry cooperative action or Government controls would aid in increasing production of products in short supply, combating inflation or implementing our foreign-aid program.

These areas include textiles, which are so important to the cost of living item, clothing; nitrogen, which is in short supply, and for which there is the question of increasing production, and the various uses, and, of course, the relative needs of increasing agricultural production abroad.

Soda ash and caustic soda are in short supply; these are basic commodities used in many industries, the steel industry, the making of glass, and so forth, and that is in short supply.

Soap is also in short supply, and we believe a study might develop a better use, and possibly some increased production.

As to aluminum, the capacity is there, but with the increase in the use of aluminum, there appears to be a shortage approaching, and there is the question of stimulating production through obtaining, if possible, the necessary power.

The other nonferrous metals that are in tight supply should be studied, and constant surveillance should be had over them. Foreign production, and what can be done to stimulate foreign production has a bearing, of course, as well as other matters.

Newsprint is an important item. There is a shortage at present, and there will be for some time. The equitable distribution of newsprint, particularly to the smaller publishers, is, I believe, of importance to the national interest, and at the present time I want to commend the larger publishers for what they are doing to help the smaller ones; but there are still complaints, and there is the question of increasing the supply outside of North America, and also see whether to encourage voluntary cooperation in getting equitable distribution.

The CHAIRMAN. Do you think after you have control the complaints will stop, Mr. Secretary?

Secretary HARRIMAN. No, they will not stop. But I do believe that we can cooperate with industry and perhaps, through the use of controls, get more equitable distribution.

Building materials. There are a number of very tight items there, such as nails, for instance, where our work has been held up.

Soil pipe and gypsum board. It is believed that these bottleneck areas might well be at least partially, if not entirely, cured by the use of and by stimulation of cooperative effort, with controls in the background or, perhaps, occasionally the issuance of orders.

The CHAIRMAN. Mr. Harriman, may I interrupt you to ask, was it not true that we gave full power to allocate building materials and that the President himself, and Mr. Wyatt, completely abandoned it on the theory that it would not work, that it was not working?

Secretary HARRIMAN. You remember, I came back from abroad just about that time, and I am not familiar with the details of those operations. You remember the temper of the country at that time, and these controls were running out; and I am not prepared to discuss what happened at that time, as it was not in the area under my jurisdiction.

Representative HORAN. Mr. Chairman, may I not inquire, however, that if we are to embark upon a program of allocations and priorities, that it would be to the Secretary's interest to review what occurred at the time you returned from Europe?

Secretary HARRIMAN. It certainly would be, and I have had people down talking to me about the areas in which we could be of use in order to be prepared to deal with these matters.

The authority which we are now asking, of course, is a limited authority in limited areas of bottlenecks rather than the complete allocation, which was as a result of the war and which was undertaken during the war.

The CHAIRMAN. I do not want to interrupt, Mr. Horan, but what is this idea about limited authority? How is it to be limited? As I understand what you want is 100 percent all-out powers, all-out authority. You say you do not want to use it but you want it, after a public hearing, as I understand it, to impose complete control, and there is no limitation about it at all.

Secretary HARRIMAN. We are asking for the authority to issue priority orders in those areas which are of basic interest on the one end, and to issue limitation orders on the use in the less essential areas, and would not cover the entire allocation of the product.

The only areas where we are asking for full right to allocate the entire product are the items which I first read, the principal one being tin and tin products, control over which we are not exercising.

The CHAIRMAN. What kind of a limitation are you proposing to put in the bill? I cannot discover any effective limitation.

Let me read what Mr. Farrington said about agriculture:

In addition—

after listing certain materials—

we believe provision should be made under public hearing procedure for the use of these powers with respect to other commodities and facilities whenever it is determined that such action is necessary or for purposes necessary to the health, safety, and welfare of the American people.

Now, that is just complete, 100 percent, authority to go into anything that the administration wants to go into. Are you asking for the same thing in the field of the Department of Commerce as the Department of Agriculture is asking for in its field?

Secretary HARRIMAN. Although it is not in my field, I am not at all sure that in certain of the agricultural fields, the food field, such powers will not be necessary.

The CHAIRMAN. This is over all, is it not?

Secretary HARRIMAN. In the industrial field which I am covering, we would be asking not the powers, except as they relate to this list that I gave you, in which tin and tin products are most important, but for authority to issue priority orders where it is shown that under certain standards that the need exists, and the limitation as to use should be used.

The CHAIRMAN. You do not get my distinction. You say you are going to make it partial, but the bill, as I understand it, as far as I can understand what the requests have been made up to date, will give you power, if you wish to determine that anything is important, to go in and regulate that particular thing and put in allocations.

Secretary HARRIMAN. Yes. There are two things, one is the powers, the limited powers over certain commodities.

Now, we are suggesting that it would be well not to attempt today to appraise each of the areas of short supply, but to have the authority, after public hearing, to add additional commodities to the list if they develop to be critical.

The CHAIRMAN. Then I do not see any limitation on your authority. You talk about limited powers but you ask for unlimited powers to cover everything, and that is the point. I do not think the proposal is in good faith. It is a representation that you are asking for limited powers, when you are asking for unlimited powers.

Secretary HARRIMAN. I am trying to explain to you why it is limited. The powers that we are asking for are limited, namely, to issue priority orders and limitation orders on use for the two ends of any production area.

The field in which we are asking for it is not over everything; it is over those items which relate to the cost of living and the basic commodities which affect production.

The CHAIRMAN. Does not every commodity affect production? If you have authority to decide which are to be covered, can you not cover any commodity? Is there anything in your decision which you think necessary that cannot be reviewed in any way?

Secretary HARRIMAN. Under such standards as are set by the Congress in the legislation and after public hearing, those commodities could be brought under the limited controls which I am suggesting.

The CHAIRMAN. Under the unlimited controls which you are suggesting, Mr. Harriman, what possible limit is there? Is not such control a complete control over distribution? What is there that you could not order, outside of price control, which is a separate question? What is there under the general powers of allocation such as you are asking that you could not do?

Secretary HARRIMAN. When it comes to the drafting of the bill, I can show you that the areas that we are asking for in the issuance of priority would have to show specific standards, and in the limitation orders certain standards would have to be adhered to so that you would be dealing only with the most urgent needs, and the less urgent needs and the main area of use of the commodity would be left free for the workings of the economy, except for those specific products such as tin, which we now have under complete control.

The CHAIRMAN. I just do not understand it. I cannot understand why you are not asking for complete priority and allocation control, which is complete control of distribution over any product that you choose to find is essential to the welfare of the people or something of the kind, some kind of a general phrase that does not mean anything.

Secretary HARRIMAN. Senator, I have tried to explain that there are two things: One is the number of items that we cover, and there, we are asking for an open-end under standards to be set, when they come into critical supply, that is, if, as and when they come into critical positions; and, secondly, I am trying to indicate that it is not the request for complete control over allocation, but only to issue priorities, priority orders, where the need is shown in the national interest, and the limitation of use.

That is quite different from going in and allocating every item to every user, and that is what I have tried to explain.

The CHAIRMAN. You can distinguish, as I understand your distinction, between your use of these powers as limited and unlimited. But I cannot understand how any authority we can give you can be in any way limited.

Secretary HARRIMAN. I believe, Senator, that we can show that.

The CHAIRMAN. I have not had any limitation suggested so far.

Secretary HARRIMAN. I believe that I can show you, and I have tried to testify, that you would have to show a specific national interest in the issuance of a priority order and, therefore, it would only be very limited, and could only be of very limited use, and by the same token, in any order which limited the use, you would get the two ends of the use of any commodity rather than authority to go in and allocate every character of use.

The distinction I am making is between tin and tin products and the other listed items, and the general commodities which are critical, and for which there is need to direct their use to the most essential purposes.

If I may simply mention that the other areas in which we see critical need for study, lumber is one where there is an unbalance of production, where finished lumber is in very much shorter supply than the rough types of lumber. I mentioned these when I said building materials.

Then, the hides and leather situation looks as if it is becoming tighter and, perhaps, will be next year with the less slaughtering of cattle.

I have mentioned farm machinery, and I have mentioned heavy electrical machinery, which is of great importance in the development of our power in this country, and also in aiding in the foreign program.

Now, this list is not final, and there may be other products which would be subject to inquiry.

I want to emphasize again that our efforts would be to get action through voluntary cooperation within the industry, but the right to issue orders is essential.

The other question related to how these two powers of domestic controls and export controls related to each other, and I want to explain that the basic studies for both the domestic controls and the export controls would be the same basic materials when it came to the application of those controls. Naturally, they would have a different character of operation and a different character of experience.

Representative HORAN. May I inquire, Mr. Chairman, if a power or an authority to control steel would not, in effect, right now be practically and to all intents and purposes, the control of the entire economy up to a very large extent.

Secretary HARRIMAN. I think that is rather a sweeping statement, Congressman. It would help, I believe, in getting production of steel up to capacity, which will help everybody.

I do believe that the issuance of priority orders in a few cases, such as freight cars, which will help the entire economy by getting more freight cars, would help the entire economy.

Representative HORAN. If you had production of steel up to capacity, as you stated, you would not need any controls then, would you? Is it not because it is very short that you need them?

Secretary HARRIMAN. That is a matter of opinion. There are those who believe that even though it was up to capacity there would still be a shortage of steel. It is a difficult thing to bring steel up to hundred percent capacity, and the principal difficulty is scrap. There are others, however.

Representative HORAN. In any discussion of export controls and allocations and priorities, I think we would have to have a background also of the state trading that is going on today in the world.

What is that status? That is something with which you are familiar, having been in Russia, which has a state trading agency, and in England which, I understand, has not completely abandoned state trading.

Is it not true that practically all of the nations in the world are still clinging to their wartime state trading procedures?

Secretary HARRIMAN. The procedures of the Soviet Union are quite different from those in England, and other western European countries.

There is no private enterprise in the Soviet Union. The exports are purchased by a government agency, and the sales are made, that is of their exports, by Government agencies.

The distribution within Russia is to the Government-operated producing and consuming agencies, so that there is no private enterprise at all.

Representative HORAN. Is not that general principle, though, followed more or less by the other nations?

Secretary HARRIMAN. No. In England there are controls over importation quotas. In many cases the individual company buys the material abroad itself, and under the quotas that are established.

I think I am right in saying that the Food Ministry buys some of the food, and then distributes it there. I would have to study it again to see just how many of the wartime operations are now continued, and how much has been released to private purchase. But there is a high degree of government control over their importations, and through the limitation of use at home, consumer rationing on clothing, for instance, they have thus directed to export the excess production; but it is up to the private concerns to make those sales abroad wherever they can advantageously do so.

Representative HORAN. That is all, Mr. Chairman.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. About steel, how much under capacity is the present production of steel?

Secretary HARRIMAN. How much is the present capacity?

Senator WATKINS. How much under? You say we are not up to capacity. How much is it under capacity?

Secretary HARRIMAN. It has been varying. You can never get up to a hundred percent, but it has been running between 90 and 93 percent capacity. I mean, the last report was 97 percent, but it has been as low as 90 and 91, I think.

Senator WATKINS. And you would consider that is very good production?

Secretary HARRIMAN. Ninety-seven percent?

Senator WATKINS. If it got up to 97 percent.

Secretary HARRIMAN. Ninety-seven is, but it was running as low as 90 and 91 percent.

Senator WATKINS. You say the main reason is because they did not have scrap.

Secretary HARRIMAN. The steel people tell me that the principal reason is the shortage of scrap. That affects steel, and iron as well as steel; and there are other reasons: the lack of high-quality coking coal has been in some areas leading to the reduction of steel.

Senator WATKINS. Was that because you could not get transportation to carry the coal to where it is needed?

Secretary HARRIMAN. Transportation has been largely the shortage; it has been coal production transportation.

Senator WATKINS. That is because of the lack of cars to carry the coal to the people?

Secretary HARRIMAN. So I am told.

Senator WATKINS. It comes back then to the matter of control of the production of freight cars, does it not?

Secretary HARRIMAN. That increased production of freight cars would unquestionably ease the coal situation.

Senator WATKINS. I noticed that you spoke also of the increase in production of steel. By that, did you mean the addition of new plants, new facilities, or merely to bring the present plants up to capacity?

Secretary HARRIMAN. I am told that the present plants of the industry would develop, if they could be completed before the end of next year, another 2½ million tons of basic steel.

Senator WATKINS. Are you referring now to the announced program of the United States Steel Corp. to go in and spend some half billion additional to increase their facilities?

Secretary HARRIMAN. That is not the only one, but that is one of the expansion programs, because their program includes not only basic steel, but also getting a better balance in their finishing. I think they have got strip and sheet mills which they hope to have come into production this year.

Senator WATKINS. In other words, that would take care of some of the shortages in the fields that use those particular items?

Secretary HARRIMAN. That is right. But the over-all, as I understand the present plans of the industry, totaling them, is that half a million tons should come in next year.

Senator WATKINS. In other words, that would take care of some of the shortages.

Does the shortage of coal have anything to do with the lack of production in steel, that is, steel not coming up to full capacity?

Secretary HARRIMAN. I am told by the industry that it is the poorer quality of coking coal, partially due to the fact that we have used some of the best coal, and some they are putting in washing plants to get a better coal than we now have.

Senator WATKINS. Is it not a fact that the shortage of steel is at the root of most of our troubles, with respect to commodities that are made out of steel at the present time?

Secretary HARRIMAN. Steel is certainly a very important item, and that is why I have kept emphasizing it. I agree that steel is the basic shortage which has an effect all down the line. It is almost impossible to judge though if we had plenty of steel what other bottlenecks would develop.

Senator WATKINS. There would be some.

Secretary HARRIMAN. Whether there would be labor enough, whether there would be other supplies enough, but steel is the over-all bottleneck which is causing difficulties in production today, and we would get much more production of many items if we had more steel.

Senator WATKINS. Is that true of the production of farm machinery of which you say there is a shortage?

Secretary HARRIMAN. I have been told that some of the companies could expand their production, and are ready to expand their production if they could be sure of certain types of iron and steel.

Senator WATKINS. With respect to the export control of farm machinery, have you any figures showing how much farm machinery you have been exporting?

Secretary HARRIMAN. Yes; I have the figures.

Senator WATKINS. I understand that farm machinery is subject to export control at the present time.

Secretary HARRIMAN. No; farm machinery is not under export control at the present time.

Senator WATKINS. Has there been a shortage of farm machinery for a long time? There has been such a shortage, has there not, for a long time?

Secretary HARRIMAN. The shortage of farm machinery during and since the war? I have got it here in this Committee of Nineteen report, which shows the export of farm machinery, and it is a relatively small percentage of our capacity. I think I will have to get that for you, that is, the percentage of our exports. I thought I could put my hand on it.

Senator WATKINS. Maybe you can give me just how much you do export in farm machinery.

Secretary HARRIMAN. Here are some figures. In 1929 we exported 25 percent of our total production; in 1939 we exported 16.6 percent of our production; in 1946, 15.9 percent. I can get you the first 6 months; I have not got them readily at hand.

Senator WATKINS. What I am trying to find out is actually how much we are exporting in this time of emergency of farm machinery, when farm machinery is so important.

Secretary HARRIMAN. The only figures that I have got with me today are the 15.9 percent in 1946. The farm machinery, however, is not under export control. It is one of the items that we have not control over at the present time; no controls over it at the present time.

Senator WATKINS. Should it not have been taken under control along with steel?

Secretary HARRIMAN. It was under control, but it was dropped from control because we did not have staff enough; among other reasons, we did not have staff enough to continue export controls.

Senator WATKINS. Let me ask you a question about that, Mr. Secretary.

Secretary HARRIMAN. Also, may I say, that in this area it is not as difficult as in the basic commodities to control because agricultural machinery companies' primary interest is to take care of their domestic customers, and our only exporting is in order to maintain legitimate export markets which they consider will be permanent.

Senator WATKINS. What I had in mind was this: That the farmers cannot increase production without machinery; and if we are permitting it to leave the country when we now have the power, what is the purpose in asking for additional power? We have had a crisis now for a long time in foods, and I cannot understand why that export control has not been taken care of, particularly in farm machinery, when it is so basic, and it affects the matter of food which, of course, has been the leader in inflationary pressures.

Secretary HARRIMAN. The reason for the pressures on certain types of domestic food production such as wheat, is the lack of production abroad, and we have a tremendous interest in the stimulation of and helping other countries in getting back their production, and expanding their production.

If we were to ship no agricultural machinery out of this country the situation would well be aggravated if we are to have a program of world recovery. The two must be kept in balance.

Senator WATKINS. What I would now like to know is where you are shipping this machinery.

Secretary HARRIMAN. I am not shipping it.

Senator WATKINS. As to countries where it is being shipped.

Secretary HARRIMAN. I am not shipping it anywhere. The agricultural machinery companies are sending it, and I will be glad to submit for the record a statement of the agricultural exports and to what countries they go.

Senator WATKINS. I would appreciate having that because it was mentioned in the study of the food situation and how to thus get more food, and it may be helpful.

Secretary HARRIMAN. I will be very glad to provide it.
(The statement referred to is as follows:)

United States exports of agricultural machinery, January to September 1947

[Value in thousands of dollars]

Schedule C No.	Country	Amount	Schedule C No.	Country	Amount
101	Greenland	2	503	Syria	939
105	Iceland	496	505	Iraq	251
122	Canada	76,054	507	Iran	107
152	Newfoundland and Labrador	967	512	Palestine and Transjordan	1,454
161	St. Pierre and Miquelon	---------	513	Kuwait	62
201	Mexico	11,824	517	Saudi Arabia	961
205	Guatemala	494	519	Arabia Peninsula States, n. e. s.	51
208	British Honduras	226	522	Aden	1
211	El Salvador	414	525	Bahrein, Strait of	9
215	Honduras	509	529	Afghanistan	90
219	Nicaragua	363	532	India and dependencies	1,944
223	Costa Rica	415	542	Ceylon	221
225	Panama, Republic of	398	546	Burma	31
227	Panama Canal Zone	143	549	Thailand	7
232	Bermuda	24	551	French Indochina and French India	143
236	Bahamas	44			
239	Cuba	3,754	554	British Malaya	295
242	Jamaica	270	561	Netherlands Indies	691
245	Haiti	125	565	Philippine Islands	2,693
247	Dominican Rep	720	567	Portuguese Asia	(x)
248	Leeward and Windward Islands	24	569	Asia, n. e. s.*	---------
272	Barbados	75	571	China	2,651
274	Trinidad and Tobago	262	575	Manchuria	---------
277	Curacao (N. W. I.)	94	581	Korea (Chosen)	---------
283	French West Indies	119	582	Hong Kong	23
301	Colombia	3,131	583	Formosa (Taiwan)	47
307	Venezuela	7,561	585	Kwantung	---------
312	British Guiana	197	587	Japan	3
315	Surinam	123	602	Australia	7,259
317	French Guiana	11	604	New Guinea (Australia)	(x)
331	Ecuador	550	612	New Zealand	3,960
333	Peru	1,140	618	New Hebrides	---------
335	Bolivia	322	622	British Oceania, n. e. s.	69
337	Chile	2,877	641	French Oceania	11
351	Brazil	5,633	683	Japanese Mandate Islands	---------
353	Paraguay	85	711	French Morocco	2,394
355	Uruguay	1,803	715	Tangier	1
357	Argentina	15,545	721	Algeria	3,363
372	Falkland Islands	(x)	723	Tunisia	1,841
401	Sweden	6,124	725	Libya	14
403	Norway	655	729	Egypt	816
409	Denmark (incl. Faroe Islands)	944	732	Anglo-Egyptian Sudan	4
412	United Kingdom	8,725	733	Canary Islands	(x)
419	Eire	547	739	Spanish Africa, n. e. s.	5
421	Netherlands	2,390	741	Cameroon	209
423	Belgium and Luxemburg	1,520	743	French Equatorial Africa	2
427	France	14,515	745	French West Africa	272
431	Germany	5	748	Gold Coast	130
433	Austria	256	752	Nigeria	37
435	Czechoslovakia	1,201	758	British West Africa, n. e. s.	6
437	Hungary	36	759	Madeira Islands	1
441	Switzerland	556	761	Cape Verde Islands	---------
445	Finland	618	763	Portuguese Guiana and Angola	83
447	Estonia	---------	765	Liberia	23
449	Latvia	---------	767	Belgian Congo	143
451	Lithuania	---------	771	East Italian Africa	5
455	Poland and Danzig	3,371	775	Ethiopia	103
461	U. S. S. R. (Russia)	2,534	777	French Somaliland	2
467	Azores	6	778	British Somaliland	---------
469	Spain	855	782	Seychelles	---------
471	Portugal	459	784	Mauritius and dependencies	95
472	Gibraltar	---------	786	British East Africa	1,847
474	Malta, Gozo, and Cyprus	57	787	Mozambique	191
475	Italy	276	789	Madagascar	189
477	Aegean Islands	42	792	Union of South Africa	9,631
479	Yugoslavia	1,076	794	Northern Rhodesia	55
481	Albania	289	796	Southern Rhodesia	696
483	Greece	1,071	798	South British Africa	1
485	Rumania	(x)			
487	Bulgaria	43		Total	231,678
501	Turkey	574			

United States exports of iron and steel-mill products and of casing and oil-line pipe, annual 1946, and January to September 1947

Commodity	Short tons	Value
Iron and steel-mill products, excluding scrap, total:		
1946, annual	5,008,984	$444,826,000
1947, January to September	5,042,283	596,094,000
Casing and oil-line pipe:		
1946, annual	179,780	18,912,000
1947, January to September	230,998	27,410,000

Source: Special Programs Division, Areas Branch, Office of International Trade, Department of Commerce, December 1947.

Senator WATKINS. With reference to the countries in the American continents.

Secretary HARRIMAN. Yes.

Senator WATKINS. Now, I asked you the other day about steel being shipped outside of the United States for oil pipe lines. Do you have any figures now as to how steel has been shipped recently or within the last 2 years to any other countries outside of the United States?

Secretary HARRIMAN. Well, our exports of steel are running about at the rate of 500,000 tons a month; that is the allocation which was made, and that is exclusive of Canada.

Senator WATKINS. Of what? Of Canada?

Secretary HARRIMAN. We do not control the exports to Canada. That tonnage, that quota, is divided between different countries. I have got them in dollar values, not in tonnages.

Senator WATKINS. That would be slightly misleading because of the higher prices, would it not?

Secretary HARRIMAN. It would be in some cases; it would be misleading.

Senator WATKINS. I would prefer to have it in tonnages, if it can be supplied.

Secretary HARRIMAN. Yes; we certainly can supply it, Senator.

Senator WATKINS. Do you have any figures in your Department which would show the need for the steel in the oil and gasoline industry of the United States?

Secretary HARRIMAN. We have the figures as to what the oil and gasoline industry is using this year; I think, if I am right, about 3 million tons a year. 1946 was 1,950,000 tons. I rather recall the figures that indicate it is over 2 millions this year. 1947 is higher, Mr. McCoy says, and my recollection is that it was over 2 million tons.

Senator WATKINS. If you were given the power to allocate steel now, do you have in mind how much more would be required by the industries just mentioned?

Secretary HARRIMAN. No, I have no way to judge that. There has been no knowledge as to what the over-all requirements might be, and all we can do is to collect the figures as to where it goes.

Senator WATKINS. With respect to getting additional powers to make allocations, there certainly are some studies made as to what would be needed in that field before you get the powers that you ask for.

Secretary HARRIMAN. I do not think we have an estimate of what the oil and gas people would like.

Senator WATKINS. Will you supply it?
Secretary Harriman. Yes, we will be glad to supply it.
(The matter referred to is as follows:)

STEEL NEEDS OF THE OIL AND GAS INDUSTRY

This unprecedented demand for petroleum means a greater need for additional wells, more recycling plants, pipe lines, pump stations, refineries, storage facilities, tankers, barges, tank cars, and tank trucks. Likewise, the great demand for natural gas means expanded pipe lines and more pump stations.

All these operations and installations require steel, not only in the form of pipe and tube, but also in many other forms and shapes: structural shapes for plant construction, plates for tanks, many types of steel for machinery, sheets for drums, etc. Based on shipments reported by the American Iron and Steel Institute, the domestic petroleum and natural gas industry will receive about 3 million tons in 1947. This is the highest on record for any year since 1940, when data first became available on a basis comparable with today's figures. It also represents, for the same period, the highest proportion of total steel product shipments that has gone to this industry, namely, 4.8 percent. Further indeterminable quantities will be used in containers, refining equipment, and for other related purposes. The industry has thus slightly improved its position relative to all other consumers, over recent years.

Steel shipped for consumption by oil and gas industry

[Thousands of short tons]

	1940	1941	1946	[1] 1947
Directly to industry	[2] 991	[2] 1,736	316	910
To jobbers	654	1,018	874	890
To construction industry	(3)	(3)	[4] 820	[4] 1,200
To container industry	275	437	(5)	(5)
To other industries	(6)	(6)	(6)	(6)
Total, excluding containers	1,645	2,754	2,010	3,000
Total, including containers	1,920	3,191	(6)	(6)
Shipments for consumption by oil and gas industry, as percent of all steel shipments [7]	3.6	4.4	3.4	4.8

[1] Estimated by Department of Commerce on basis of 9 months' figures.
[2] Includes pipe lines.
[3] Not shown separately; pipe lines included in shipments directly to industry.
[4] Pipe lines, refinery plant buildings, etc.
[5] Not shown separately.
[6] Not available.
[7] Excluding containers and other industries.

Source: American Iron and Steel Institute.

Of the 3 million tons of steel received by this industry, 40 percent will go directly into construction, including refinery plant buildings, pipe lines, pumping and compressing stations, and natural gas pumping stations. The other 60 percent will be divided equally between shipments directly to the industry for drilling use and to steel jobbers for the oil and gas industry.

Tubular products are the most important single type consumed by the industry, making up three-fourths of the total. The industry is furthermore the chief consumer of pipe and tubes, taking 37 percent of the total produced. Tubular products are, generally, in the tightest supply position of all steel items, with the exception of the flat rolled products. In this respect its adequate supply is of prime importance to the petroleum and gas industry.

The only specific demand estimates are for large diameter natural gas and oil pipe lines (16 inch and larger). Against a backlog of almost 5 million tons, maximum annual productive capacity is 1.1 million tons of which only about 700,000 to 800,000 tons will be produced because of the lack of steel billets and plates.

Senator WATKINS. The reason I am asking these questions is that before the National Resources Committee's hearing held last June or July there was strong testimony before that committee that the threatened gasoline shortage or oil shortage of the United States could be easily taken care of if they had sufficient steel pipe and other products of steel that are needed in the development of new fields or expansion of old fields, and in the transportation of oil and oil products to various parts of the United States.

It seems to me it ought to be studied, the whole matter ought to be studied, in relation to what we are shipping abroad, the whole matter of steel, particularly steel pipe which is needed in our own country.

Secretary HARRIMAN. There has been a study made as it relates to specific projects abroad. Oil is a world commodity item, and the world supply affects our domestic supply as well, so that oil must be considered on a world basis rather than purely domestic basis.

We are importers of oil. We used to be, before the war, substantial exporters. Now, in the current quarter we are, as I understand it, importing more than we are exporting, and that we will become increasingly dependent upon world supply.

Senator WATKINS. Can you furnish the committee, or give the committee now, the amount of steel, the tonnage of steel, which has actually gone out in the form of oil steel pipe?

Secretary HARRIMAN. Yes, Senator. I have not got it with me, but I can readily supply it.

Senator. WATKINS. You do not have in mind the approximate amount of that shipment?

Secretary HARRIMAN. They are, of course, certain types of pipe going out of the country that we do not use here, but within the areas of what we use here, much of the supply, of course, goes out to American companies in other areas such as the Carribbean as well as the Saudi Arabian field for the increase of production there.

We have not got it here.

Senator WATKINS. You have not got it here, but you can give us that.

Secretary HARRIMAN. We will give it to you.

Senator WATKINS. Does the program suggested by the President and the administration contemplate a roll-back of prices when this power is granted, I mean the power to take care of the economic situation?

Secretary HARRIMAN. I can only speak for myself on that. It would be my hope that certain prices could be rolled back if they are unbalanced, out of balance, and others maintained. One of the difficulties today is the unbalance of the prices.

Senator WATKINS. I understood you to say it was your hope. What is the definite program with respect to that matter? Certainly, there must be something in mind when the power is asked for?

Secretary HARRIMAN. Well, I am not in a position to predict the exact price levels that might result from it. As the President indicated, the intensification of all voluntary effort is an important aspect of the program.

It is a fact that we have not as much meat in this country as people want to buy; and, as Secretary Anderson indicated, there will be less meat next year than was in existence this year, still, of course, more per capita than there was before the war.

However, if voluntary effort on the part of the people will result in reduced consumption, the price question will, to some degree, take care of itself.

The rationing and price control on such important items as meat is one of the matters which the program contemplates dealing with. But I certainly am not in a position to state what I think is a fair price for meat in relation to other prices. The question of industrial prices, the question of what the labor cost is, is an important element.

Senator WATKINS. I am not asking you to give the specific amount of any roll-back, but I want to know about the program that is contemplated now to roll back the price, for instance, of meat.

Secretary HARRIMAN. I would rather you ask Mr. Anderson that question, because that is under his purview.

Senator WATKINS. Well, I thought probably the over-all picture had been discussed, the whole program among the President's advisers.

Secretary HARRIMAN. There are thousands of commodities that come into the price structure, and it is impossible to indicate, item by item, what prices there might be.

It is certainly to be hoped that there can be a roll-back of price on certain of the higher-priced items that are unbalanced; and, above all, to stabilize the spiral which we are in the midst of.

Senator WATKINS. That is what I am trying to find out—to keep prices where they are now, stabilize them where they are now, or roll them back generally.

Secretary HARRIMAN. In order to stabilize them there must be some roll-back, because they are out of balance.

Senator WATKINS. For instance, which one?

Secretary HARRIMAN. You cannot stabilize out of balance. I can talk for the industrial areas. Lumber appears to be out of balance.

Senator WATKINS. Would that be one that you think ought to be rolled back in price?

Secretary HARRIMAN. Lumber is a difficult item to handle. If we can get production and supply more in balance, increased production, and reduce it in the areas where there is a shortage, as far as practical, to reduce consumption, then you will get a readjustment in price.

Production, under all circumstances, is the way—the over-all way—to deal with inflationary pressures, but you cannot create production overnight.

Senator WATKINS. How about the price of steel? Is it contemplated to roll back the price of steel?

Secretary HARRIMAN. Certainly; it is contemplated to go at that area where the price is out of line. The gray market in steel is extending; it is not just a small amount above the list price, but in certain products, and in certain areas, the gray market price is double, if not more than double, the list price of steel; and that would be the first effort on our part, if we had the powers, to eliminate, so far as practicable, that gray market.

Senator WATKINS. Get rid of it entirely.

Secretary HARRIMAN. Insofar as it is practicable. The black market is a difficult thing to eliminate, but to use these powers to reduce it to the maximum possible.

The CHAIRMAN. Do you not think you might turn the color from gray to black?

Secretary HARRIMAN. I would not think so, because you are dealing with producers who are anxious to eliminate it. Steel is not something that you can carry around in your pocket. It is something that moves in heavy volume and is easier to check.

Senator WATKINS. The reason I am asking some of these questions, Mr. Harriman, is because of the charges that have been made that steel prices are now too high, that there is no justification for the recent increases made by the major steel companies in the price of steel on the basic level; and I am curious, naturally, to find out what the administration expects to do with these powers which it is asking for.

Now, on the matter of production, I noticed that you made a statement just a moment ago about the increase in production of commodities which, of course, would take some time.

But I call to your attention the statement made on page 3 of your general statement made the other day:

> Granting the desirability of increased production, this has proved a far from adequate solution to the problem of excess demand. For some time there has been relatively full employment of those who are able and willing to work. The unemployment is of a magnitude which is associated with those frictions which are inherent in a free economy.

Does that indicate, and the fact that the President said very little about production in his message to the Congress, that the administration has given up hope of getting increased production?

Secretary HARRIMAN. By all means, no. I have tried to emphasize in almost every other sentence that I have said that our activities would be to attempt to help increase production, get industry to increase production in those areas where there is a critical and short supply; increase production in those areas which are in critical and short supply.

Senator WATKINS. Have you any specific recommendations?

Secretary HARRIMAN. The fact of the matter, however, is that in certain areas you certainly have no difficulty in getting increased production, and in other areas there are temporary demands which will not continue permanently.

Senator WATKINS. Is there any legislation which will be needed to assist in the increase of production in any of these fields where there is a short supply?

Secretary HARRIMAN. Yes; I have tried to indicate that, Senator Watkins. By allocation to those areas which are of critical need, which are critically needed, it does tend to bring into balance more and more quickly with demand; and if you check the less essential demand, you do get more quickly a balance between production and the demand.

Senator WATKINS. I am talking about the over-all production of commodities. I note that you say for some time there has been relatively full employment of those willing and able to work. How are you going to get increased production if everybody is working who ought to work?

Secretary HARRIMAN. Also the productivity of the individual is an important aspect of the situation.

Senator WATKINS. How are you going to increase that?

Secretary HARRIMAN. Productivity usually comes when you get plenty of material running through that plant. When you have not got plenty of materials, and there is a possibility of a lay-off, you do not get as much productivity as you get when there is an adequate supply of materials that a man is working on, and it also leads to increased efficiency in operation, generally.

Senator WATKINS. Have you ever considered, in connection with increasing production, suggestions that have been made to work a 6-day week rather than 5 days?

Secretary HARRIMAN. I have made no studies in that. There is no inhibition to working 6 days a week at the present time. There is the overtime aspect of it, which, in some cases, has a dampening effect.

Senator WATKINS. It has an almost prohibitory effect.

Secretary HARRIMAN. In other cases, many industries are working 44 hours or more.

Senator WATKINS. In connection with working in the Department, where you say you are short-handed, as I understand it, the Department's workers only work 5 days a week.

Secretary HARRIMAN. That is correct; that is the law.

Senator WATKINS. I noted that the top level men apparently in the Department work extra time.

Secretary HARRIMAN. Well, we break the law, but we do not get paid for it. I say that jokingly, because we do not. But we do not get paid for it, of course, and we cannot ask clerks to work beyond the time under the law without paying overtime.

Senator WATKINS. Well, these people could be put to work on this extra day of work as during wartime, could they not? I mean the people that you have in the Department that could take care of these export controls, and all those sorts of things.

Secretary HARRIMAN. If you paid them for it.

Senator WATKINS. Certainly; if we paid them for it. That is what I have in mind—that we would pay them for it. As a remedy, without taking people from production in other fields to put them in those departments, these people could be put to work on Saturday and their pay taken care of accordingly. As a matter of fact, many of them need an increase in pay anyway, in view of the heavy increase in the cost of living; but that would be a practical way, would it not, to get your work done and take care of these export controls which you say you could not do because of lack of help?

Secretary HARRIMAN. I am not prepared to say that in Government work we should abandon the principles of the 40-hour week. Basically, I believe in the overtime provisions to take care of it; and if we had money enough, we could work people overtime.

There are, as you know, civil-service employees who are not employed, who have not found work.

Senator WATKINS. Did you say "formal"?

Secretary HARRIMAN. Civil-service employees who are unemployed, and you have got to judge in all of these cases industry by industry, what the employment and unemployment situation is, and at the present time there is no inhibition against working people overtime in any industry if you pay them time and a half for that work.

Senator WATKINS. There is in the Government departments and the Presidential order——

Secretary HARRIMAN. That is the situation under the law.

Senator WATKINS. A provision which makes it impossible to work them on Saturday.

Secretary HARRIMAN. Under the law Government employees work 40 hours a week and are paid overtime when they work overtime.

I do believe that when there are situations like this, where our country faces crises, why, the men should work overtime, and should be ready to do so, and I have never found during my time in the railroad industry where men were not ready to work overtime, for example.

Senator WATKINS. You think working 6 days a week is working overtime as a general proposition?

Secretary HARRIMAN. Certainly; I believe that we can get by under normal conditions; we can operate on a 40-hour week. At the present time, it is, because there is overtime work, as I recall it—and do not hold me to this figure—in industry the average employment is about 41 hours a week, which indicates that there is considerable overtime, because there are certain industries that are not working full time.

Senator WATKINS. I note the statement made by Mr. Eccles here before the committee a few days ago, where he said:

> Nothing could be more effective than increased productivity of labor and longer hours of work by everyone.

Do you agree with that statement, Mr. Harriman?

Secretary HARRIMAN. I agree with the statement that nothing could be more effective than increased productivity, and one of the ways to get increased productivity is to break the bottlenecks and to get the critical materials moving, and then you get full production which you do not get when there is not ample material available. That is of first importance. Until we break those bottlenecks, until we use our facilities and our ingenuities, and use them in Government, to help break those bottlenecks, the longer hours in many cases do not do any good.

Senator WATKINS. Would you say at the present time any investigation has been made of your Department with regard to hours of work and productivity?

Secretary HARRIMAN. In other words, I think the reason the principal question of productivity comes up today is that it comes from maldistribution of our critically short materials, and I think that is the time when Government should and must work with industry to break those bottlenecks.

It is a similar condition which existed during the war, but nothing like as acute, of course, because we have not got the same problems to the same degree as during the war.

Senator WATKINS. I understand, of course, you place that as the principal reason. Has any investigation been made by your Department of whether there is any truth to the slow-down in the matter of productivity on the job?

For instance, as we have had reported in the matter of building, where a bricklayer used to lay a thousand bricks a day, now he lays only 300 to 500.

Secretary HARRIMAN. I want to make it perfectly clear that any place where there is featherbedding, labor is not working to its own interests and certainly not to the interests of the country.

It is not the responsibility of my Department, but I want to make it perfectly plain that I do not believe in those practices, and many unions do not involve themselves in those practices. I am not familiar with what are the reasons for them, as it is not within the purview of my Department.

Senator WATKINS. Then, I take it your answer to my question, of whether or not an investigation has been made, is "no."

Secretary HARRIMAN. Not by my Department. But I want to make it very plain that I am opposed to the featherbedding practices, and I believe that labor is not working to its own interests, and certainly not to the interest of the country, where those practices, alleged practices, are involved.

Senator WATKINS. In view of the fact that these charges have been made, would it not be a very fertile field in which to make some investigations to determine whether or not that is holding up production in this country, and whether or not it is a cause of the high price of commodities—one of the causes, at least?

Secretary HARRIMAN. I have indicated in my testimony that wherever there is a situation such as that existing, as I suggested this morning, that we should consult with, in cooperation with the Secretary of Labor, the representatives of labor, as well as representatives of industry.

Now, the labor unions, the principal labor unions, have come out in support of the powers of allocation which the President has asked for. I have had discussions with some labor leaders, and they are as alive as anyone in the country to the need of increasing production, where there are bottlenecks, the question of how labor can cooperate, and in breaking them, and also in the consideration of what Senator Taft mentioned the other day, to be sure that there was not unfairness to labor in connection with the use of the limitation order on the production of certain commodities for certain purposes.

Senator WATKINS. May I inquire, Mr. Secretary, what, if anything other than trying to make allocations, to get the power to make allocations of materials in the very industries where the supply is short, what other measures does the administration have in mind to increase production, for instance, in foods? Let us take it industry by industry.

Secretary HARRIMAN. I would rather have you ask Mr. Anderson about foods, and I would rather limit my testimony to the areas that would be under my control.

Senator WATKINS. Take steel then, for instance.

Secretary HARRIMAN. Steel.

Senator WATKINS. Outside of getting more material into the plant, what other lines are in prospect for increasing the production of steel?

Secretary HARRIMAN. We have taken bottleneck by bottleneck. They are already talking to the steel industry about scrap. It may well develop that further Government action may be required, as I said.

Senator WATKINS. In what way? Be specific.

Secretary HARRIMAN. Cooperation in bringing scrap home from abroad may well be one of them.

Senator WATKINS. Do you have in mind the situation mentioned in the paper this morning that Germany is a land of scrap, and that a lot of it may be brough back from Germany?

Secretary HARRIMAN. We are sending to Germany in cooperation with industry, a mission to study that situation, and see what can be done, and at what price scrap can be brought out of Germany to other areas that are in short supply.

Senator WATKINS. Could we not take them on reparations, at least, while the others are taking the going factories; and we could at least take those that are blasted, and take back the scrap.

Secretary HARRIMAN. If we take reparations from Germany at the present time it simply adds to the bill of the American taxpayer on the way back.

The question, of course, is the cost; we are underwriting it through our shipments to Germany of food. We are at the present time paying a deficit of the German export-imports so there is no use taking reparations.

Senator WATKINS. Well, take the scrap on that bill. I do not care how you get it as long as you get it.

Secretary HARRIMAN. I think there is a fertile field in Germany for shipping the scrap to this country, and also in getting scrap to stimulate the production of steel and iron in other countries of Europe, which is so badly needed for their recovery.

Senator WATKINS. To be specific again with respect to an industry, what allocations would you make to the steel companies to increase their production? What goods would you allocate or material would you allocate to the steel companies?

Secretary HARRIMAN. More freight cars to move high-volatile coking coals, and to investigate the industry to see what we could do to stimulate the production of high-volatile coals; discussion with the industry of increased coal-washing plants, and working with the industry in increased technology in perhaps other directions.

Senator WATKINS. The only allocation then would be with respect to cars, as I understand it.

Secretary HARRIMAN. And possibly the stimulation of production of coal in the high-volatile fields.

Senator WATKINS. I was dealing particularly with allocations. You said that was one way in getting increased production, through allocation of materials, and being specific, I would like to get the picture as you see it, and how to get allocations to help increase the production of steel.

Secretary HARRIMAN. In the order of importance, scrap comes first in getting production; coal, coking coal, is the second.

Senator WATKINS. You do not have to make any allocation on scrap, do you?

Secretary HARRIMAN. In addition to which we do not have to make allocations in connection with scrap. The question of the use of allocation powers will come, and the limitation orders, will come in having the use of the steel help increase production of those products which are in short supply, as I have said so many times, freight cars, possibly agricultural machinery, possibly certain types of oil equipment, and other items that go into nails, which are so very short; soil pipe, and so forth; and the limitation orders would be in the use of steel, except insofar as they could be used to assist in getting them some of their raw materials, coal being the one that I mention.

Senator WATKINS. Is it necessary now to make allocations of coal in order to make increased steel production? It seems to me that goes right to the heart of the problem.

Secretary HARRIMAN, Yes; I think that more coal cars will bring you more coal.

Senator WATKINS. I am not talking about cars; I am talking about coal. Is it necessary to allocate coal to the steel industry?

Secretary HARRIMAN. No; I would not allocate coal.

Senator WATKINS. That all comes back to cars; does it not?

Secretary HARRIMAN. I know no reason at the moment to allocate coal. On investigation there might be. But there might be, perhaps, a need to get better distribution of coal cars to the coke and coal areas.

Senator WATKINS. We have covered that. I admit, and we will probably agree on that, that we ought to have better allocation of cars, so that we can get more coal to the steel plants.

Secretary HARRIMAN. Yes.

Senator WATKINS. But I am trying to find in what other field, in what other commodity, would you allocate to the steel companies in order to increase steel production?

Secretary HARRIMAN. Without further investigation, I know of none.

Senator WATKINS. That is all.

The CHAIRMAN. Mr. Poulson.

Representative POULSON. Mr. Secretary, I believe Wednesday, in your testimony, you agreed with Mr. Marriner Eccles' statement that easy financing of housing definitely added to the inflationary trend, except you stated housing was a necessity, and regardless of inflation, we had to continue with this easier liberal financing.

Now, since you admit the necessity of housing, and its resultant inflationary trend, did you think your policy of exporting structural steel, which is needed so badly for large apartment houses, which will furnish rentals and save the veteran from buying inflated-cost houses, do you think that policy is consistent with the stated policy of Congress as outlined in No. 1; namely, to protect the domestic economy from the injury which would result from adverse distribution of materials which are in continuing short world supply? I am referring particularly to a trip I made specifically to the Geneva plant in Utah, where all of the steel manufactured that particular day was labeled for Valparaiso, Chile.

The same steel could be used not only in apartment houses, but in boxcars which, you admit, is causing one of the bottlenecks.

Secretary HARRIMAN. Well, I cannot tell you, Mr. Congressman, what our balance of trade with Chile is, but we certainly need many of the products of Chile, and nitrogen and copper are two of the principal exports, and we have got to maintain our trade with Chile to maintain our economy.

My answer to you is that I do not think the best interests of the country are served by an attempt to become economically isolationist. I think it would be a disaster, and we have got to keep the requirements at home and abroad in as much of a balance as far as is practicable, and that has been the policy of the Department of Commerce in attempting to judge the amounts that should be permitted for export, and those which should be denied.

Representative POULSON. Which economy has priority, the economy here or the economy that you are trading with?

Secretary HARRIMAN. What is that, sir?

Representative POULSON. Which economy has priority, the economy of the country here or the economy of the country we are trading with?

Secretary HARRIMAN. We found in the war that there was no such thing as any complete priority. Naturally, this economy has over-all priority, but some of the most necessitous needs abroad come before the less necessitous needs in this country.

Representative POULSON. Then, inasmuch as we have to take into consideration the economy of other countries, which means that we have to export shortages, which, in turn increase the cost of those articles which are on the shortage list here, that means that your program and policy definitely affects the cost of living, and the cost of prices here, does it not?

Secretary HARRIMAN. Well, as I said the last time I was here, any demand affects inflationary pressures, and our tremendous demands at home and such of our exports as are going abroad, all have a bearing on inflationary pressures.

Representative POULSON. That is contradictory to some of the statements that have been made in newspapers heretofore that our export problems and different plans did not affect our plans here at home.

Secretary HARRIMAN. I am not familiar with anybody who has made that statement. There has been an argument as to whether our basic inflationary pressures come from exports or come from our internal situation, and it is my judgment that the major pressures come from our internal situation; but I would certainly want to make it clear that our exports do add to that inflationary pressure.

Representative POULSON. If you have a shortage, and then you add on to it by exporting, that increases it, that makes the greatest pressure, does it not, that additional increase in that shortage?

Secretary HARRIMAN. I do not know which load you put on the camel that breaks the camel's back, but certainly it is the total load that makes for difficulties.

Representative POULSON. Does your Department know that in the Northwest there is a glut in the rough-lumber market? I made that observation from a personal observation, because of the fact that they cannot get cars which results from the fact that you require steel to make cars, and that it is running the small lumber companies out of business, those companies which do not have a finished lumber mill for handling the rough lumber.

Secretary HARRIMAN. I was out there last summer, and I was also told, as you have been, and the Department has been giving consideration to it; and, in fact, they had hearings recently as to whether we should take the export controls off rough lumber.

It was finally determined that it would be unwise to do so.

Representative POULSON. And rough lumber eventually goes into housing, does it not, and it is held up by the rest?

Secretary HARRIMAN. One of the studies the Department of Commerce made was the unbalance between rough lumber and finished lumber.

As a result of discussions with industry, I think we accomplished something in getting a greater production on the finished lumber, which would tend to help the situation.

It did not necessarily cure it, but would tend to help it.

My last report, since I was out there last August, was that the small mills had again opened and were running to capacity; but when I was there, I had information to the effect that some of them had closed down. Since that time, my information is that they are open again.

Representative POULSON. As for the scrap steel, are they doing anything about taking the great number of ships which are now in what is known as the graveyard in the San Francisco Bay area; are they using those?

Secretary HARRIMAN. I do not know about the San Francisco Bay area, Mr. Congressman; but the Maritime Commission has a program of scrapping some of the ships which are in bad damage, and that is within their responsibility.

We have suggested to them from time to time that it would be good for them to take a look at it, and they are.

I do not know about the San Francisco Bay area.

We are keeping, as a matter of national policy, a substantial number of ships of the Liberty type in cold storage to be used in the event of an emergency.

Representative POULSON. That is all.

The CHAIRMAN. Senator O'Mahoney, do you want to ask any questions?

Senator O'MAHONEY. I think, in view of the discussion with respect to this steel, it might be well to insert in the record at this point, these figures, which I take from the report on the export-control program, which was furnished to each member of the committee by Secretary Harriman when he first appeared here.

I find here a table entitled "Production and Exports of Selected Nonagricultural Commodities, 1929-47," these figures with respect to rolled-steel products:

In 1929, the total production of rolled steel was 45,998,000 tons, of which 4.8 percent was exported.

In 1939, the total production dropped to 34,955,000 tons, of which 7.2 percent was exported.

In 1946, production had increased in the United States to 53,073,000 tons, and of that amount 9 percent was exported.

In 1947, for the first half of the year, production was running at the annual rate of 62,344,000, and exports were running at the rate of 10.5 percent.

These figures would tend to indicate that there has been a very substantial percentage of increased production in the United States from 1939 of 34,900,000 to 1946 with 53,073,000.

Mr. Secretary, is it not a fact that world production has been down about 40 percent?

Secretary HARRIMAN. World production is very much below, leaving the United States out, what it was before the war.

Senator O'MAHONEY. And is it not a fact that one of the purposes for asking extension of the power to control exports is to enable this country so to direct its exports as to balance the world economy and increase production in Europe where production facilities have been destroyed and in other parts of the country acquire in return imports of those commodities which the United States needs for its economic development?

Secretary HARRIMAN. Senator, you are correct.

It is the basic objective of the European recovery program to stimulate production of the needed areas, and thereby get the world on a balanced basis, with Europe making its contribution, and then through multilateral trade make it possible for us to get things we need from abroad.

There is no question about the fact that in order to accomplish that, we will have to make specific sacrifices in certain areas in this country during that period of time, but in the long run, the benefits in my judgment so far outweigh the disadvantages, that it is the right thing for the people of the United States to make the present sacrifices.

Senator O'MAHONEY. In the administration of the export control program within the appropriations which have been allotted to you, let me ask whether or not the Department has granted all of the applications which have come from businessmen?

Secretary HARRIMAN. At the last meeting which I attended, Senator, Mr. McIntyre told us that our requests were about 10 times, in some items, what our quotas permit.

However, in saying that, I must say we do not know how many of them were padded and how many were real demands.

Senator O'MAHONEY. Would it be a proper inference to draw that in denying export licenses, the Department has been motivated by a desire to preserve the largest possible amount of the particular commodity for use in the United States?

Secretary HARRIMAN. That has been the objective of the export controls, the manner in which they have been managed, and to keep in balance what was considered to be our national interests, and to limit the exports to what was still in the national interest to export.

There would have been no question about it. It would have been very much greater if there had not been export controls.

Senator O'MAHONEY. There has been some mention here of the gray market in steel. I think that is just the euphonious word intended to mean the "black market" in steel.

I have recently received authoritative information that an actual gas company engaged in the transportation of gas in interstate commerce has made application to the Federal Power Commission to determine whether or not, if it should pay a premium for a large quantity of steel pipe which it needs, the Federal Power Commission would recognize that premium above the list price in fixing the rate to consumers of natural gas.

When I inquired about the amount of the premium, I was told that the excess price which is to be charged this natural-gas company for its pipe is $2,000,000. I am frank to say that it seemed to me to be a little extraordinary that so large a premium could be charged to a company engaged in interstate commerce, without the knowledge of those who are engaged in the production of steel pipe.

Of course, there are possibilities that the pipe has passed beyond the control of the producer, as in the case of newsprint, where every newspaper in the United States knows there is a tremendous black market in newsprint here in the United States at the present time. However, all in all, not that I wish to testify, Mr. Chairman, it seems to me that this indicates a great necessity of enacting some sort of extension of our controls to prevent inflation.

Secretary HARRIMAN. Senator, I, of course, have no knowledge of the particular case you refer to.

Senator O'Mahoney. I am checking up on it. I am gathering all the facts.

Secretary HARRIMAN. I would appreciate having them.

I think the difference between "gray" and "black" market is that "black" market attempts to indicate an illegal market, and a "gray" market is one where it is bad national policy, but it is not illegal.

There is nothing today to prevent a warehouser from buying steel, or any one acquiring steel from the mill and not reselling it at a speculated advance in price beyond what would be the normal profit in handling the material.

Therefore, this "gray" market is a name for legal but inadvisable profiteering, and it would become a "black" market if there were laws and regulations which would make it illegal to do so.

That is why I want to say that I earnestly believe that it is necessary to stamp that out, because it is against the national interest and we ought to have regulations which would make it illegal.

I think, then, you would get rid of the major part.

Senator O'MAHONEY. The primary object of public policy today is to increase world production so as to decrease the demand upon our resources, and at the same time, increase production to meet the demand at home.

Secretary HARRIMAN. That is correct, Senator.

The CHAIRMAN. Mr. Secretary, you have export controls on steel, do you not?

Secretary HARRIMAN. That is correct.

The CHAIRMAN. But not on steel products?

Secretary HARRIMAN. Yes, we have it on all products.

The CHAIRMAN. You said not on agricultural machinery.

Secretary HARRIMAN. We call steel products pipes and sheets, and that sort of thing.

The CHAIRMAN. You mean semifinished steel?

Secretary HARRIMAN. That we call finished steel. You are speaking of manufactured products, which is a different category. We have not any export controls on manufactured products, such as agricultural machinery, automobiles, and machinery generally.

The CHAIRMAN. As I understand it, although we are exporting $11,000,000,000 more stuff than we are importing, you say that is a phase of inflation we cannot touch because it is necessary for our international relations; is that right?

Secretary HARRIMAN. No; I am saying, Senator, that I believe we should expand the export controls over a larger number of items to make sure that it is in the national interest to have those products go abroad, but I am saying that we cannot, at the present time, get our export and imports in balance, although eventually it certainly is in our national interest to do so, except in so far as it is desirable for America to be an exporter of capital, which I believe we will be for an indefinite period.

However, at the present time, if we are to get a recovery in the world, and peace, we must recognize that we will have to export more than we can hope to import under these conditions.

The CHAIRMAN. But only about half of this surplus is to Europe. The rest is to all the rest of the world.

Why should there not be some balance with the rest of the world, at any rate? Why do you support the entire world on our shoulders?

Secretary HARRIMAN. We have not got the capacity to support the entire world. It must be kept within our capabilities of what can be safely and wisely done at the present time.

There is no doubt, Senator, that in our effort to bring world recovery and peace, it will be at a sacrifice and cost to the American people presently, not only in the appropriations, but in self-denial of some of the things which are needed at home.

The CHAIRMAN. And in the imposition of price controls and allocation controls; is that correct?

Secretary HARRIMAN. On a limited basis, Senator.

The CHAIRMAN. But full power to do it on a full basis; is that right, if you want to?

Secretary HARRIMAN. I thought we had agreed that there was a difference between the commodities that required full controls, such as tin and commodities such as steel and certain others which you would only apply limited controls to.

The CHAIRMAN. I have not yet heard of any limitation on your power to fix allocation of steel.

I have not heard anything suggested by you except your own discretion as to whether you do it or not.

Secretary HARRIMAN. No. I have indicated, Senator, the legislation would provide not to go in an allocation every kind of steel everybody used, but only to give priority to those areas where there is a national interest and to limit the use where there is a minimum of hardship.

The CHAIRMAN. But under the Second War Powers Act, those priorities can go right down to the last degree if you choose to do so, can they not?

How are you going to limit that? How is your power in any way going to be limited?

Secretary HARRIMAN. By the wording of the legislation, which would be suggested to the appropriate committees of Congress.

The CHAIRMAN. Have you a bill, by the way, or are you willing now to offer a bill dealing with allocations, apart from price control and rationing?

Secretary HARRIMAN. I would prefer to submit that to the appropriate committee if they ask us to do so.

The CHAIRMAN. This committee is an appropriate committee. As far as I am concerned, as chairman, at least, I ask you to do so. Secretary Anderson did offer to submit his bill.

I would like to see what your bill would be.

Secretary HARRIMAN. When the bill is prepared in detail, we will be glad to submit it to you.

Senator O'MAHONEY. Mr. Chairman, will you yield for just a moment?

The CHAIRMAN. Yes.

Senator O'MAHONEY. In view of your statement that this is the appropriate committee to which to submit the legislation, I suggest that if it were the appropriate committee, I would be very glad to sit down with you and see what discretion you would permit the Department to exercise; but unfortunately, the legislation will have to be submitted to a different committee from this.

The CHAIRMAN. However, this committee has the power to draft legislation and introduce it and submit it to the standing committees.

Senator O'MAHONEY. That is right.

The CHAIRMAN. I think it is a perfectly appropriate committee for the Secretary to submit it to.

On this freight car question, Secretary, as the great example, you did not reach a very satisfactory agreement last year for manufacture of freight cars on a voluntary basis of 10,000 a month?

Secretary HARRIMAN. It did not work out that way.

The CHAIRMAN. Why did it not work out that way? Was there any failure of the steel companies to allot steel?

Secretary HARRIMAN. I can not answer your question, Mr. Chairman, as to just why it did not work out.

There have been further discussions on a voluntary basis. I am hopeful that as a result there will be greater production.

The CHAIRMAN. Mr. Harriman, the whole question is the failure of steel companies to allocate steel. Is that the reason that this program has not kept up? Surely you ought to know that. That is the whole argument you are presenting here.

You want this power because it has not worked on a voluntary basis. You want the power to allocate steel.

Is the failure to allocate steel the reason why freight cars have not been made to quite the number agreed upon?

Secretary HARRIMAN. I am told that the fact that the car manufacturers did not have enough steel resulted in less production of cars than had been hoped for.

There have been discussions recently, and I understand that the steel companies have agreed to supply additional steel.

It is a fact that if the Government has the power to do so, it stimulates voluntary action and gets quicker action.

There is also the question in certain areas whether it is within the right of certain producers to make allocations as between themselves because of our antitrust laws.

Generally speaking, I am satisfied that it is essential to have these powers in order to get the full cooperation of all industry and to get a fair distribution of the product in the directions that are required.

In many cases, you have to issue orders to bring in those of a given industry that are not ready to cooperate, even though the majority may be ready to cooperate.

The CHAIRMAN. Just what is the purpose of seeking the power of allocation, apart from price control? Is it to decrease prices or to increase production? What is the reason for asking it? What relation has it to the high prices the people are paying today for the daily things they have to buy?

Secretary HARRIMAN. To direct the use of those commodities that are in short supply to the most critical needs; to limit the use where there is not a critical need and where substitute materials can be used; and also to help increase the production of the various bottleneck products which are limiting production, either the basic material or the end product, which is needed at home or abroad.

The CHAIRMAN. And you think that voluntary methods to accomplish that have failed; the steel companies have refused to respond to the request to break bottlenecks?

Secretary HARRIMAN. No; I am not critical of the steel companies. Generally speaking, they are cooperative.

There is a limit, however, to which any industry can voluntarily act.

In the railroad business, there is the question of the allocation of freight cars, where the ODT directs the railroads to accomplish the purposes which are in the national interest; and then the railroad organizations deal with it in the manner in which they best know how to get these results.

It is a combination of the powers required, because the railroads cannot discriminate between shippers, and it would be impossible for them to do the things which they have been doing if they did not have authority from the Government to do so.

The CHAIRMAN. That is the extension of this other law. That is not this new allocation now?

Secretary HARRIMAN. I mention it because it is typical of the need. It is typical of the manner in which those powers would be exercised.

The CHAIRMAN. When you allocate to steel customers who are not getting it, you have got to take it away from somebody who is getting it.

Does that not result in the rise in prices from the demand of those products?

Secretary HARRIMAN. The basic steel price is an administered price. The gray market price is an open market price, presumably on a limited area. You would add to the pressures on other users unless at the same time you were able to limit the use of steel for nonessential purposes.

The CHAIRMAN. What is a "nonessential purpose" of steel?

Secretary HARRIMAN. Perhaps the less essential purposes. I will give you one case which we are now studying and on which we are likely to issue an order.

The beer people are switching to beer cans instead of using as they had previously, bottles.

There is an indication that there are bottles for the market of the United States for beer, and that it is adequate.

In order to save tin, we are considering and will issue an order so as to limit the use of tin plate for beer cans. That will be a saving of steel.

The CHAIRMAN. Very little, however.

Secretary HARRIMAN. It will be substantial. The amount of steel that is estimated to be used, in 1948, is over 250,000 tons of tin plate. Sheet is one of the tightest items of steel. It would mean that if we limit the use of cans, there will be more steel available for other products.

I mention that one case. There are others which we are studying in order to conserve tin which in the main total will add up to a considerable volume.

We believe there will be other areas as we study them where there can be no undue hardship either to the consumer or the producer.

Beer in bottles is a satisfactory method of distributing beer, and although cans may be more desirable, it does not create an undue hardship to limit the use of beer cans.

The CHAIRMAN. We always seem to come back to beer and whisky.

I agree to all that on allocation.

What about automobiles? Would you take steel away from the automobile industry?

Secretary HARRIMAN. We would have no intention of attempting to decide what amount of steel should go to the automobile companies, or to refrigerators, or the main body of users of steel. That would have to be left to the normal processes of business.

The CHAIRMAN. The largest users of steel are essential things. There may be a lot of little things.

Secretary HARRIMAN. They add up to a considerable volume.

The CHAIRMAN. That is all.

Secretary HARRIMAN. Also by cooperative action to encourage substitutions, wherever possible.

The CHAIRMAN. Are there any further questions?

Senator Sparkman?

Senator SPARKMAN. I was sorry I was late. Maybe some of the things I will ask you have already been answered by you. If so, I do not care to have you repeat. Just tell me so.

One thing I was very much interested in in the discussion that has just taken place was the question of allocation of materials that are in scarce supply.

If we do not have allocation, what is the alternative?

Secretary HARRIMAN. I think we would have a chaotic situation with rising prices, demand for increased wages, and an increasing spiral of prices and wages, and prices and wages.

We will come to inflationary difficulties which will make it impossible for us to get stability in our economy and to carry out a foreign-aid program which is in our national interest, in my judgment.

Senator SPARKMAN. As I understand the philosophy of the whole thing, there is enough to get along with if it is handled in an orderly manner.

Secretary HARRIMAN. I believe that there is enough to get along with if it is directed in limited fields.

I have made it plain before, Senator, and I want to make it plain again, that to carry out the foreign aid program will require a sacrifice on the part of the American people both in terms of money which is appropriated by the Congress since it must be paid for, and also in the self-denial on the part of the American people of the use of some of the things which are needed abroad.

I, personally, am convinced that that sacrifice is a temporary sacrifice. It is well worth making, and the alternative of world chaos is so appalling that there is no doubt in my mind that we would be making a tragic mistake if we did not undertake the program which has been suggested.

Now, I would like to commend the Committee of Nineteen's report for the reading of this committee. There is a paper on the American interest which is in their report, and it is entitled "The Interests of the United States in European Recovery." The closing words, if I can read them, are:

> The domestic consequences are such as no American could easily tolerate: The swift and complete conversion to a military footing which national security would require; the abrupt but necessary change in our relations with the rest of the Western Hemisphere; the immediate and sweeping limitation of our economic and political life, perhaps extending even to our very form of government.
>
> In such prodigious terms is the interest of the United States in European recovery defined. The committee is convinced that a sound program for western European recovery should be formulated and adopted by the United States with the same boldness and determination, and the same confidence in the worthiness of the democratic cause, which characterized our action in World War II.

I did not write that. That was the opinion of the 19 men. However, I heartily endorse it.

The sacrifices are such, which I agree with you, Senator, that we will have a good life in this country; and we can gradually increase our production and get our supply and demand situation in balance.

If we have the controls which are recommended by the President, we can equitably define that sacrifice so that the price is not the method of rationing, either consumers goods or housing or anything else.

We will still be able with our tremendous productivity to undertake a program which bids fair to create stability in the world and the peace which we above all desire.

Senator SPARKMAN. Objection has been made to powers requested being too general and not specific enough. Of course, Congress has the power to spell it out if it sees fit to do so, has it not?

Secretary HARRIMAN. That would be the expectation if Congress decided to act, that it would spell out the standards that would be satisfactory in connection with any of the actions which the Congress should give to the executive branch of the Government.

Senator SPARKMAN. You have studied this problem very carefully, and you advocate the plan that you have been recommending to us?

Secretary HARRIMAN. That is correct.

Senator SPARKMAN. If Congress wants to offer an alternative plan, certainly it has the right to do it.

Secretary HARRIMAN. That is correct.

Senator SPARKMAN. And if it offers one that does the job, that is all right, too.

Secretary HARRIMAN. The objective is what we are after, not describing the methods. It is the duty of the Congress, of course, to frame legislation. If any member of the committee wishes recommendations from me in areas that are under my responsibility, I would be ready to suggest them; but I would not do so unless you asked me to do so.

Senator SPARKMAN. The charge has been or the suggestion offered that powers that you have now under the Second War Powers Act are sufficient. Do you consider them to be so?

Secretary HARRIMAN. They are not. They are very limited as it stands today, and in one field where there is broad power, export controls, we have not enough money to do the job properly.

Senator SPARKMAN. Are there any powers left to you for allocation of domestic supply?

Secretary HARRIMAN. Only a very limited number, of which the most important one is tin. At least, that is the one that is easiest to explain, tin and tin products. There we are allocating in detail the use to which tin is put.

Senator SPARKMAN. And your control of exports, the power you have, you deem not to be sufficient to handle the present situation?

Secretary HARRIMAN. The power, I believe, is sufficient, except to control prices for export which I feel very strongly should be permitted. We should permit the foreign buyer to have access to a fair price.

Senator SPARKMAN. Now, Mr. Secretary, I want to ask you just one question.

Secretary HARRIMAN. But we must have more money, or else we can not do the job properly.

Senator SPARKMAN. You do not have the personnel with which to do the job?

Secretary HARRIMAN. We do not have the personnel with which to do the job.

Senator SPARKMAN. I want to ask you one question with reference to housing. Mr. Eccles gave us a rather devastating statement the other day with reference to the inflationary effect of our housing program, and you agreed with him that it was inflationary.

I take it, however, that it is not your purpose to agree with what I understood his recommendation to be, that we stop the liberal lending policy under title VI of the Federal Housing Act. You regard the housing program as one of the essentials of this country?

Secretary HARRIMAN. I most certainly do, and, Senator, I described it the other day by saying we are in a period when it is in our national interest to do certain things abroad and certain things at home; and unless there are certain controls which can direct our supply of materials that are short, we cannot carry out the programs which are in the national interest.

Therefore, it is essential to have these controls which are asked for. We are in a selective period, and we cannot do everything we would like to do. It is not a normal period.

Senator SPARKMAN. But housing is one of the things.

Secretary HARRIMAN. Housing in the lower cost area is one of the major objectives which I believe we should divert our materials to produce as far as practicable.

Senator SPARKMAN. In other words, a person can do without a radio, but he must have a house.

Secretary HARRIMAN. He must have a house, but also there are other areas of construction, commercial construction and possibly higher cost of construction, which may well be desirable to check. On the other hand we do not want to check construction for productive facilities which are needed to increase production in the areas where we have short supply.

Senator SPARKMAN. Mr. Secretary, I have been serving as a member of the Special Committee on Housing, and in a good many of our hearings we have run into a rather acute shortage of nails. We have run into the existence of a black market in nails, and we were told that those nails got into the black market by being set aside for export purposes.

Do you know anything about that?

Secretary HARRIMAN. I have been told that. I have not been able to trace down specific cases. We have not any staff to do it.

I have been told that where the man has got an export license, he has resold it.

We are attempting to check it as far as we can, because we do not issue licenses except against a definite order from abroad.

There, again, if we had the right to control prices for export and could control the domestic situation, we could, I believe, go a long way toward eliminating the so-called gray market; and we might well be able to stimulate the production of nails.

Senator SPARKMAN. Any such setting aside of nails would not be done by your export control office, would it? I mean, that is the margin set aside, and thereby have gotten into the black market.

Secretary HARRIMAN. No; we have no way to police that at the present time.

Senator SPARKMAN. Your only contact with it is to grant the permit for export?

Secretary HARRIMAN. Grant the permit to export.

May I say, today, we of course do not have any powers, and we do not set aside orders of nails.

If the black market comes in that way or the gray market comes in that way, it is because somebody has an export license. I believe the gray market at home comes in from other sources than it does from the export market, but that is only an opinion.

Senator SPARKMAN. Did I understand you to say a while ago you did not contemplate controls over coal?

Secretary HARRIMAN. The coal and the fuel area is in the Department of the Interior, and it is only the Department of the Interior that would exercise such controls as may be necessary in coal and petroleum purchases.

The CHAIRMAN. They are testifying Monday.

Senator SPARKMAN. I want to ask you one thing, and this may have been brought out already, but we have been hearing a good bit here of late about our trade with the Soviet Republic. I believe your report shows about $113,000,000 during the first 9 months of this year that we exported to Russia.

Is that in keeping with the policy that you defended earlier in your testimony of keeping a balance of trade? In other words, are there critical and strategic materials that we do get from Russia that we must depend upon Russia for?

Secretary HARRIMAN. At the present time, we are not controlling the export of many things that are being purchased by the Russians in this market; namely, the manufactured products.

In the third quarter, some of the earlier shipments came from UNRRA and from the tailing off of the so-called lend-lease pipe line.

In the third quarter, there were a very few shipments tailing off in those two areas.

In the third quarter, our business with Russia, commercial business was, if I remember correctly, 27 millions of import and 25 millions of exports.

Senator SPARKMAN. What are those imports principally?

Secretary HARRIMAN. The principal exports are manganese, chrome——

Senator SPARKMAN. Imports.

Secretary HARRIMAN. Chrome; bristles; furs, which is a large item. That is not an essential; the others are.

If we engage in the European recovery program, as I earnestly hope we will, we would have to control some of the classes of materials of manufactured items which the Russians are getting now, in order to make sure that the priority needs for the recovery of western Europe are taken care of.

Senator SPARKMAN. Is Russia our chief source of manganese?

Secretary HARRIMAN. It is one of our sources of manganese. West Africa, Brazil, and India are the other three principal sources.

Senator SPARKMAN. Is the same thing true of chrome?

Secretary HARRIMAN. We get chrome from Turkey. I can get you that. I do not remember it offhand.

Senator SPARKMAN. But Russia is one of the chief sources?

Secretary HARRIMAN. That is an important area.

Senator SPARKMAN. That is one of the few countries of the world in which our exports are less than our imports; is that right, in the last quarter, as you say?

Secretary HARRIMAN. This only is the last quarter. I would not want to state that that is the way the business is going, because I have not analyzed it.

Senator SPARKMAN. But most of the things that go to Russia are things that are not subject to your control at all?

Secretary HARRIMAN. They are things we could control but which we do not control at the present time. I think we should control them, however, and make sure that they are not more needed in other areas.

Senator SPARKMAN. Do you have many requests from businessmen for export to Russia that you turn down?

Secretary HARRIMAN. Well, we now only control a small percentage. I do not know what the percentage is. But it is petroleum products, and steel.

I am told the Russian exports are largely outside of the areas where we have any control.

At the present time they are not getting any petroleum products from us as they will not give us the information we require before we issue export licenses, for instance, the stocks on hand and the use for which it is to be used.

Therefore, they have not given us that information, and therefore they are not getting any petroleum products.

Senator SPARKMAN. Mr. Secretary, as I understand it, you have defended our trade with other countries, countries other than the European countries, on the basis that each one of them supplies us with certain things that we need to have, and it is necessary to keep up this exchange of trade with those countries. Is not this true, too, that even though we are in a period now of short supply, it is only natural to anticipate that the time is coming again when we will be looking for markets, and that the pattern of trading in the postwar world is now being established, and that it is to our interest to see that we have a part in that pattern?

Secretary HARRIMAN. In the pattern of trade, you are quite right, Senator. The pattern of trade to some extent is being made, but only to some extent, as we are exporting for purposes of recovery in some areas, which will not be a permanent market; but it is certainly true that if we were to shut off entirely our exports to certain areas, it would be very difficult to reestablish our trade with them in the long run.

Senator SPARKMAN. That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

Senator WATKINS. I have one further question. I would like to get the information as to how much of a shortage there is in scrap at the present time.

Secretary HARRIMAN. I will attempt to give you a statement on that.

Senator WATKINS. I thought probably you could not give it now, but if you could furnish the committee the figures on the excess shortage of scrap, and also the railroad cars necessary to get the amount of proper coal to the steel companies, we would like to have them.

Secretary HARRIMAN. We will try to get you an estimate on both of them.

As far as scrap is concerned, it is acute. If we had an ample supply, it would help in not using as much pig in the making of steel and more scrap would be used.

So, there are two phases of it, but I will try to give you the figure as to the acute shortage.

Senator WATKINS. Is there a shortage in pig iron?

Secretary HARRIMAN. Yes. There is a shortage of pig iron.

Senator WATKINS. Will you give us the figures on that, too?

Secretary HARRIMAN. I do not know that I can give you the shortage of pig iron. I can give you the shortage of scrap which is handicapping full production of steel.

It is very hard to get a shortage of pig, because a lot of people would use pig for making these things, and it is very difficult to get up that figure. However, I can give you the shortage of scrap.

Senator WATKINS. Give us all you can give. I do not want you to try to do the impossible.

Secretary HARRIMAN. I will give you all I can.

(The information is as follows:)

STATEMENT FOR THE JOINT COMMITTEE ON THE ECONOMIC REPORT

PIG IRON

Pig iron is one of the essential raw materials in the production of steel and foundry products. Under normal operations the ratio of pig iron to scrap in the charge of the open-hearth furnace is approximately 50 percent to 50 percent. About 90 percent of the steel produced comes from open-hearth operations. The normal pig iron scrap ratio can vary depending upon the availability and price of each material. Today scrap sells at a considerably higher price than pig iron, and therefore the steel companies are naturally using a somewhat higher ratio of pig iron.

In the Bessemer furnace, which produces approximately 95 percent of the steel, pig iron constitutes about 95 percent of the charge. In the electric furnace where the remaining 5 percent of the steel is made, pig iron represents an insignificant amount of the raw materials charge.

Output of pig iron in 1947 is estimated at 58.5 million short tons, of which 50.5 million tons are used to make steel and 8 million tons to make castings and other foundry products. The most recent estimate of blast furnace capacity for pig iron production places the potential output at 65.5 million short tons. In other words, there is available sufficient blast furnace capacity to produce an additional maximum of 7 million short tons of pig iron.

Of this total (7 million short tons) approximately 800,000 tons represent idle capacity of three furnaces. These three furnaces were owned by the RFC, one of which, at Monessen, Pa., has recently been sold. The other two are currently being offered for disposal by the WAA. Some details on each of these plants are given below.

Monessen, Pa.—One furnace, not operating. Plant was started but never completed as a war project. It is 90 percent completed but would cost a considerable sum, perhaps $2,000,000 to put into operation. A serious drawback here is that this furnace has no coke supply and would require outside aid to operate. Total annual capacity about 350,000 tons.

Ironton, Utah.—One furnace, shut down largely because of lack of proper grade of coke, but other contributing factors are mine labor and shortage of freight cars. This plant was operated only intermittently during the war and has not operated since. No major expenditures of money would be required for rehabilitation. Annual capacity about 325,000 tons.

Chester, Pa.—One furnace which is in very bad physical condition and would require an estimated $250,000 to put in shape. The problem here would be ore supply and suitable grade of metallurgical coke. Annual capacity approximately 100,000 tons.

In addition to the unused existing capacity, there are at present new facilities under construction, or planned, which will add some 3.4 million short tons of blast furnace capacity. All of this added capacity should be available by the end of

1948 if no serious set-backs are encountered, such as delays in delivery of essential components.

Estimated available capacity as of January 1, 1949, is therefore placed at 68.9 million tons, or 10.4 million tons above current production.

Maximum production from present available capacity of blast furnaces has not been possible during 1947, largely because of shortages of metallurgical coal (coking coal) of suitable quality. Unless the supply of coking coal to the blast furnaces is increased, there appears to be little likelihood that the additional capacity for the production of pig iron now under way or planned can be utilized. The problem of coking coal is not one of production or supply, although the drain on our supplies as a result of high level steel output, export requirements and increased industrial needs in general is causing a significant depletion of our best coking coals.

Increased pig iron production from furnaces now in operation can be effected through mechanical and technological improvements at the blast furnace levels, principally through the use of high top-pressure operations. Aside from the fact that the required components are not readily available to connect present blower equipment to high-pressure operations, there are numerous other engineering bottlenecks which tend to offset the possibility of substantial increases in pig iron output in the near future.

More substantial relief in the production of pig iron can be obtained through availability of cleaner coking coal. It is generally agreed that the output of pig iron is currently reduced by about 10 percent because of impurities in the coking coal delivered to the coke ovens. The coal industry during the last decade, especially since 1939, has introduced mechanical loading machines which because of their high-speed operations fail to remove the impurities as effectively as was done formerly by hand picking. This handicap can be overcome through the installation of coal washing equipment (quality separation) at the mines. However, these installations have not progressed as rapidly as desired because of the inability of the coal operators to obtain the needed equipment.

In summary it can be stated that:

1. Current annual pig-iron production is estimated at 58.5 million short tons.

2. Available blast furnace capacity is estimated at 65.5 million tons. Additional facilities under construction or planned are expected to increase the productive capacity of blast furnaces to 68.9 million tons by January 1, 1949.

3. Increased output of pig iron from existing capacity could reach the maximum of 7 million tons. Upon completion of planned capacity expansion, the output of pig iron could reach the maximum of 10.4 million tons.

4. The chief bottleneck to the full utilization of existing and planned capacity is the supply of suitable metallurgical coal.

5. Present output of pig iron can be increased by about 10 percent if equipment were available to improve the quality of the coal through the washing process.

6. Increased output of pig iron is possible through technological improvements, but such operations are limited by difficult engineering problems, plus delays in delivery of adequate equipment and components.

7. It appears that the potential increase in pig iron production cannot be expected to materialize unless some formal form of assistance (priorities, allocations, etc.) is provided to assure delivery of the needed equipment to the blast furnaces and coal mines.

COAL-CAR REQUIREMENTS

For the week ending November 22 there was a shortage of cars at the coal mines amounting to 28,231. This figure represents the number of cars the mines report they could have loaded if they had been available.

The car shortage in the week of September 14, 1946, was 22,482 and this figure, with some minor declines, gradually increased until it reached the highest point in the week of October 25, 1947, of 40,844 cars. The recent improvement has come principally from the redistribution of cars used in the Great Lakes sections and which are usually diverted to other parts of the country because of weather conditions and the reduced movement of such things as road building materials. New cars have also helped to some extent. It is expected that another 15,000 cars will be released for transporting coal during the next 2 weeks which would reduce the present car shortage by more than half.

There are no separate figures which would indicate specifically the extent of the shortage of cars in connection with coking coal but as the amount of coal used by the steel companies both for coking and other purposes will be approximately 100 million tons for the present coal-year ending March 31, 1948, and as this figure is about one-sixth of the total production, it can be roughly stated that the additional car availability will assist the movement of coking coal to approximately that extent.

However, there are some special situations which make it impossible to apply such figures with any certainty. Coal districts 7 and 8 produce about 50 percent of the coking coal and except for minor instances there are now no stortages of railroad cars on roads which deliver coking coal from these districts to the steel companies. On the other hand, districts 1 and 2 which deliver about 37 percent of the coking coal have had a heavy shortage of cars. The 15,000 cars which are soon to be released from the Great Lakes trade will be of particular benefit to the B. & O. and the Pennsylvania and conditions on these roads will improve. However, in the districts handled by the New York Central conditions will probably remain tight because of bad weather.

There are presently no orders regulating the assignment of cars by the ODT to any particular movement of coal except for coal used by railroads. The ODT, however, keeps a continuous watch on the car-supply situation and endeavors by arrangements through the American Association of Railroads to give additional assistance where it is most needed, especially to avoid a surplus of cars in any particular district or trade.

It is of particular interest to note that the steel companies in the Pittsburgh district received from 25 to 30 million tons per year by means of river-barge transportation and only a portion of this coal is finally loaded on cars for shipment to Youngstown, Ohio.

One additional specific help for the steel companies will be the reopening of the Carter Coal Mines, the product of which goes to the steel companies and which expects to load about 215 cars a day, carrying about 12,000 tons of coal and equal to approximately 300,000 tons per month.

As the general coal-production situation has improved considerably in the last few months, it can be expected that the increased shipments will proportionately benefit the steel companies and coke ovens. During the past 7 weeks the bituminous coal production averaged 12,740,000 tons per week as against 12,000,000 tons for the previous 12 weeks. During the week ending November 22 the production reached 12,900,000 tons. The ODT believes that the car supply will within the next few weeks be sufficient to support a movement of 12,500,000 tons per week and make possible a total production of coal for the calendar year of 610,000,000 tons, the second highest production in history. The previous high was 620,000,000 tons in 1944.

IRON AND STEEL SCRAP

Since 1930 the iron and steel industry has been fed approximately 50 percent pig iron and 50 percent scrap. Scrap was obtained from two major sources, namely, (1) home scrap, (2) purchased scrap, each of which normally provided half of the domestic scrap requirements.

(1) Home scrap is derived from three different sources, namely:

(*a*) Scrap produced in making ingots.

(*b*) Scrap produced in cropping ingots.

(*c*) Scrap produced in rolling-mill operations.

The usual yield of home scrap (*b*) and (*c*) was 30 percent, but has recently been reduced to 26 percent because in a sellers' market the conversion ratio of ingots to finished steel products has been advanced from 70 percent to 74 percent.

(2) Purchased scrap originates from three different sources, namely:

(*a*) Prompt (industrial) scrap: About 40 percent of purchased scrap becomes available from the stamping, shearing, boring and turning operations of the steel consuming industries. This scrap is made available to either the steel mills directly or through scrap dealers.

(*b*) Railroad scrap accounts for 15 percent of purchased scrap and is also sold to the steel mills by either the railroads or by dealers.

(*c*) Obsolescent scrap is 45 percent of purchased scrap and is all supplied by scrap dealers to the steel mills.

The shortage of scrap is due to the following causes:

(1) Home scrap is a function of the rate of steel output, with the qualifications, however, that today the conversion rate is about 74 percent instead of 70 percent and that, therefore, home scrap is reduced from 30 percent to 26 percent, which amounts to a deficit of 3½ million tons as long as steel output is at a ratio of 85 million tons annually and a sellers' market continues.

This is further demonstrated by the fact that with steel ingot production in September of this year 14 percent above output in December 1939 and foundry production even higher relatively, total stocks of home scrap at the end of September were 28 percent less than at the end of 1939.

While the correspondingly greater quantity of finished steel resulting from the higher conversion rate eventually becomes available as scrap, its return may be postponed from a few months to many years.

(2) Purchased scrap presents the major problem, particularly with respect to obsolescent scrap. The flow of prompt industrial scrap is directly related to the rate of metal working and so long as industrial production remains high scrap will continue to be forthcoming at high rates from this source.

The over-all stock position in purchased scrap at consumers' plants has been improving somewhat in recent months, although it is still below the normal prewar position and far below the level prevailing during much of the war, in terms of days' supply. While average stocks at consumers' plants during September, equivalent to 38 days' operation, are a distinct improvement over the situation earlier this year, they do not compare favorably with stocks which ran as high as 66 days' supply in 1943. In the face of the high rate of present steel production, stocks at the end of September were 11 percent lower than at the end of 1939.

Despite the improvement in this phase of the stock situation, the total shortage is greatly aggravated by the change in stocks at dealers' plants and at automobile wreckers' plants. These stocks have shown a gradual deterioration over recent years and at the end of September were only 10 percent as high as they were at the end of 1939.

The supply of obsolescent scrap will remain a problem for some time. This scrap is becoming available at a lower rate than in the past, for three reasons, two permanent and one temporary.

(*a*) Until 1905 most of the steel made in this country was by the Bessemer rather than by the open-hearth method. Because the Bessemer converter uses only 5 percent scrap it stands to reason that iron and steel accumulated in this country until 1905, and that since 1905 we have lived on the scrap accumulation of the pre-open-hearth period.

(*b*) Between 1934 and 1940 we exported more than 20 million tons of scrap. Then during the war we shipped abroad some 124 million tons of steel, and of steel in manufacturer's products, practically none of which has been returned as scrap.

(*c*) While our steel-consuming industries are running at a high rate of capacity, demand for automobiles and other durable goods remains unsatisfied and, therefore, people hang on to obsolete models, which otherwise would come on the market as obsolescent scrap. Only the last condition promises an improvement.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Secretary HARRIMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary Snyder.

Mr. Secretary and members of the committee, we will plan to run here at least until half-past twelve or a quarter of one. I am very sorry. I did not think the additional questioning of Secretary Harriman would take over an hour.

I think probably there will be another roll-call of the Senate, and if the House Members stay a while, we will be glad to hear your statement.

You may proceed.

STATEMENTS OF HON. JOHN W. SNYDER, SECRETARY; A. LEE M. WIGGINS, UNDER SECRETARY; AND VERNON CLARK, ASSISTANT TO THE SECRETARY OF THE TREASURY, AND NATIONAL DIRECTOR OF THE SAVINGS BOND DIVISION, TREASURY DEPARTMENT, WASHINGTON, D. C.

Secretary SNYDER. Mr. Chairman, I appeared before the House Banking and Currency Committee on this same matter a day or two ago, and the statement which I have here is substantially the same as the one I gave before that committee.

With your permission, I will read it into the record. Is that satisfactory?

The CHAIRMAN. Yes, indeed. Go right ahead. We will not question you until you finish this statement.

Secretary SNYDER. Mr. Chairman and members of the committee, I appreciate your invitation to appear before this committee to discuss certain phases of the program for controlling inflation outlined in the President's message of November 17.

As you know, I appeared before the House Banking and Currency Committee and discussed this subject with them for several hours on Tuesday. Only one business day has intervened since my appearance before that committee, and the statement that I wish to make before you today, therefore, consists mainly of a restatement of the points that I made before the House committee.

It is of the utmost importance that we extend early aid to the Western European countries in order to assure that people will not go hungry and cold this winter and to assure their continued participation as free nations in the world economy. It is equally necessary that this aid be extended without subjecting our economy to the strain of further inflation.

Both of these things are essential if we wish to maintain a national environment and a world environment in which peace and freedom can continue to develop. If we fall short of our goal in foreign aid, our own freedom could be threatened by external forces; and, if we fall short of our goal in controlling inflation, we will be threatened by the danger of economic collapse at home. We must avoid both dangers.

I am directing my remarks this morning to one phase of the anti-inflation program. Testimony in support of the emergency program for European assistance has been presented by representatives of the Departments of State, Commerce, and Agriculture.

The President outlined three types of measures for the control of inflation: One, measures to relieve monetary pressures; two, measures to channel scarce goods into the most essential uses; and, three, measures to deal directly with specific high prices.

It is to the first of these measures that I will give attention, as other representatives of the administration have been invited to discuss items 2 and 3.

Anti-inflationary measures which may be taken in the monetary field are, of course, but a segment of the whole program, and could not, by any means, solve the problem alone. But such steps as can be taken when related to those in other fields, will of course be helpful in the over-all solution.

The President is greatly disturbed in regard to price inflation, which threatens our whole economic structure, and he is convinced that the Congress is equally concerned.

The President has laid special emphasis on voluntary actions on the part of businessmen, labor leaders, farmers, and consumers to hold prices down. Intensified efforts will be continued to obtain voluntary restraint. Certain powers are necessary, however, to fortify the voluntary efforts.

The President has suggested that consideration be given to the following monetary measures: One, that consumer credit controls should be restored and some restraint should be placed on inflationary bank credit; two, legislation should be provided to prevent excessive speculation on the commodity exchanges; three, intensified activity in the sale of savings bonds.

The last item is the only one of those suggested which comes completely under the jurisdiction of the Treasury Department, and I shall devote my time principally to a discussion of that particular item. I shall touch but briefly upon the first two, as they are primarily the concern of other Government departments and are being discussed by representatives of those departments as they appear and testify.

As to item 1, Restoration of consumer credit controls and restraint on inflationary bank credit, these matters have been discussed by Federal Reserve officials. As to consumer credit controls, I am in favor of their restoration.

The most effective types of credit control are those which strike at the individual forms of credit extension which are contributing to inflationary pressures. The most important single form of such credit extension at the present time is in consumer credit.

Total consumer credit outstanding at the end of September reached an all-time peak of $11,400,000,000. At the end of 1945, it amounted to only $6,600,000,000. Prior to December 1946, total consumer loans outstanding at any one time had never reached the $10,000,000,000 level.

This increased use of consumer credit in the present period of inflationary pressures can only add to those pressures. As we all know, the curtailment of the production of consumer goods during the war period gave rise to a tremendous deferred demand for such goods. As we all know, despite the fact that industrial production during 1947 has reached the highest level ever attained during peacetime, we have not yet been able to produce enough goods to satisfy this deferred demand. There still exist many important shortages of goods. But with production near capacity levels, purchasing power made available by consumer loans can be used only to bid up prices of consumers' goods, not to purchase more goods. It is imperative, therefore, that efforts be made to restrain the demand for scarce goods until supply approaches demand.

Money market interest rates form a small part of the total cost of consumer credit, and changes in such rates are almost powerless to limit its extension. It is necessary to cover specifically by regulation such matters as minimum down payments and the maximum periods over which payments may be spread on installment purchases of consumers' goods in order to restrain this type of inflationary credit.

In reference to the second part of item 1, "Some restriction should be placed on inflationary bank credit," this is a matter under the jurisdiction of the Board of Governors of the Federal Reserve System which has the responsibility for over-all bank credit control. Mr. Eccles has discussed this matter with you in considerable detail. He and I have discussed it together on a number of occasions and we are entirely in agreement that the objective is fundamental to the inflation control program. I do not believe, however, that one or two specific proposals that he has made will accomplish the objective in question.

I would like to point out that I have a positive feeling that the major objective at this time is to maintain the fiscal soundness of the Government and the continued confidence of the public in Government obligations. I feel that the attack on the problem can best be handled by the application of a substantial budget surplus to the reduction of the public debt in the manner which will extinguish an equivalent amount of bank-held Government securities. Since the end of the war, the Treasury has conducted its program of debt management in such a way as to reduce inflationary pressures whenever possible by paying off bank-held securities.

The public debt reached its peak of $280,000,000,000 on February 28, 1946. During the following 10 months, it was reduced over $20,000,000,000 reflecting the reduction in the cash balance in the Treasury from a wartime to a peacetime level. Almost all of the reduction in the debt during this period took place in the holdings of Government securities by commercial and Federal Reserve banks. Since the end of 1946, the debt has remained substantially constant, reflecting the approximate balance of the budget during this period. Holdings of Federal debt by commercial and Federal Reserve banks have nevertheless continued to be reduced and fell by over $6,000,000,000 in the first 10 months of the year, with holdings by nonbank investors increasing correspondingly.

The concentration of debt reduction during 1946 on securities held by banks and the transfer of over $6,000,000,000 of debt thus far in 1947 from bank to nonbank hands have been, in large part, the consequence of the public debt policies of the Treasury and of the restrictive credit policies of the Federal Reserve System. These policies have contributed substantially to the fight against inflation, and will be continued as long as they are appropriate. I should like to note in this connection that a sizable reduction in the public debt will be possible during the early months of 1948, during which months will occur most of the excess of government receipts over government expenditures predicted for the entire fiscal year.

To minimize bank credit expansion, restrictive measures have been applied to the money market by the Federal Reserve System and the Treasury. This has been reflected by a rise in interest rates and a better balance between short and long term rates.

The average rate on 90-day Treasury bills has increased from three-eighths of 1 percent in early July to nearly 1 percent at the present time; while the rate on 1-year Treasury certificates of indebtedness has risen from seven-eighths of 1 percent to 1⅛ percent in the same period. During this time the yield on the longest-term Treasury bonds, those issued in the victory loan, has risen from a little over 2.30 percent to about 2.43 percent.

The entire debt management policies of the Treasury since February 1946 have been of an anti-inflationary character. First, there was the paying off of bank-held Government debt out of excess cash balances; second, there has been a payment on bank-held debt out of funds derived from (*a*) budget surplus, (*b*) trust funds, and (*c*) the sale of savings and investment bonds to the public; third, pressure on the money market with slightly higher interest rates. Through the payment and calling of maturing bonds and refunding them into short-term issues, it has been possible to create an interest pressure on the money market without an increase in the net cost of the market debt to the Government.

In making our decisions with respect to public debt management, we must constantly weigh the restrictive effect of any proposed debt management action against its cost in added interest burden on the taxpayer. An increase of one-half of 1 percent in the average cost of carrying the public debt, for example, would mean an added burden of 1¼ billion dollars a year on the taxpayer.

At the present time, as you know, the interest cost on our public debt amounts to more than $5,000,000,000 per annum. This is a large figure and may increase in the future if a larger proportion of our debt is carried in longer-term securities requiring higher coupon rates of interest. It is, therefore, imperative that during these times of great prosperity we should continue to collect adequate revenues over and above a balanced budget to provide for a systematic reduction of the debt total. A reduction in the debt through a substantial budget surplus is the most anti-inflationary measure that can be taken in the fiscal field.

In the field of commercial bank loan credits, the Treasury Department, through the Comptroller of the Currency, has been very active in studying trends and taking steps to induce a restraint in inflationary bank loans.

A few weeks ago, we had the district chief national bank examiners in for a conference, at which time the credit situation was discussed at some length. The chief examiners were instructed to have their examiners, during the course of examination of banks, counsel with and caution bankers against speculative lending policies.

More recently, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the executive committee of the National Association of Supervisors of State Banks have collectively taken steps to urge the curtailment of all loans either to individuals or businesses for speculation in real estate, commodities, or securities. In a joint statement issued last Tuesday by these agencies, all bankers are urged to confine the current extension of bank credit to the greatest extent possible under existing conditions to financing that will help production rather than increasing consumer demand.

Item 2: Secretary of Agriculture Anderson has presented testimony to this committee on legislation that should be provided to prevent excessive speculation on the commodity exchanges.

Item 3 makes recommendations for the intensification of activity of savings bond sales as an anti-inflationary action.

As the President said in his message of November 17:

> Another effective weapon against inflation is increased savings by the public. Every dollar that is saved instead of spent is a dollar fighting against inflation. In order to encourage additional savings, the Government should intensify its vigorous efforts to sell savings bonds.

Since the war, as an economy measure, the Treasury Department has curtailed enormously the organization of the Savings Bonds Division, and has resorted primarily to those programs for which the voluntary cooperation of individuals and businesses could be recruited. While this procedure has been eminently successful and has produced most satisfactory results in maintaining bond sales in excess of bond redemptions, it still has its limitations.

Up to now the day-to-day efforts of the Treasury savings bond sales organization has been to maintain the popularity of the pay-roll savings plan among American workers and to sell to the American people the idea of investing regularly for their own good. This program has formed an important part in the Treasury's fiscal policy.

During the war, it was obvious to people why we needed the savings-bond program. Everyone could see that the Government needed dollars, over and above taxes, to buy munitions and pay wages and subsistence of our armed forces. Each of us had someone—son, daughter, brother, sister, loved one—in service and therefore had a direct interest. And, in addition, everyone could understand that savings bonds helped to absorb inflationary dollars which were accumulating at a rapid rate because incomes were growing while goods and services available for purchase were not increasing accordingly due to the fact that war goods were using up materials and labor.

But now that the war is over many people do not understand the importance of the savings-bond program today.

The savings-bond program absorbs excessive purchasing power in the hands of individuals. This cuts down spending pressures. For this reason, emphasis is being placed, and will continue to be placed, on the pay-roll savings plan for workers and on bond programs for individuals, and especially farmers. The important funds to obtain are the small amounts invested regularly by millions and millions of people. It is the money which is more likely to go on a spending spree that is the most important to get invested in savings. The investor we want most is the individual—the worker with good income and the farmer whose income is at a high level.

Bond sales of this character are important from a fiscal point of view even if we have a balanced budget, for they widen the ownership of the debt and provide a sounder debt structure. At the same time the sale of these savings bonds makes an important contribution to the control of inflationary pressures.

It withdraws funds in the hands of the individual from the spending stream, thus providing funds which enables the Treasury to retire bank-held debt. This in turn results in a reduction of the money supply in the economy.

In order to increase the sale of United States savings bonds, however, we have an intensive selling job to do.

The Treasury Department is ready to move right away on an enlarged savings-bond-sales activity. But this increased sales activity will require additional funds over those earmarked for this purpose in the budget for fiscal 1948. We are therefore asking the Congress to give approval to the use of additional funds for the savings-bond program over and above those approved in the budget.

The present greatly reduced staff in Washington and in the field can be expanded immediately. With additional personnel and funds for promotion, the number of purchasers on pay-roll savings plans can be greatly increased and the sales of savings bonds materially multiplied.

Incidentally, I think that you would be interested to know that total sales of savings bonds are continuing to exceed redemptions and the volume outstanding has reached a new high, nearly $52,000,000,000. In E bonds alone there are $30,894,000,000 outstanding; this volume is today within one-quarter of 1 percent of the peak volume of E bonds outstanding at the close of the Victory Loan nearly 2 years ago. We have been able, in other words, to increase the savings-bond total and to sustain the volume of E bonds outstanding throughout this period of postwar readjustment.

This has been a tremendous accomplishment. There were those, you remember, who predicted that the termination of the war would be followed by wholesale cashing of savings bonds and the liquidation of much of the effect of the wartime savings-bond-sales effort. The truth is that this just did not happen. The redemption record of United States savings bond is a cause for considerable gratification for all of us. It is a tribute to the people who sold the bonds during the war and to the people who purchased them. I am confident that with the additional effort that will be provided by additional funds, good results can be obtained.

I have with me today representatives of the Treasury Savings Bonds Division who are prepared to present, with your approval, some interesting statistics in this field.

Mr. Chairman, I have Mr. Vernon Clark here, who is the Director of the Savings Bonds Division. He is prepared to tell you the present state of the savings-bond program, or he could speak in regard to the future, if you would like to hear him.

The CHAIRMAN. I think perhaps we might finish with you, Mr. Secretary. He perhaps could come back on Monday if we wanted to go on with it.

There are a few things I want to ask. In the first place, I agree on the necessity for savings, but how do you reconcile the fact that E bonds have increased with the general statement that this present inflation is partly due to the fact of the deferred demand created during the war?

In other words, what interests me is, how far is that an inflationary factor today?

As a matter of fact, it appears that E bonds are increasing; so they are not cashing E bonds net. But how do you explain the difference?

Secretary SNYDER. I think that that is evidence there is a pent-up demand, because they are still thinking in terms that they cannot get at the prices they want the things they would like to have. So they are putting their money away until the time they can get it at near what they would want to pay.

The CHAIRMAN. I think the deferred demand is an influence, but I suggest that the way it works is that a large number of people are cashing their E bonds and spending the money they otherwise would not have had to spend.

Secretary SNYDER. That is definitely true.

The CHAIRMAN. Therefore, if it were not for the deferred demand, you probably would have a much larger net-saving figure.

Even though you have a net saving figure today, you would have a much larger one if so many people had not accumulated bonds during the war that they are now spending.

Is that a correct analysis of the situation?

Secretary SNYDER. It is correct to say that there are people who are selling their bonds and buying things today because they could not get them during the war; but as they sell them and then add that to the volume of demand for goods, why, of course, it does run the prices up, when they are operating against a limited supply.

As goods come into balance, supply with demand, of course that inflationary pressure will disappear to a great extent.

The CHAIRMAN. What has puzzled me is that there is not any drawing on our savings net. We have just as much savings as we had when the war ended. So, we cannot say that necessarily, we are certain that that is an inflationary element today.

Secretary SNYDER. In the banks and in other savings areas, there has been a drop in the rate of savings, I understand. So this does not represent the whole savings field.

The CHAIRMAN. Could not this campaign on the part of the Government be even wider than simply to serve to buy Government bonds? Could it not be a general campaign? Could not the Government undertake a general campaign to encourage all savings?

Secretary SNYDER. We do, Senator. When we had the bankers in to help us on a voluntary basis with that bond-a-month plan, why, they started off and one of their representatives said, in representing the bankers:

> I want to urge that you do not stop your savings-bond program, because the way it has been presented has been an incentive to people to save and put deposits in our banks. It has been a good program, because you have dressed it up in such a fashion that it was a good idea to save.

Then it was simply mentioned that the savings-bond medium was an appropriate way to save, but not specifically saying that was the one and only way.

The CHAIRMAN. Savings banks and insurance do you as much good as buying bonds.

Secretary SNYDER. We are quite in accord with that. Our whole direction has been toward the principle of saving rather than specifically putting them in savings-bonds.

The CHAIRMAN. You need more specific appropriations to put on this kind of campaign, do you not?

Secretary SNYDER. Yes, sir. That is what Mr. Clark is prepared to present to you. The restricted area we are working in now is largely voluntary.

The CHAIRMAN. I feel fairly certain that our committee would be glad to recommend that to Appropriations. I am sure we would be behind any program for savings.

Secretary SNYDER. We have no intention of going back to the size the Department was during the war because conditions are completely different, but the addition of some working force would largely go into the promotion matters, so that we could get the volunteer workers to know what they were talking about as they undertook the work.

The CHAIRMAN. Going back to this restraint on inflationary bank credit, where the President specifically recommended the following legislative action: "To restrain the creation of inflationary bank credit," Mr. Eccles recommended legislation for that purpose, which he said was not the program of the Administration.

What is the program of the Administration for legislation to restrain inflationary bank credit?

Secretary SNYDER. Well, that particular field comes under the jurisdiction of the Federal Reserve bank.

The CHAIRMAN. I am sure the Treasury is vitally interested, however.

Secretary SNYDER. We are vitally interested, but we do not try to recommend legislation for the different departments of the Government.

We are always more than willing to cooperate and collaborate with them.

There is not a great deal of difference between Mr. Eccles and me in his presentation the other day. There are just one or two specific points there that I did not think would accomplish the objective of this anti-inflation program.

The CHAIRMAN. You are in the President's Cabinet and Mr. Eccles is not.

Secretary SNYDER. Yes.

The CHAIRMAN. He is not part of the administration. He is part of an independent body, as I understand the set-up.

Consequently, what we want to find out is, what is the administration's program to prevent the creation or restrain the creation of inflationary bank credit?

Secretary SNYDER. That is what I was going to address myself to.

Mr. Eccles, though, is the Chairman of the Federal Reserve Board; and it has normally been the function of the Federal Reserve Board to make recommendations as to the bank-credit control. That is one of their functions.

We want to cooperate with them, and I think if we have a little more time to sit down and work something out, we can present a suggestion that will be helpful to you.

The CHAIRMAN. You can do so.

Secretary SNYDER. Yes, sir.

The CHAIRMAN. Senator O'Mahoney?

Senator O'Mahoney. Mr. Secretary, what sort of cooperation has the Treasury Department had in this savings-bonds campaign from the large industries of the country?

Secretary SNYDER. Well, it has had excellent cooperation; and we would have more if we had sufficient field representatives to follow up and keep them interested.

You know that if you are out on the west coast or down in Florida or up in New England, it is pretty hard for us to keep in mind, because it does cost the industry something to carry on the pay-roll-savings plan. They lose interest unless there is someone dropping in to encourage them and to pep them up.

However, by and large, we have had excellent cooperation from the industry in that field.

The CHAIRMAN. I have to go out on the floor. Will you take over the committee?

Senator O'MAHONEY. Yes.

Secretary SNYDER. Mr. Chairman, if you want Mr. Clark next week any time, he will be glad to come up.

Senator O'MAHONEY (presiding). I was about to say, Mr. Secretary, since the chairman has been called to the floor to transact part of his duties there, that it has been reported to me recently that a substantial number of the most important railroads in the country have recently withdrawn from the savings-bond plan; is that correct?

Secretary SNYDER. Oh, no. There has been a limited number. There have been some, but not a majority, by any means.

Senator O'MAHONEY. Just a few?

Secretary SNYDER. Yes.

Mr. CLARK. About 17 out of 100 and some railroads, covering about 25 percent of the total.

Senator O'MAHONEY. Why did these 17 railroads covering 25 percent of the total pay roll withdraw, do you know?

Secretary SNYDER. They had various reasons that they presented. I had a meeting with them one time as to whether they would come back in. I think we are having others who come back in. However, it was chiefly because we did not have somebody there talking with them all the time. We did not have the force to do it.

We had a nice meeting with them about a week or 10 days ago. I think their attitude is changing.

As I say, it does cost them some money. They were all putting economy programs on within their organizations. They thought that was one place they could cut out.

I think after we have had a chance to sit down and talk with them, we will have a better result. If we had a field representative to go out from time to time and visit with them and discuss not with the president but the man who was handling the pay-roll-savings plan, we would have a better result.

Senator O'MAHONEY. What is the attitude of the workers themselves?

Secretary SNYDER. Very favorable.

Senator O'MAHONEY. They want the program.

Secretary SNYDER. Yes, sir. We have had bales of letters on that.

Senator O'MAHONEY. I have been told in some instances the workers on some of these railroads expressed the willingness to carry the cost of the program themselves.

Secretary SYNDER. There has been such intimation.

Senator O'MAHONEY. It is your opinion these roads will now come back into the plan?

Secretary SYNDER. We will try to get them in.

Senator O'MAHONEY. I noticed in response to Senator Taft, you said that you were working upon some suggestion of legislation to impose restraints upon——

Secretary SYNDER. We would try to work something at present.

Senator O'MAHONEY. I notice you say you regard this as a fundamental objective.

Secretary SNYDER. That is correct; but of course a great deal of it is taken care of if regulation W is restored. That immediately limits the application to commercial banks for funds to carry on the installment selling and that sort of thing, which has added a pressure on short goods at this time.

Senator O'MAHONEY. Well, as I recall the testimony of Mr. Eccles, bank credit has been increasing during recent months.

Secretary SNYDER. That is true, Senator, but our dollar volume of business has been increasing, too.

The bank credit level was low during the wartime, because the Government was financing a great deal of the business at that time; but as business flowed back into private channels again, the banks were called on for more and more funds to carry on normal business, which is at the highest level it has ever been in peacetime.

Senator O'MAHONEY. There is no doubt about that, but it is an inflationary pressure, is it not?

Secretary SNYDER. It may or it may not be. We have got to carry on various services in business which are not inflationary that need a little extra capital right now to carry it on.

On top of that, we are having to fill up pipe lines that have been emptied by war.

We got to the point, as you recall, in the war, where a wholesaler would send shipping instructions right to the manufacturer, to ship directly to the seller.

Well, now, today, it is flowing back into the warehouses and to the stockrooms of the wholesaler, who is building up his normal distribution arrangement again.

That takes financing, of course.

Then there is a great deal of need for capital to balance raw material inventories so that there can be a steady flow of output.

You find very little evidence, however, of inventories for finished products which are withheld from the market for price purposes. We do not find that to be in evidence a great deal.

Senator O'MAHONEY. Of course, it is true that credit which results in the increased production will operate against the inflationary pressures, provided it does not create an excessive demand for raw materials in short supply or for labor in short supply.

Secretary SNYDER. Exactly, and we do not want to take any steps that are going to curtail production, but the steps we take must be aimed at preventing prices being charged that are over the proper prices for that same production.

Senator O'MAHONEY. The objective would be to find such legislation as would result, first, in avoiding and increased demand for materials which are already insufficient for domestic and world needs, and, second, in avoiding a demand for labor which is now in short supply.

Secretary SNYDER. I testified to that. Yes, sir.

Senator O'MAHONEY. Do you have any questions?

Senator SPARKMAN. Mr. Secretary, I want to see if I am clear on this. You discussed the principle of putting restrictions on inflationary bank credits. You referred to the fact that Mr. Eccles has discussed this matter with you, that you are in substantial agreement as to the objectives, but you perhaps differ with him on the means of achieving that objective; is that right?

Secretary SNYDER. That is correct.

Senator SPARKMAN. And do I understand you are not yet ready to make your own recommendation, that you propose to do that later?

Secretary SNYDER. I will not make a recommendation except in conjunction with the Federal Reserve Board.

Senator SPARKMAN. That is the answer you made to the chairman, if I understood it correctly.

Secretary SNYDER. That is correct. We have got to carefully guard against taking one action that will have a worse effect in another field. So, we have to measure all those before taking any specific action.

Mr. Eccles and I have been working very cooperatively for the whole time I have been in the Treasury, and we have been able to accomplish a great deal with his assistance in the debt management field, and we are going to continue that.

It just happens there happens to be one small area where we do not quite agree on the means of accomplishing the objective.

Senator SPARKMAN. With reference to consumer credits, you refer to this tremendous volume, 11,600,000,000, I believe, of consumer credits now. You believe very definitely that there should be a restriction on that?

Secretary SNYDER. Yes. Now, that must be applied, though, against items in short supply. There is no occasion to put restrictions on installment buying when the supply is close to demand. Then you get into a competitive area that will control the price for you.

However, in those instances where the demand far exceeds the supply, there must be some restraint or we will add dollars to bidding against a scarce item.

Senator SPARKMAN. I wonder if you would limit your control also to installment credit rather than consumer credit generally?

Secretary SNYDER. I would have to analyze that more.

Senator SPARKMAN. That was the recommendation, I may say, that Mr. Evans, one of the members of the Federal Reserve Board, made to the Banking and Currency Committee.

Secretary SNYDER. I would restrict it to the areas that would create inflationary pressures, yes.

Senator SPARKMAN. For my own enlightenment, let me ask you this question: I can see that it is desirable to shift the indebtedness of the Government to individuals rather than to banks, because it dries up the money the individual otherwise would be tempted to spend in the open market. When you pay off the bank for its Government securities, do you not likewise put a pressure on the bank and give it a tendency to grant more liberal credit?

Secretary SNYDER. Of course, that has to be carefully measured; as you know, we have tried putting some pressure on bank reserves and that is a factor in the picture.

Senator SPARKMAN. I was interested in what you had to say about reducing the Federal debt.

Of course, I am in complete agreement with you as to the desirability of that.

However, we hear from time to time about the desirability of a policy being established either by the Executive or by Congress for an orderly retirement of the national debt, either so much a year, as you might say, a supplementary budget, a sinking fund, or something of that kind.

Is consideration being given toward working out some such program as that?

Secretary SNYDER. Right at this time, I do not know about the feasibility of such a program, Senator, because I think as we are going through this transition period and adjusting ourselves, we ought not to put any limitation. One year we might be able to pay more, and the next year less. If you set a definite goal and if we do not quite meet it some year, it has a damaging effect; whereas, after we level off, if we do, then I think maybe we must have within some area a definite plan which will enable us to retire the debt.

There may come a time, and I hope it doesn't come until the far distant future, and I rather think a distant future, when we might not be able to pay anything; but while we can, we ought to make the payments.

Senator SPARKMAN. I suppose the nature of the securities, whether they are long term, short term, or what, held by banks and individuals, would determine pretty much your program.

Senator SNYDER. That has a tremendous effect. The banks holding bonds are subject to, say, a demand for funds. They can bring pressure on the Government bond market by sales at any time. If you got those out of the banks, that pressure is absent.

If we got it spread over a wider area, there is less likelihood of bulk sales coming in at one time.

A wider distribution always gives a more substantial base to the debt.

Senator SPARKMAN. You gave us some interesting figures with reference to the increase in interest rates from three-eighths of 1 percent to nearly 1 percent on 90-day Treasury bills, and from seven-eighths of 1 percent to 1⅛ percent in the same period; and also that long-term bonds have gone up from 2.3 to 2.43 percent.

Furthermore, you state, if I remember correctly, that an increase of one-half percent in our national debt would amount to 1¼ billion dollars increase in the interest we pay.

Secretary SNYDER. That is correct—an increase of one-half percent in interest would have that effect.

Senator SPARKMAN. What effect has the increase in interest so far had on our debt management charge?

Secretary SNYDER. Actually, it has been less, because we have been retiring some maturing bonds of a higher rate and replacing them in the shorter term rates.

On these short-term rates up until recently, we have had an artificial rate. They were offered the public and immediately taken up by the Federal Reserve bank.

We are trying to seek a market or trying to find a market level at which those bills would be taken.

Senator SPARKMAN. Your bills would be taken from a wartime to a peacetime basis.

Secretary SNYDER. That is correct. We are trying to find the market level on those securities. There is a very limited area, of course, in which you can work.

Senator SPARKMAN. Every safeguard is thrown about it to prevent speculative ventures, and also to avoid inflationary results.

Secretary SNYDER. The effectiveness of it has been evident, I think. It has been very effective, so far.

Senator SPARKMAN. That is all.

Senator O'MAHONEY. You stated, Mr. Secretary, that the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and I think the National Association of Supervisors of State Banks——

Secretary SNYDER. And the FPIC.

Senator O'MAHONEY. And the FPIC, are cooperating to urge that banks do not extend credit for speculation in real estate, in commodities, and in securities.

Secretary SNYDER. That is correct.

Senator O'MAHONEY. What success have you had in that campaign?

Secretary SNYDER. That just went out Tuesday, that particular idea. It was issued last Tuesday.

My talk with our chief national bank examiners, though, was some weeks ago. We are already getting evidence that bankers are seriously considering it.

Senator O'MAHONEY. The speculative loans on these three categories have been granted?

Secretary SNYDER. In today's market, in today's situation, a speculative loan is not necessarily a bad loan, do you not see, because it can be well secured. It would not be a bad loan for the bank.

Senator O'MAHONEY. I can understand. It might not be bad for the bank, but it could be bad for the general economy.

Secretary SNYDER. Exactly. That is what we are trying to talk with them about.

Senator O'MAHONEY. What are the proportions of that type of speculation loans?

Secretary SNYDER. We find a very narrow margin there.

Senator O'MAHONEY. A narrow margin, or do you mean only a few such loans?

Secretary SNYDER. In the commercial field, outside of the consumer level, and in the real-estate side.

Senator O'MAHONEY. How about speculation in securities?

Secretary SNYDER. The loans on securities are declining very rapidly.

Senator O'MAHONEY. Are you of the opinion that voluntary urging will be sufficient to bring about the result?

Secretary SNYDER. I would have to test it out a while, sir. I am very hopeful that voluntary efforts will be effective. They are usually the most permanently effective, if you get someone to do something on his own; but sometimes we cannot convince people that that is the thing to do. You cannot rely purely on voluntary methods.

Senator O'MAHONEY. You cannot always convince Members of Congress that what you want to do is always the right thing to do. Mr. Secretary, I suggest that the statistics to which you refer with respect to the savings bonds may be filed with the committee for inclusion in the record, without asking the witness to remain to testify.

Secretary SNYDER. Thank you, Mr. Chairman.

Senator O'MAHONEY. The chairman is of the opinion that it would not be wise to hold a meeting this afternoon, and on Monday, it will be necessary for the committee, I think, to hear the Interior Department.

Secretary SNYDER. We have these in a little booklet form, which we will offer for the record.

(The information is as follows:)

Senator O'MAHONEY. The committee stands in recess until 10 o'clock Monday morning.

(Thereupon, at 12:45 p. m., an adjournment was taken until Tuesday, December 2, 1947, at 10 a. m.)

ANALYSIS OF THE SAVINGS BOND PROGRAM

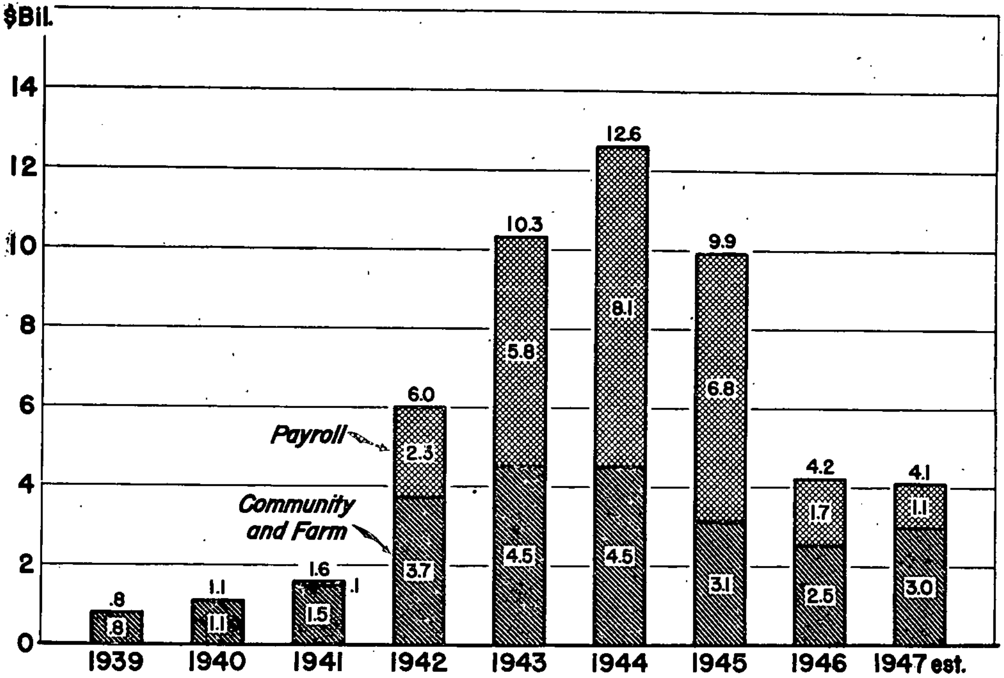
(Office of the Secretary of Treasury, November 1947)

MARKET ANALYSIS OF SALES OF E BONDS SINCE BEFORE THE WAR

The E bond sales picture has been relatively good since the Victory Loan closed on January 3, 1946. Sales now amount to over $4 billion a year, which is close to three times the volume of sales in the 12-month period prior to Pearl Harbor. One would expect sales to be higher in the postwar than in the prewar period, however, because the bond-buying habit has been widely spread as a result of wartime sales-promotion activities. Furthermore, income and savings are at higher levels. Nevertheless, the 1946 and 1947 sales performance is creditable.

Current sales totals are equivalent to one-third of the peak reached during 1944, a year which had three War Loan campaigns. The details of the current sales picture lead to the conclusion that much of the reduction in sales from this peak can be attributed to (1) the drop in sales pressure accompanying the severe decline in the size of the sales organization after the close of the Victory Loan; (2) the elimination of the patriotic motive for bond buying; and (3) the lowered volume of new savings since the end of the war.

MARKET ANALYSIS OF SALES
OF E BONDS* SINCE BEFORE THE WAR.....



*Includes D bonds 1939-1941; figures for 1944 and 1945 adjusted for war loan carryovers.

An analysis of E bond sales by markets shows that 1946 and 1947 sales were good because the community and farm sales held up so well. Community and farm sales this year will be twice the pre-Pearl Harbor level. They will be only slightly down from 1945, a year with two drives. Sales in the pay-roll market on the other hand were relatively low in 1946 and 1947. Sales in this market include pay-roll deductions and extra bonds for cash purchased through employers.

Sales in the pay-roll market depend to an important extent on direct promotional activity. Management must be contacted frequently and employees urged to buy bonds through direct personal solicitation. New people have to be added to the plan continually in order to keep participation up. Otherwise labor turnover and inertia result in substantial reductions in participation and in sales. One of the problems since the end of war financing has been that the decline in the size of our staff has made it impossible to make a sufficient number of personal contacts with management and labor. An expanded savings-bond sales organization which we are planning at this time, will put primary emphasis on providing more pay-roll-savings contact men in the field. We think that an expanded organization can turn the trend of pay-roll savings upward and increase the sales volume considerably.

CURRENT E BOND SALES PICTURE

During most of the year sales of E bonds run from around $300,000,000 to $350,000,000 a month. In January, February, and March, however, sales are somewhat higher. This is due primarily to the fact that many larger investors acquired their annual limit in these months. This situation was one that was characteristic of the sales picture in the prewar period. During the war, however, the pattern changed, because these investors spread their purchases out over the various war loans.

The chart shows that substantial amounts of community and farm market have held up the monthly sales totals. In early 1946 the community and farm market accounted for just over one-half of the total E sales. At the present time sales in this market represented nearly three-fourths of the total. In January and February 1947, limit buying caused the proportion of community and farm sales to run from 70 to 80 percent of the total.

The continued decline in pay-roll sales shows up emphatically in the chart. The trend has been downward every month and can be turned only by a concentration of sales activity in the pay-roll field. The decline has come about because of the reduction in the number of persons participating in the pay-roll savings plan, for which the details will be given in the next chart. The average purchase of persons participating in the pay-roll savings plan has, however, held up remarkably well. The average participant in industry is currently running at the rate of about a $25 bond a month. In the Federal Government the average purchase is somewhat greater—about five $25 bonds every 4 months.

NUMBER OF PERSONS PARTICIPATING IN THE PAY-ROLL SAVINGS PLAN

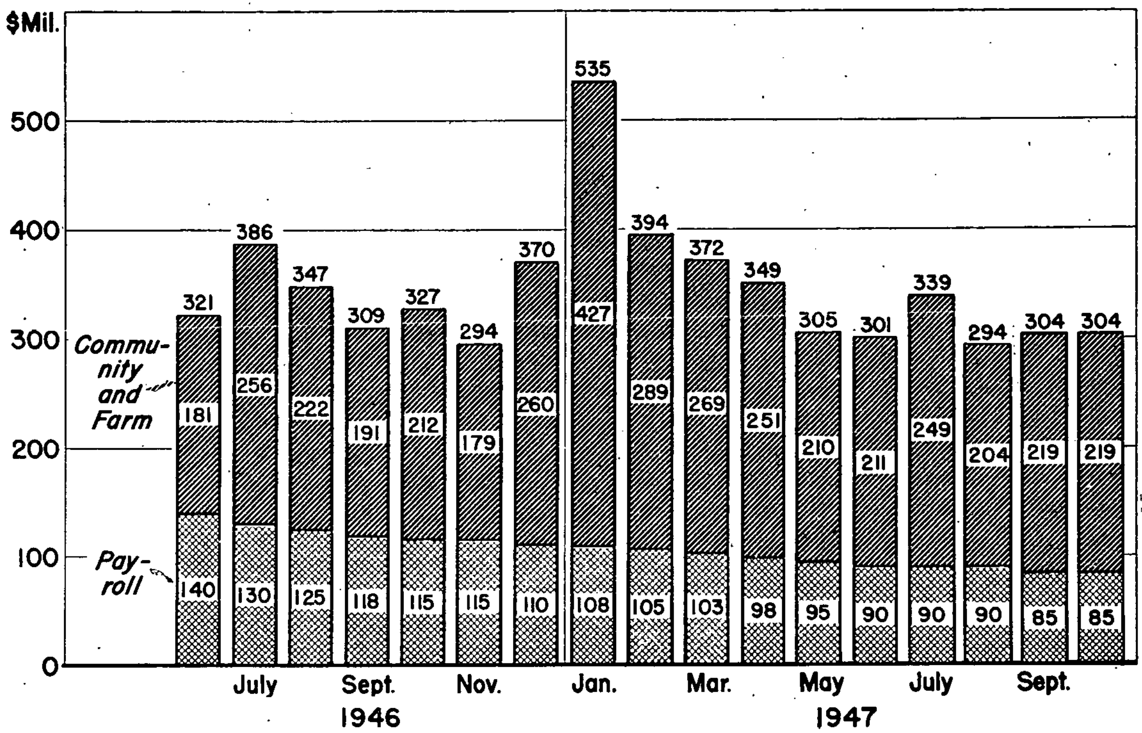
The number of people participating in the pay-roll savings plan has declined from 10½ million in January 1946, after the close of the Victory Loan to about 4½ million at the present time. The decline has been Nation-wide and in all types of organizations having the plan—big companies, little companies, the Federal Government, and the armed forces.

An analysis of the sales in the pay-roll market shows that most of the money came from the big companies. These, together with the Federal Government, accounted for over 60 percent of the sales during the war and for about the same percent at the present time. The present job of the pay-roll savings promotion is to hold large companies on the plan, and to build up participation in these companies.

The decline in the number of people participating in the pay-roll plan in big companies is a result of fewer participants in some companies and the dropping of the plan in others. Some of the big firms have dropped the plan because of the cost of promotion and accounting. Other companies have dropped out because they wanted to keep the take-home pay as high as possible. A few dropped out because they weren't contacted by war-bond salesmen often enough after the war was over.

On the other hand, the plan has been reinstated in some companies after it was dropped because of the efforts of the employees. In other cases the sales-promotion staff persuaded the management to reinstate the plan. The experience is that only through continued promotion will it be possible to keep sales up on the

CURRENT E BOND SALES PICTURE.....



pay-roll program. The experience has been that this promotion has to take the form of personal contact between the Treasury and management and labor to be successful.

Pay-roll savings participation among Federal employees as a group is greater on the average than among industrial employees as a group. The big decline in Federal employees' participation last year occurred as a result of the big reduction in Federal employment. Navy-yard workers were particularly good participants in the pay-roll-savings plan.

Number of persons participating in pay-roll savings plan

[In millions]

	January 1946	July 1946	January 1947	July 1947	October 1947
Big companies	4.5	3.4	2.9	2.5	2.3
Little companies	2.8	1.9	1.6	1.4	1.3
Federal Government	1.3	.9	.7	.7	.6
Armed forces	1.9	.8	.4	.3	.3
Total	10.5	7.0	5.6	4.9	4.5

Source: Office of the Secretary of the Treasury, Nov. 19, 1947.

PURCHASES OF SAVINGS BONDS ON THE BOND-A-MONTH PLAN

Last summer the Treasury inaugurated a program of selling bonds to people who were not on the pay-roll savings plan through the bond-a-month plan. This plan provided an arrangement whereby professional people, business people, farmers, and other people not on pay rolls could have their banks charge their accounts each month for the purchase of a designated amount of savings bonds.

The table below shows the result of two surveys of the participation of the bond-a-month plan that were made about August 1. The figures indicate that in a thousand banks surveyed, there were 50,000 people participating. Their bond purchases were $3,000,000 a month. The survey covered a representative sample of banks. On the basis of the fact that there are about 50,000,000 depositors in banks having a bond-a-month plan, we think it fair to estimate that there are probably a quarter of a million persons participating in the bond-a-month plan. They are acquiring probably $15 million of savings bonds a month through the bond-a-month plan.

The bond-a-month program is wholly voluntary and has been able to show successful operation because of the cooperation of the commercial bankers of the country. There have only been a handful of Treasury people assigned to the program. With greater attention to the program on our part through an enlargement of the sales staff, we think it would be possible to run up substantially the purchases on the bond-a-month plan. We feel that the experience to date warrants the conclusion that the number of people now participating could be multiplied a number of times within a relatively short period.

Purchases of savings bonds on the bond-a-month plan survey on Aug. 1, 1947

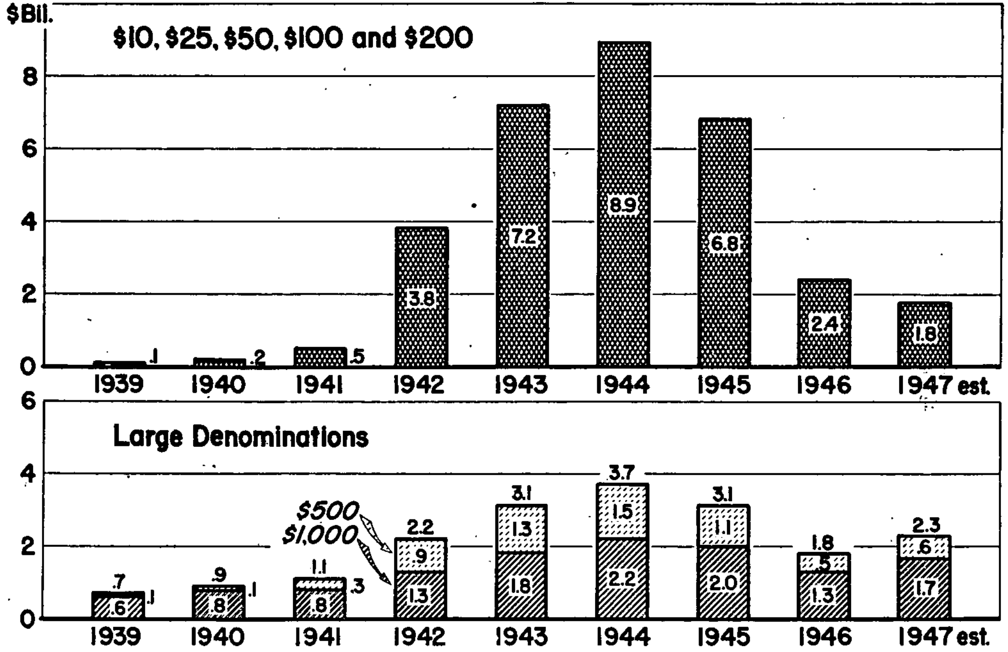
	Large banks (Treasury survey)	Small banks (ABA survey)	Total
Number of banks	230	800	1,030
Number of depositors	5,000,000	5,000,000	10,000,000
Number participating	26,000	24,000	50,000
Monthly bond purchases	$1,800,000	$1,200,000	$3,000,000

Source: Office of the Secretary of the Treasury, Nov. 20, 1947.

DENOMINATION BREAK-DOWN OF SALES OF E BONDS SINCE BEFORE THE WAR

Sales of large-denomination bonds held up well in the period immediately after the war and showed a marked increase this year over last. Estimated sales of $1,000-denomination bonds in 1947 are exceeded only by sales during the war years. Series E bonds of $1,000 denominations go mainly to those persons in the investment market who find that the largest E bond fills a part of their portfolio requirements rather well.

DENOMINATION BREAKDOWN OF SALES OF E BONDS* SINCE BEFORE THE WAR.....



*Includes D bonds 1939–'41; figures for 1944 and 1945 adjusted for War Loan carryovers

It is clear from the chart that the decline in the sales total has taken place mainly in the smaller-denomination bonds. Sales of these denominations in 1947 will amount to about 1.8 billion dollars which is about one-fifth of the 1944 peak. Series E bonds of the 10- through 200-dollar denomination are the one generally involved in pay-roll plans. It is to be expected, therefore, that sales of these bonds would decline as the proportion of pay-roll sales dropped.

Most of the prewar sales of savings bonds were in $1,000 denominations. In 1939 and 1940 the $1,000 denominations represented 75 percent of total sales. During the war this proportion dropped to 17 percent as the pay-roll plan spread across the country. In 1946 the amount in $1,000 denominations was 31 percent of total E sales, and this year the proportion will be about 41 percent.

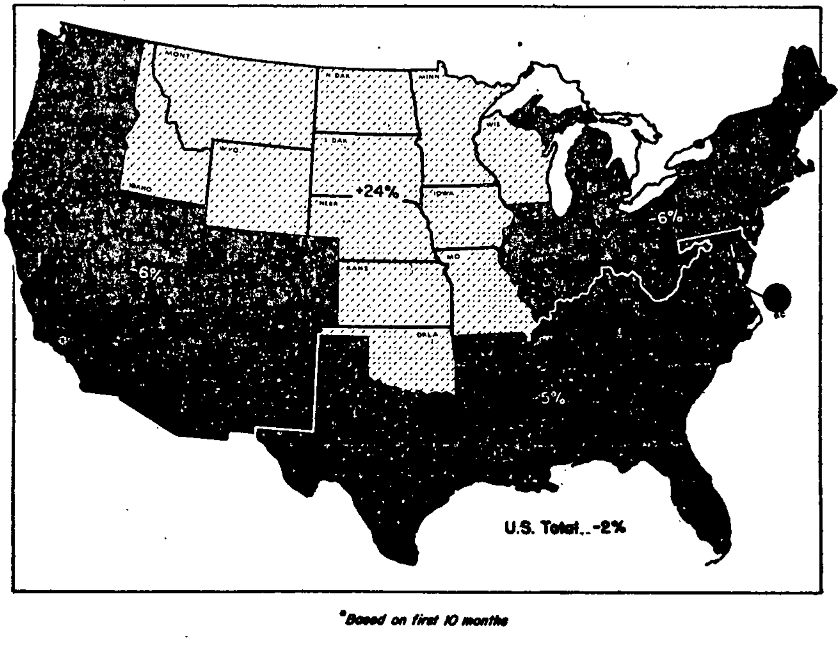
E BOND SALES COMPARISON, 1946–47

The map below on this page gives a quick picture of the E bond sales situation in the various areas of the country. Sales this year are compared with 1946. For the country as a whole the sales volume is down by 2 percent, but in the midwestern agricultural area, where most of the sales increases this year are concentrated, sales are up 24 percent.

Higher farm income and the momentum of the savings-bond buying habit developed during the war have kept sales up in this area. Some of the Midwestern farm States were leaders during the war and their present performance is still outstanding. This is particularly true in the case of North and South Dakota and Iowa.

Sales in the remaining geographic areas are off about 5 percent. In the industrial areas, this reflects, in particular, the decline in the pay-roll purchases of E bonds. In the farm areas of some Southern States this reflects the fact that incomes in these States are low on the average, and many people are earning relatively low income.

E BOND SALES COMPARISON, 1946-1947*.....



*Based on first 10 months

MONTHLY REDEMPTIONS OF E BONDS

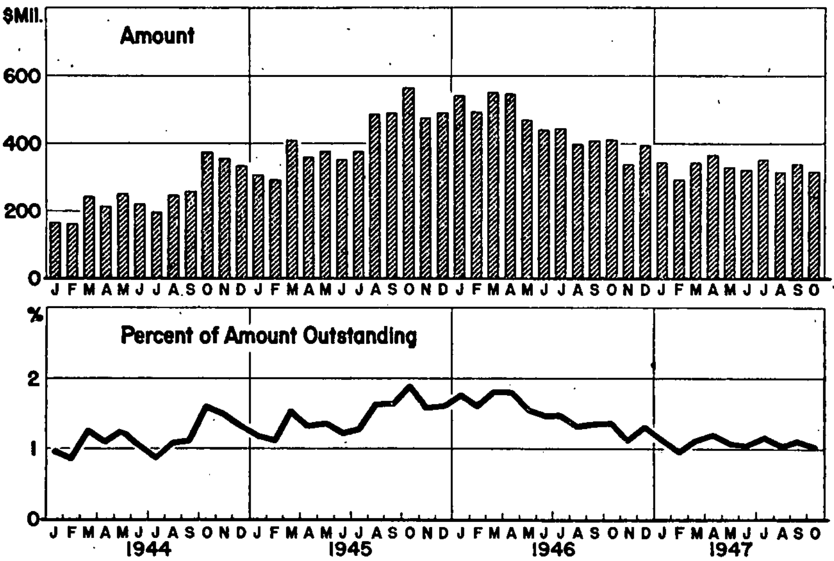
Before concluding the discussion of E bonds it is interesting to take a look at the redemption situation. Redemptions reached their peaks in the winter of 1945–46. October 1945 was the highest month with redemptions of $562,000,000. The trend has been downward since and redemptions in February 1947 of $290,000,000 were the lowest in over 2 years. Redemptions during October 1947 were $316,000,000.

During the war it was freely predicted that an avalanche of redemptions would follow the end of the war, particularly when a large volume of goods became available. The fact is that this did not happen.

Some savings bonds were bought during the drives by "weak holders" and most of these holdings were shaken out during the 7 or 8 months following the close of the war. There is some evidence from the large volume of redemptions of low-denomination bonds after the war that the "weak holders" were pinched during this period. The decline in redemptions, it is interesting to note, has been accounted for largely by a reduction in the redemptions of the $10, $25, and $50 bonds.

Percentagewise, the rate of redemptions appears to be rather low and reassuring. In October 1947 redemptions amounted to 1.02 percent of the amount outstanding. This is extremely favorable experience.

MONTHLY REDEMPTIONS OF E BONDS.....



SAVINGS TURN-OVER AND SERIES E REDEMPTION RATIO

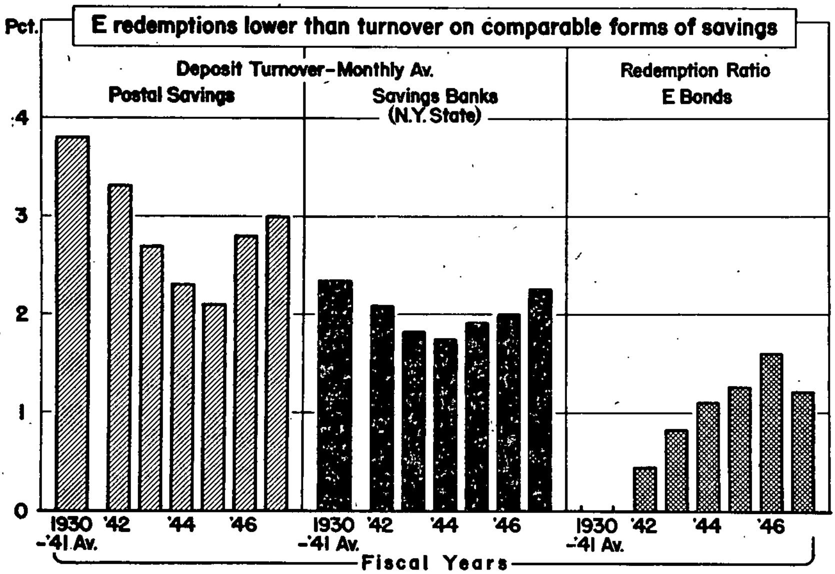
One of the gratifying things with respect to the series E bond redemption experience is that it is favorable not only in aggregate amount but also when compared to the turn-over of other comparable forms of savings. For the fiscal year ended June 30, 1947, series E bond redemptions averaged 1.2 percent per month of the amount outstanding. In the fiscal year 1946 the ratio was 1.6 of the amount outstanding.

Figures on deposits of the Postal Savings System and on deposits in mutual savings banks in New York State indicate that deposit turn-over—that is, withdrawals in relation to total deposits—is considerably higher than these percentages. In these cases the rate has been running about 3 percent per month for many years in the case of Postal Savings System, and about 2 percent per month in the case of mutual savings banks in New York State.

Moreover it is interesting to note that the trend of deposit turn-over in postal savings and in saving banks has been upward in recent years, whereas the redemption ratio for series E bonds was lower in 1947 than it was in 1946 and was the same as it was in 1945.

The good experience with savings bonds in the period since the end of the war when goods have become increasingly available leads to the conclusion that a large part of savings bonds outstanding are extremely well placed.

SAVINGS TURNOVER AND SERIES E REDEMPTION RATIO*



*Turnover and redemption ratio are percents of amounts outstanding

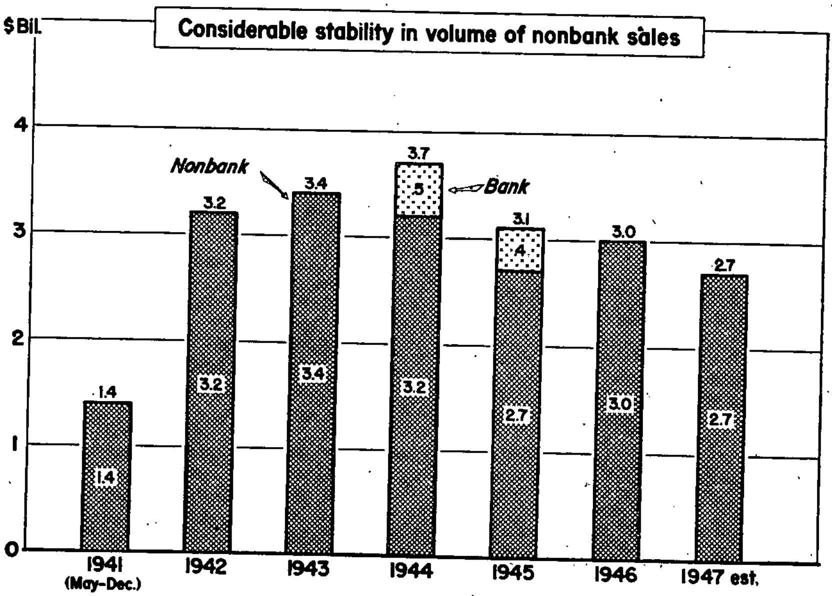
F AND G SALES SINCE 1941

Sales of F and G bonds to nonbank investors have maintained a stable level since 1942. Sales did not show unusual gains between 1942 and 1945—even with two or three war loans in a year—and they did not suffer a sharp decline in 1946 or 1947, years which had no war loans. The stability of the sales picture is remarkable and it is mainly accounted for by the following factors: (a) Many of the people who need F and G bonds have already fitted them into their investment program, and (b) these people can buy only a limited amount of these securities because of Treasury regulations limiting the volume of purchases.

An analysis of the F and G sales by type of purchaser shows that individuals and personal trust accounts purchased about two-thirds of the amount issued during this year. This is slightly less than during the war.

An analysis of sales by denomination shows that sales of the $5,000 and $10,000 denomination represented around 50 percent of total sales during the war years. In 1946 this proportion increased to 60 percent and in 1947 to 63 percent, with sales of the small denominations decreasing accordingly. The present situation is, therefore, directly comparable to that noted in the E-bond-sales picture, that is, the volume of sales has been running at a high level because of large purchases by persons in the investment market.

F AND G BOND SALES SINCE 1941.....



CHANGE IN SAVINGS BONDS OUTSTANDING SINCE END OF VICTORY LOAN

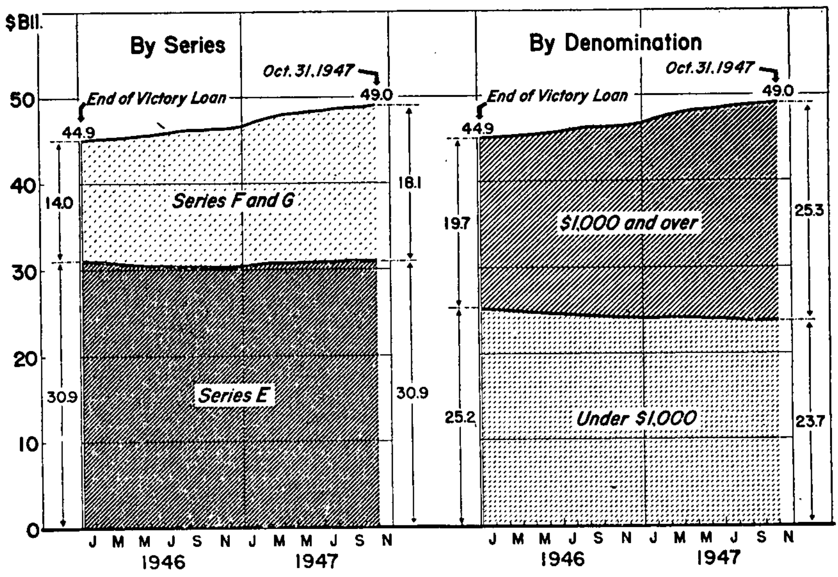
This chart summarizes the savings bonds situation by issues and by denominations, and gives an over-all picture of what has happened since the end of the Victory Loan. The grid on the left-hand side of the chart shows the situation by issues. The total of E, F, and G savings bonds outstanding has increased by 4.1 billion dollars. The amount of E bonds, however, is virtually the same.

E bonds outstanding decreased month by month last year until November, but since then the amount outstanding has been climbing until now E bonds outstanding are within one-fourth of 1 percent of the amount outstanding at the end of the Victory Loan. Current indications are that this trend will continue, the next few months at least. Interest accruals on the amount oustanding, which are now running about $560,000,000 a year, are included in the figures.

The grid on the right-hand side of the chart shows the denomination picture. The amount of small denomination bonds is down by 1.5 billion dollars since the Victory Loan. Denominations of $1,000 and over, however, are up by 5.6 billion dollars, and account for the increase in the total of all savings bonds outstanding.

At the end of the Victory Loan 56 percent of the amount outstanding was in the denomination group under $1,000 but by the end of October 1947 this had declined to 48 percent.

CHANGE IN SAVINGS BONDS OUTSTANDING SINCE END OF VICTORY LOAN.....



ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

TUESDAY, DECEMBER 2, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10:05 a. m., pursuant to adjournment, in room 318, Senate Office Building, Senator Ralph E. Flanders, presiding.

Present: Senators Taft (chairman), Flanders, Watkins, O'Mahoney, Myers, and Representative Huber.

Senators Ecton and Baldwin, and Representatives Horan and Busbey.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

Senator FLANDERS. The hearing will come to order.

The subject under discussion this morning is the question of further regulation of the commodity exchanges, with particular reference to the grain exchanges, and we will hear, first, from Mr. J. O. McClintock, president of the Board of Trade of the City of Chicago.

Mr. McClintock.

STATEMENT OF J. O. McCLINTOCK, PRESIDENT, BOARD OF TRADE OF THE CITY OF CHICAGO, CHICAGO, ILL.

Mr. McCLINTOCK. My name is J. O. McClintock. I am president of the Board of Trade of the City of Chicago.

I, together with the other witnesses who will follow, am here for the sole purpose of answering a specific charge that has been leveled at the Boards of Trade of Chicago and Kansas City and the Minneapolis Grain Exchange, namely, that "gambling in grain" has been responsible for raising the price of this all-important commodity.

The charges that the grain exchanges serve no purpose except "to gamble in grain" or as Attorney General Clark said in his Boston speech, that we are "men greedy with the lust for money, trafficking in human misery," are charges so serious that the Congress must take cognizance of them.

If, however, we demonstrate to your satisfaction that the organized grain exchange provide an essential service in the pattern of American business, then we submit that these charges deny themselves, and fall of their own weight.

We are not going to say who is right and who is wrong in this controversy. We, of course, know these charges to be false.

We come to you with facts and truth, and we rest confident in the final determination of this committee and of the Congress of the United States as judges in this matter.

I call the attention of the committee to a situation prevailing here today that seldom, if ever, has happened before. We are here because we requested this committee to investigate our exchanges and our activities because we are convinced that only a committee of Congress can and will hear the evidence, evaluate the testimony, and come to a fair conclusion.

In our efforts to make this hearing worth while and to provide the members of this committee with the facts from which you can intelligently draw your conclusions and come to a verdict, we have summoned witnesses from Portland, Oreg., to Philadelphia, Pa.

Every witness who takes the stand, with three exceptions, is a man actively engaged in the grain business and each, in our judgment, is the best qualified man to tell his particular story from his own practical viewpoint.

If, after hearing these witnesses, you come to the conclusion that we do not make out a case, and that we are "men greedy with the lust for money, trafficking in human misery," then we will know that we have failed.

On the other hand, if our evidence impresses you as being informative and truthful, we think that we are entitled to have our names and our business reputations cleared.

We ask a hearing, and we submit that this is the traditional American way of sifting charges that have been made.

We likewise call the committee's attention to the fact that when the Attorney General of the United States, the head of the Department of Justice, which is, or should be, the Department concerned with the administration of justice in this country, branded us as "traffickers in human misery" without a hearing, he is indulging in an act contrary to the American idea of fair play. Even a criminal is presumed to be innocent until he is proven guilty.

The making of these irresponsible charges without any semblance of a hearing is the reason that we have asked this committee to exercise the broad powers of a congressional committee to hear our story in order that the Congress and the American people may have a fair opportunity to judge the issues.

The reason for our concern over the administration's condemnation of our commodity futures system is simple. We will introduce evidence to prove that it has been administration activities in the grain markets which have been the primary cause of high prices.

It is under our system that prices are registered. It is our firm belief that an attempt has been made to discredit our commodity futures trading system because so long as we have freely registered prices, based on the law of supply and demand, it is impossible to conceal prices which might prove politically embarrissing.

If there were no free registered prices as a result of having "smashed the thermometer because the climate is not right," we could have a continuation of practices which might completely diminish supply without the public being aware that shortages were being created.

I would like to review briefly events leading up to the utterly unfounded political charges leveled at the bone and sinew of our economic system, the commodity exchanges.

On July 16, 1947, representatives of the three major grain exchanges, including myself, called upon the President of the United States. It was a friendly visit and he received us kindly.

The purpose of our visit was to warn the Chief Executive of the likelihood that grain prices would continue to spiral because of the competitive situation resulting from the Government's buying hundreds of millions of bushels of wheat for export.

We went to the White House in July because we were concerned then, as we are concerned now, with the inflationary trend of prices.

We believed then, and we believe now, that early coordination of foreign humanitarian operations with supply and demand factors on the home front is imperative if we are to have orderly prices, and avoid serious economic disturbances.

The Government's buying practices we discussed with the President in July were the same practices causing a House subcommittee, 10 days later, to report that, "Government purchase of grain is the dominating factor establishing cash and futures prices in the grain markets in the United States." This was, and still is, the contention of the commodity trades.

On September 15, the Commodity Exchange Authority called for initial margins on speculative transactions in grain of at least 33⅓ percent of the market price.

We believed strongly that this was a wrongful and also a futile attempt to influence prices by using the margin power for price-control purposes.

We believed also that such proposed margins would destroy the liquidity of the markets. For these reasons we asked for a conference with the Secretary of Agriculture. We had hoped to ciscuss the purpose and use of margins on the basis of the economic factors involved.

It immediately became apparent to those of us concerned with exchange operations that there was no desire on the part of the Administration to consider economic reasoning.

It is our purpose to show that the grain exchanges are the creatures of economic necessity, serving producers and consumers. They are not the instrumentalities of gambling, as our detractors would have you believe.

We intend to show the composition of our present marketing system; how grain exchanges differ in functions from stock exchanges; how the margin function in commodity exchanges differs from the margin function in the stock exchanges and, therefore, why it cannot be said that what obtains in one system has any bearing whatsoever on what obtains in the other with regard to margins.

The system of margins in the futures markets has become essential to the entire system of credit necessary in the fast-moving operations of modern production and distribution.

I want to present to you our position on the question of margins. Our views are in conflict with the views of certain Government officials in authority.

Margins on grain futures contracts are required as a guarantee that both the buyer and seller of the contract will conform to all the commitments set forth in the terms of the contract.

Margins are, in effect, what is commonly referred to as "earnest money," as employed to bind a contract on real estate which might be contracted for today with delivery to be effected at a later determined date.

The funds, representing margins, are handled very much the same as these "earnest money" payments are handled, that is, they are placed in a segregated or escrow depository pending final conclusion of contractual commitments.

Margins serve no other purpose than to guarantee the sanctity and performance of the contract. They must never be used for any other purpose, by anyone.

The attempt to use them for any other purpose will introduce artificialities which will affect the fundamental operation and useful function of the market. Nothing will be accomplished except the impairment or final destruction of the marketing system.

Some of our Government officials wish Congress to grant authority to some political official, probably an appointee, to fix margins on grain futures contracts at his discretion up to 100 percent.

They say, because the Federal Reserve Board has authority to fix margins on stock exchange transactions up to 100 percent, that this is good reason to give Government authority to fix margins on grain futures contracts.

Without attempting to pass judgment on stock exchange margins, I do wish to point out the very obvious difference between trading in stocks and trading in grain futures contracts. What I have to say, I believe, will disclose how perfectly ridiculous it is to attempt to relate any part of our grain-marketing machinery to conditions associated with trading in stocks.

When you trade in stocks, you are dealing with the capital structure of a corporation. Should you purchase, say, 100 shares of International Harvester Co. stock, you have no effect, nor perform no service in the production or distribution of the goods created by the International Harvester Co. You have simply participated in creating a market for capital.

When you purchase stock, you are the beneficiary of the dividend accruing to that stock. Should you buy the stock on a 100-percent margin, you are, in reality, paying for the stocks in full.

Under this circumstance, you would receive possession of the stock in the form of a stock cretificate which is evidence of ownership.

The possession of ownership, or evidence of ownership, provides collateral for establishing credit at a commercial bank. Accordingly, the requirement of a 100-percent margin has only denied you credit at the source of your transaction.

Should you buy stocks on a 100-percent margin, such a transaction would be similar to our daily dealing in spot-cash grain, where the buyer pays in full as soon as the bushels involved are determined.

Although payment, in full, has been made in this spot-grain transaction, you have simultaneously secured evidence of ownership such as a bill of lading or warehouse receipt, and this evidence will permit you to establish credit at the bank on the basis of a 10- to 15-percent margin.

When you buy a grain futures contract, you buy a unit of production, not an interest in the farm which produced the grain.

In buying or selling a grain futures contract, in helping to make a market, you have contributed to and become a part of, the machinery which assembles supplies of grain as they move from the farm and distributes such supplies into consumptive channels.

In dealing in grain futures contracts, the participants assure a continuous competitive market, and provide price-risk insurance, thus avoiding the necessity of producers, consumers, and handlers of cash grain from assuming the risk of price changes.

In other words, the trader in grain futures contracts, unlike the trader in stocks, becomes a part of a system of distribution which brings producers and consumers of agricultural products into such commercial relationship that the interest of both are efficiently and economically served.

Credit is the lifeblood of our national commercial existence.

Trading in grain futures contracts requires a system of credit. This credit is established by the rules and regulations of the grain exchanges in connection with the requirements and application of margins.

Values involved in terms of money, less the margin required, becomes an item of credit between the buyer and seller pending final consummation at contract maturity, when transfer of title of the commodity involved is affected, and settlement in full is made.

This form of credit is necessary for the reason that documents of title which signify ownership cannot be transferred between the buyer and seller, until the date of contract maturity. Accordingly, no documents of collateral value are available in the interim between the date of the contract and the date of maturity of the contract with which credit might be established at a commercial bank.

What would be the results in the lack of a credit system above described? It would mean that those dealing in futures contracts would be compelled, in the case of 100-percent margin, to provide capital in an amount and without benefit of credit to match the value in dollars of all the grains to be hedged.

For example, the grain merchant is selling a million bushels of wheat to the Government or a processor. The merchant would then want to buy futures contracts to offset the cash trade he made to the Government or processor.

The value of a million bushels of what at present is $3,000,000. In order for the merchant to accommodate his needs he must find a person, or a group of persons, readily capable of putting up $3,000,000 in margins on sale contracts made to fill his need.

The same situation would apply in case the farmers would wish to sell wheat or corn. When the merchant buys it he would wish to sell protective futures to offset the purchase of the cash grain.

In this instance, the merchant wishing to sell the futures would have to seek buyers of futures contracts who are capable of putting up margins in the amount determined by the volume involved, or even much more, within the period of 1 day.

In considering this, it is necessary to bear in mind the basic economic function that our markets perform. They provide a broad market, a fluid market to which the merchant or processor can turn and immediately find someone willing and ready to take from him the hedge contracts he wishes to sell, or supply to him the hedge contracts he wishes to buy.

The farmer, merchant or processor must be able to make his trades at an instant's notice. That is the tempo of modern marketing. It is the efficient, competitive tempo, which lessens costs of distribution to the benefit of producer and consumer.

Bear in mind that farmers, merchants, and processors have found by experience that they cannot expect to find another of their own kind always ready to buy or sell, whenever they want them to do so.

That is why the third party, the risk-taker, or speculator, must come into the picture, to bridge the gap, to make the market liquid and fluid.

I believe you realize, as anyone concerned with the realities must realize, that this form of commerce cannot be carried on without credit any more than can commercial activity of any kind be pursued without credit.

If margins required amounted to 50 percent instead of 100 percent, the difficulties resulting from stagnation and constriction of interest because of a lack of proper credit would be only proportionately less serious.

The point is, however, that any restraint placed on credit over and above that required for safety is a blight, and could finally result in the complete deterioration of the commercial activity being undertaken.

I wish to point out to this committee with the utmost solemnity that when you treat with the power to fix margins in commodity markets you are not treating, as the uninformed state, with a mere speculative curb. You are treating with the credit structure of the Nation's agriculture, and the very existence of the entire system of marketing which, born of economic necessity, has been evolved through the decades to meet the Nation's needs.

In this connection, I wish to point out that the use of the margin authority by the executive branch of the Government could be so applied that it would change and ultimately destroy completely our marketing system as now constituted.

With this done, it would throw distribution of our agricultural products solely into the lap of the Government, which would automatically possess itself of the power to control the allocation and use of grains and to determine the price.

Our testimony will show that the high prices of grain have been caused primarily by unprecedented Government purchases for export rather than by speculation.

I wish to make it perfectly clear that we are not attacking the Government's policy of sending relief supplies to war-torn areas of Europe. That is a matter of policy to be determined by you gentlemen.

On the other hand, we do not like to be accused of something for which we are not responsible, and we think that these facts should be told to this committee, to the Congress as a whole, and to the people of the United States.

To this end, we have brought here outstanding leaders in the grain trades. They will follow me on the witness stand. I bespeak for them the indulgence you have given me.

It goes without saying that I stand ready to answer any questions within the scope of my knowledge.

The subject for discussion before us, the integrity of the commodity exchanges, their freedom from the dead hand of bureaucracy, deserves the attention of all concerned with the welfare of our country. Thank you.

Senator FLANDERS. Thank you, Mr. McClintock.

Now, I would like to enter a personal disclaimer, I cannot, of course, for the committee as a whole, but you would not have to appear here so far as I am concerned, to clear yourself of the charges of being "men greedy with the lust for money and trafficking in human misery."

However, I am glad you are here so that I can get a clearer picture of some other things which do not involve "moral turpitude" at all, but which are important for the proper conduct of our economy.

So, if you do not mind, in asking a few questions, I will drop that charge of "moral turpitude" in which I have no part and go on to some questions relating to exchange operations.

Mr. McCLINTOCK. That is quite all right, Senator.

Senator FLANDERS. So far as I am concerned, the most interesting piece of testimony which appeared and which Secretary Anderson brought in, was a table showing the number of accounts in aggregate positions by occupations of traders on the Chicago Board of Trade September 17, 1947. I do not know whether it was Secretary Anderson who brought it in or the head of the Commodity Exchange Authority, Mr. Mehl. I think it was Mr. Mehl who brought it in.

I do not know whether you have seen that tabulation or not.

Mr. McCLINTOCK. I have not gone over it thoroughly. I have slight knowledge of it.

Senator FLANDERS. Would you like to have a copy of it in front of you for reference when I ask a few questions?

Mr. McCLINTOCK. Yes, sir.

Senator FLANDERS. Now, the basis of my interest in this question, I think can be derived from this table. The eastern joint committee sent a telegram to the President, which I also have here. I want to read the telegram, which reads as follows:

> It has become clear to the members of the eastern subcommittee of the Joint Committee on Prices that grain and commodity speculation is accentuating market fluctuations instead of decreasing them, and that presently it is supporting food prices at unjustifiable levels. We, therefore, urge that your administration use every means within its power to restrain this dangerous activity. In so doing, you will have full support. It is incredible that so large operations in the necessities of life should be permitted on such small cash margins. These margins could be greatly increased for the benefit of consumers' food prices if special provision were made for normal millers' hedging operations. We also urge careful study of the manner and timing of governmental food purchases, whether for foreign relief or for the armed forces, in order that their speculative effect may be minimized.

I may say, we have not had as yet any contribution from the Administration on the second part of that telegram, and I hope that we can elicit some information from Secretary Anderson on that when he again appears before us.

Now, referring to this table of the transactions on September 17, 1947, it is, of course, evident that the long positions and the short positions total up to equal each other. There is a little discrepancy here which, I think, would naturally appear. You would not balance these accounts as they would be if they were taken with the scrupulousness of the bookkeeper who sits up all night over a cent's difference between the two columns.

Mr. McCLINTOCK. Well, the point is that purchases and sales do necessarily have to match.

Senator FLANDERS. They do necessarily have to match. So, that is clear.

We have at the top here a group of hedging operations divided as between grain merchants, millers and processors, exporters and importers, cooperative organizations, feed and seed dealers, flour brokers, and miscellaneous, and farmers, in which the operations aggregate about 43,000,000 bushels on the short side.

Assuming, as I am glad to assume, that those operations are in the public interest, it is necessary to have down in this speculative column operations of those willing to take the other end of the bargain so that we have down here an excess of 43,000,000 bushels on the long side, which balances up the hedging operations with their aggregate on the short side.

This is the thing that is not quite clear to me, and in which I need further information and instruction and advice. Suppose that we select here, let us take the list as a whole, this whole list, and it balances up. It provides the necessary excess on the long side to balance the hedging excess on the short side. Suppose that in addition to this list, which does balance up, we had had a very large increase, in that day of some of those most interesting types of buyers and sellers under this speculative list. For instance, we have here proprietors and managers of retail establishments, 4,200,000 bushels; proprietors and managers of real estate and insurance and securities, 6,241,000 bushels; dentists, chiropractors, nurses, pharmacists, and so forth, 2,131,000 bushels; housewives, next to floor traders, is the largest single classification there of 7,329,000 bushels; people who have retired, 3,868,000 bushels.

Suppose we had an additional amount of trading on that day of transactions which were initiated on the long side. Would that tend, as a speculative activity, to raise the price temporarily for that time, outside of the balance necessary for the hedging operations?

I do not know whether I make myself clear. Perhaps, I am not clear myself; but I have the illusion that I am, at least.

Mr. McClintock. You take the position, Senator, on the basis of an assumption, and in order to determine the realities, you cannot assume exactly what takes place. You cannot assume that any force of speculation arrives in the market place ahead of the buying or the selling.

Now, a trade of 100,000 bushels of wheat, we might take, for example, I do not see any way of measuring what the effect has been when there has been an accommodation between one, two, three, or four people that has had the effect of consummating a trade to the satisfaction of all parties concerned. In other words, how can you say that the man who sold the 100,000 bushels of wheat influenced the market any more than the man who purchased the 100,000?

The point is that they met in an atmosphere where prices were determined under competitive market conditions, and that the buyer's accommodation resulted from a seller being willing to sell, and it would be vice versa in the other case.

You assume, and I will go along with you on the assumption, if you assume that all the buying comes into the market at a time when there is no selling in there, then your assumption would be right.

If the buyer had to stand in the market place and bid, and bid, and bid, for his wheat, without anyone responding to selling, then that would be an influence that would put the market up. But that is not actually the condition that exists so long as you have a liquid market.

Have I told you anything?

Senator Flanders. You have told me something, but not to my satisfaction. I would assume that in this liquid market the entering into it of a considerable number of buyers would find the corresponding number of sellers, but that in this liquid market, a preponderance of the initiating trades by buyers, would find its balance in sellers by means of or through them, with the result of a slight increase in the price.

If that is not so, it differs from any other transactions of any sort with which I am familiar.

Mr. McCLINTOCK. Again, on the assumption that that is the condition that exists, where the trade is initiated by the buyer, then, he naturally has to bid the market to a point that will justify someone's selling it to him.

What is the condition that is most likely to cause that buyer to have to bid the price higher than he might otherwise bid? Is it not because there are, for one reason or another, fewer people who are ready to accommodate his need, than if there were a multitude there ready to serve that purpose?

The point is, if through some condition like the margin situation, for example, that had restricted the number of people that might be able to put up a margin, is it not likely that in case, as you say, that the trade was initiated by a buyer, that he would have to bid the price higher in order to fulfill his need, if there were only 2 men that could do it rather than if there were 20 men that could qualify to make that sale, and you would have the same condition if the trade were initiated by the seller? The seller would then be confronted with having to offer the product down, down, down, until he could find people who would be willing to take the risk that was involved at the reduced price.

Now, is it more likely that that price would be forced to a low level if it were only 2 men who were there that could qualify to take that trade than if there were 20 men there? That is the proposition that is involved in the restriction and in creating thin markets which can be done under the margins system. It has already been done in the application of the 33⅓-percent margin.

Senator FLANDERS. Mr. McClintock, you were getting a little ahead of me. I was not raising the margins yet. I was assuming that there had been no change in the margin, and was raising the question as to whether a considerable entry into the market of people not ordinarily trading on it, whose judgment might differ from those who were more skilled in the art, a considerable group of these housewives and students and unemployed salesmen, barbers, butchers, foremen, bakers, and so forth, whether their entrance with a desire to purchase, if there are enough of them, would not tend to raise the price of grain, and would not at some price, and at a higher price, find ready sellers. That is the whole case, as I see it, for considering whether something ought to be done, and I would like to clear up in my mind as to whether that might not have taken place, whether it has not, as a matter of fact, taken place, particularly in the cotton exchange a year or two ago, and if so, it is possible that it ought to be allowed to take place.

It is possible that we ought not to try to save fools from their folly. That is one possibility.

Another possibility is that control of margins, if we think that for the sake of broader reasons we ought to preserve fools from their folly, it may be that raising margins is the wrong way to do it. Maybe there is not any way we can do it.

But I am concerned right at the moment with inquiring into whether it is not possible that the prices of any commodity, whether cotton or grain, may not be raised for a period by the entrance into it of inexperienced and optimistic operators on the long side.

Mr. McClintock. Senator, if I understand you, you are saying that the participation of a hundred small speculators who might deal, we will say, in small amounts of 5,000 bushels each, that would mean that they had entered the market and purchased 500,000 bushels of wheat.

The question now is, Does that contribute more to affecting trends in the market than if that same amount of wheat had been bought by one or two individuals? Is that your question?

Senator Flanders. Not at all; no, sir. My point is that of raising the question as to whether the 7,392,000 bushels attributed to housewives on September 17, may not have raised the price of wheat on that day above the point where it had been, or would have been, if those housewives had stayed at home and tended to their cooking That is the question.

I am saying that they are not necessary to balance the long and short positions, because they have called forth their own balancing operations in entering the market.

Mr. McClintock. Well, you are not attempting to discuss this from the character of the individual that might be indulging in a trade because she happens to be a housewife. You do not happen to infer that she was of any more influence than had it been a male or some other kind of influence?

Senator Flanders. No, except that her influence may be in one direction.

Mr. McClintock. You can say that about any participant.

Senator Flanders. The housewife would seldom enter into selling futures. She, being an amateur, knows only about prospects for higher prices of grain, and so, she is on the long side of the market.

Mr. McClintock. I think what you mean is that they would be unlikely to initiate a trade on the selling side. The fact is that whether she bought first or sold first, that her influence in one position as compared to the other ought to be exactly the same. In other words, if she were an influence, this woman who bought 7,000,000 or the number of women who bought 7,000,000, they were an influence at the time of the purchase. Is there any reason to believe that that same influence would not exist when she disposed of that purchase by selling it at a market? One offsets the other, and that is the same condition under any contract regardless of whether it is made by a man or a woman, whether it is made by a barber or blacksmith, or whoever it might be. The influence is exactly the same.

It is that one balancing influence, that counterbalance, of buyers and sellers that provides the liquidity and also provides stability in the market and not gyrations, as you have indicated, in the point of your question.

It does not cause gyrations, but it causes stability for the mere fact that after the introduction of the 33⅓ percent margin, what happended? What happened? What was the purpose?

Senator Flanders. I am willing to discuss the effect of margin with you, of raising the margin with you, but I wanted to do that as a separate question.

Mr. McCLINTOCK. All right, sir. My answer, then, to you directly, Senator, is that on this question of speculation that you have pointed out here, there is no evidence, there is no factual circumstance, in connection with the trades by classification of individuals here that would be outstandingly effective on one side of the market or the other.

Senator FLANDERS. That is not yet clear to me. When the contract matures, I would agree with you, that it has its balancing effect, and I would translate that to mean that this particular type of trading in the market tended to raise the price level at one portion of the period, and to depress it at another to points respectively above and below what would have been, without the participation of this particular type of trader.

Mr. McCLINTOCK. But your point, however, is based on the fact that wherever this large trade exists, that the whole system of trading was initiated under the influence of the buyer arriving before the seller; is it not?

Senator FLANDERS. No; the seller may have been waiting there on the floor, may have been waiting patiently and hopefully. The buyers arrive in such numbers and with such volume that the seller's hopes are realized, and he gets a higher price for his wares than he would have had had the buyers not arrived in such volume. That is the point I am making.

Mr. McCLINTOCK. You make a very good point there for us, for our position. It is this: If these buyers had arrived, now, we will assume that they arrive, these people who are going to buy, this 7,000,000 bushels that you have referred to here, and I am the only seller who is inclined to sell, I am there; I know I am the only one there.

Now, I will be inclined, as you just stated, to say, "Here are people wanting to buy; maybe I do not know how much, but the indications are that they want to buy a sizable amount of wheat." I know that I am the only seller. What will I do? I will be inclined, will I not, to sit back and let them bid, and bid, and bid, and when I think they have bid it too high, I will sell.

But if there are 20 other men, or 100 other men, and the more they are the less opportunity there will be for me to place these buyers in a competitive situation among themselves, where they will have to bid the price up to where only one man can sell it to them.

Now, that is the point that is involved in this whole situation of restricting trading through whatever device you accomplish it by.

There is the conclusion that you can make if you want to say that the buyer arrived first; he arrives in numbers; he arrives in volume ahead of those who are willing to sell. That is what happened.

If there is only one man there ready to sell, as compared to 100 men, it is 100 to 1 that he will have to bid the market higher before he can fill his order.

Senator FLANDERS. Mr. McClintock, let me say that I am yet not cleared up on the effect, small or great, depending on what you describe as the liquidity of the market, resulting from the entrance into the market of a large group of optimistic amateurs, I think there is an effect on it, and I do not see how there can help being an effect on it.

But I am not sure you are trying to convince me that there is not any effect on it as far as that goes, so, let us pass on from that point to the point you are trying to make which, I think, we do want to consider with a good deal of care, and that is that these effects will be greater if we destroy the liquidity of the market.

Now, that is the point you are trying to make while I was trying to make mine, is that right?

Mr. McCLINTOCK. I believe that is correct.

Senator FLANDERS. What you are saying is that if these transactions are slowed down, if a number of sellers in this case is limited by the increased margins required, the number of buyers will have to bid higher, and if their optimism still holds out, and that the price will, therefore, and thereupon rise higher than it would have without the margin controls.

But on that, would we not expect to have the same effect on the sellers that we have on the buyers, at least, as much effect? Does not that diminish the scale of operations which the buyers can carry out so that we are, at least, no worse off than we were before.

Perhaps you have some definite evidence of that to present to us as a result of the margin changes. If so, I think it would be pertinent to this discussion.

Mr. McCLINTOCK. I agree with you, Senator, that the effect of margins would tend to decrease the number of sellers, probably in the same degree as it would to discourage buying.

But the point is, that you have not taken into consideration up to this point that all trading in futures market is not speculation, not by a long shot.

Senator FLANDERS. I tried to cover myself on that by indicating that I was supposing that transactions had already been carried out which balanced the hedging operations or if there were any, I hate to use the word "legitimate," but you know that I am not using that in any derogatory sense.

Mr. McCLINTOCK. We will accept that.

Senator FLANDERS. In contrast to illegitimate. But, supposing that you have balanced out those so-called legitimate operations. You can still balance out this amateur stuff against professional trading.

Mr. McCLINTOCK. You would be assuming, under a condition of that kind, that you can produce speculation in the exact proportion that it is needed, and produce it at the exact time it might be needed.

The point, as I see it, involves this: The hedging needs are accommodated by futures trading. Now, you say that you have accommodated them. Well, you have accommodated that situation in mathematics, so far as addition and subtraction are concerned. But you have not accommodated the realities which happen in hedging and trading in futures, because you have not taken them into account.

Senator FLANDERS. Let us add enough trading to insure liquidity, trading which balances itself outside of the balance of the hedging operations. You have got to have a certain amount more to assure liquidity, have you not, to be sure that the market really reflects conditions?

Mr. McCLINTOCK. That is right. In other words, this would be no occasion to have futures trading if only those who dealt in cash were going to trade among themselves.

Senator FLANDERS. That is right.

Mr. McCLINTOCK. I might just as well have stayed out on this level to begin with.

Senator FLANDERS. That is right.

Mr. McCLINTOCK. So, you have to have liquidity over and above that range of trading.

Senator FLANDERS. That is right.

Mr. McCLINTOCK. Are we now trying to discover what the necessary volume is to do that?

Senator FLANDERS. I wonder if you would be willing to admit that sometimes the volume is greater than is needed for that?

Mr. McCLINTOCK. I would not say that it was not. I do not think there is any two and two and two that you can add up and say the answer is this.

You say "needed." I will say that there never has been any trading that had any material effect in the trend of prices.

Senator FLANDERS. Of course, that is the question, and I would not be prepared, certainly, I am not prepared to try to take the position that what I might call a superactive market in the long run affects prices, because, as you have just shown, when the transactions are completed the same effects which, to my mind, tended to raise the prices higher, would then tend to depress them lower at the other end of the transaction.

Mr. McCLINTOCK. Correct.

Senator FLANDERS. With that I agree with you. In other words, the situation, as it seemed to me, was that the superactive market tended to accentuate the ups and downs, and I think what you are trying to prove to me is that too large margins tend to do the same thing. Do I get the drift of your argument?

Mr. McCLINTOCK. It is my contention, Senator, that it is more difficult to trade where there are, for example, 10 people who are willing to participate in the trade, than if it would be if you had a larger limit. It would be just like the national debt of this country when it was being created.

Now, would it have been more difficult to have raised the amount of money that was raised through selling bonds if you had limited or put some restrictions or some condition on the sale of that bond that would have eliminated the housewife, the baker and the barber, and all the other people that you read in this category, would it not have been more difficult, and might it not have become impossible to have fulfilled the obligations and the undertaking of the Government to establish credit in order to carry on the ugly business of war? Now, that is the situation that is involved in the trading of grain.

The more restrictions and the more conditions, and the more barricades that you put on people—I do not care what category you pick out of this list here—I say that the more restrictions you put on it the more difficult it would have been.

Senator O'MAHONEY. Mr. Chairman, I am prompted to ask Mr. McClintock if he thinks that the operation of General Benny Meyers in war bonds of the United States on margin was a justifiable operation.

Mr. McCLINTOCK. If it is illegal, I would say there was no justification.

Senator O'MAHONEY. I am not talking about illegal.

Mr. McCLINTOCK. I do not know the details about how General Meyers conducted his transactions.

Senator O'MAHONEY. I am talking about a margin transaction in Government bonds.

Mr. McCLINTOCK. If it was legal, I would say it was all right to do.

Senator O'MAHONEY. Then you will not complain, you will not criticize me if I say that one conclusion to be drawn from your testimony is that speculation upon the commodity exchange is to be placed upon a par with speculation in Government bonds in the manner that General Meyers did it.

Mr. McCLINTOCK. I say nothing of the kind, and if you had been here in the early part of this session, I went into some length in explaining the difference.

Senator O'MAHONEY. I have read your entire testimony, Mr. McClintock.

Mr. CLINTOCK. Do you recall where I stated the difference in trading in stocks and in the purpose served in trading in futures?

Senator O'MAHONEY. Why, of course, that is a perfectly obvious difference. But, after the chairman has finished questioning you, I expect to ask you a few questions myself.

Mr. McCLINTOCK. I will be glad to have you do that, sir.

Senator FLANDERS. I think at this point, Mr. McClintock, I am sorry to take so much time with you, but this is a process of adult education, and sometimes it is difficult, more difficult.

Mr. McCLINTOCK. I am enjoying myself.

Senator FLANDERS. It is sometimes more difficult to educate an adult than a young person who takes everything that you say as gospel truth, if there is any such.

Senator O'MAHONEY. Senator, may I say that you learn fast.

Senator FLANDERS. I think it might be appropriate for you at this time, if you are prepared to do so, or whoever is prepared to do so, to explain what, in your point of view, has been the effect of the increased margins that have been put into effect on the Board of Trade.

Mr. McCLINTOCK. Senator, we have a witness who is going to testify specifically in that case.

Senator FLANDERS. That will be one who will testify on that specifically?

Mr. McCLINTOCK. That is right.

Senator FLANDERS. Then I think, at this point, I may tell you where I am, and then I will turn the questioning over to the other members of the committee who may wish to question you on your testimony.

Mr. McCLINTOCK. Thank you.

Senator FLANDERS. I remain of the opinion that there can be what, for lack of a better term, I would call superactivity on the commodity market. We have seen it definitely and clearly in the cotton market; not so clearly, so definitely, or with such extreme results on the grain market.

The result of that is to accentuate ups and downs, not to raise the whole thing to a higher level, but to accentuate ups and downs, and that is a matter of public interest in that effect, if any, that that be brought under some control.

Now, I shall suspend judgment as to whether the manipulation of margins is a proper or an effective means of bringing that under control.

Mr. McCLINTOCK. Senator, may I make one little comment on your last statement?

Senator FLANDERS. Yes, sir.

Mr. McCLINTOCK. The judgment of men seldom ever coincides.

Senator FLANDERS. That is what makes a deal on the board of trade.

Mr. McCLINTOCK. That is why, in the consideration of values, it may, the situation may, appear one way to me, and another way to you. Therefore, that is why we have buyers and sellers.

Senator FLANDERS. Yes, sir.

Mr. McCLINTOCK. Under the same condition it is because we see and interpret those conditions differently. The point is that in order to effect a trend in the market, you have got to be on the side in order to indicate even or to be identified as being on the side of the trend of the market. You have to fit yourself into the direction that supply and demand are traveling.

Now, it is my contention that futures trading is an orderly manner in adjusting the conditions of today to the foreseen conditions, and that what we see today happening in the small gyrations at most times, that up and down movement of grain from day to day, is only what would happen in extreme circumstances at some later date.

In other words, futures trading is an orderly manner of adjusting the present to the ultimate.

Senator FLANDERS. All right, thank you. Now, Senator Watkins.

Senator WATKINS. I am going to defer to the other members of the committee. I did not hear most of the paper read.

Senator O'MAHONEY. Mr. McClintock, you are the president of the board of trade?

Mr. McCLINTOCK. Of Chicago, yes, sir.

Senator O'MAHONEY. Is that a salaried position?

Mr. McCLINTOCK. No, sir.

Senator O'MAHONEY. Are you also a dealer then?

Mr. McCLINTOCK. I am identified with the cash grain handling concern, Continental Grain Co., and vice president of that company.

Senator O'MAHONEY. Does that concern confine itself to cash transactions?

Mr. McCLINTOCK. Cash transactions, and dealing in the futures in connection with hedging their cash commitments.

Senator O'MAHONEY. Then, your concern does not deal in speculative commitments?

Mr. McCLINTOCK. You mean for their own account or do they handle trade for others?

Senator O'MAHONEY. I was merely trying to clarify your answer.

Mr. McCLINTOCK. We do not specialize in handling speculative accounts for others. That is not to say that we do not occasionally have a few accounts on the books that might come to us.

Senator O'MAHONEY. Your first answer was that your firm deals in cash transactions.

Mr. McCLINTOCK. That is right.

Senator O'MAHONEY. And then your second answer amplified that, and brought in the hedging operations.

Mr. McCLINTOCK. That is correct.

Senator O'MAHONEY. Now, your third answer amplifies your answer still more, and brings in a certain type of speculative trading. Will you please clarify the whole answer and tell us percisely what your firm does on the board of trade?

Mr. McCLINTOCK. Our primary business is dealing in cash grain. We own, lease, and operate storage capacity throughout the primary markets of upwards of 40,000,000-bushel capacity. We buy grain from the areas where it is produced, and engage in the business of distributing that grain to areas of consumption, not only within the confines of this country, but to export. That is our primary business.

We deal in futures contracts to maintain sales or purchases to offset our operations in the cash grain market called hedging. I am sorry, Senator, but I cannot tell you this in two or three words. I am just about repeating 2 or 3 minutes ago what I said then, by breaking it down into categories.

We do not specialize in handling futures contracts for other people. If somebody comes to us voluntarily and wants to trade through our company, we take their business.

Senator O'MAHONEY. What proportion of your entire business involves the cash transactions? What proportion involves the futures transactions, and what proportion involves futures transactions for others than yourself?

Mr. McCLINTOCK. I can only make a fair estimate.

Senator O'MAHONEY. That is all right.

Mr. McCLINTOCK. I want to say that 99½ percent of our business is represented by trading in cash grain, and in futures that are related to the trading in that cash grain, and that the speculative accounts that we handle for others are infinitesimal.

Senator O'MAHONEY. With respect to these traders mentioned by Senator Flanders, the 308 housewives who were on the market on September 17, 1947, what proportion of their business was in cash transactions in wheat, would you suppose?

Mr. McCLINTOCK. You are asking me to suppose. I am supposing that a sizable percent, maybe all of them, are speculative. They are speculative accounts.

Senator O'MAHONEY. On the board of trade as a whole, what proportion of the accounts from day to day are cash transactions, futures transactions for the purpose of hedging, or speculative accounts like those of the 308 housewives?

Mr. McCLINTOCK. Senator, I can give you some figures that I am familiar with. We have a witness following me who is going to introduce figures of that nature. I want to just recall a little circumstance that happened just prior to this campaign that was put on for 33⅓ percent margin.

An announcement came from the office of the Commodity Exchange Authority which drew a headline that 90 percent of the transactions on the board of trade were speculative. I think maybe some of you may recall that headline.

In analyzing the report it showed that of the accounts involved the number of speculators exceeded the number of commercial hedges in volume on the buying side of about 3 to 1, approximately, and on the selling side, approximately 2 to 1.

It showed that the 90-percent figure was arrived at by counting the number of individuals involved and not the volume involved.

In breaking those figures down—and these are still the figures that were in the same report that created the headlines—90 percent of the trading——

Senator O'MAHONEY. What report are you referring to?

Mr. McCLINTOCK. The report put out by the Commodity Exchange Authority. I do not recall the exact date. I will get it for you.

Senator O'MAHONEY. Approximately?

Mr. McCLINTOCK. In August or September. I do not remember exactly.

Senator O'MAHONEY. It had nothing to do with the hearings of this committee?

Mr. McCLINTOCK. No.

Those figures show—and I am trying to answer your question the long way around—those figures showed that the number of sellers—and this will be interesting to Senator Flanders—that the number of speculative sellers outnumbered the number of speculative buyers by almost 50 percent. This is a report that was put out by the Commodity Exchange Authority.

But, of course, we know that that did not tell any complete story any more than these different items here tells a complete story. This complete story is told by the number of bushels, total bushels, that were involved in these number of people that are trading here, and this report to which I am referring shows that in volume the amount of speculative buying exceeded the amount of speculative selling by only 5 percent.

There is about the difference. I have told you that related to cash; on the buying side of the speculation related to the cash of about 3 to 1, and on the selling side the relation of the speculation to hedging was about 2 to 1. That would not be true every day.

Senator O'MAHONEY. With respect to the individuals engaged in the transaction, without regard to the number of bushels involved, do I understand you to say that many more persons are engaged in speculative operations than in hedging operations?

Mr. McCLINTOCK. That is correct.

Senator O'MAHONEY. But with respect to the number of bushels involved, you want the committee to understand that the speculative accounts exceed the hedging accounts by only a small proportion, or did I correctly understand you?

Mr. McCLINTOCK. I quoted you precisely what this one report put out by the administrative——

Senator O'MAHONEY. That is that the buyers exceeded the sellers by only 5 percent.

Mr. McCLINTOCK. Yes. That was speculative. That was the relation between the speculative seller and the speculative buyer.

Now, the relationship to the speculative buyer as to the hedging buyer was about 3 to 1.

Senator O'MAHONEY. About 3 to 1.

Mr. McCLINTOCK. That is right. And the relationship of the speculative seller to the hedging seller was about 2 to 1.

Senator O'MAHONEY. Are any of these hedging operations speculative also?

Mr. McCLINTOCK. Not if they are hedging operations. They could not be.

Senator FLANDERS. The other end is speculative—the other end of the operation.

Mr. McCLINTOCK. Hedging? You are talking about hedging cash grain, are you not?

Senator O'MAHONEY. I am just talking about the classification that is before us on this—the transactions for the 17th of September. There are 456 accounts which are classified as hedging, 3,827 which are classified as speculative. The hedgers were 21,577,000 bushels long, 64,951,000 bushels short. The speculators were 83,228,000 bushels long and 40,256,000 bushels short.

In other words, upon this day the speculators bought more than twice as much as they sold, whereas the hedgers sold about three times as much as they bought.

Now, that would appear to an inexperienced person like myself that the short sellers in the hedging operation were actually selling to the long speculators.

Mr. McCLINTOCK. That is exactly what happened.

Senator O'MAHONEY. So that the presence of these long speculators in the market, as you described the operation to us, creates the opportunity for the hedgers to sell their future commitments.

Mr. McCLINTOCK. And give them price protection.

Senator O'MAHONEY. Can you tell us over the period of a year, let us say, the last year, how many bushels were dealt in on the Chicago Board of Trade?

Mr. McCLINTOCK. Last year?

Senator O'MAHONEY. Yes.

Mr. McCLINTOCK. I am sorry I could not tell you, Senator, right offhand. I will supply you with the information.

Senator O'MAHONEY. What do you think?

Mr. McCLINTOCK. I would not assume to guess. The figures are available, and I will supply them.

Senator O'MAHONEY. How many of these transactions which take place from day to day involve actual commitments?

Mr. McCLINTOCK. In "commitments," do you mean cash transactions?

Senator O'MAHONEY. I should not have used the word "commitment." How many of these transactions involve the actual transfer of title to grain?

Mr. McCLINTOCK. The futures are of a kind of forward pricing contract. You ask how many days it will be, or how many contracts are exchanged within a day. I presume you mean by fulfillment of the contract by applying the actual commodity in which they were dealing. We are now in the current month. The rules are that the buyer must stand ready to accept delivery, and December is one of the delivery months; anytime during the month of December that the delivery is tendered.

The seller is committed under the rules of the exchange to fulfill the terms of his contract within the period of December; that is, he must notify the buyer 1 day before the end of the month that he is tendering that contract—tendering the goods on that contract.

I cannot tell you exactly how much is delivered in a day, because they have a 30-day period, approximately a 30-day period, that——

Senator O'MAHONEY. Let me put the question in another way. I did not mean to limit your answer to a particular day.

I want to know how many of these contracts which are made upon the exchange actually result in the delivery of grain.

Mr. McCLINTOCK. I think we can supply you with that. It is a figure that I do not attempt to remember. I will say this: It is comparatively small in the aggregate, for the reason that hedging operations accommodate the needs of the people in Oklahoma, in Texas, in North Dakota, and all over the production of the area. They put that hedging in the market for the purpose of protecting themselves against price fluctuations. They would be required to ship that grain to Chicago if the hedge was in the Chicago market, to fulfill their market.

What they actually do—they renegotiate that contract; the future—the future contract is negotiable, and that is the thing that keeps the fluid in the market—but disposing of their cash wheat and buying back the futures, and the trades are washed down through trading operations, are reduced to a rather small amount by time the maturity date comes around, and it doesn't take a great deal of cash grain to satisfy.

Senator O'MAHONEY. In other words, a far larger proportion of the transactions upon the board of trade are paper transactions than are actually cash transactions involving delivery?

Mr. McCLINTOCK. They are paper contracts to the extent that any contract is a paper. They are binding contracts unless the buyer fulfills, or the seller fulfills, the terms of that contract either by delivering his goods or negotiating that contract before the date of maturity.

Senator O'MAHONEY. Of course. You are talking about the legal effect of the contract. That, of course, is perfectly obvious. You would not set up the Chicago Board of Trade on contracts that were not legal. But I am talking not about that, Mr. McClintock, but about the actual realities of the case. So I am asking you: Is it not a fact that by far the most of all of these speculative transactions which take place from day to day upon the grain exchange are made by those who participate in them, without the slightest thought of ever transferring or accepting a bushel of grain?

Mr. McCLINTOCK. No. I would not say that.

In reality, that is what a great many times happens—that the contracts are settled before maturity date.

Senator O'MAHONEY. Now you say they are settled a great many times. What proportion of the contracts made upon the board of trade are settled before maturity date?

Mr. McCLINTOCK. I do not know that I can give you that exact figure.

Senator O'MAHONEY. You can give an approximation.

Mr. McCLINTOCK. I would like to give a little discourse by showing you what I mean by "settled."

Senator O'MAHONEY. Mr. McClintock, the discourses are very interesting and informal, but the question which I asked you is one which admits of a very simple answer. If you will give us the simple answer first and the discourse afterwards I think it will be helpful.

Mr. McCLINTOCK. I would say that the number of contracts that were settled prior to maturity date of the contract far exceeded the number of the ones that were fulfilled.

Senator O'MAHONEY. Far exceeded?

Mr. McCLINTOCK. Yes. By actual deliveries of grain.

Senator O'MAHONEY. How far?

Mr. McCLINTOCK. I cannot be correct. I will say probably 10 to 1.

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Senator O'MAHONEY. Then what you want this committee to——

Mr. McCLINTOCK. Now, the hedge, of course, comes in there, too. You understand that the hedger—his purpose in hedging is so that he can turn around and continue to merchandise his product. I do not hedge corn today because I want to carry it forever. I may only keep it hedged tomorrow. And I will lift that hedge because I have disposed of the commodity. Tomorrow I may be buying more corn from the country. I will place another hedge. I do not place it and continually carry the corn. My business is merchandising, therefore the greater turn-over I can have on my business, the cash grain business, the better it serves my purposes and the better it serves the market.

Senator O'MAHONEY. Do you want this committee to understand that only one-tenth of the contracts which are made upon the board of trade are ever actually carried out?

Mr. McCLINTOCK. No. I would not put it "actually carried out"—are ever terminated and delivery accepted. I would not say "carried out." There is a lot of difference between carried out and——

Senator O'MAHONEY. I will accept that amendment. That is precisely what we want to do—get the facts. But only one-tenth of all?

Mr. McCLINTOCK. You are dealing in the figure one-tenth, under the demand for an answer.

Senator O'MAHONEY. You gave us a very illuminating bit of information in your answer to the effect that many of these hedging operations are changed from time to time. The legitimate hedger——

Mr. McCLINTOCK. He is continually in and out of the market.

Senator O'MAHONEY. That is right.

Mr. McCLINTOCK. In other words, you might have an elevator that had a capacity of, say, 2,000,000 bushels. You might turn the capacity of that elevator into merchandising a dozen times a year, once a month, perhaps. So it is nothing unusual for that to happen.

Although I buy 100,000 bushels of corn from the country today, I hedge it. That does not mean that that becomes a dormant trade, because my interest after buying it is to dispose of that corn. If I dispose of it tomorrow, I buy it back in the hedge, and it is that fluid condition of the in-and-out trades that we may continue—that we have to have the offsetting condition in order to accommodate that.

Senator O'MAHONEY. That is why I say this is very interesting information, because the rationalization which has been given to me in justification for the futures market is that the miller needs the futures market in order to carry on his operation.

Mr. McCLINTOCK. Certainly.

Senator O'MAHONEY. And the oversimplified transaction was described as one in which the miller, because he is grinding up wheat today, must have an offset in the futures market. But now you tell us that this miller, instead of engaging in just such a transaction, is actually in and out of the market day by day.

Mr. McCLINTOCK. Certainly. If he makes a purchase of wheat that is not instantly offset by a sale of flour he is in the futures market. And if, on the other hand, he makes a sale of flour that he does not cover by making a purchase of wheat, he comes to the futures market to cover that commitment.

Senator O'MAHONEY. Then would you say, would I be wrong in drawing the conclusion from your testimony that the hedger operator is also engaged, at least to some degree, in speculation on the price?

Mr. McCLINTOCK. Only speculation to this extent: There is a relative relationship between the cash grain and the futures that may raise slightly, based on conditions. We will say, for example, today in Chicago cash wheat is selling at 3 over the December future. That has been a rather continuous situation.

So if I buy wheat and sell my future at 3 cents less than that, I have a relative protection. So long as wheat does not sell closer than 2 cents to the December future, I am protected. But if some condition would develop in the cash market that might not weigh entirely on the futures market and cash wheat would decline to 1 over December, I have lost 2 cents a bushel. It is only relative.

Senator O'MAHONEY. I like that word "protection". Who protects the amateur traders, of whom Senator Flanders was talking?

Mr. McCLINTOCK. They are what I would call risk takers.

Senator O'MAHONEY. They are the risk takers?

Mr. McCLINTOCK. They are the risk takers.

Senator O'MAHONEY. As a matter of fact, does it not boil down to this: That the risk takers who go into the market on a "flyer" hoping that they are going to be able to outguess the professionals are really providing by their losses the cushion that protects the regular operators?

Mr. McCLINTOCK. Senator, I would not say they always lost.

Senator O'MAHONEY. They do not always win, either.

Mr. McCLINTOCK. They are one of the multitude that make up a risk-take element that provides the liquidity in the market, that provides the farmer a place where he can sell his grain every day, that provides the consumer a place where he can come and get his food every day.

Senator O'MAHONEY. If you were a Member of Congress you would find that one of the duties of this body over the years is to protect the multitude from the operations of those who take advantage of them;

Mr. McCLINTOCK. Are you indicating——

Senator O'MAHONEY. I am indicating that from time immemorial, so far as this Government is concerned, it has been necessary for the Congress to pass laws to protect the multitude of the people of the United States against speculative transactions of one kind or another. And I have never known a time in the history of this Government when those who have represented commercial agencies have not resisted regulations by the representatives of the people. The bankers resisted the Federal Reserve law, as though it were a concoction fo extreme danger to our economy.

I think that the Board of Trade resisted the original Grain Futures Act, did it not?

Mr. McCLINTOCK. I think some provisions.

Senator O'MAHONEY. Step by step.

Senator FLANDERS. I would like, Senator O'Mahoney, to remove myself from those who believe in protecting people 100 percent from learning by experience.

Senator O'MAHONEY. I will take a little margin on that, Senator.

Mr. McCLINTOCK. Gentlemen, there is a much better authority than that than I can presume to be. Here is a short paragraph that

I want to read you, prepared by Mr. Dagnell, assistant chief accountant, Grain Futures Administration, Department of Agriculture, of 10 or 12 years ago. Here is a concluding paragraph:

> Information obtained by the Administration as the result of its special studies, surveys, and investigations shows conclusively that the small speculators play a most important part in the merchandising of the Nation's grain. They are nearly always on the long side, in contrast to the large professional traders who are as likely to be sellers as purchasers. If not subjected to periodic "shaking out" processes, these small traders would doubtless be an even more dependable group of hedge carriers.

That is by a man who makes the business of analyzing the conditions in the market place.

Senator O'MAHONEY. Even some of those are sometimes misled.

Mr. McCLINTOCK. I guess they can be.

Senator O'MAHONEY. Do you now wish this committee to understand that you really meant it when you said this morning—on page 3 of your prepared statement—that the commodity exchanges are the "bone and sinew of our economic system"?

Mr. McCLINTOCK. I do believe that. I believe that agriculture is the backbone of the economy of this country. I believe that a marketing system that has been good enough to accommodate the need of the American farmer to where, in a few decades he could convert this great Midwest from a wilderness into a food empire unexcelled any place in the world, is certainly more eloquent testimony to the value of our distributing system than any words that I could tell you.

Senator O'MAHONEY. Mr. McClintock, I might be tempted to say that the progress in this transformation of the great West would have been much more successful if there had been less speculation. But that would be merely engaging in argument.

Mr. McCLINTOCK. And I think we would still have been over on the Atlantic seaboard, and 13 Colonies, if we had not been exposed to the risk and speculation in the development of this country.

Senator O'MAHONEY. What you want us to understand now boils down to this, that a futures market in which, according to your testimony, nine-tenths of the transactions never mature into actual delivery, constitutes the bone and sinew of the economic system of America?

Mr. McCLINTOCK. Correct. You are correct.

Senator O'MAHONEY. That satisfies me.

Senator FLANDERS. We have a difference of opinion registered. We have nine other witnesses.

Representative HORAN. I do want to ask some questions.

Senator FLANDERS. Everyone at this table will have a chance to ask some questions.

Have you yet arrived at yours, Senator?

Senator WATKINS. I do want to hear the discussion. I was not here to hear the main testimony.

Senator FLANDERS. Senator Ecton?

Senator ECTON. Just very briefly, Mr. Chairman, I would like to ask Mr. McClintock if there is any way that commercial hedgers could protect themselves if all speculators were driven out of the market?

Mr. McCLINTOCK. No, sir. There would be no way because of the reason that production of the major agricultural products in which we deal, such as corn, wheat, and oats, are produced in a rather centralized part of our country, while the demand for this product derives from every community within our own border, and export.

It would be most difficult to conceive of the possibility of the producers of these commodities marketing them in exact proportion to the mood or need of the consumer. Therefore it would only be possible to have a ready and open market if the dealers themselves absorbed the risk that is involved in price changes. Therefore you would have about the same condition that you had prior to the origin of grain exchanges. The farmer would be compelled to sell his commodity to the few people that he could personally contact, and would be obliged to accept the price that was offered. The offering price would be such that the buyer could afford to take the risk that was involved in the price exchanges while he could dispose of it, while he was waiting for some consumer to come in and buy it from him.

Does that answer your question?

Senator ECTON. Yes.

In order to have a constant day-to-day market always available for American agriculture the speculator, in your opinion, is most necessary?

Mr. McCLINTOCK. It is the essential necessity that provides for the liquidity in the market place that gives the farmer an everyday market, and the consumer an opportunity to buy that which he needs, on the day he chooses, and we will have witnesses here that will testify on those specifics.

Senator ECTON. I think that what all of us are concerned with, as far as the speculative trading is concerned, for instance, if I have a thousand bushels of wheat and it is worth $2 this afternoon on the market, then a great many people cannot understand why that same wheat tomorrow morning might be worth $1.90 or $2.10. We cannot understand why there should be that variation in price over just a 10- or a 12-hour period.

Mr. McCLINTOCK. I am willing to take the time to go into these things. As I told you we have other witnesses who will testify on those specifics. But I will be glad to proceed on those questions if it is the wish of the committee.

Senator ECTON. I do not want to take up too much time, Mr. Chairman, but I think those are some of the fundamental questions that concern us, especially the general public.

Senator FLANDERS. Senator Ecton raises wheat, so this is not an imaginary question with him. And I also eat wheat, so it is not an imaginary question.

Mr. McCLINTOCK. Do you want me to answer the question?

Senator FLANDERS. I think we might wait until the witness specifically charged with that comes on.

Mr. Horan?

Representative HORAN. I am one of the members of this committee that wants to be quite cautious about tinkering with something that works and turning to an alternative which will repose a responsibility that should be assumed by the individual and deposits it in government. Of course, that is the alternative that we will have to consider at this time.

I was very much impressed with this fact. I had not known this. I probably should have. I would like to quote from your statement on page 4:

We went to the White House in July because we were concerned then, as we are concerned now, with the inflationary trend of prices. We believed then and we believe now that early coordination of foreign humanitarian operations with supply-and-demand factors on the home front is imperative if we are to have orderly prices and avoid serious economic distortions.

What are some of the details of your conversation with the President?

Mr. McClintock. It is pretty well recited here. We simply advised the President that we thought the extraordinary force introduced by the buying of, I believe at that time they were still taking about 350,000,000 bushels and we did not know at that time how much wheat we might produce that year—the spring wheat was still in the making at that time——

Representative Horan. You did not know at that time that corn and rye were short?

Mr. McClintock. We saw it coming on in corn, because in the middle of July the drought was really under way, and in oats it had already been determined that they were going to be comparatively short.

Representative Horan. Did you merely protest the Government buying of wheat?

Mr. McClintock. No. We did not go in to protest it. We merely went in to call his attention to what we thought was going to happen. As I recall the words spoken to the President, it was to advise him that the introduction of this program of buying 3½ million it was at that time, I believe, was setting the stage for a spiraling of grain prices in this country, not only because of that activity alone but the contributing factors that were developing.

We did not complain about them. We merely advised the President that we thought exactly what has happened was going to happen.

Representative Horan. Did you make any suggestions as to what the grain exchanges themselves were prepared, or wanted to do to offset what you could see so clearly even at that hour?

Mr. McClintock. We were not asked to make any recommendations. We offered our aid, if we could ever be of any assitance to him in solving any of the problems that presented themsevles in connection with this undertaking. To the best of my knowledge—and I was one of those who was there—the grain exchanges officially were never called upon other than on the margin question which we thought was outside of the realities in this situation. We never were called upon to aid in any way on this. We were never consulted when the committees were being formulated to consider the question of conservation, there was no official member of the Chicago Board of Trade invited to participate in those deliberations.

Representative Horan. Will the sum total of the witnesses that we will have today, will the sum total of their testimony give us some idea of the things that might be done by the grain exchanges to help out in this situation?

Mr. McClintock. Yes.

Representative Horan. Will you clarify for use the difference between a hedger and those who are operating purely in a speculative field?

Mr. McCLINTOCK. We will. We will provide the committee, probably in advance of their testimony, the definition of hedging in its technical terms.

Representative HORAN. Will you briefly tell me what might be done by the grain exchanges themselves to curb harmful speculation if it was deemed harmful?

Mr. McCLINTOCK. What they might do?

Representative HORAN. Yes.

Mr. McCLINTOCK. Our rules and regulations themselves provide, and we are controlled, we have rather definite, stringent controls over us by the Commodity Exchange Authority. There are provisions, not only in our rules, but under Government authority to deal with those who might be proceeding in a way that was damaging to the good name of the institutions, or in dealing in such a manner that would tend to corner the market. The penalties involved are up to complete expulsion from the grain exchange.

Representative HORAN. You do that to protect the good name of the grain exchanges?

Mr. McCLINTOCK: Absolutely. And to protect the public.

Representative HORAN. How would you operate, in what way, to protect an area—while it is small, different from the rest of the Nation—that of the Pacific Northwest?. What would the grain exchanges do to assure that the pipe lines up there, grain from the farmer's field to the ultimate table of consumption, how would you move, to protect the siphoning off of too much grain from that area?

Mr. McCLINTOCK. We have a witness here, from Portland, Oreg., who will tell you details on that. He will point out to you that because of the lack of hedging possibilities in the same degree that grain produced in closer proximity to the location of the exchanges suffers, suffers in value, therefore the farmer, the producer suffers. He will give you a complete picture of what happens. He will show you that while in the Midwest here, where futures exchanges exist and where speculation exists, that the trend from the summer level to a date more recently, was higher, greater, and extended higher than the same prices, the same kind of wheat back in the Middle West.

In other words, he proves to you that the lack of the trading, the lack of stability that rested in the activities of the market place, the absence of that gives you greater extremes both on the low side and on the high side because you have a lack of hedging facilities, and you have a lack of hedging facilities because you have no place today in the great Northwest where there is futures trading that is in close proximity relative to freight and transportation under which you can hedge your wheat.

Representative HORAN. It is apparent now that we cannot export or move out of the area more than about 65 percent of what we did last year, and I am wondering how we could operate to make sure that any excessive exports or movements out of the area are not had.

Senator WATKNIS. Do you mean area in the Northwest?

Representative HORAN. Yes.

Mr. McCLINTOCK. I am not quite sure that I understood your question.

Representative HORAN. Last year we moved out of the area or sold as export, as wheat or as flour, approximately 90,000,000 bushels. It is apparent from this year's supplies out there that the maximum that we could move out for European relief or other purposes would be around 70,000,000 bushels, if my study of the facts are correct. I am wondering just how we could impose a responsibility short of Governmental action, which I think dulls the individual responsibility and individual development.

Sometimes I think all of the hullabaloo of Europe is just where the individual fits in the scheme of things. I naturally am interested to know how responsible institutions, such as you have, and others in cooperation, if possible on a voluntary basis, could operate to achieve a known and desired effect such as we know hnow if we are to protect that economy there. We must restrict to some extent the movement of the area, whether for export or for use elsewhere in the Nation.

Mr. McClintock. I would not be prepared to tell you in detail just what might be done. You provoke a very interesting situation here, and one which I shall take great pleasure in helping you to reach a solution on.

Representative Horan. I am posing this question now, Mr. McClintock, because I want to express my own personal appreciation that you men have come here and are prepared to answer questions and unquestionably have put a good deal of time in on this.

I am not convinced at all but what the imposition of 100 percent margins would have the effect of closing the grain exchanges and by a left-handed approach approximate Government requisition of all wheat. Whether that is to be done or not I do not know.

Mr. McClintock. That very situation can develop even through the mistaken judgment in their application or a designed purpose. It can be made to close our grain exchanges. It can kill speculation which will kill our system of marketing. It will throw them, the obligation and responsibility of the distribution of agricultural products, in the Government's lap, and under that condition they can allocate the use and gain many of the other things that have been asked by the administration through the use of the device of margins.

Representative Horan. The administration has denied any desire to achieve that. What I am bringing up now is a matter that we could consider for the protection of their own good assertion. They have said that they want limited authority to achieve the things necessary to get us out of the doldrums we are now in, so-called.

Do you think we will solve this in any respect without more production of more grains at this time?

Mr. McClintock. Certainly that is the only answer. The whole answer is in the relationship of supply and demand. Your supply for this year, so far as grains are concerned, had been created. They had already been created. There will be no more created until harvest time next year, and some of those are in an uncertain stage.

We know under ordinary circumstances when we are dealing with our domestic uses, such as feeding on farms, when we know the livestock populations on the farms, we know about what is going to be consumed on the farm, we know that consumption of this country in bread and cereals is a pretty fixed figure, and it does not vary very much from one year to another.

Therefore, when our crops have been produced and harvested we know pretty well so far as the usage under these normal factors is concerned, but what is disturbing the market today is the uncertainty of what politics is going to call on our supplies, and that is one thing as much as the actual buying that has contributed to the instability of the market.

First they started off by saying that 350,000,000 bushels would be a sufficient supply for the needs of Europe. Then they increased them to 400,000,000. Now they are talking about 500,000,000. Who knows what they have in mind.

There is the thing that you cannot judge. Therefore you cannot judge what effect prices will have, and if it is a political expedient to hide the facts by the use of margins, by attempting to destroy the public gaze of the results of this activity—and I do not think we need to talk about the people who are in authority today, it can happen under any man, any man's administration.

Representative HORAN. Do you think that an increasing pattern of controls, beginning, of course, with the sugar-coated approach of limited authority, will have the effect of increasing production?

Mr. McCLINTOCK. It will have just the opposite effect. We have a witness here who is going to tell you a very interesting story on Canada. The Government undertook to design the price that the Canadian farmer ought to receive for his wheat. They sold his crop short and closed the futures market, if you please. Today wheat is selling higher in Canada under the price decreed by Government, but the farmer is getting about $1.18, or $1.20 a bushel. I do not mean that to be exact or correct. But he is getting less than $1.50 a bushel.

So what happens? The Canadian acreage this year was reduced several million acres. That is what happens to production when you get man-made price determinations, and man-made use of the products that the farmer produces. You destroy production, you destroy the incentive for production.

Representative HORAN. It is interesting. I hope the subsequent witnesses, Mr. McClintock, will further enlighten this committee because I want to assure you we are not taking this lightly, and we know the situation we are in.

Mr. McCLINTOCK. I am hoping we are not taking up time here that will prevent the Canadian gentleman who will tell you the story. He has a very interesting story of a farmer who resides in Canada. One-half of his farm is on the Canadian side, and the other side is on the American side. He has a picture there that will tell you exactly what happens under conditions of man-made markets, and markets determined by the free expression of public judgment.

Senator FLANDERS. Senator Watkins?

Senator WATKINS. Mr. McClintock, when you went to see the President you stated in your statement, on page 4, that you had certain ideas in mind, certain briefs. You said:

> We believed then and we believe now that early coordination of foreign humanitarian operations with supply and demand factors on the home front is imperative if we are to have orderly prices and avoid serious economic distortions.

I am interested to know just what coordination you think should have taken place in Government buying. I think that is what you are referring to.

Mr. McCLINTOCK. I will tell you what I mean. I mean at that particular time, and prior to that time, they were talking in terms of use somewhat parallel with the supplies that we exported the preceding year. In round figures, it was somewhere around 350,000,000 bushels.

Although we had produced, and it was evident in the middle of July that we had already produced less oats, we had produced a bountiful crop of wheat, still some uncertainty in the spring and winter wheat States, therefore, what I mean when I said that the needs of the foreign demand should be coordinated with conditions on the home front I meant the very time that our crops were deteriorating here and bushels were being taken off the total yield day by day, the foreign demand was increased from 350,000,000 to 500,000,000, while we were losing 900,000,000 bushels of corn in this country by the drought.

Senator WATKINS. How could we have coordinated those situations?

Mr. McCLINTOCK. I certainly would have tried to keep them going in the same direction. I would not have tried to bring about the disparity in conditions by trying to add to demand where supply was diminishing.

Senator WATKINS. In other words, you think we should have cut down the amount proposed to be sent to Europe?

Mr. McCLINTOCK. I think they should have so operated that the effects of their buying would have been of less influence. We have a man here with a chart who is going to follow and explain that whole situation to you.

Senator WATKINS. I understand now. What I am interested in now is what ideas you had in mind to tell the President. Apparently you went there with some constructive thing in mind. What were you going to tell him? I understand you to say he did not ask you, so you did not tell him.

Mr. McCLINTOCK. It was my thought that instead of the Government actively participating in buying, and announcing on daily or weekly occasions the amount they had bought and the amount they presumed to buy from month to month, it ought to be disposed of.

Senator WATKINS. Ought to be disposed of? What do you mean by that?

Mr. McCLINTOCK. That it ought not to be carried out in that manner. They ought not to be blueprinted.

Senator WATKINS. In other words, it should not be made public?

Mr. McCLINTOCK: They should not be blueprinting and advertising the amount of wheat that they bought, and the amount of wheat that they intended to buy on occasions that affected the trend of the market.

Our idea was this: That Government was going to have to be satisfied with a certain percentage of the wheat moved from the farmer. The farmer is the man to determine the amount of wheat that either the Government or the individuals engaged in the business were going to be able to buy.

Senator WATKINS. They had already determined that because the crop was in process of growing or had been grown, and that could not be changed.

Mr. McCLINTOCK. He makes the final determination as he offers it on the market, and the degree in which he offers it. So if you wanted to do something that was least offensive to prices then we believe that if the Government had commissioned those in the established trade to have accumulated this wheat as it moved off the farm, and set aside a certain amount of their weekly purchases for the benefit of the Government, that that would have taken out this third competitive force in the market place which in our opinion is substantially what caused the advance in the market.

Senator WATKINS. In other words, you disagreed with the Government's method of buying this wheat for foreign exports.

Mr. McCLINTOCK. I think it could have been done better.

Senator WATKINS. In other words, if they had placed the orders, or let this be taken care of gradually, as I understand you, and gradually accumulated it without announcing that they were going in to buy so much, and then stepped into the market and bought these large amounts, it probably would not have had a speculative effect on the market.

Mr. McCLINTOCK. Right. A speculative effect or influence on the farmer. The farmer has had a lot of influence with the Government. Under old OPA days a year ago in early 1946 the Government established legal ceilings under which wheat could sell. The demand for wheat on the part of the Government became so great that they were forced to raise the price once, and in addition to that go out and pay a 30-cent bonus. So the farmer knows pretty well how to deal with the Government.

And when the Government announces that they are going to have to buy 500,000,000 bushels of wheat that means to the farmer, "All right, here is an agency that is going to buy as much wheat as is consumed in this country in 1 year, in the way of food and cereals. I have a double demand for my wheat. Why be in a hurry?" Is that not about what is happening?

Senator WATKINS. That might have happened. But were you ready to suggest to the President that this matter of buying wheat be kept quiet, concealed?

Mr. McCLINTOCK. I do not mean that you would go underground, or anything like that. I mean there is certain skill that you learn in a number of years in business.

Senator EATON. Do you think there could have been better timing?

Mr. McCLINTOCK. I think there could have been better timing. There could have been less demonstration.

Senator WATKINS. Less advertising of what they are going to do, is what they needed?

Mr. McCLINTOCK. Yes.

Senator FLANDERS. Do you think it could have been done at a net less cost to the taxpayer?

Mr. McCLINTOCK. Wheat has gone up a dollar a bushel under their plan. I would not attempt to say that wheat would not have gone up some. But the fact is that wheat, since the beginning of their activities in June on a new crop, has gone up over a dollar a bushel. They are proposing to buy 500,000,000 bushels. The arithmetic is rather simple.

I do not mean to say to this committee that wheat would not have gone up under the most skilled buying.

Senator FLANDERS. Do you think the demand might have dawned on the wheat holders slowly instead of being revealed suddenly, and that the price should have gone up more slowly?

Mr. McCLINTOCK. I think that is reasonable to assume. I think that is our position, that it gets right back to what would happen when you and I were discussing the effects of the futures market, Senator.

If buying is limited to two competitive forces it might work out better if you had to deal with the multitude.

Senator FLANDERS. I think that might have been done, slower buying and less publicity in between sessions of Congress. When Congress is in session it would insist on knowing. So that you had a period between July and December, perhaps, in which more secretive buying might have been done. That is what I figure out.

Mr. MCCLINTOCK. Senator Watkins, it is not our purpose to say that mistakes have been made by the Government in their buying. It is not our intention to indict any personalities.

Senator WATKINS. We learn by our mistakes, and if we can find some mistakes have been made, maybe we can avoid them in the future. That is one reason for this inquiry.

Mr. MCCLINTOCK. I believe that a great many of the effects that we are thinking about today would have taken place under the most skillful buying if there are going to be 500,000,000 bushels of wheat involved.

Senator WATKINS. In other words, if you were going out and you needed that much wheat, if you were doing it for yourself, you would not have gone out and told the farmers that had wheat to sell that you had to have that much, and advertised in advance how much you had to have, so they would know what to expect.

Mr. MCCLINTOCK. No. But the point we are concerned with is whether the Government activity was handled well or badly. They ought to be willing to take responsibility for it.

Senator WATKINS. The reason we are asking now, they are asking for still more authority and we want to know if it is safe to give them the power that they are asking for.

Mr. MCCLINTOCK. Our answer is no.

Senator WATKINS. What is that?

Mr. MCCLINTOCK. Our answer is no.

Senator WATKINS. And it is based on the experience you have been telling us about.

Mr. MCCLINTOCK. Correct.

Senator WATKINS. I wanted to get a constructive suggestion out of this. We may be against a lot of things but we ought to have some way to take care of it. You have indicated that a little more, shall we say, common sense in handling the thing might have avoided those spectacular raises when it was announced the Government was going to need so much for foreign export.

Mr. MCCLINTOCK. Senator, it was our intention to tell you the functions of our market, and the mechanics that are involved in it. We are not going to come down here and make any self-serving statements. We want to give you the facts and information.

Senator WATKINS. We do not object if you do, so long as they are sound.

Mr. MCCLINTOCK. We wanted to give you factual information so that you could make up your own mind whether we could serve the proper purpose, the purpose we pretend to serve or whether we do not.

Senator WATKINS. Let me ask you: How will you operate, or what effect will it have on your operations if we adopt the policy of authorizing the administration to make allocations of wheat, for instance? How are you going to operate that?

Mr. MCCLINTOCK. I do not know what details might be employed in that system.

Senator WATKINS. Take the general principle, for instance. Suppose the President has the power, through some executive agency, to allocate so much for the feeding of animals, dairy animals, eliminate to a certain extent the feeding of poultry and eliminate the use of wheat for feeding beef cattle, all that sort of thing, and hogs. How would that affect the operation of your exchange in the trading if that were done?

Mr. McCLINTOCK. If it were limited to wheat it would destroy the wheat-marketing system. If it was extended to corn it would destroy that.

Senator WATKINS. It would destroy the market you now have?

Mr. McCLINTOCK. Because it assumes the responsibilities and purposes of the exchange.

Senator WATKINS. Does the exchange have, or do you have, men who have been in this business for many years, any program now which will assure the country, or get to the necessary people, the amount of wheat that we now have in the world in our country for export and for the use in this country?

Mr. McCLINTOCK. Do we have any program for it?

Senator WATKINS. What alternative do you present for the distribution of what we have? It is short, it is admitted, and we are probably going to have a short crop for next year, the way things are going.

Mr. McCLINTOCK. I think the position of the trade is that we are not at this time objecting to the allocation from the seaboard on. And think there is no excuse for allocation and distribution of the supply by the Government for domestic purposes.

Senator WATKINS. Why?

Mr. McCLINTOCK. Because we think it will be done for the purpose of conservation, I would assume.

Senator WATKINS. Of course, it will be done for the purpose of conservation. We already admit we have a short wheat crop. Suppose the crop drops off next year dramatically from what it has been this year. Suppose we only have half a wheat crop next year, and it could easily happen under the conditions that prevail in the Middle West and far West. Suppose that should happen? How would you see to it that wheat was used for the things that it ought to be used for under a free market system such as you have?

Mr. McCLINTOCK. I think the factor of price is the best rationing system that exists.

Senator WATKINS. In other words, the price would have to advance so high that feeders of poultry could not feed it, and feeders of beef and hogs could not use it? Is that what you mean?

Mr. McCLINTOCK. I mean that if the conversion value of grain—animal poultry products of the country are the largest consumers of grain—if the price of raw materials such as grain becomes high enough, higher than the conversion value as determined by the product that they create—corn, beef, mutton, cheese, or whatever it might be—that that is the most effective matter in determining the use of the raw material.

Senator WATKINS. In other words, it is what I said a moment ago, that the price factor would be the real thing that would keep them from using it for these various purposes.

Mr. McCLINTOCK. That is right.

Senator WATKINS. How high would that price have to go under present conditions?

Mr. McCLINTOCK. Under present conditions?

Senator WATKINS. We are facing now a high price level that is apparently very oppressive to many people in the country and it has been going up constantly.

Mr. McCLINTOCK. The difficulty is we have our domestic situation, and our international situation all mixed up.

Senator WATKINS. It will have to be mixed up if we are going to carry out this program of helping Europe.

Mr. McCLINTOCK. Then in just a short answer to you, sir, I think one thing that would make it possible for them to fulfill their commitment this year is because we have had high prices. If you have had wheat and cheap corn the supply would have been consumed before it ever reached Chicago, to say nothing about Liverpool, in the form of poultry and animal feed.

Senator WATKINS. In other words, high prices would have the effect of operating already.

Mr. McCLINTOCK. That is right. And that is the best method in my opinion.

Senator WATKINS. Are we using any less now? Let us test that out. Are we using any less now for feeding animals and people in the United States than we did in the years when we had short crops?

Mr. McCLINTOCK. I do not know if there are any official figures. I think the Government has estimated that the use of wheat in the first quarter of this year was somewhat less than it was the first quarter of last year. I think they are figuring around 60,000,000 bushels of wheat was consumed in the first quarter of this year.

Senator WATKINS. As a matter of fact, are not the extra bushels we produced this year that have been going abroad; and not any cutting down by local consumers, the cause of the high prices?

Mr. McCLINTOCK. Of course. If you are talking about wheat, of course, if it had not been for the extraordinary production this year we would most certainly have had to curtail our shipments abroad a long, long while ago.

Senator WATKINS. Of course, you know the use of grain, the liquor industry has been stopped. That had some effect, did it not?

Mr. McCLINTOCK. Yes; 15 percent of what I think is indicated. I am not arguing the question of whether it did or not, but the point is that a substantial part of the grain that goes to the distillers comes back in the way of feed.

Senator WATKINS. I understand there is some recovery on the amount of refuse.

Mr. McCLINTOCK. Yes. Quite substantial.

Senator WATKINS. What I am trying to get at is this, under the conditions as we have them today: Do you think there has been any reduction, actually, in the use of wheat for feeds by reason of the price?

Mr. McCLINTOCK. I think there has.

Senator WATKINS. How much would you estimate it to be?

Mr. McCLINTOCK. I could not estimate that. I can go only by what I see and visualize in a small area and the contacts that I established. It is a big country. I would not attempt to assume how much. I think it might be considerable. I think there will be considerable wheat saved through the price system this year.

Senator WATKINS. As a matter of fact we are not shipping abroad any more than our surplus, are we, at the present time?

Mr. McCLINTOCK. Our surplus as related to wheat.

Senator WATKINS. That is what I mean.

Mr. McCLINTOCK. The question involves how much wheat it might be necessary for hogs to consume to make up for the deficiency of corn in this country, and that again will be determined by price.

It is all determined by whether the farmer markets it at 200 pounds, 225 or 240 pounds, or whether he feeds his steers, 60 days, 90 or 120 days. That is the way to conserve feed. And the price of the raw material will determine that.

Senator WATKINS. Suppose we have a short crop next year, do you think that a free market system will protect the country sufficiently by reason of the extreme high price so that there will be enough wheat for human consumption and for such animals as we must feed in order to get foods for other people, and for the use of Europe?

Mr. McCLINTOCK. Senator, we have had experience with short crops before. We have had in the thirties two extremely short crops.

Senator WATKINS. We did not have any heavy demand from Europe at that time, did we?

Mr. McCLINTOCK. No. I do not think we did. As a matter of fact, I think we were required to import some.

Senator WATKINS. That is as I recall it.

Mr. McCLINTOCK. But this shortage was primarily in the coarse grains—corn and oats. Some shortage in wheat. We may have had to import some wheat under those conditions.

But our experience has never been such that anybody runs into serious trouble, or any one was ever terrifically imposed upon through the price system as a result of those conditions.

If we come into a short crop then we simply cannot ship as much stuff to Europe. Maybe it will get to a place where we cannot ship any to Europe. Who knows? It all depends on what nature does for us.

Senator WATKINS. People will bid it up if we have the free price system working at that time, they will bid it up until they do get some. People are not going to get hungry no matter what it costs.

Mr. McCLINTOCK. You have control under the allocations permit system at the seaboard as to whether any wheat should go out of this country or not. Of course, if we are only going to raise enough wheat for our own consumption and then attempt to feed Europe as well——

Senator WATKINS. That could easily happen next year with the present crop conditions.

Mr. McCLINTOCK. I cannot conceive that it would, but I cannot conceive of Congress letting it happen.

Senator WATKINS. We cannot control the weather and the climate, and what has been planted and all that sort of thing. That is obvious.

Mr. McCLINTOCK. I think when it comes to a question of serving your own people or serving Europe, you will certainly serve your own people.

Senator WATKINS. We will serve our own people but we will certainly tighten our belts before we let people starve. And that, of course, will increase the price. And do you have any idea what the price might run to next year if that condition prevails? It is now better than $3 wheat.

Mr. McCLINTOCK. No. I could not tell you because I am not able to anticipate what we are going to raise. We talked here in uncertain terms about short crops and small production. But they are rather meaningless. They are just terms.

If you would say what a half crop would amount to we might arrive at some reasonable consideration.

I do not know what those circumstances are going to be any more than any one. But I am convinced of one thing, that the price is the best element to distribute that thing where every one has an opportunity to get their share of it.

Senator WATKINS. That would be your solution of the problem?

Mr. McCLINTOCK. Yes, sir.

Senator WATKINS. Could you operate at all if there were a tight allocation system adopted? I mean the exchanges. Would they be able to operate at all?

Mr. McCLINTOCK. Over any extended period, I would say "No".

Senator WATKINS. Say for the next 2 years?

Mr. McCLINTOCK. No. I am sure not.

Senator WATKINS. What hardship would be worked on anybody if that condition were actually brought about? How many people would be put out of work who could not get employment elsewhere, and so on. I would like to know.

Mr. McCLINTOCK. I cannot give you those figures. We have not gone into this matter with the idea of what would happen in the event the Government was given such authority as to close our exchanges. The damage would result probably not from the number of people that it might affect, or change their occupation, the damage would be done by destroying the marketing system that has served this country for a hundred years and whether it could ever be reconstructed again.

Senator WATKINS. You remember the experience of the First World War, do you not?

Mr. McCLINTOCK. I do remember.

Senator WATKINS. You remember that the Government practically took over the complete control of wheat during the First World War by setting a price at which it would buy all the wheat offered and licensing those who could do business with it, and guaranteeing them against loss.

Mr. McCLINTOCK. There was a period when that took place.

Senator WATKINS. And the market did recover after that, and the exchange went to work just as well as it ever did, shortly after those controls were taken off.

Mr. McCLINTOCK. I think it was a little more dangerous than under present circumstances.

Senator WATKINS. Why?

Mr. McCLINTOCK. The statements that came from the White House and the statements that came from our Attorney General show general hostility, I would say, against the grain exchanges. And I am convinced that if you ever grant the Government authority to close the exchange we will not be favored with the same climate that permitted us to open following the First World War, as we have now.

Senator WATKINS. Did you say climate?

Mr. McCLINTOCK. That is what I said.

Senator WATKINS. What did you mean by climate?

Mr. McCLINTOCK. Political climate.

Senator WATKINS. You mean the attitude of the people?

Mr. McCLINTOCK. Yes. That is right. Well, the attitude of the political forces.

Senator WATKINS. Under the request of the program of the administration to contemplate at least the power to fix prices and also the power to roll back prices. What would be the effect on those who have been dealing in grains if prices were rolled back from their present level?

Mr. McCLINTOCK. You mean the financial effect?

Senator WATKINS. Yes. What would be the financial effect? Congress would like to know if these powers are given, and they are used, just what is going to happen to the country. We would like to know if it is going to have any disastrous effect or not, or if it is going to be slight. It might have no effect whatever, to hurt anybody.

Mr. McCLINTOCK. The effect on me might be completely different than it would affect some other individual.

Senator WATKINS, I mean the business.

Mr. McCLINTOCK. I think the important thing is not how it affects the individuals in the grain trade as how it affects our total economy. We are not concerned, Senator, with a selfish matter on this proposition.

Senator WATKINS. I really would like to know, as one Member of Congress, what would happen, because it has been suggested, and there may be some sort of controls or allocations authorized. Before we do that we ought to know from men who are in the business what effects it will have upon the economy of the United States. You may state it generally, or you may be specific as to any industry or any business.

Mr. McCLINTOCK. Just getting down to a small detail, if the Government should attempt to roll back prices it would be the same in our business as any other, that the commodity that you had on hand, on which you had paid a competitive value for, you certainly would be damaged in a monetary way.

Senator WATKINS. There would be some losses?

Mr. McCLINTOCK. There would be some losses.

Senator WATKINS. By people who bought at higher prices.

Mr. McCLINTOCK. That would be determined, the degree, by your commitment. They are undeterminable.

Our views are not so much on that as the fact that it destroys a way of life in this country in which we think the pattern of our marketing system fits into so completely.

Senator WATKINS. You do recognize there are emergencies sometimes requiring extreme measures for short periods.

Mr. McCLINTOCK. Well, we do not deny that such a condition might prevail. We do not think any such condition prevails at the moment, not by a long shot, and we do not see anything in the immediate future that would cause such alarm as that.

Senator WATKINS. You think wheat has advanced as far as it will?

Mr. McCLINTOCK. No. I do not mean to say that.

Senator WATKINS. If it goes higher you can recognize it would cause a lot of distress to people who have to buy. It affects so many other foods besides wheat and wheat products.

Mr. McCLINTOCK. That is a question of whether you want to exercise the authority which the government already has to limit your exports and your allocation powers to offset that condition which you talked about. There just is not any such thing.

Senator WATKINS. Suppose, as we have already voted in the Senate, we are going to help the people across the sea, we are going to send them food, we are going to send them wheat.

Assuming that as a part of the program I would like to have you take that into consideration in your observation. That is going to be done. I do not think the people of this country are going to see those people go without, that they are going to fail to use the weapon they have in their hands to keep those governments free, those people free. Take that into consideration.

Mr. McCLINTOCK. My answer to your question is this: If your purpose to help prevent communism from appearing in the western European countries is going to involve us into adopting the very tools of communism, such as controls, price fixing, allocations, determining use of materials, those are one of the prime factors, if my understanding is correct, of a communistic regime.

I say there is no advantage in this country attempting to prevent communism in Europe if it means that we adopt it voluntarily here in order to prevent it in France.

Senator WATKINS. I might call your attention to——

Mr. McCLINTOCK. You have, under those circumstances, all of these various controls. We know by our experience that you cannot set down a control here and that it will stay stationary. It reaches into all elements of our economy very soon. We would very shortly—we very nearly had, at the end of OPA—the so-called police state. Inject it in peacetime, I say you have the police state which we decried so severely for other people.

Senator WATKINS. You do not think we are at peace now, do you, with the world? Is it not a fact that we have an ideological war, an economic war, going on now just as vigorously as our shooting war was in World War II?

Mr. McCLINTOCK. I mean as far as our military efforts are concerned, we are supposed to have peace. And hostilities have not been declared. If there is some way that we have a mental war, or a cold war, or the different descriptions you have heard given, I do not know. It is pretty meaningless to me.

Senator WATKINS. That is imaginary.

Mr. McCLINTOCK. It is a fact that we have not established ourselves diplomatically very wisely, or very effectively. You can call it an ideology of war, or you can call it a cold war, or whatever it may be. As I see it it is only the fact that the diplomats of our respective countries have not been able to agree. I do not think that approaches war, necessarily.

Senator WATKINS. Of course, I think it would be perfectly clear we could agree if we gave in immediately to what the other side wants. You can always come to an agreement by conceding your position. You would not, of course, advocate that.

Mr. McCLINTOCK. I would not say the misunderstanding should be resolved in continuation of the efforts we are going through. I do not believe we are terribly exposed to war because we have a disagreement by some selected diplomats in this country.

Senator WATKINS. You think that is about the size of the situation—that there is a disagreement between the diplomats.

The reason I am calling this to your attention is because Congress is faced with a condition, not a theory, we are faced with an actual cold war which may become a hot war any time. We are seeking to find some means to alleviate the present situation and prevent prices from getting completely out of control with disastrous inflation as a result. That is the reason why we are making these investigations.

Mr. McCLINTOCK. Senator, the only thing that I can tell you is to use the same tool that has put the market up to bring it down, and that is your control of allocation of exports. If you tell me that you are going to export, or there is a condition prevailing where we are going to export irrespective of the supplies, the level of supplies that we have in this country, I tell you there is no answer, and I do not care what controls you put on, it will not stop price. You will have it in the black market, or you can have it in the free market, whichever you choose.

Your answer is to use the crank that put the markets up to keep them down, and that is your power that you have granted Government to control exports through the allocation system out of this country.

Senator WATKINS. We understand, of course, we could cut down the exports, and if we had done that earlier we would have had a surplus in the United States. There would have been a lot of farmers running around now to find a market and calling on the Government to help in the support price program had we done that, had we stopped the export in grain to Europe.

Mr. McCLINTOCK. Surely. It is all a question of what is high. You have one thought on it.

Senator WATKINS. There is no argument about what is high now, is there? There is no question on that score.

Mr. McCLINTOCK. I do not know, when you look at the other levels of our economy. I think we have witnesses here who will prove that maybe they are not high.

Senator WATKINS. Do you say that the price of wheat is not too high?

Mr. McCLINTOCK. What sort of a measuring stick would you want me to use?

Senator WATKINS. Take the measuring stick in your own country. Are they too high for the good of the people? And I do not think it would be an answer to say they are higher in other countries.

Mr. McCLINTOCK. I think they are awfully related because the thing that has created high prices in this country is our participation in feeding the world.

So you cannot confine the conditions that affect the prices of this country when you are dealing in world transactions. Therefore the prices in other countries is related to ours.

If you ask me if wheat is too high, and I would have to make an answer "Yes" or "No," I would say "No," I do not think it is too high compared with other conditions in this country.

Senator WATKINS. It is a very interesting subject, and we could pursue the debate at great length on just what should be done. As I gather from what you said, your remedy would be to cut down the amount that we are exporting to the point where our prices come to the level we want them in this country?

Mr. McCLINTOCK. That is right. If you can agree among yourselves what price you want, that will be it.

Senator WATKINS. That, of course, means that somebody overseas would go without food, food that they ought to have. Of course, that is the alternative. We understand that.

I thought probably——

Mr. McCLINTOCK. We are not arguing against the humanitarian elements that are involved here.

Senator WATKINS. Let us take that into consideration. That is what I wanted you to do, take that humanitarian consideration and keep it in mind to help us work out a program where we are not going, cut down the allocations to Europe so the prices would be very much lower here. We want to help them. We have declared that as a national policy as far as the Senate is concerned, and we will probably go on to the end of the chapter.

I cannot conceive of an American ever denying help to fellow human beings who were suffering, no matter what it does over here.

Mr. McCLINTOCK. We have no disagreement with you on that at all, and I think you all understand that. But taking that attitude, and we will say that it is unanimous, that we all agree that that is the thing to do, we nevertheless have got to be prepared to take the economic effects of that thing.

Senator WATKINS. In other words, let prices go higher here.

Mr. McCLINTOCK. That is right. There is no point in talking all around the question that we are going to do this, but we are going to not have it make any change in effects. That is silly; that is child talk. We are dreaming; wishful thinking. That is all.

Senator WATKINS. I want to call your attention to the fact that during World War II we did have to adopt some of the methods of a totalitarian government, a police state. We had to have price controls. We had them all. I think they were justified for that emergency. The only question is, are we in such an emergency today, and if we are, probably they will be justified a little bit longer.

Mr. McCLINTOCK. I think they served probably a useful purpose during the war. I am not denying that they did. But you had an entirely different situation. You had patriotic compliance there that you could not obtain under peace conditions.

Some of us may be able to foresee the need of them, but a large segment of our people do not believe in them. Therefore, in my opinion such controls could not be enforced without the exaction of the full power of the police state which is terribly unpopular in this country.

Senator WATKINS. It is unpopular with the people everywhere, usually. We cannot go along in that field very much longer.

I would like to ask you if you had any experience in the First World War as a trader on the grain exchanges, the commodity exchanges?

Mr. McCLINTOCK. I had not gotten up in the grain exchange at that time. I was living on a farm, farming, and running a country elevator business.

Senator WATKINS. At that time the exchanges were permitted to operate, but not in futures, very much the same as I understand the exchange in the Northwest, the wheat exchange and the commodity exchange out there now operates without dealing in futures, under a system of licensing.

Mr. McCLINTOCK. You are talking about Portland and Seattle?

Senator WATKINS. You do not think that could be done again in the Government were forced to get into the position we were in in the First World War, and the Food Administration, the laws that were enacted at that time?

Mr. McCLINTOCK. That simply means that government sets itself up as being in a better position to determine to what use, and at what price the products of our country should be used for. I do not believe that kind of wisdom is possessed in a few people.

Senator WATKINS. Did it not work earlier?

Mr. McCLINTOCK. In a dire necessity.

Senator WATKINS. Do you not think we are in that position?

Mr. McCLINTOCK. No. Absolutely I do not. Not by a long shot.

Senator WATKINS. That is the thing I wanted to find out.

Mr. McCLINTOCK. Not by a long shot.

Senator WATKINS (presiding). Any other questions?

(No response.)

Senator WATKINS (presiding). Thank you, Mr. McClintock.

We will return at 2:15 to continue this hearing.

(Thereupon, at 12:45 p. m., the committee adjourned, to reconvene at 2:15 p. m.)

AFTERNOON SESSION

The committee reconvened at 2:20 p. m., at the expiration of the recess.

The CHAIRMAN. The committee will come to order. We will proceed with the statement of Mr. Roy D. Crawford.

Mr. SLAUGHTER. Mr. Chairman, with your permission, I would like to call Mr. Cate, first; he is right after Mr. Crawford.

The CHAIRMAN. Mr. Henry H. Cate.

Mr. SLAUGHTER. Yes, sir; of Kansas City.

The CHAIRMAN. You may proceed, Mr. Cate.

STATEMENT OF HENRY H. CATE, PRESIDENT, FLOUR MILLS OF AMERICA, INC., KANSAS CITY, MO.

Mr. CATE. My name is Henry H. Cate, and I am engaged in the flour-milling business, and president of Flour Mills of America, Inc., with headquarters in Kansas City.

This company operates four mills in Kansas, Oklahoma, and grain elevators, both country and terminal, in those States, and Illinois.

The flour-milling business is, in fact, the grain business carried just two steps further. That is, we buy grain just like grain merchants, store it for others. We also process and merchandise it.

As a flour miller who uses the facilities of the commodity exchanges, I wish to discuss what has been variously referred to as the regulation of exchanges, regulation of speculation, and controls over margins.

To any such legislation, I am opposed. We are not speculators and do not want to be compelled to speculate. But speculation is inherent in the marketing and ownership of grain, and speculative risks must be borne by someone.

It is in the public interest that such risks be carried by those, namely, speculators, who wish to assume them.

The proposed legislation is unsound because it would have the effect of casting the burden of risk upon the trade, and so, upon the public, and that would mean increased costs for flour and bread.

In the handling of wheat, the risk of loss through fluctuations in value is greater than in most commodities for several very important reasons.

First, the supply varies greatly from year to year, and month to month, because of weather conditions, and other factors.

To give you some comparisons, other commodities, such as coal and lumber, are produced in steady volume. That is not true of wheat. And for that reason, the supply-and-demand relationship changes constantly and, therefore, the price.

Second, wheat is normally produced in this country in quantity in excess of domestic demand and, therefore, is directly influenced by conditions throughout the world from the price standpoint. This does not apply with equal force to other commodities produced in this country.

Third, wheat comes on the market as producers elect to sell it, not merely as millers and merchants may wish to buy it, and the volume of grain bought may be, and frequently is, very large in relation to any demand existing at that time. So that very large amounts must be accumulated without knowledge of when, where, and at what price it will be sold.

In other words, there is no constant daily flow of this commodity. It must be bought when it is offered if one wishes to establish a source of supply.

Fourth, the price of wheat is a world price, and during the period of storage, harvest is going on in some part of the world in every month of the year with rapid changes in supply-and-demand relationships, and with wild swings in price frequently a result.

I have discussed briefly the usefulness of the futures market as price insurance through the process of hedging; that is to say, I have implied that, because of these factors which influence the price of wheat, and cause it to change so rapidly flour millers and grain merchants must have insurance; they must have it to a much greater degree than processors and dealers in other commodities.

But the benefits of a free and futures liquid market to the trade and to the public extend beyond the avoidance of risk.

Operators of business enterprises must figure return on the capital invested, as a part of their cost of doing business. It follows, therefore, that the greater the capital investment required, the greater the margin of profit must be.

By reason of the availability of a hedging market, millers and grainmen are able to operate on substantially less capital than they would otherwise require, with corresponding benefit to the public.

The elimination of the risk of market changes through hedging, as applied to the milling business, makes it possible for these businessmen to borrow from the banks on the basis of 90 percent of that market value of their grain inventories, and at rates of interest as low as 1¼ percent per year currently.

Were it not for this hedging protection, it would be necessary to maintain a working capital from 3½ to 5 times that which is now required.

Unless there is a satisfactory futures market, no such basis of credit as now prevails could be granted to millers and grainmen. This would mean as far as mills are concerned, either restriction of operations, with resulting higher costs, or would mean much more capital, with likewise a resulting higher cost.

An example of the use of the futures market is presented in today's market situation.

On November 22, the May futures price in the Kansas City market closed at $2.68, while, at the same time, No. 1 ordinary wheat sold for $2.88½ per bushel. In other words, we could buy wheat for future delivery 20 cents per bushel cheaper in May than the spot price.

Senator WATKINS. May I inquire which page you are on?

Mr. SLAUGHTER. Senator, as the Senator knows, we are running somewhat behind schedule because of this morning, and Mr. Cate is shortening his statement, but would like to have leave to file his prepared statement with the committee. But, in order to save the committee's time and because of this morning's schedule, he thought it desirable to shorten it to save your time.

Mr. CATE. Senator, I am on page 7 at the moment.

The point I am trying to make here is that wheat on November 22 was selling at $2.88 per bushel. It could be bought for May delivery at $2.68 per bushel.

Even though the wheat is not available today, these contracts may be made, and the consumer will get the benefit of the lower price. By that I mean that we would today sell flour to a baker or to a distributor or for May delivery on a wheat cost 20 cents per bushel less than on the current market price. That is possible only because speculators think the price of wheat is going to be lower in May than it is today; and this is a case where speculative selling tends to give the consumer a lower price, and also to influence the farmer to sell his wheat more freely, both of which are certainly desirable objectives under the current situation.

Senator WATKINS. May I ask you a question while you are on that? As I understand it, in the Portland area they do not deal in futures.

Mr. CATE. I am not familiar with the Portland area, Senator. We do not operate in that territory.

Senator WATKINS. I was wondering; they seem to get along all right there. The prices, I do not think, are higher than the price in the Chicago area.

Mr. CATE. Mr. Sanford lives in Portland, and is active in the grain business in Portland, and would be better qualified, I think, to answer that question than I, Senator.

Senator WATKINS. I had asked the question in reference to what you said about futures in helping to lower the price.

Mr. CATE. I might say further on that subject, that I stick to my point that where there is a futures market, and where wheat can be bought for future delivery at a lower price, the consumer benefits, because I doubt seriously if any miller in Portland, Oreg., without the ability to buy a futures contract at a discount, would sell at a discount at the spot price.

Our price, if we did not have a futures contract which we could buy at a lower price, would be the spot price, plus the cost of carrying the wheat until next May.

The CHAIRMAN. Suppose the price is higher, supposing the futures price is higher, than the spot price?

Mr. CATE. If the futures price is higher than the spot price, naturally the price of flour for delivery at that future date would be likewise higher.

But, my point is that when speculative activity causes the market to be cheaper for future delivery the public benefits.

As I pointed out, my company has no interest in speculation in wheat as a speculator. We do, however, have a very great interest in it because of its effect upon our ability to hedge, and I am speaking of speculation now.

In order for the futures market to be of the greatest usefulness to millers in protecting them against price changes, it is important that the market be broad and liquid, and when I speak of millers here, I am speaking of millers who are acting largely as agents of the public, because we only process wheat, and the price which we pay for wheat is directly reflected in the selling price of flour and, therefore, in the cost of bread or the cost of flour to the consumer.

It is important that the market be broad and liquid; in other words, if there be sufficient trade in the market to make it possible for the miller to buy or sell with minimum price fluctuations. If we should have a thin market with a daily trade of only a half million or a million bushels, it would not be an effective hedging medium, or even 3,000,000 bushels.

The present market, with a daily trade of 14 or 15 million bushels, is not really an effective market.

The present excessive margins have greatly reduced the volume of the wheat market, thus causing a thin market.

Senator WATKINS. Has it had any effect on prices?

Mr. CATE. It has an effect on the prices which we have to pay for wheat, yes, sir, because we cannot begin to buy enough cash wheat to cover sales on particular days.

Under such circumstances, if we sell in the form of flour a half million bushels of wheat today, our practice is to go into the futures market the next day, and buy the difference between what cash wheat we can buy that day and the total amount of wheat sold.

In a thin market we cannot buy large quantities without excessive price fluctuations, and we have to guard against that risk by either reducing the volume of selling or figuring a higher price.

Speculators are important because they have come to express, where there is a bona fide market, the best judgments of the world on the values of the commodities in which they deal. The current administration thinking is that the present price of wheat is too high, and that it results from a large volume of speculative buying.

Whether this Congress thinks the price of wheat to be too high remains to be seen. Usually Congress thinks the price of wheat is too low, but whether too high or not, current wheat prices are not the result of speculation, but are the result of the extraordinary buying of wheat for foreign use, plus high domestic purchasing power, increased consumption of the products of grain, and short crops.

It is a naive conception that speculative buying of wheat must make the price of wheat go up. It entirely ignores the fact that speculators are just as ready to sell if, in their opinion, the price is getting too high.

It is a common judgment of men in the market that the present price of wheat is not due to speculation, and this fact is well known to men in the administration who are familiar with conditions.

Informed speculation performs a useful public service, and I would like to emphasize that fact very strongly. Speculative buying, based upon the judgment of men who foresee a shortage of supplies, results in an upward movement of prices which, in turn, brings beneficial results. Why? Because higher prices tend to conserve the supply of wheat.

In the present situation, for example, if the price of wheat had remained at the July level of $2 a bushel, wheat would have been fed to livestock and poultry much more freely, and, therefore, the amount available now would be substantially less.

High prices also encourage the producer to increase his acreage, bring on the market more wheat, which, in turn, tends to level off the price.

I do not know to what extent speculative buying has caused the wheat market to go up since July. But I repeat, that to whatever extent the speculator put prices up, he performed a useful public service.

If we had 50,000,000 bushels or 100,000,000 bushels of wheat less in this country today for domestic consumption and for export to Europe, think what our situation would be.

There is no evidence of undue speculative activity which can be assigned as a reason for the present price level, but, on the other hand, the current demand for the cash article is a far more potent force on the market.

Speculators do not buy cash wheat; they buy futures contracts. Every futures contract on the board, and this has been true for, well, ever since the market has been reopened, has sold at a discount 99½ percent of the time, and I think 100 percent of the time, which shows that the speculative buying has not been comparable to the spot buying and to the actual cash demand.

The administration has demanded, I should say requested, the restoration of the power to limit—first, I want to make one other point:

If this power, which has been requested, is given to the administration to control margins which might mean 100 percent margins, and to control the exchanges, which might mean closing the exchanges, what will be the result from the standpoint of a miller? The result can only be an incre se in risk, an increase in cost, for the reasons which I have already explained, such as the necessity for more capital, the necessity of reducing operations.

It will also mean something which I think is very important to this country, and that is it will tend to freeze out competition—that is, competition that is not very well financed in the milling business.

To that extent, it will tend to reduce competition; to that extent it will tend toward monopoly in the milling business, and for all those reasons, it will raise the cost of flour to the consumer.

I would like to add here that just about 1,000 mills, flour mills, report to the Census Bureau, which indicates that in this industry you do have competition, and you do not have monopoly. The biggest company in the business does not make more than about 12 or 13 percent of the total flour produced in the United States.

For those reasons, and in the public interest, I am opposed to the granting of these powers because if they are granted they probably will be used.

The administration has requested the restoration of power to limit prices on vital commodities, and I am going to discuss this subject briefly, with your permission, because these powers, these other powers, have a vital bearing on the grain exchanges which, I assume, would include grain and the products of grain.

This power now is requested as an aid to restraining prices so long as the present extraordinary demand for foreign relief exists.

This power, in my opinion, should not be given. For one thing, it implies that there exists some agency of government so all-wise as to be able to say what is fair and just and reasonable for the price of grain.

Such a power manifestly could not be exercised without engendering vital conflicts between the producer on one side, and the consumer on the other under the operation of a free market.

These two interests are dealt with in absolute fairness under this free market, and I submit, that no human agency is wise enough to determine a fair price, and that if it were, there would be constant complaint and suspicion that the power had not been exercised properly and promptly.

Very recent experience shows the futility of price limitations at a time when every effort is being made to attract grain off the farms. I refer to the experiences of 1946, when ceiling prices on grain as between grain, and grain, as between poultry and livestock which were so completely out of line as to make it utterly ridiculous, and to utterly paralyze grain in this country. I fear we might have a repetition of those experiences if these powers are granted.

The policy of overseas relief is determined by the highest Government authority, and I have jumped over here, and with your permission, I am going back. I missed one point which I want to make.

I am opposed to granting the administration's request, and I refer specifically to their requests to control the exchanges, to give them a greater control over the exchanges than they now have, and to control margins; to their request to allocate basic raw materials in this country; their request to ration at any level, and their request to fix prices.

I am opposed to granting these requests on principle under present conditions. Who should have the power in a country such as ours to regulate the volume of business and to control prices? A free market in a free country should do these things without the bungling intervention of men, and when I say "bungling intervention of men," I am not saying it with any specific group of men in mind. I do not know who would have this authority; whether it would be Agriculture, Commerce, or some new agency, but I would object to giving that authority to any group of men, even if they were to consist of the smartest brains in the grain and milling and food business. It is too much power to give to any group. No group can safely be trusted with such immense powers.

Now, everyone is concerned about the high price of wheat. It should not be strange that the price of wheat is high, and that the farmers are not selling freely.

The farmer is not selling, first, because of the record-breaking crop this year. Farmers are in relatively high-income tax brackets. To sell more wheat would only increase their taxes. But to hold it into the next tax year may result in a substantial saving in taxes, because of a possible reduction; and, secondly, because taxable income, due to weather conditions, may be lower.

In that connection, I would like to emphasize the influence the present tax structure has on the movement of food commodities, basic commodities, to market. If it were not for the high bracket which some farmers are in, and the amount of tax they have to pay, you would have a lot more wheat on the market today and have a lower price, and the same thing applies to corn and oats.

The CHAIRMAN. Do you know that from talking to farmers?

Mr. CATE. I know it very definitely, sir.

The CHAIRMAN. How do you get your knowledge of it?

Mr. CATE. From talking to farmers, and from seeing how they act, from our direct contact with them. We have 30 country elevators where we buy wheat from farmers, and when farmers come in and store wheat with us, and leave it on storage for 6 months, 8 months, and a year and 2 years, and pay storage charges, there must be some reason for that. We know that reason is because of taxes, because they are deferring tax payments, and also because they frankly tell us that it is the reason.

They have told us that they will come out better if wheat goes down a dollar and a half a bushel, even if it goes down a dollar and a half a bushel, by carrying it until next year.

The CHAIRMAN. Particularly, I suppose, where they face a poor crop this year in the Kansas area.

Mr. CATE. Yes, sir. The farmer is human, and he never likes to pay a bill until he has to, and he always hopes that something will happen to reduce the amount of that bill.

The CHAIRMAN. How much is the damage there? Is the damage restored at all in Kansas?

Mr. CATE. There has been considerable damaged wheat coming in, Senator.

The CHAIRMAN. No; I meant the replanting next year's crop. Has there been any replanting since the rain?

Mr. CATE. Yes; there has been an increase in replanting; yes, sir. Just how the acreage today compares with last year's crop, I cannot tell you, but I would say the crop is in much, much poorer condition than it was last year.

The CHAIRMAN. The Secretary of Agriculture said that it was too soon and that he could not tell whether there had been any salvage or not in the last rain.

Mr. CATE. As I said, there has been a lot of wheat planted since the last rain, and with favorable weather from now on, extremely favorable weather from now on through the winter, it is extremely possible for us to raise a good wheat crop, but that is entirely a matter of weather.

Secondly, over the entire southwestern wheat area, which is the big surplus wheat-producing area of this country, the weather for the last month has been extremely dry, and in many important sections only a small part of the crop was planted only recently.

Third, the farmer is well aware of the national and international wheat situation. In 1947, early in 1947, he saw wheat touch $3 a bushel.

With the general price level in wages in this country up 10 to 15 percent as compared with last year, and the coarse-grain production off 1,200,000,000 bushels, it is not strange that the farmer expects wheat to sell substantially higher than during the last crop year. As a result of these conditions, the flow of wheat into the market from the farms has been seriously reduced.

In the face of the farmer's tendency to hold wheat, and the present poor prospects for 1948, for the 1948 winter wheat crop, the huge demand for foreign shipment cannot fail to have a profound effect upon the market.

It must be clear to this committee, as to those in the grain and milling trade, that great as the grain resources of this country are, they are not sufficient to meet the extraordinary demands which have been made without causing higher prices.

As a matter of fact, the only conceivable way to export the goal of 570,000,000 bushels is to conserve the supply of grain in this country, and that can only be done through an increase in price to such a point that consumption for animal and poultry feeding will be reduced.

This can be best done by the free operation of the law of supply and demand, as expressed through the medium of the organized exchanges, grain exchanges, of this country.

To give the Government power to allocate grain for domestic consumption, to control margins, to ration at any level, and to control prices, in my opinion, could only have disastrous consequences for all concerned, producers, consumers, the grain trade, the bakers and even the starving peoples abroad that we are trying to help.

The use of such powers, if granted, will lead to widespread inequity, maldistribution, higher, not lower, prices, black-market operations on a broad scale, reduce the amount of grain as grain, and that is the most efficient way to use it for food, available both for domestic consumption and for shipment abroad, and do irreparable damage to the economy of this country.

The CHAIRMAN. Mr. Cate, you say that since the 33⅓-percent margin went in, there has been a thin market, and that you have had difficulty in hedging.

Mr. CATE. Extreme difficulty. I would say extreme difficulty, Senator Taft. As a matter of fact, it is off about 45 percent. The average for 30 days before October 7, approached 30,000,000 bushels per day in wheat, and it is down to about 16 and 17 million bushels; it was down for the 30 days subsequent to October 7.

The CHAIRMAN. Do you have to put up a margin for your own trading?

Mr. CATE. Yes, sir.

The CHAIRMAN. Does that make you then assume a part of the risk?

Mr. CATE. No, sir.

The CHAIRMAN. You sell enough to balance that?

Mr. CATE. No, sir; hedgers put up a lower margin.

The CHAIRMAN. You do not put up a 33⅓ percent?

Mr. CATE. No, sir; the margin requirement in Chicago today is 25 cents a bushel for hedgers.

The CHAIRMAN. When you say you have difficulty, you mean that you cannot sell the right amount of wheat in a day, to sell it.

Mr. CATE. It takes us longer to sell or longer to buy whichever we are doing, because there are fewer buyers and fewer sellers in the market and that, of course, increases the risk of our operations.

The CHAIRMAN. Yes; I understand the effect. That is all I have.

Senator WATKINS. How long does it take to put through a transaction now as compared with when you had what you call a liquid market?

Mr. CATE. It depends on the size of the transaction, Senator.

Senator WATKINS. Any size that you want to take for your measuring stick, and let us find out.

Mr. CATE. I would say that it is easy to buy 5,000 or 10,000 bushels, and that today to buy 50,000 bushels would be as difficult as normally to buy 100,000 or 200,000 bushels.

I have seen the market go up 2 and 3 cents a bushel on a 50,000-bushel order, when, if you had a normal market, a 50,000-bushel order would not create a ripple in it.

The CHAIRMAN. You deal on the Kansas City market?

Mr. CATE. We deal on all organized grain exchanges in this country—Chicago, Minneapolis, and Kansas City—because we use wheat tributary to all three markets.

Senator MYERS. Is it your point, Mr. Cate, and I apologize for not having heard your testimony because I was engaged in some other business, is it your point that 33⅓-percent margin is too high?

Mr. CATE. Yes, sir; but definitely, sir.

Senator MYERS. What do you think would be a fair margin under which you could operate?

The CHAIRMAN. Put it this way. What was the margin before this volume decreased?

Mr. CATE. The minimum margin for speculative accounts, as I remember, was 45 to 50 cents a bushel which, I think was ample.

The CHAIRMAN. And that was about what percent?

Mr. CATE. At that time wheat was around two and a half a bushel, probably 20 percent.

The CHAIRMAN. Twenty percent.

Mr. CATE. Yes, sir.

The CHAIRMAN. And the difference was created between 20 and 33⅓, the difference in volume?

Mr. CATE. Wait a minute. I am wrong; two and a half into two fifty is 20 percent, and it is now 33⅓ percent.

What is your question, Senator Taft?

The CHAIRMAN. This falling off in volume to which you object occurred in the change from about a 20-percent margin to about a 33⅓-percent margin; is that right?

Mr. CATE. Yes, sir.

Senator MYERS. So that you were satisfied with the 20-percent margin but you are dissatisfied with the 33⅓-percent margin.

Mr. CATE. Yes, sir.

Senator MYERS. Do you think that 33⅓-percent margin may have driven some real speculators out of the market?

Mr. CATE. There is no question but what it has, in my opinion, Senator Myers.

Senator MYERS. Do you think it is a good thing to have that type of speculator in the market that was driven out by the increased margin requirement?

Mr. CATE. I do not think it was a good thing to drive that speculator out of the market. I do not think it is a good thing to drive any speculator out of the market.

Senator MYERS. Did you see the testimony or read the testimony that was presented to us by Mr. Mehl from the Commodity Credit Corporation? Did you read his testimony?

Mr. CATE. No, sir; I did not.

Senator MYERS. He gave us a long list of those who were doing business on the grain exchanges, information which the Government received from the exchanges themselves, and on that list were people engaged in all kinds of occupations, and certainly were not people who would usually or ordinarily trade in grain or speculate in grain. Do you think it is a good thing for the market and for the country and for the price of grain to have that type of person in the market?

Mr. CATE. Well, Senator Myers, as I think the exchanges exist primarily for the benefit of the public and for the benefit of the producers and for the benefit of processors and handlers, if individuals, of their own free will and choice, and with their own money, care to come in and buy wheat as an investment or if they think that the price of wheat is too high, and they want to sell it as an investment, I can think of no good reason why they should be denied that privilege.

Senator MYERS. Can you not think of this reason, that it might ultimately affect the general public for which you say these exchanges were set up? That if speculation drives prices to unusual heights that then, when the bust comes, there are going to be repercussions much greater than if that speculation had not been permitted to drive prices to such heights?

Mr. CATE. I do not think speculation ever drives prices to those heights.

Senator MYERS. You do not believe that the speculation has in any way contributed to the high price of grain today?

Mr. CATE. I think speculation has a temporary day-to-day influence on markets, but over the long-term trend of markets and the average price of wheat for a year in this country, I do not think speculation has any influence whatsoever.

Senator MYERS. None at all?

Mr. CATE. None at all; definitely not. And I think that speculation, as I have testified here, is a healthy influence, and it is a good thing in the public interest.

Senator MYERS. Then, why would you approve a 20-percent margin if that is so?

Mr. CATE. I do not approve any 20-percent margin as such. I think a margin should be that sum of money necessary to guarantee the fulfillment of the contract on the part of the buyer or the seller, and nothing more.

Senator MYERS. Then, a 20-percent margin may have driven a lot of speculators out of the market.

Mr. CATE. In that case, I have no sympathy for the speculator driven out of the market, because the guaranty of the contract and the continued existence of the exchange is more important than that speculator.

Senator MYERS. Well, it is merely a question of degree, then, I take it? You have no complaint with a 20-percent margin?

Mr. CATE. No, sir.

Senator MYERS. But you do complain as to a 33⅓ percent margin.

Mr. CATE. Right, because 33⅓ percent is more than is necessary in the judgment of experienced men to guarantee the fulfillment of the contract and to protect the other side of the transaction against loss.

Senator MYERS. And a 20 percent margin of which you approve has driven some speculators out of the market undoubtedly.

Mr. CATE. I did not say that, Senator.

Senator MYERS. Do you think it has? I will propound the question, then. Do you think it has kept some speculators out of the market.

Mr. CATE. I am sure that some people who might speculate in grain were driven out by the 50-percent margin. At first, it was 50 percent, and then it was 35, and then 25, depending on the level of the market.

Senator MYERS. That is all, Mr. Chairman.

Senator ECTON. Relative to the question asked by Senator Myers, is it true, Mr. Cate, that when we speak of certain types of speculators in the recent market, is it not a fact that we have always had that type of speculator in the grain market, and do we not always have them?

Mr. CATE. When you say "that type," I do not know quite what you mean.

Senator ECTON. Well, the Senator meant——

Mr. CATE. I get your point.

Senator ECTON. Housewives and Government employees and farmers and people of that type.

Mr. CATE. To me, it is impossible to protect everybody in the United States against everybody, and there are always some people speculating in wheat that should not be speculating in wheat.

Senator MYERS. Not to interrupt you, but this proposal was not to protect those people; it was to protect the general public and not those doing the speculation; that was not the reason for the proposal.

Mr. CATE. Well, I do not know, but I gather that you and Senator Ecton are talking about two different things.

I get the impression, first, that you say that speculation is bad because it runs prices up; and then, secondly, I got the impression that you said that people who could not afford to lose did not have any business in the market.

Senator MYERS. Well, the second I did not say.

Mr. CATE. I do not know just what you mean.

Senator MYERS. I think we quite understand each other. It was my point, and I believe it to be so, that speculation that we have had today has contributed, not been entirely responsible, but has contributed to the high price of grains. You dispute that contention, and you say that speculation contributes in no part over the year's period to the price of grain.

Mr. CATE. Correct.

Senator MYERS. So, that is our difference of opinion. I have not indicated that I think there should be some marginal requirements or higher marginal requirements in order to protect the speculator, not at all. I just would like to get the speculator out of the market, at least a great number of them, because I believe that they have been responsible partly for the high prices of grain.

Mr. CATE. I would like to make one point here, which I have in my statement but which I did not read. I would like to point out the fact that for the 30-day period subsequent to the increase in margin requirements to 33⅓ percent, the Chicago December wheat futures, which most nearly represents the value of spot wheat, advanced approximately 36 cents per bushel. Now, that was on a reduced volume of trading of about 45 percent.

As a practical grain man and miller, I can tell you from my own experience, that not only was speculative buying reduced, but, secondly, that the support to the market, and buying by flour buyers, was at a minimum rate, and that the principal influence in the market during that entire period was Government wheat buying, and I would say that, and I can only repeat, the principal influence in that advance of 36½ cents was Government buying, and when the Government comes along and blames that advance on speculative buying, well, to put it mildly, it is such an exaggeration that it is almost criminal.

Senator MYERS. You know, too, that when the Government was out of the market for some period of time and was not buying, that prices continued to spiral, you know that, do you not?

Mr. CATE. I would say, without having the record in front of me, Senator, that the Government has been almost a constant buyer of grain and grain products ever since the wheat crop started moving.

Senator MYERS. The Government was out for a period of time and prices continued to go up.

Mr. CATE. The Government would be out for a day or 2 days.

Senator MYERS. Oh, no; much longer than a day or 2 days. I do not have the statistics before me, but much longer than a day or 2 days. I do not indicate that Government buying has not been responsible to some extent. Of course, there is a short supply in buying for export. But I do not think that is the only reason.

Mr. CATE. I would say it is the primary reason, Senator.

Senator ECTON. You mentioned here that the price of wheat is a world price. That is not true at the present time, is it, Mr. Cate, as far as our domestic price is concerned?

Mr. CATE. Well, it is not true; it is not literally true today. I was speaking of it more from the standpoint of a long-term proposition, looking at it from a long-range perspective.

Normally, the wheat is a world price, is a world commodity, and a world price; and, normally, the world price is reflected in our domestic price.

Senator ECTON. Did the grain trade voluntarily put on this 33⅓-percent margin?

Mr. CATE. There are gentlemen who are going to follow me who can give testimony on that subject better than I can.

The CHAIRMAN. Are there any other questions of Mr. Cate?

Senator O'MAHONEY. Yes, Mr. Chairman. I understood your testimony, Mr. Cate, to be, that the high price of wheat has been due not to one but to several causes.

Mr. CATE. Yes, sir.

Senator O'MAHONEY. First among which you place the Government's purchasing for export. Second; the purchasing power of the people of the United States, the increased demand resulting from the very high degree of employment which we now have; and that speculation of itself had no effect at all.

Speculative buying, you wish this committee to understand, has no effect to put the price up, but the buying of the masses of the people for their table, and the buying of the Government for the international objectives which it had to serve, namely, to supply the Army and the Navy, during the war and since the end of the war, to maintain our armed forces in the occupied zones, and to provide for the people in the occupied zones who were under our care, and for whom we were responsible, were entirely at fault in bringing about the increased price; is that right?

Mr. CATE. I would like to answer your question, first, by saying that I do not want you or anybody else in this committee to get the impression that I am critical of the buying for export.

Senator O'MAHONEY. I am glad to have you make that clear, because anybody listening to your testimony might have been justified in drawing the other conclusion.

Mr. CATE. Secondly, I want to say that I repeat my statement that speculation, in my opinion, has had nothing to do with bringing wheat to the present price, and I think that if you did not have any futures exchanges that the price would be probably right where it is today, possibly right where it is today, but probably higher.

Senator O'MAHONEY. Will you please, then, tell us why, in your opinion, speculative purchasing has no effect to drive the price up, but the purchasing of a man to support his family, of a businessman to run his business, and of the Government to carry on its responsibility, all of these purchases do have the effect of driving the price up?

Mr. CATE. There are several good answers to that question, Senator.

Senator O'MAHONEY. We would be very glad to have all of them.

Mr. CATE. In the first place, the buying by the Government, and the buying by the consumer takes grain out of the market forever. It is gone. Speculative buying does not take any grain out of the market. It all comes back, every pound of it.

Senator O'MAHONEY. Yes; I understood from Mr. McClintock this morning that 90 percent of the speculative buying does not deal in grains at all.

Mr. CATE. I do not know about that, but I know that I have never known of a speculator or ever heard of a speculator who bought wheat and took it out of the market and did not sell it back into the market; and that is the reason I say that it has no permanent effect on the price.

Senator O'MAHONEY. Did you not testify just a few moments ago that the futures market, with its speculative aspect, fixes the price which the consumer has to pay, according to your testimony? Of course, it had the effect of putting the price down. You gave us the example of May futures 20 cents a bushel lower than November cash price. Now, do you wish to change that testimony?

Mr. CATE. No, indeed; no, indeed.

Senator O'MAHONEY. Then, it does have an effect.

Mr. CATE. I did not say it fixed the price; I said it influenced the price.

Senator O'MAHONEY. But I thought you just now were saying that it does not affect the price at all.

Mr. CATE. Over a long-time period; speculation certainly influences from day to day prices.

Senator O'MAHONEY. Does it influence the price only downward?

Mr. CATE. No, sir, it influences it upward also, as I have testified.

Senator O'MAHONEY. Yes. Well, then, where we have a situation such as confronts the Congress and the people of the United States, with an obligation to buy wheat for the purposes of our international policy, and the Senate of the United States yesterday passed the interim aid bill with only six votes in dissent, which will require the expenditure by the Government of money to buy wheat, with the consumers of the country normally buying wheat, and with the speculator aspect of the market, what is your advice to this committee to recommend to the Congress in its efforts to keep the price down? Shall we do nothing about speculation? Shall we try to deter the purchases of the ordinary consumer? Shall we try to reduce the purchases of the Government? What shall we do if we want to keep the price down, or should we just let it go?

Mr. CATE. Well, it is a difficult problem, Senator.

Senator O'MAHONEY. I grant you that, and that is why you are here to tell us about it.

Mr. CATE. It is a very difficult problem, and it is a problem that you gentlemen, as representatives of the American people have got to decide.

Senator O'MAHONEY. And we need your help, sir.

Mr. CATE. Well, we are here trying to give it to you, and the first thing we are telling you is that you should not give the administration the power, any further power to control its exchanges, not to allocate, not to give them the power to ration, and not to give them the power to fix prices.

Senator O'MAHONEY. May I interrupt you to say, sir, that when I hear that advice from a man in your position, I am reminded of the fact that it is precisely the advice that has been given by men in similar positions throughout the history of this Government.

Whenever any proposal has been made to exercise the powers of Congress to control business activity in the interest of the masses of the people, always business enterprises such as yours have predicted that ruin would come upon the country if the Government imposed any conditions of responsibility upon business trading.

It was the same talk about the stock exchange, the same talk about the Securities and Exchange Act, the same talk about the Federal Reserve Board; the same talk about the establishment of the Interstate Commerce Commission.

Never once has such a suggestion been made but that gentlemen in your position say, "No, don't do it." But the alternative that you leave us with is only let the price run.

Your testimony here within the last 2 minutes is that in your opinion speculation never had an evil and adverse effect upon the grain market, is it not?

Mr. CATE. My testimony, Senator, has been confined to the current situation.

Senator O'MAHONEY. That is why I asked you the question, what are we going to do now? Here we have these aspects: General consumer buying, Government buying, both of which must go on, and speculative buying.

Now, is it your advice to us that we do nothing about any of them and let the price run wherever it may go?

Mr. CATE. My advice to you is that you do what you can to influence the executive agencies, and the administrative agencies of this Government to weigh carefully the demands for food abroad, weigh them against the requirements of the foreign countries, weigh them against the supplies that we have in this country, and then decide as best they can.

Senator O'MAHONEY. That is just what we are trying to do.

Mr. CATE. As best we can just estimate what we can spare, and what it is going to cost us, and whatever that cost is, it is going to be tremendous, but do not blame it on the speculator.

Senator O'MAHONEY. I see. Let us do what we can to take care of the starving in Europe; let us do what we can to maintain the position of the masses of the people of the United States, but in no circumstances, do anything to control the speculators.

Mr. CATE. Correct.

The CHAIRMAN. Mr. Cate, as a matter of fact, right at this moment the administration is apparently trying to decide whether to ship abroad 400 million bushels of wheat or 450 million bushels of wheat or 500 million bushels of wheat, so that there is a very considerable choice of the effect upon price, and in what decision they may make.

Mr. CATE. Yes, sir, undoubtedly.

The CHAIRMAN. And the last figure I saw was only 450 million, plus the 70 million bushels of corn already shipped, 520 million bushels, and which is 50 million less than the goal that was stated, at least suggested, some time ago. So, there is a wide discretion on how much wheat we may take abroad, and that is not affected, as I understand, by the interim aid bill passed yesterday; that is to be an executive decision on that question.

Mr. CATE. I would like to add, with the chairman's permission, to my reply to the Senator, and to say that insofar as the speculator himself is concerned, I have no interest. My company has no interest.

I would say that the controls that have already been put into effect over the past years on speculation are certainly adequate.

I make a plea for the speculator now only because of my own conviction that the speculator fulfills a useful and a sound economic function.

Senator O'MAHONEY. Does the miller speculate in futures?

Mr. CATE. I cannot answer for every individual miller in the country.

Senator O'MAHONEY. Of course, you cannot, and I would not expect you to.

Mr. CATE. I can say that it is common practice on the part of millers and the milling industry to hedge all inventories of grain to the greatest possible extent to avoid speculation.

Senator O'MAHONEY. I understand.

Mr. CATE. There are times when we cannot avoid some element of risk.

Senator O'MAHONEY. It is not a matter of risk. I was trying to follow through the line of questions which I addressed to Mr. McClintock this morning, and I understood him to testify that many of the millers who indulge in these hedging operations are in and out of the market constantly day by day. That is not a single transaction in a season or in a month or in a given period of time.

Mr. CATE. That is correct, Senator. We might be buying at 9 o'clock and selling at 10 o'clock, but all of our operations are hedging; they are not speculative.

Senator O'MAHONEY. They are not speculative at all.

Mr. CATE. Correct.

Senator O'MAHONEY. In that they are completely distinguished then from the buying and the selling of those who are listed by the brokers as speculators.

Mr. CATE. Yes, sir.

The CHAIRMAN. And your main point is that with 33⅓ percent margin the market is not broad enough to fulfill the proper functions of the market as a hedging market.

Mr. CATE. Correct.

The CHAIRMAN. And you do not want to give the Government power, because you think they are likely to overdo the margin business, and not leave the market broad enough to cover the necessary hedging operations, is that the main point?

Mr. CATE. That is my point.

Senator MYERS. One more question, Mr. Chairman. I notice on page 10, Mr. Cate, you say, "Informed speculation performs a useful public service in many ways."

Mr. CATE. Yes, sir.

Senator MYERS. What do you mean by "informed speculation"?

Mr. CATE. Well, I mean, Senator, just what the word "informed" means. It means well posted, experienced; speculation on the part of those with good judgment.

Senator MYERS. Are they the only speculators that are in the market today, informed speculators?

Mr. CATE. No, sir, not by any means.

Senator MYERS. Do you believe that uninformed speculation also performs a useful public service?

Mr. CATE. I do.

Senator MYERS. Why did you not say that? Why did you emphasize informed speculation?

Mr. CATE. Because I wished to give particular emphasis to the value of informed speculation.

Senator MYERS. But those who know nothing about the market, the uninformed speculators who have no knowledge of the market and do not have the information that this other group may have, they still perform a useful service, a useful public service?

Mr. CATE. I think so, and in time many of them become informed speculators through their experience.

Senator MYERS. What happens in the interim?

Mr. CATE. That all depends upon that speculator.

Senator MYERS. Well, suppose we have a tremendous amount of uninformed speculators in the market. Do you not think that they are just gambling rather than speculating?

Mr. CATE. Well, I do not know; the line between gambling and speculation and investment is pretty thin as far as I am concerned.

Senator MYERS. I do not think that is so between investment and gambling; I think there is a broad avenue between the two. I do not think the line is thin at all, and I am afraid that you have in the market today uninformed speculators as you had in the stock market in '29, when you had bellboys and other similar categories.

Senator O'MAHONEY. You see, Senator, the uninformed speculator supports the informed speculator, and both together support the miller, and the hedger.

Mr. CATE. I would like to read here, and this is pertinent to your question, Senator, from section 397 of the United States Department of Agriculture, one paragraph:

Information obtained by the Administration as the result of special studies, surveys and investigations, shows conclusively that the small speculators play a most important part in the merchandising of the Nation's grain. They are nearly always on the long side in contrast to the large professional traders who are as likely to be sellers as purchasers. If not subjected to periodic shaking out processes, these small traders would doubtless be an even more dependable group of hedge carriers.

Senator MYERS. That is a discussion of small and large speculators; that is not a discussion of gamblers and informed speculators; that is entirely different.

That is all that I have, Mr. Chairman.

The CHAIRMAN. Are there any other questions of Mr. Cate? If not, we thank you, Mr. Cate.

Mr. CATE. May I submit my statement for the record?

The CHAIRMAN. Yes, it will be placed in the record.

Mr. CATE. Thank you very much.

(The statement referred to follows:)

My name is Henry H. Cate. I am engaged in the flour milling business, and have devoted all of my business career to that activity. I am president of Flour Mills of America, Inc., a corporation engaged in the milling business, with headquarters in Kansas City, Mo.

Flour Mills of America, Inc., operates flour mills located in Kansas, Missouri, and Oklahoma. Attached to each of these mills are facilities for the storing of wheat. Our company also operates 30 country elevators located in the States of Kansas, Oklahoma, Missouri, and Illinois, where we buy wheat direct from farmers.

In addition, we operate terminal grain elevators located in Kansas City, Mo.; and Alva, Okla. Aggregate storage capacity at these terminals, country elevators and mills is in excess of 12 million bushels. Flour milling capacity is 30,000 hundredweight daily, with wheat requirements for milling purposes of about 70,000 bushels or 45 carloads daily.

As a flour miller who uses the facilities of the commodity exchanges, I wish to discuss what has been variously referred to as regulation of the exchanges, regulation of speculation, and controls over margins, by which is meant, apparently, that power is sought to fix margins with the purpose of limiting trading in grain so as to control the movement of prices.

To any such legislation I am opposed. We are not speculators and do not want to be compelled to speculate. But speculation is inherent in the marketing of grain, and speculative risks must be borne by someone.

It is in the public interest that such risks be carried by those, namely, speculators, who wish to assume them. The proposed legislation is unsound because it would have the effect of casting the burden of risk upon the trade and so, upon the public.

The proposal to control margin requirements has a direct effect upon my business. To understand this, it is necessary to consider the practice of hedging.

The importance of hedging to flour millers and grain merchants may not be fully realized. Let me assure you that to men in the business the risk of loss through price changes looms as one of the biggest factors in the business.

The great quantities of grain held by modern businesses of this kind, and the very considerable size of price fluctuations possible over the period in which grain must be carried, make the risk so great that it could easily wipe out the entire capital investment of an operating company. It is important, I think, that this question should be further explored.

There is an element of risk in every stage of commercial transactions. In general, producers, distributors, and processors must receive a return on investment, a reward for enterprise, and a coverage of risk, If the risk must, in the nature of the business, be carried by them, an adequate allowance in price must be provided.

In the handling of wheat the risk of loss through fluctuations in value is greater than in most commodities for several reasons:

First. The supply varies greatly from year to year and month to month because of weather conditions and other factors.

Second. Wheat is normally produced in this country in quantities in excess of domestic demand and, thereofore, is directly influenced by conditions throughout the world from the price standpoint.

Third. Wheat comes on the market as producers elect to sell it, not merely as millers and merchants may wish to buy it, and the volume of grain bought may be, and frequently is, very large in relation to any demand existing at the time, so that very large amounts must be accumulated without knowledge of when, where, and at what price it will be sold.

Fourth. The price of wheat is a world price, and during the period of storage harvest is going on in some part of the world in every month of the year, with wide swings in price frequently a result.

Covering the entire process of the handling of wheat and flour from the producer of wheat to the consumer of flour, the coverage of risk in the absence of hedging would constitute an important part of the charge for the distributive and processing services; but the modern device of hedging transfers practically all the risk and cost of bearing it to others, and the community is thereby relieved of the expense.

There are those who delight in taking risks, and who will pay for the privilege. But most men refuse to take risks in connection with their usual business ventures, and insist upon prices which make an ample allowance for risks if they must assume them.

Futures markets afford an opportunity for businessmen, through hedging, to transfer a part of their risks from their own shoulders to those who are more willing to carry them in the hope of gains through price fluctuations.

There is evidence to suggest that speculators in the wheat market as a group pay heavily for the privilege of carrying the risks of wheat price changes; so far as I am aware, there is no convincing evidence that speculators in the wheat market as a group and over a period of years receive any large reward for carrying the risks which they assume.

Whether speculators in the wheat markets in fact do pay for the privilege of carrying the risks of price changes, or receive some remuneration for their risk-carrying, it is clear that they carry the risks for a smaller charge than would be exacted for these same services by elevator operators, millers, and the like.

I approach this subject as a practical man obliged to consider this question of risk as a part of my own company's operation.

We try to be even as far as possible; that is, to sell flour as fast as we buy wheat, or to buy wheat as fast as we sell flour, but this ideal condition is never ejoyed. We must buy wheat when we can get it, and we must sell flour when buyers are ready to buy it. So, we hedge the unsold wheat or the oversold flour in order to avoid carrying any risk of a change in the market price.

The practical application of hedging to my company's business may be of some interest.

The raw produce of our industry is, of course, wheat. The primary end-product is flour, but 28 percent of our outturn, a byproduct known as mill feed important in the feeding of livestock and poultry is, of course, a substantial part of our business.

The principal elements of cost in the output of flour are the cost of the raw product, wheat, the labor expense, power cost, fixed charges, maintenance, and the general administrative cost incident to all businesses, including the expense of selling.

Of these, the greatest is wheat. Insofar as the cost of wheat affects the price of flour, the presentation made here by others is generally applicable, the milling business being, indeed, in a sense, the grain business carried one step further. However, there are certain aspects of the wheat situation which might well be viewed from the standpoint of the flour miller.

In the wheat end of the business, the flour miller is the competitor and also the customer of the merchant. When wheat is moving freely to market they compete for supplies, but later, when the movement diminishes, the miller is a buyer from the merchant.

In every year, there is a large movement of wheat from the farmers' hands to market, following the harvest, and in the Southwest, this peak movement gets under way about the middle of June and tapers off toward the middle of September. This is what is known in the trade as the accumulating period because of the large quantity which moves at that time and finds its way into storage.

Flour mills during this period accumulate stocks of wheat, and so far as possible, sell the flour against the wheat at the same time, so that their offering price on flour is based directly upon their purchase price of wheat.

However, wheat is often accumulated more rapidly than flour can be sold, and the miller then is in the same position as the grain merchants in that he has bought grain which he must hold until a buyer can be found.

He, therefore, is accustomed to hedge this excess by sales of wheat in the futures market, and thereby protect himself against the risk of price changes until he can find a buyer.

On the other hand, there is a general disposition on the part of the mills' customers, especially bakers, to purchase flour for delivery months ahead, and many sales are made for delivery at times as much as 6 to 9 months away.

While all mills necessarily have provision for storage of wheat, in general, mills do not undertake to carry more than a 60-day supply.

In order to meet their purchasers' demands and fix a price on the flour before they ever know what the wheat will cost, it is their practice to enter the futures market and buy wheat for future delivery.

Some of the wheat thus bought will be accepted upon the delivery date and converted into flour. Most often, however, the mill will endeavor to acquire the particular types of wheat desired as the wheat becomes available on the market, and as it is acquired sell out the futures contract.

This again is a familiar and much used method of hedging which protects the miller against price changes. Whether the wheat market goes up or down makes no difference to the miller because in either case there is an offsetting operation in the futures market which keeps him even on the price.

The usefulness of the futures market to millers and grain merchants for hedging purposes is based upon the fundamental fact that in general the supply and demand conditions bear with equal force upon the spot market and the future in which the grain is hedged; so that the two markets move together, and a loss in one is offset by a gain in the other.

Thus, when we have more wheat on hand than we have flour sold, we sell an amount of wheat for future delivery representing the difference. If the market goes up we have a profit in the spot grain but a corresponding loss in the sale of the future.

If the market declines, there is a loss in the spot grain but a corresponding profit in the future. One offsets the other. We have no net profit either way, but we have taken no speculative risk.

I have discussed the usefulness of the futures markets as price insurance through the process of hedging, but the benefits of a free and liquid futures market to the trade and to the public extend beyond the avoidance of risk.

Operators of business enterprises must figure a return on the capital invested as a part of their costs of doing business. It follows, therefore, that the greater the capital investment required by the operator the greater the margin of profit must be.

By reason of the availability of a hedging market, millers and grain men are able to operate on substantially less capital than they would otherwise require, with corresponding benefit to the public.

The elimination of the risk of market changes through hedging makes it possible for these businessmen to borrow from the banks on the basis of 90 percent of the market value of their grain inventories and at rates of interest as low as 1¼ percent currently.

Were it not for this hedging protection, it would be necessary to maintain a working capital from three and a half to five times that which is now required. Unless there is a satisfactory futures market no such basis of credit as now prevails could be granted to millers and grain men.

An example of the use of the futures market is presented in today's market situation. On November 22, the May future price in the Kansas City market closed at $2.68¾ per bushel, while at the same time No. 1 ordinary wheat sold for $2.88½ per bushel. We would sell flour today for delivery next May based on the May future price; that is, based on a wheat cost 20 cents a bushel lower than the present cost. Even though the wheat is not available today, these contracts may be made, and the consumer will get the benefit of the lower price. To cover this kind of business, we would purchase May wheat in the futures market, and whoever sold it to us would be obligated to make delivery next May.

Deferred wheat futures contracts sell at discounts under spot-cash wheat values as the result of speculative selling. Obviously, with cash wheat now selling at 20 cents over the May delivery price, no one who holds wheat will sell it for delivery in May. The May market exists because speculators are willing to risk their money on the proposition that spot wheat next May will be worth less than the current price of cash wheat. This is a case where the activity of the speculator contributes to a lower cost for the consumer, and for the Government to the extent that it buys for shipment abroad.

No more wheat will be produced in this country between now and the month of May. This spread in price is indicative of the tight situation prevailing in the spot market for wheat at this time.

Rampant bullish speculation would be felt directly in the futures markets, forcing futures prices substantially higher than present-day values, but the reverse of this condition actually exists, which leads to the conclusion that there is no undue speculation in the market which can be said to be responsible for the present level of prices.

As I have pointed out, my company has no interest in speculation in wheat as a speculator. We do, however, have a very great interest in it because of its effect upon our ability to hedge.

In order for the futures market to be of the greatest usefulness to millers in protecting them against price changes, it is important that the market be broad and liquid; in other words, that there be sufficient trade in the market to make it possible for the miller to buy or sell with minimum price fluctuations.

A thin market, one with a small volume of trade, makes it difficult for the miller to execute his hedges and subjects him to wide fluctuations which may result in losses.

The present excessive margins have greatly reduced the volume of trading in the wheat market, thus causing a thin market. We are finding it more and more difficult to hedge without a loss because of this condition. In short, a broad volume of speculative business is important to a satisfactory hedging market.

Some have thought that the futures market should be confined to those who wish to hedge grain; that is, solely as an operation against specific cash grain.

Men experienced in the market know that it could not be maintained under such conditions for the reason that there can not be complete coincidence in point of time or in volume. There must be others in the market ready at all times to trade against any hedging transaction. Such men are called speculators. They are also the men who carry the risk.

A large volume of trading is essential to a good hedging market. A large volume of trading in the futures market is necessary to obtain a true expression of value. Large volume results in minimum fluctuations, while a thin market causes wide fluctuations. Obtaining and expressing the true value of grain is an important public function, which the exchanges jealously guard.

Speculators are important because they have come to express where there is a bona fide market, the best judgments of the world on the value of the commodities in which they deal.

The current administration thinking is that the present price of wheat is too high, and that it results from a large volume of speculative buying. Whether this Congress thinks the price of wheat to be too high remains to be seen. Usually, Congress thinks the price of wheat is too low. But whether too high or not, current wheat prices are not the result of speculation but are the result of the extraordinary buying of wheat for foreign use, plus high domestic purchasing power, increased consumption of the products of grain, and short crops.

It is a naive conception that speculative buying of wheat must make the price go up. It entirely ignores the fact that speculators are just as ready to sell if in their opinion the price is getting too high. It is the common judgment of men in the market that the present price of wheat is not due to speculation, and this fact is well known to men in the administration who are familiar with conditions.

Informed speculation performs a useful public service in many ways. Speculative buying based upon the judgment of men who foresee a shortage of supplies results in an upward movement of prices which, in turn, brings beneficial results. Higher prices tend to conserve the supply of wheat.

In the present situation, for example, if the price of wheat had remained at July level of approximately $2 a bushel, wheat would have been fed to livestock and poultry much more freely and, therefore, the amount available now would be substantially less. High prices also encourage the producer to increase his acreage, bringing on the market more wheat, which, in turn, tends to level off the price.

There is no evidence of undue speculative activity which can be assigned as a reason for the present price level, but, on the other hand, the current demand for the cash article is a far more potent force in the market.

Excessive margins will, of course, stifle trade, and for this reason the extremely high margins now imposed will work to the disadvantage of millers if they result, as intended, in reducing the volume of trade in the futures market.

It is interesting to note here that the daily volume of trade in the Chicago wheat futures market has declined approximately 45 percent since margins were advanced 33⅓ percent of the purchase price on October 7, under a virtual mandate from the President.

It is also significant that since these increased margins went into effect, with the resultant decrease in trade, the Chicago wheat market has advanced 36½ cents per bushel.

The administration has requested the restoration of the power to limit prices on vital commodities, which I assume would include grain and the products of grain. This power now is requested as an aid to restrain prices so long as the present extraordinary demand for foreign relief exists. This power, in my opinion, should not be given.

For one thing, it implies that there exists some agency of government so all-wise as to be able to say what is a fair and just and reasonable price for grain. Such a power manifestly could not be exercised without engendering vital conflicts between the producer, on one side, and the consumer, on the other.

Under the operation of a free market, these two interests are dealt with in absolute fairness, and I submit that no human agency is wise enough to determine a fair price, and that if it were, there would be constant complaint and suspicion that the power had not been exercised properly.

Very recent experience, moreover, shows the futility of price limitations at a time when every effort is being made to attract grain off the farms. In the early part of the year 1946, under regulations of the Office of Price Administration, maximum prices prevailed on wheat, and in that period the Government sought to draw off supplies of wheat from the farms, but this effort was strongly resisted by the farmers.

There was no thought of coercing them, and in the conditions they were not only reluctant to sell, but positively refused to sell freely. In that period it was found necessary to increase the ceiling price two times, and also to offer a bonus of 30 cents per bushel in order to prevail upon the farmers to release their grain.

It should be remembered that the very existence of a ceiling price on grain tells the farmer that he is asked to sell his grain for less than its market value, otherwise there would be no need of a ceiling price. The farmer naturally resists efforts to make him sell his grain at less than its fair market value, and this innate resistance would again operate to dry up the movement of wheat off the farms if ceiling prices should again be imposed.

Legislation is also sought to confer upon the administration power to allocate supplies. The argument for this grant of power is that supplies could be channeled in such a way as to effect substantial savings of grain which might be diverted to foreign relief.

Here again, experience shows that this power, if granted, would be effective in only slight degree. In the first place, it would not be enough to force farmers to reduce their feeding programs. The combination of ceiling prices and allocations authority would again tend to keep the feeding grains on the farm, to build up the livestock population on the farm where the grain is grown, and proposed restrictions of feeding would only operate to the disadvantage of livestock producers in areas where the feeding grains are not grown in abundance.

Moreover, experience has shown definitely that the power to allocate cannot be wisely administered because of the many conditions and the changing conditions which affect the exercise of the power. Flour mills should not be left to Government edict to obtain the supplies of wheat necessary to run their mills.

I am opposed to granting the administration's requests on principle. Who should have power in such a country as ours to regulate the volume of business and to control prices? A free market in a free country should do these things without the bungling intervention of men. Does Congress want to grant power to a bureau to turn trade off and on with the purpose to influence prices? If so, shall that power be used to benefit the producer or the consumer?

No bureau can safely be trusted with such immense powers.

The flush movement of wheat is after the harvest is over. Wheat that went on the ground for lack of bin room has been moved out. Farmers have all their wheat now under cover, and all the urgency to sell has passed. Information gathered over the whole territory indicates that now the farmer is little disposed to sell his wheat, for three compelling reasons:

First, because of the record-breaking crop this year, farmers are in relatively high income-tax brackets. To sell more wheat would only increase their taxes, but to hold into the next tax year may result in a substantial saving in taxes, for the reason that the crop next year may be less, and the tax rate may be lower.

Second, over the entire southwestern wheat area the weather for the last 3 months has been extremely dry. In many important sections until recently only a very small portion of the intended winter wheat crop has been planted. The entire area should have been seeded by November 1. The weather continues dry, and for that reason alone, farmers would ordinarily hold until their new crop prospects are more definitely determined.

Third, the farmer is well aware of the national and international wheat situation. He has heard the desprate call for wheat. His radio and his papers constantly bring him news of the shortage of wheat. He has learned that it often pays to hold. In 1946 the holding of wheat by farmres resulted in two increases in price ceilings and a bonus of 30 cents over the ceiling price. Early in 1947 he saw wheat touch $3. With the general price level and wgaes in this country up to 10 or 15 percent as compared with last year, and the coarse-grain production off about 1,200,000,000 bushels, it is not strange that the farmer expects wheat to sell substantially higher than during the last crop year.

The result of these conditions is that the flow of wheat into the market off the farms has been seriously reduced. It will be little more than a dribble from here to the end of the year, and beyond that is uncertainty. As mills work out their supply of wheat and begin to search for more, this condition will not tend to make prices any cheaper. There will be no speculator in the cash market. The mills will have to have wheat, and when they go out for wheat they will meet the competition of the Federal Government.

In the face of the farmers' tendency to hold wheat and the present poor prospects for the 1948 winter wheat crop, the huge demands for foreign shipment cannot fail to have a profound effect upon the market. It must be clear to this committee, as it is to those in the grain and milling trades, that great as the grain resources of this country are, they are not sufficient to meet the extraordinary demands which have been made without causing higher prices.

The policy of overseas relief is determined by the highest Government authority, and we must comply with that policy. Presumably, the people support the policy, and if so, the price necessary to bring the supplies out should be accepted as inevitable.

We get nowhere by blaming the prices on speculators, for if there were no speculators, or for that matter, if there were no exchanges, grain exchanges, the shortage of supplies would still result, as it always does in any market, in increased prices.

As a matter of fact, the only conceivable way to export the goal of 570,000,000 bushels is to conserve the supply of grain in this country, and that can only be done through an increase in price to such a point that consumption for animal and poultry feeding will be reduced. This can best be done by the free operation of the law of supply and demand as expressed through the medium of the organized grain exchanges of this country.

To give the Government power to allocate grain for domestic consumption, to control margins, to ration at any level, and to control prices, in my opinion, could only have disastrous consequences for all concerned, producers, consumers, the grain trade, flour millers, bakers, and even the starving peoples abroad that we are trying to help.

The use of such powers, if granted, will lead to widespread inequities, maldistribution, higher and not lower prices, black market operations on a broad scale, reduce the amount of grain as grain available both for domestic consumption and for shipment abroad, and do irreparable damage to the economy of this country.

Mr. SLAUGHTER. This is Mr. Crawford.

The CHAIRMAN. You may proceed.

STATEMENT OF ROY D. CRAWFORD, SECRETARY AND GENERAL MANAGER, THE FARMERS UNION JOBBING ASSOCIATION, KANSAS CITY, MO.

Mr. CRAWFORD. My name is Roy D. Crawford. I live in Kansas City, Mo., the main office of our organization being located there.

My position is that of secretary and general manager of the Farmers Union Jobbing Association, a terminal cooperative marketing and purchasing agency, owned and controlled by farmers. In other words, gentlemen, we operate not for profit, except for the account of our farmer members.

Some 250 local cooperative associations comprise our membership and these local associations are, in turn, owned and controlled by producers themselves.

We operate principally in Kansas, but to some extent in the four surrounding States. Our association has been in business 33 years. My employment by the organization covers 23 of those 33 years.

My interest, and that of my organization, is to secure on behalf of farmers the lowest possible marketing cost for their products. We are interested in the grain futures market only as it affects the marketing system of the grain industry and the public welfare. We have no interest whatsoever in the futures market from the standpoint of commissions received for handling speculative accounts. Our association does not accept such accounts.

The futures market of the grain exchanges, in our case principally Kansas City and, to some extent Chicago, are vital cogs in the marketing machinery of the present distributive system which we use in disposing of the farmers' grain.

My observation over the years has convinced me that there is probably no segment of our national distributing system that is so widely misunderstood and regarding which such basic misconception exists as the grain futures market, especially in its relationship to the marketing of cash grain under our present distributive system.

It has been the target of attacks for years, and I must say that prior to the passage of the Commodity Exchange Act the criticisms were well-founded in some instances.

Loose trading practices of various natures were permitted to the detriment of agriculture and the public welfare. I feel, however, that such abuses were largely corrected by passage and enforcement of the act, and that further regulatory and restrictive measures would swing the pendulum too far, that damage to the futures market, as an integral part of our distributive system would far outweigh benefits, if any, that would come from further restriction of speculative trade.

Future markets meet a vital need in the marketing of farmers' crops. To function efficiently as a hedging medium, it requires constant volume to permit its use for hedging or price insurance by either producers or consuming interests.

It is almost universally agreed that our present marketing machinery puts our farmers' grain through the channels of distribution at a lower distribution cost than any other commodity or merchandise.

That is as it should be, food being the basic factor of life, but I am convinced that it would not be such in the absence of a fluid and liquid futures market.

No substitute system has ever been offered which could promise a near approach to its worth in a free market. Our marketing system requires a market which stands ready at all times to absorb what the farmer wishes to sell, whenever he wishes to sell it, not just when flour mills happen to be in the market.

Conversely, the flour millers want a fluid market for price protection at any given moment, not just when farmers are in a selling mood. Such buying and selling volume to reflect properly sustained year-round demand must be able to marshal all elements and categories of our economy which can be brought to bear in taking a share of this risk burden.

I, for one, do not want to see the farmer left to the mercy of the individual needs of individual buyers and be forced to sell them just when they want to buy and at whatever price they may be willing to pay at any specific time.

The machinery set up in the grain futures market provides this buying power by concentrating in one general market place demand from all sources, including the millers, the processors, domestic dealers, exporters, and the individual risk dealers or speculators.

It is the speculator who gives to our markets breadth and liquidity. Animated by the profit motive, the speculator risks his money to back his judgment on the future course of price, and in doing this, he voluntarily bridges the gap between selling demand and buying demand in a way that no one else achieves for the market.

Speaking as one primarily interested in the market as the servant of the farmer, I wish to place in the record a fact that without the liquidity of the futures market as this feature is afforded by the speculator, we could not conduct our business in the way it is possible to do at the present time.

Perhaps, an example could clarify this. Let us say, for instance, that our organization wishes to buy futures, or hedges, as we commonly call them, against a sizable quantity of wheat that we may have sold to a flour mill or Commodity Credit Corporation.

If it is necessary that we find some one interest, or some few interests, who may be willing to sell these futures, or hedges, to us at our price, if we have to try to match up our buying interest with a specific selling interest on the other side, we may well find it difficult or impossible to accomplish this at any given time.

This would be the case frequently if trade in the futures markets were confined to those like ourselves, engaged in specific operations against specific quantities of wheat.

If we had to stand-by waiting for the right quantity of hedges to be available at the right price, we would either stand the chance of losing entirely the opportunity to do the business, or we would be forced to quote a price for our wheat that would be sufficiently high to protect us against the risk of any foreseeable market movement.

In such an event the distributive cost in the grain business, which I mentioned earlier, would immediately be increased tremendously. Where we now do business on margins of 1, 2, and 3 cents per bushel, we would then be forced to take margins of 5, 10, or 15 cents per bushel to compensate for the risks involved. A futures market of that character would be of little service to those I represent.

What we, and others like us, need is a futures market in which the interest is so broad that at any time we can enter this market and secure from the multitude who are trading therein, the large men, the small men, the producers, the dealers, the processors, and the speculators, the contracts we need on the spot to cover our cash-grain commitments. That is what I mean by a liquid and fluid market.

It is the only kind of market, as time and practical experience has shown, that will serve us. With it, we can quote prices in fractions for our wheat for we are enabled to move quickly in a broad market to either buy or sell our hedges for price protection.

In my opinion, those who would further restrict the action of the grain futures market would do no service to the farmer.

The CHAIRMAN. Have you had actual experience in the last 3 or 4 months compared to the market before and after the 33⅓-percent margin was put on?

Mr. CRAWFORD. Yes, sir.

The CHAIRMAN. What was your experience in the two periods?

Mr. CRAWFORD. Let me give you an example. For instance, we recently sold to Commodity Credit Corporation 150,000 bushels of wheat, and we were unable to do that except at 25,000 bushels at a time, Commodity Credit Corporation's buyer telling us that he did not wish to enter the market, it being so thin, that he did not wish to enter the market on more than that amount at any one time. That is a pretty good example, I think.

The CHAIRMAN. Does that mean that he is entering the cash market, is he not, or is that a futures market?

Mr. CRAWFORD. He is entering the futures market in this way. We sold the wheat to him only after we were able to lift our hedges. In other words, as we sold the cash wheat to him we had to lift the hedges and, of course, we would not sell the wheat to him unless we would be given the opportunity to lift the hedges. By lifting the hedges I mean buying the hedges which we had previously sold; when we had bought the wheat we sold futures as a protection. When we sold the cash wheat to Commodity Credit Corporation we at the same time had to lift the hedges and by that I mean to buy those hedges in to balance our position.

The CHAIRMAN. You were not able to sell more than 25,000 bushels at a time because you could not be sure of buying more than that.

Mr. CRAWFORD. Commodity Credit would not give us an order for 150,000 bushels of hedges; they said, "Buy 25,000, and when you get that let us know," and then they said to let them know; that is an excellent example, a concrete current example of the thinness of the market.

The CHAIRMAN. That is all that I have.

Senator O'MAHONEY. What is the Farmers Union Jobbing Association, Mr. Crawford?

Mr. CRAWFORD. I beg your pardon, Senator?

Senator O'MAHONEY. What is the Farmers Union Jobbing Association?

Mr. CRAWFORD. Do you want me to elaborate on what I have stated in my prepared statement?

Senator O'MAHONEY. I want to know what that association is itself.

Mr. CRAWFORD. It is a cooperative terminal marketing agency, cooperative, owned and controlled by farmers, operating chiefly——

Senator O'MAHONEY. And what is the function of the association?

Mr. CRAWFORD. The function of the association is to secure on behalf of the farmers the lowest possible——

Senator O'MAHONEY. The lowest possible what?

Mr. CRAWFORD. The lowest possible marketing cost for the producers. It is our purpose, our only purpose, for being in existence, to obtain for our farmer members a greater share of the consumer's dollar which is obtained for his product. And it is a nonprofit organization, except for the account of our farmer members.

Senator O'MAHONEY. Yes. Now, why is such an association operating in the future hedges?

Mr. CRAWFORD. For the same reason that Mr. Cate that all other grain farmers are. We do not wish to speculate; we do not wish to derive our revenue for those farmers from speculation. It is only to salvage part of the distributive costs of the grain.

Senator O'MAHONEY. I can understand why a miller, working on a present supply of wheat, when the miller sells that wheat, wants to buy futures so as to supplant them. But it does not seem to me that your organization is on a similar basis.

Mr. CRAWFORD. Perhaps, Senator, you are not aware that our organization buys and sells; perhaps half of the wheat we handle is bought and sold as a merchandise, and perhaps half of it is sold as a commission agent for the shipper.

Senator O'MAHONEY. Then, it goes beyond the mere selling of the products of your members?

Mr. CRAWFORD. In the final analysis, no.

Senator O'MAHONEY. Actually, as a practical matter, it does, does it not?

Mr. CRAWFORD. Senator, some of our farmer members wish to take advantage of the price as it is today on wheat, which they cannot possibly have on the market today. They wish us to buy that grain, to take advantage of price as it is today.

Another farmer may wish to send his wheat into the market and take the price as of the day it comes in. The farmer that wishes to sell his wheat that is not in position and obtain the day's market, we are obligated to buy that wheat for him. In the final analysis we are his marketing agency in either case. Is that clear?

The CHAIRMAN. Let me ask you for a specific transaction. Here is a farmer member, and he sends you a wire and says he has 20,000 bushels of wheat in such and such an elevator and he is ready to sell. Then, you just sell it; there is no hedging involved in that.

Mr. CRAWFORD. It does not work that way, Senator.

The CHAIRMAN. How does it work?

Mr. CRAWFORD. Because of unknown factors, such as grade, quality, protein, and so forth; it is not to his advantage or our advantage to sell that wheat in what we call "to arrive."

In other words, we buy it on a basic grade.

The CHAIRMAN. Whom do you buy it from?

Mr. CRAWFORD. From the farmer, from the farmer's elevator, which is the intermediate link.

The CHAIRMAN. Yes.

Mr. CRAWFORD. On the basis of a basic grade, which is determined when the grain reaches the market.

The CHAIRMAN. Then you immediately sell it on the futures market.

Mr. CRAWFORD. That is right. There is a lag between the time we buy wheat and the time that we sell the wheat. In that period of time naturally we do not want to be in a postion of owning it as a risk.

The CHAIRMAN. In other words, the farmer wakes up and he sees that the price of wheat is at $2.86, and he says, "I want to sell it at $2.86," and then he wires you that he has so much wheat to sell at $2.86.

Mr. CRAWFORD. Right.

The CHAIRMAN. You then sell on the futures market at once.

Mr. CRAWFORD. We buy the wheat from him and protect ourselves against that purchase by selling the future market as a hedge.

The CHAIRMAN. I see.

Senator O'MAHONEY. How far into the future do you go?

Mr. CRAWFORD. Sir?

Senator O'MAHONEY. How far into the future do you go?

Mr. CRAWFORD. To the same amount into the futures markets as we have cash grain.

Senator O'MAHONEY. What you are buying from your farmer member is a specific quantity of wheat in existence.

Mr. CRAWFORD. That is right.

Senator O'MAHONEY. What do you sell? Is it not wheat in existence that you sell?

Mr. CRAWFORD. No, sir.

Senator O'MAHONEY. What is it that you sell?

Mr. CRAWFORD. We sell a future contract.

Senator O'MAHONEY. How far in the future? Six months in the future or a year in the future?

Mr. CRAWFORD. We almost always operate in the nearby future, at the present time December wheat.

Senator O'MAHONEY. How does that help you to serve your farmer member whose only object, it seems to me, would be to sell his crop?

Mr. CRAWFORD. Our farmer member does not wish us to speculate on that grain. He wishes us to save for him the greatest possible share of the distributive cost, the middleman's profit. Do you get me? If we did not protect ourselves by selling the futures market, we would be speculating on the amount of wheat which we bought from him from the time we bought it until we could get it into a position to sell.

Senator O'MAHONEY. Well, you will pardon me if I say to you that what you are saying seems to be that in order to avoid speculation so as to serve your farmer, you enter the speculative futures market.

Mr. CRAWFORD. I do not agree to that. We enter the future market not as a speculator.

Senator O'MAHONEY. Well, how about these other persons who are speculators? Are they not doing the same thing that you are doing?

Mr. CRAWFORD. Definitely not. Some of them are, but they are not speculators if they are; they are hedgers.

Senator O'MAHONEY. Well, are you a hedger then?

Mr. CRAWFORD. Definitely, only.

Senator O'MAHONEY. How frequently do you engage in these hedging operations?

Mr. CRAWFORD. I would say every day of the year would be fairly accurate; every business day in the year; we buy and sell wheat every day.

Senator O'MAHONEY. How much wheat do you buy and sell in this futures market as compared with the total wheat owned by your farmer members?

Mr. CRAWFORD. I have no way of knowing what our farmer members own.

Senator O'MAHONEY. You get it from them to sell, do you not?

Mr. CRAWFORD. Then they do not own it; we own it.

Senator O'MAHONEY. Do you not deal in more wheat than you actually own?

Mr. CRAWFORD. In futures?

Senator O'MAHONEY. Yes.

Mr. CRAWFORD. No, sir.

Senator O'MAHONEY. You do not.

Mr. CRAWFORD. No, sir. We have no reason for doing so.

Senator O'MAHONEY. Then you do not engage in the speculative feature at all?

Mr. CRAWFORD. Not at all.

The CHAIRMAN. When you deliver this wheat to the Commodity Credit Corporation we will say, you then buy back the futures on the futures market, is that correct?

Mr. CRAWFORD. Correct.

Senator ECTON. Mr. Chairman, I would like to ask Mr. Crawford: If there were no speculators in the market you, as a so-called legitimate hedger, would not be able to hedge. Is that right?

Mr. CRAWFORD. Not to any advantage. I am very much afraid that we could not. As I explained in my paper, to hedge effectively we need constant volume, a large volume.

We need a fluid market.

Senator ECTON. You need a market that is fluid as you call it.

Mr. CRAWFORD. That is fluid, liquid. That is right.

The CHAIRMAN. Any other questions?

Senator MYERS. Mr. Chairman?

The CHAIRMAN. Senator Myers.

Senator MYERS. As I read your paper I take it that your purpose in presenting this paper is to advocate a fluid and liquid futures market.

Mr. CRAWFORD. Under our present system of marketing, correct.

Senator MYERS. With that I am in thorough agreement and accord. However, the purpose of these hearings is to determine whether or not there should be any margin requirements. I would like you to just give us your thought as to margin requirements.

Mr. CRAWFORD. To save a lot of time I might tell you that I am almost thoroughly in accord with Mr. Cate's testimony on that phase.

Senator MYERS. In other words, you too, are satisfied with a 20-percent margin but dissatisfied with the present margin of 33⅓ percent.

Mr. CRAWFORD. I am dissatisfied with any margin which I deem to be unreasonable and which destroys the liquidity of the market and I believe the 33⅓ margin has done that to a certain extent.

Senator MYERS. On top of page 3 you say:

> Without the liquidity of the futures market as this feature is afforded by the speculator, we could not conduct our business in the way it is possible to do at the present time.

Mr. CRAWFORD. That is right.

Senator MYERS. At the present time you have a 33⅓-percent margin.

Mr. CRAWFORD. Senator, perhaps I should apologize. This paper was originally prepared for a subcommittee of this committee at Kansas City, and I believe in September, at that time the 33⅓-percent margin was not in effect.

Senator MYERS. What was the price of wheat in September?

Mr. CRAWFORD. I could not say.

Senator MYERS. Is it higher or lower today?

Mr. CRAWFORD. It is higher today. Substantially.

Senator MYERS. Substantially higher than when this paper was prepared? How long has this Farmers Union Jobbing Association been in existence?

Mr. CRAWFORD. Since 1914.

Senator MYERS. 1914. When was the Commodity Exchange Act passed?

Mr. CRAWFORD. I do not know.

Senator MYERS. Mr. Mehl, when was the Commodity Exchange Act adopted?

Mr. MEHL. The basic law was passed in 1922. At that time it was called the Grain Futures Act. It was importantly amended in 1936, and the short title then was changed to "Commodity Exchange Act."

Senator MYERS. I surmise, Mr. Crawford, that you and your organization were always strong advocates of the passage of the Commodity Exchange Act?

Mr. CRAWFORD. Right.

Senator MYERS. I am delighted to hear that and I am delighted to hear you say that you favor the controls that may be imposed by the Commodity Exchange Act, but they have no power to impose margin requirements.

Mr. CRAWFORD. That is my understanding.

Senator MYERS. And you are opposed to giving them any such authority.

Mr. CRAWFORD. I cannot see the necessity of it.

Senator MYERS. Therefore you, I surmise, as the previous witness are of the opinion that speculation, whether it be by informed or uninformed speculators, has had no effect whatsoever upon the price of grain.

Mr. CRAWFORD. In my testimony before the Bender committee which is not incorporated in this, I made that very statement, that I have never been convinced that in the absence of manipulations, or so-called corners, and over a period of time that speculative trade has any dominant effect on prices.

Senator MYERS. What do you think has caused the increase in price of grain between September and today?

Mr. CRAWFORD. September and today?

Senator MYERS. You said it is higher today than it was in September.

Mr. CRAWFORD. The same reason that has advanced it in price from the 1st of July.

Senator MYERS. What is that reason?

Mr. CRAWFORD. The same reasons that Mr. Cate outlined. I could go into them in detail.

The big export buying, and not a small factor, the buying power in the hands of the people.

Senator MYERS. Do you believe that grain prices are going higher?

Mr. CRAWFORD. When a farmer in the country asks me that I tell him he does not pay me to forecast the market, and I would not care to give an opinion on it.

Senator MYERS. We have information quite definite information, I do not think it can be disputed, that meat prices will be much higher next year because we can safely now determine the meat-animal population for next year.

You then would hesitate to give any prediction, or make any prediction as to the price of wheat next year?

Mr. CRAWFORD. By next year you mean next crop-year beginning July 1, say, or June?

Senator MYERS. Yes.

Mr. CRAWFORD. I will give it to you for what it is worth.

Senator MYERS. You think it will be higher?

Mr. CRAWFORD. Yes.

Senator MYERS. Do you recall the price of wheat today?

Mr. CRAWFORD. I have not seen today's market.

Senator MYERS. Yesterday or the day before?

Mr. CRAWFORD. Yesterday, our Kansas City December wheat closed, I think, at 303½, or a quarter.

Senator MYERS. Suppose wheat should go up to $3.50 or $3.75. Do you think that would have a serious effect upon our economy here in the country?

Mr. CRAWFORD. It is a question of relativity. I think the inflation spiral is serious. The price spiral.

Senator MYERS. If we continue to spiral would you still advocate that we do nothing except allow it to spiral?

Mr. CRAWFORD. I did not say that.

Senator MYERS. I know you did not. I said would you advocate it?

Mr. CRAWFORD. I would still advocate that you do nothing about margins. I do not believe that is the proper approach to the problem.

Senator MYERS. And you are only here to speak on that one subject, namely, margins.

Mr. CRAWFORD. Right.

Senator MYERS. And you therefore would not want to say whether anything should be done by Government or Congress if wheat continued to spiral in price?

Mr. CRAWFORD. I do not believe I am qualified to pass an opinion.

Senator MYERS. Thank you, Mr. Crawford.

The CHAIRMAN. Would you comment what percentage of your wheat you handle is sold for export, as far as you know, as compared to the sales of domestic millers?

Mr. CRAWFORD. Yes. I can give you the exact figures. The exact figures we have sold to Commodity Credit Corporation for export—and that is only grain that we actually know the ultimate destination of as far as export is concerned—total only 425,000 bushels. That is not a very large percentage of our total handled since the 1st of July.

The CHAIRMAN. That is since the 1st of July?

Mr. CRAWFORD. Since the 1st of July.

The CHAIRMAN. Are they an important factor in the market, so considered?

Mr. CRAWFORD. Definitely. I consider them all important. All important.

Senator MYERS. I surmise, like Mr. Cate, however, Mr. Crawford, although the export of wheat may contribute considerably to rising prices you, like me, do not advocate that we curtail and stop such exports?

Mr. CRAWFORD. That is another question that I do not feel qualified to answer.

Senator MYERS. I think you could answer this: Do you believe that we should stop feeding the hungry people of western Europe?

Mr. CRAWFORD. No.

The CHAIRMAN: But as between 400,000,000 bushels and 500,000,000 export, you do not express an opinion?

Mr. CRAWFORD. Well, I did not understand Senator Myers' question that way. I think that is more or less a problem to be worked out by those that have at their command all the figures. I do not attempt to analyze that situation.

Senator MYERS. Whether it be 400,000,000 or 450,000,000 or 500,000,000 bushels that we export, the exports are going to apparently be a contributing cause to the increase of price here, are they not?

Mr. CRAWFORD. Absolutely.

Senator MYERS. And yet you do not believe that we should stop those exports, although you do believe we should consider very carefully just how much we should export.

Mr. CRAWFORD. Right.

The CHAIRMAN. Do you not think, however, that the effect of 100,000,000 bushels of wheat on top of everything else might be a very important factor in the future price?

Mr. CRAWFORD. Yes. That is a very important point.

The CHAIRMAN. It is the marginal amount that makes the difference.

Mr. CRAWFORD. Right.

The CHAIRMAN. It is a question of degree, in other words.

Mr. CRAWFORD. Yes. It is very important.

Senator MYERS. I guess we could continue forever, Mr. Crawford. But if that 100,000,000 bushels nevertheless was needed to feed thousands and scores of thousands of hungry people I think you would continue to advocate that we export that 100,000,000 bushels.

Mr. CRAWFORD. Yes. And we could probably get along without it.

Senator MYERS. We did very well in 1947 with one-third of our wheat production exported. There were few people here who went hungry or without white bread when they wanted it.

Mr. CRAWFORD. It is hard to answer that question, in view of the fact that our growing crop is a question mark, definitely.

Senator ECTON. Mr. Chairman?

The CHAIRMAN. Senator Ecton.

Senator ECTON. I would like to ask Mr. Crawford if he feels that Government crop reports have had anything to do with influencing the market in wheat?

Mr. CRAWFORD. By "Government crop reports" you mean estimates of production?

Senator ECTON. Yes.

Mr. CRAWFORD. They always have an effect.

Senator ECTON. They have played quite a considerable part during this past growing season, have they not?

Mr. CRAWFORD. I believe they have played a lesser part than normally, during the past crop season. Other factors superseded them in importance. That is my opinion.

The CHAIRMAN. Are there any other questions? Senator Watkins?

Senator WATKINS. How many members do you have in your association?

Mr. CRAWFORD. Approximately 250 cooperative elevators.

Senator WATKINS. They are not farmers?

Mr. CRAWFORD. They are owned and controlled by farmers.

Senator WATKINS. Just what is your set-up? Is the actual farmer a member of your association?

Mr. CRAWFORD. No, sir.

Senator WATKINS. I believe you have other associations which are members of your association.

Mr. CRAWFORD. Right. We are owned by these local cooperative elevators—country elevators, we refer to them.

Senator WATKINS. And they are co-ops?

Mr. CRAWFORD. That is right. They are owned by the farmers themselves.

Senator WATKINS. And each farmer there is a member of that particular organization?

Mr. CRAWFORD. That is right.

Senator WATKINS. How would that result in these primary organizations that are members of your organization?

Mr. CRAWFORD. Do you mean how many farmers do we represent?

Senator WATKINS. Yes. How many farmers do you represent?

Mr. CRAWFORD. I would estimate 20,000 to 25,000 farmer members.

Senator WATKINS. Do you have any means of knowing just how much grain those members product?

Mr. CRAWFORD. No. Not exactly.

Senator WATKINS. How can you tell whether you buy more futures than you are selling wheat for them, if you do not know the amount they produce?

Mr. CRAWFORD. We sell futures only in an equal amount of the wheat that those farmers' elevators sell us.

Senator WATKINS. Do they have any other representative other than you?

Mr. CRAWFORD. Their connection with us, as far as doing business with us, is voluntary. They are free to do business with anyone, or go anywhere.

Senator WATKINS. Then answer my question. Do they? Do they do all their business through you or through others?

Mr. CRAWFORD. No, sir. They do not do all their business through us.

Senator WATKINS. What proportion do they do through you?

Mr. CRAWFORD. Some of them 100 percent, some of them 80 percent, some of them 50 percent, some of them 20 percent.

Senator WATKINS. It would be very difficult for you, then, to know exactly how much grain these farmers actually produce.

Mr. CRAWFORD. It would be impossible for me to tell you.

Senator WATKINS. But you only buy the futures when you sell for them?

Mr. CRAWFORD. Let us put it this way: I believe you are turning it around.

Senator WATKINS. Whichever it is.

Mr. CRAWFORD. Ordinarily we buy wheat and sell the futures.

Senator WATKINS. Whatever way it works, it is in effect the same?

Mr. CRAWFORD. That is right. We place a hedge on cash wheat transactions.

Senator WATKINS. In other words, you do not go outside and do business for anybody else except the farmers in these elevators?

Mr. CRAWFORD. That is right.

Senator WATKINS. You are not a general jobber in the grain trade.

Mr. CRAWFORD. Right.

Senator WATKINS. And whatever is saved by means of this transaction handling, you return to these members, these elevator members that are members of your organization?

Mr. CRAWFORD. Right.

Senator WATKINS. And they in turn pass that on to the farmers?

Mr. CRAWFORD. Right.

Senator WATKINS. So you are actually a nonprofit corporation?

Mr. CRAWFORD. Right.

Senator WATKINS. You are incorporated, are you not?

Mr. CRAWFORD. Right.

Senator WATKINS. That is all.

The CHAIRMAN. Any other questions?

Representative HORAN. Mr. Chairman?

The CHAIRMAN. Mr. Horan.

Representative HORAN. I did not hear Mr. Crawford's statement, but I have sketched through it. I am interested in the possibility of self-discipline by the individuals who conduct the grain trade and make a futures market possible, indulging in self-discipline of their own kind in correcting any abuses that might be leveled at them.

I notice in your statement that you refer to those abuses as actually existing prior to the passage of the Commodity Exchange Act. But you say that they have been largely corrected by that act.

Mr. CRAWFORD. Yes.

Representative HORAN. Do you feel that in the present very, very tight situation, recognized by everyone cautious of it because of the shortage of the corn and rye crops particularly, and the great demand for grain at this time for cereals, do you recognize at this time anything that might be proposed or indulged in by responsible individuals and institutions dealing in grain in this country to correct or to anticipate and correct anything that might occur that would be detrimental not only to the Nation's economy but to the grain trade particularly?

Mr. CRAWFORD. That is a long question and I almost lost the first listening to the last. We have witnesses following me that are particularly charged with providing the testimony along the lines of self-discipline. I do not believe that there is anything that I could probably tell you.

Representative HORAN. Let me say this: If, by recognizing supposed or real abuses of a free market, we enter into any pact employing the Government to control any commerce, I think we lose something. I think it is generally agreed that we do.

The alternative, of course, is self-discipline.

Mr. CRAWFORD. That is right.

Representative HORAN. That is the cost of freedom. You know that.

Mr. CRAWFORD. Yes.

Representative HORAN. That is why I am interested in what the men who are sometimes accused of being crooks could do to anticipate or correct anything that might cause them to be subjected to criticism.

Mr. CRAWFORD. I think the grain exchanges, by reason of a laxity of self-discipline, brought on the Commodity Exchange Act. In absence of self-discipline, they can only expect more of the same.

I do not feel that they are lax in that regard at the present time.

Representative HORAN. You have no specific recommendations?

Mr. CRAWFORD. No, sir.

Representative HORAN. We have been promised some, and I am still waiting for them.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Crawford.

STATEMENT OF ROLAND S. VAILE, PROFESSOR OF ECONOMICS AND MARKETING, UNIVERSITY OF MINNESOTA

Mr. VAILE. Senator Taft and other members of the committee, my name is Roland S. Vaile. I am professor of economics and marketing at the University of Minnesota, where I have been since 1923. For 9 years preceding that, I was an assistant professor in the College of Agriculture of the University of California.

I have some other duties that I performed which I am not going to mention.

I am glad of the opportunity to take part in this hearing on grain exchanges, because throughout the 25 years that I have been teaching university courses in marketing I have made a close study of these organizations. As a result of that study, I am convinced that no other system of market organization has been devised that comes as close to meeting the full requirements of free competition.

The degree of control over these exchanges that now is exercised by their own business conduct committees in active cooperation with the Commodity Exchange Authority and Commission is great, and the need for further extension of the power of control should have the kind of careful consideration which your committee is giving, lest the adequacy of the exchanges as competitive market plans be reduced.

I am here today to discuss from an economist's viewpoint two principal questions. The first is, Is there any evidence in the movement of prices between June 1946, the end of price control by OPA, and October 1947, latest date for which general price data are available, that would suggest to an economist that the grain exchanges per se have raised or tended to raise prices in excess of the rise experienced by comparable commodities not traded on such exchanges?

I might even broaden that question to include in it the point, Have these exchanges in trading on the exchange raised prices higher than prices of those commodities would have gone had they not been traded on the exchanges, which are somewhat separate questions. I do not find such evidence.

In fact, and contrary to statements occasionally appearing in the press, commodities traded on the exchanges have not shown any unusual rise in price since the end of price control.

It is common knowledge, of course, that prices of individual commodities continually are changing in relation to each other. Some are rising, others are falling, and still others are remaining constant. Generally the dispersion or differences in the movements of prices of the several commodities from one year's end to the next is considerable. This has been true in the post-OPA period, as indicated clearly by the price history of the following 18 important basic materials:

Relative prices: Percentage increase of the October 1947 high over the June 1946 prices.

Rubber	2	Coffee	81
Cotton	6	Lead	82
Zinc	21	Rice	85
Sugar	34	Cottonseed oil	86
Copper	48	Hogs	99
Tin	54	Steel scrap	115
Wheat	60	Hides	140
Steers	69	Cocoa	500
Corn	72		
Lard	75	Average	90

I have put before you a table which shows some of the basic raw materials, and the increases in prices of those basic raw materials between the two dates that I have specified, the end of price control in June 1946 and the October 1947 high.

The commodities that I have listed here range from rubber, with only a 2-percent increase, to cocoa with a 500-percent increase, with an average of 90-percent increase in the commodities. If we leave out the first and last, rubber and cocoa, both of which are imported commodities, and both of which are somewhat extreme, we have the range in 16 commodities from cotton, with a 6-percent increase to hides with a 140-percent increase.

The CHAIRMAN. Which of those are traded on exchanges?

Mr. VAILE. The ones that are particularly traded on the kinds of exchanges which I understand you are particularly concerned with, are cotton, wheat, and corn, the three that are underlined.

The CHAIRMAN. I see. I thought that was a division.

Mr. VAILE. The average increase is 70 percent.

Wheat and corn prices showed increases of 60 and 72 percent, respectively, at or just below the middle of the range of increases.

Cotton, also bought and sold on commodity exchanges, showed an increase of only 6 percent. (This case is explained in large part by the fact that there was no OPA price ceiling on cotton in June 1946, or, in other words, the price already had risen in response to economic demand before that date.)

Moreover, foreign exports of cotton have been very low recently, the foreign demand has not been a factor, as it has with wheat.

These facts concerning relative price increases appear to negate the charge that operations on grain exchanges in and of themselves have influenced in any major degree the price increases that have occurred. At least it is apparent that the increases in wheat, corn and cotton prices between June 1946 and October 1947 are less, rather than more, than average increases among raw material prices.

The second question that I should like to discuss with you briefly: If operations on the grain exchanges have not of themselves and directly caused the prices of grains to rise, what are the forces that have led to this result.

Senator O'Mahoney has partly answered that question already earlier today. But let me review briefly, in spite of the fact that these things are rather generally known. In the interests of perspective let me restate some of the things which have affected the general price level:

1. Prices of many things have been held artificially low under the OPA controls. As soon as these controls were removed there was an upward surge of prices generally in response to the economic conditions already existing. In this connection, it is interesting to note, as already suggested, that cotton, which had not been controlled under OPA, has had but a slight increase in price since June 1946.

2. We have 60,000,000 people employed in the United States at present, which is a larger number than at any previous time in our history. These gainfully employed persons are enjoying high take-home wages, high farm incomes, and high corporate dividends. Consequently, purchasing power actually in the hands of consumers is extraordinarily high.

3. A major force leading to the high rate of flow of income into consumers' hands has been the series of wage increases that has occurred since VJ-day. These increases have raised the purchasing power of the rank and file without directly increasing the supply of the things which the rank and file buy. The inevitable effect has been an upward pressure on the prices of consumers' goods. This does not necessarily condemn the increases, but it does explain in part the rising price level.

4. In addition to the high current flow of distributed income, there exists the largest backlog of consumer savings which this country has ever known. In the cases of some individuals, at least, these savings are burning holes in their pockets and thus intensifying the desire to purchase consumer goods.

5. There were in June 1946 very large empty reservoirs of merchant inventories and of stocks of goods in consumers' hands. For at least 5 years the people of the United States had been shipping quantities of semi-worn-out clothing, first to China and then to Europe, and it had not been possible to replace clothing inventories at a corresponding rate.

Moreover, the size of the inventory of consumer goods normally held in the distributive channels is not appreciated. After the manufacture of certain consumer goods was discontinued in 1942, there remained on merchants' shelves certain of these goods, in some instances for as much as 3 years or longer before the reservoirs were entirely emptied. The time required for refilling of these reservoirs also has been underestimated.

6. There is still evident a distinct shortage of consumer durables relative to demand. I undertook just last week to place an order for a new automobile which I should very much like to have by June 1948, but I was informed that it would probably be 15 to 18 months before I could expect delivery. In the meantime, with the help of my wife, I may very well spend the money that I am now willing to spend for an automobile for whatever other commodities may be available. And that of course, in turn will force up the pressure on price on those other commodities.

The CHAIRMAN. I hope you will save the money, however, Professor.

Mr. VAILE. I hope I will.

Senator O'MAHONEY. Then why blame your wife?

Mr. VAILE. I will refer the question back to you and your wife.

7. Pressure on the available supply of consumer goods is also being increased at the moment through the increases in consumer credit which started with the ending of the controls in that field.

8. Ever since the close of the war there has been a continual excess of exports from the United States over imports into the United States. This means, of course, that money income distributed in payment for making goods finds less goods on which it can be spent by the amount of the excess of exports.

9. Similarly, an unusual amount of capital assets construction is going on at the present time. In connection with the making of these capital assets, money income is distributed to labor and material suppliers, but again this income finds no consumer goods on which it can be spent. This would not result in inflationary pressure if the income so distributed were absorbed in payment for the new construction. But in fact much of the latter actually is being paid for by expanding bank credit. Thus the income distributed in the construction industries is in excess of the consumer goods on which it can be spent.

All nine of these factors have contributed to the general rise in the price level, to the increase, that is, of the ratio of money to goods in our general economy.

The second part of this discussion deals more specifically with the level of grain prices:

1. In the first place, all of the general forces just discussed are pertinent parts of the explanation of the rise in grain prices. That is perhaps especially true of the first two points discussed above.

2. The demand for wheat is said by economists to be inelastic. That is to say, we continue to bid for our share of wheat or wheat products when the supply is scarce, even though the price rises considerably, and more than proportionally.

It is generally believed that a shortage of supply of, say, 10 percent, will result in a rise in price by about 20 percent, or double the percentage of decrease in supply. Available data indicate that the domestic use of wheat for all purposes in the year commencing July 1, 1946, just as the OPA controls were removed, was only about 76 percent of the 3-year average 1942–45. This reduction was not the result of any shortage in demand, but entirely a reflection of shortage of supply. These facts alone might, on historic grounds, be expected to have increased the price of wheat by nearly 50 percent.

3. It is, of course, understood by everyone that as purchasing power increases we eat somewhat more, and more expensive, food. Increased per capita consumption of wheat and wheat products was, of course, to be expected during these years of high income, and individual consumers would bid against each other, thus forcing up the price, if the supplies of wheat were inadequate to permit an increased physical level of consumption.

4. The actual exports of wheat and wheat products have been an important factor in limiting the supply of wheat available for domestic consumption. At the present time there is not only the pressure of export of some 500,000,000 bushels of wheat and wheat products, but there is also uncertainty as to the extent to which this figure may be increased. I want to emphasize that point.

This uncertainty is one of the forces that is holding the spot or cash price materially above the price of May futures.

Incidentally, it may be pointed out that the fact of high spot prices relative to futures prices is strong evidence that it is not speculation in futures prices that is causing the high price of wheat, but rather the current demand on the part of those who want actual present possession of the wheat in order to insure themselves of a physical supply adequate for their season's needs.

5. It is well known, of course, that the 1947 corn crop was very short. This has materially increased the demand for other grains for feeding purposes and is a major factor in the present price of all grains.

In recent years we have increased the per capita consumption of meat from about 135 pounds to about 155 pounds per year, and with incomes remaining high it will be difficult to reduce this per capita consumption figure except by rather sharp increases in prices. Consequently, it will be difficult to reduce the feeding of grains to livestock in order that a supply of meat and meat products may be available.

6. Added to the shortage of the corn crop is the prospect of a winter wheat crop below normal of the last 3 years. Just how serious this may turn out to be is not known, but it is an element of uncertainty which cannot be dismissed as an influence on the increase of present grain prices.

The CHAIRMAN. May I go back a moment? Is it not true that the feeding of grains to livestock has been reduced? The figures show lower weights, and so forth?

Mr. VAILE. Yes. There does seem to be some reduction that has already occurred. And as a result the most recent estimate of the Department of Agriculture has reduced by about 50,000,000 bushels, as I recall it, the quantity of wheat that will be fed to livestock during the current year.

The CHAIRMAN. The high price of wheat has a direct result in feeding less to livestock?

Mr. VAILE. That I suppose would be certainly true unless or until the pressure on the meat supply raises the price of meat correspondingly.

The CHAIRMAN. Yes; I mean for the present.

Mr. VAILE. For the moment, yes.

Representative HORAN. Might I ask a question that fits right there? It is estimated that a high percentage of our total grain supply is fed to livestock; is it not?

Mr. VAILE. Yes; when you consider corn particularly. Of course, that is true.

Representative HORAN. I would like to have your opinion on an over-all basis as to whether or not there would be any validity to a consideration of white flour, which would increase, of course, the amount of coarse available for livestock feed. Is there any possibility of reducing the amount of whole grain that would be fed to our livestock if we were to manipulate white flour for export, rather than whole grain?

Mr. VAILE. I am not familiar enough with the demand abroad to know to what extent the mill feeds that would result from milling the wheat abroad are essential there. That would be part of your overall answer to the question, at least.

Of course, you are quite correct in saying that we could feed as many people with flour direct, by shipping merely the flour, as saving the brans here, of course. But whether that would really fit the world problem better I am not in a position to say. It is a question that I have not looked into at all.

Representative HORAN. I do not know the answer to it. It is an intriguing question.

Thank you.

Mr. VAILE. It is.

The CHAIRMAN. You may proceed.

Mr. VAILE. 7. In connection with the two points just raised, it may be pointed out that Secretary Clinton P. Anderson in testifying before this committee recently—if I read his testimony correctly—said that the Government had undertaken, with some success, to buy supplies of wheat for export at moments when the price had temporarily declined. To the extent that the Government was successful in this undertaking, it must be obvious that the civilian market price—that is the local domestic market price—was higher on the average, than it would have been without this governmental policy.

8. Another governmental policy that has contributed to the high price of food grains is the goals that were set for potato production in 1947. As a result of these goals, the harvested acreage of potatoes, one of the best substitutes for wheat, was down about 15 percent in 1947 as compared with 1946.

While the above review is neither exhaustive nor perhaps entirely complete as to the forces influencing prices—for example, I have not mentioned the sort of thing which Secretary Snyder discussed with you the other day, the control of the monetary system—nevertheless, it is perhaps sufficient to show clearly the principal forces that have contributed both to a rise in the general price level since June 1946 and the specific price movements of the commodities traded on the grain exchanges.

I want to repeat that there is no evidence that suggests to me as an economist that the operations on the grain exchanges themselves have in any sense caused the price rise on grains to be greater than it would have been with a closer or different regulation of these exchanges.

The CHAIRMAN. Are there any questions?

Senator O'MAHONEY. I gather from your testimony, Mr. Vaile, that the only buying which does not affect the price of grain is the speculative buying.

Mr. VAILE. The buying which affects the price of grain, it seems to me, is the buying which takes grain off the market. The only selling that affects the price of grain is the selling that puts grain on to the market.

Senator O'MAHONEY. Do you think that the transactions on the commodity exchange, which apparently result in the sale and resale over and over again of "X" bushels of wheat, have no effect at all, but the sale of specific amounts of wheat or grain which result in taking the grain off the market, does have an effect?

Mr. VAILE. Let me preface my answer to that, Senator, if I may, by saying that I, like the Secretary of Agriculture, have never either bought or sold grain. On the other hand I have watched it done a good many times. I have spent a good many hours on both the Chicago Board of Trade and the Minneapolis Grain Exchange. And I think it is quite possible, for the way in which futures are sold, to influence the price by an eighth of a cent, perhaps by as much as a quarter of a cent, temporarily. That may be up, it may be down, depending on the way in which it is done, and who is doing it, whether somebody who other traders believe must have some new information about the market, has come in to do it. And I think it is quite possible to get those minor, temporary effects on the market by trading in futures.

But the volume of trading in futures, the frequency in trading in futures, whether it be measured in terms of 1 day or 1 week, or 1 month, or longer, does not affect the judgment of the people who are buying and selling cash grain. They are looking at other indices in making and are placing their bids or offers for cash grain in terms of those other indices.

Senator O'MAHONEY. You give the impression, therefore, that a business which produces nothing, because it is confined for 90 percent of its extent, according to the testimony of Mr. McClintock, to mere transactions which never result in the delivery of a bushel, that some such transactions, though they deal absolutely in the price which the public must pay, do not affect that price, they are insulated, they are set off, they are as far removed from the realities of life as though they were conducted upon the moon.

Is that the sort of testimony you want to give us?

Mr. VAILE. No.

Senator O'MAHONEY. That is what you say, is it not?

Mr. VAILE. I think you misunderstood my testimony to a limited extent. In the first place there are traders in futures who are making a very careful study of supply and demand situations and who may very well be fully as well informed, perhaps better informed in individual cases, than the merchants or the millers regarding those basic situations. It may very well be, therefore, that even so good and experienced an operator as Mr. Cate, who testified here to you as a miller, may be affected in his judgment somewhat by someone of his acquaintances who is a speculative dealer.

I am inclined to put in a sentence here about the famous case of James Patton, in 1909, as I remember it, when the rumors of the frost in Argentina came to this country and were denied. Mr. Patton got some information regarding temperatures, not whether or not the crop looked good, but what were the actual temperatures, and made up his mind on the basis of that objective information that the crop was injured and that there would be a shortage a few months later. He was right. He was a speculator. He was dealing primarily in futures.

He had an influence on the market. He had an influence on the market because his trades were based upon information growing out of the supply and demand conditions.

If a person of that sort has the confidence of other traders, what he does will influence the other traders. If he does not have the confidence of other traders it is doubtful if it will do more than this eighth or a quarter of a cent movement that I am speaking of.

Senator O'MAHONEY. At any rate you presented a very interesting statement, Mr. Vaile, in which you have pointed out that since the lifting of OPA controls prices of commodities which you have listed here have risen from 2 to 500 percent, an average of 90 percent on the whole.

You have pointed out that numerous factors, including the increased purchasing power of 60,000,000 people employed, the purchasing by the Government, the issuance of bank credit, and all of these various other items exert upward pressures upon prices, but the only operation which exempted from this entire trend is the speculation on the commodity exchange.

Mr. VAILE. Well, Senator, if you had the patience and I had the time, I could list you a very long list of other things that have no influence on price.

Senator O'MAHONEY. I have a lot of patience, and I assume you have a lot of time. Let us ask the chairman.

The CHAIRMAN. I have not much time.

Senator O'MAHONEY. Do you recommend anything to this committee to cure this situation which you do recognize?

Mr. VAILE. Yes.

Senator O'MAHONEY. Namely, the increase in prices?

Mr. VAILE. That is a perfectly fair question.

Senator O'MAHONEY. I hope you do not imply the others were not fair.

Mr. VAILE. It seems to me one that must be fairly met. I am not sure that I am in a position to meet it because, after all, I live in Minnesota, which is a long way from Washington.

The international political atmosphere, it seems to me, has an enormous amount to do with that particular question. But I would go this far: If, as one of the questions asked this morning seemed to imply, we are recognized to be in a position of cold war now—and are going to be during the next "X" months, and such wars may be pretty long—if because of that, in the wisdom of you people who have the responsibility of managing Government, feel that we must for the time being, have a controlled economy, my strongest urge would be that you do the entire job.

We had the experience in 1940 and '41 of selective price control. It is my feeling that it did not work satisfactorily. Read again your own deliberations that led to "General Max" for March 1942. Even that was not sufficient. If you are going to do the job, for Heaven's sake, control wages, too. And get us on an economy that is controlled, that does not press out somewhere like a balloon whenever you poke your finger in it with the individual control.

That, sir, is the only advice that I can give on that particular question.

Senator O'MAHONEY. What is the alternative?

Mr. VAILE. Well, the alternative, obviously, and the alternative for which one assumes we have fought two wars, is to let us muddle through as long as it seems to you at all prudent and safe to let the muddling-through continue.

Senator O'MAHONEY. That is the point. As long as it seems prudent and safe to continue to muddle.

Mr. VAILE. The only people who are in a position, it seems to me, to have an intelligent opinion on that question are the people who know the international situation far better than I do.

Senator O'MAHONEY. Can we, then, afford to continue to muddle through with a condition which has already produced, as you have testified here, a 90 percent increase in the cost of certain articles, articles which could be multiplied manyfold?

Mr. VAILE. That is right.

Senator O'MAHONEY. And which seems to me, certain to produce continued increases, unless something is done.

Mr. VAILE. That, of course, is the expectation, that it will continue to go up until or unless something is done, provided one or two of these items that I have listed here as causes of high prices do not reverse themselves. One of them is the addition to capital assets which is going on at present.

We had a period during the 1920's, as you will, of course, recall, when we had a very rapid increase of capital assets. All of a sudden we stopped. One of the big causes of the great depression of the thirties was the abrupt stoppage of adding to capital assets, which included, of course, the dismissal of the people who were working in those industries.

You will recall that two-thirds of our unemployment came from the field which normally absorbs only a quarter or less of our total employment. That might happen again.

The CHAIRMAN. Not so likely, is it though, in construction?

Mr. VAILE. Not so likely.

The CHAIRMAN. Construction then was greatly overdone. I do not see any evidence that construction is overdone at the moment.

Mr. VAILE. There is no evidence, Senator, that I know of, that construction is overdone yet. But remember that that is a selective thing, and it may very well be that construction of plants to make electric irons, or construction of plants to make air conditioning for houses, or construction of plants to make certain specific items will seem to be overdone pretty soon, in which case there will be unemployment in segments of the economy, which may be sufficient—I do not know.

Senator O'MAHONEY. And if prices continue to go up, and an increasing number of people find it impossible to buy, will that not result in curtailing the market and producing eventually unemployment?

Mr. VAILE. Yes. Of course, as yet—and I am emphasizing the point that income is going up, and has gone up, and is high—as yet, while many people are not any better off than they were before the war, on the whole I would suppose that the rank and file is somewhat better off with the exception, perhaps, of housing.

Senator O'MAHONEY. Then does it not boil itself down to this: Whether or not we shall on the one hand continue to muddle through until we have a bust or whether we shall attempt before we reach that desperate situation to do something about it by the exercise of the powers of government?

Mr. VAILE. Right. I think that is exactly what it boils down to. But let me repeat: That so far as I am concerned my judgment would be that it will be extremely difficult, if not impossible, to have any important useful effect on a positive or selective basis. If it is necessary to go into the control matter I hope you go into it both feet.

Senator O'MAHONEY. That is very logical. But in any event we do not want to do anything at all about the commodity exchange.

Mr. VAILE. It does not seem to me that that is going to accomplish what you hope it will accomplish.

Senator O'MAHONEY. Thank you very much, Professor.

The CHAIRMAN. Professor Vaile, the answer is, is it not, to Senator O'Mahoney's question, that all buying increases prices except speculative buying, that every speculator sells as many bushels of wheat as he buys.

Mr. VAILE. That is right. He must sell his wheat. He must find a buyer at the time he buys, and a seller at the time he sells.

The CHAIRMAN. Yes, but every bushel of wheat he buys, he sells a corresponding number of bushels over the years.

Mr. VAILE. Yes. He must do so.

The CHAIRMAN. That kind of buying is different from the fellow who buys and never sells.

Mr. VAILE. Entirely. He takes nothing off the market. It is still there.

I am not sure this is pertinent to the question, but I think it is. Some years ago, when there was no heat of controversy of this sort in this country, the Food Research Institute made a study of total speculative balance, profit, and loss, and it was their conclusion, as a result of a 40-year study—a study covering 40 years, that is to say—that the speculators as a whole lost money, which would seem to me to be somewhat tantamount to saying that the price was not moving up as a result of the speculation.

The CHAIRMAN. Are there any other questions? Mr. Horan.

Representative HORAN. Mr. Vaile, you said you were not very well versed in international affairs. Your study of commodity exchanges and the elements of trading in futures certainly would make you familiar with conditions in commodity exchanges or their equivalent in other countries where grain is produced, would it not?

Mr. VAILE. Oh, yes.

Representative HORAN. Could you tell us whether or not closing of the commodity exchanges and the control of wheat prices and the creation of Government monopolies in the production and distribution of wheat has resulted in increases of production in other countries?

Mr. VAILE. At the moment I cannot answer that question factually. Of course the answer would run entirely in terms, it seems to me, of the price policy which was followed in those countries.

Who closed the exchanges? Why were they closed? Was the Government the principal buyer? If so, what sort of a price were they setting for the purchasing?

There are so many other factors that would come into the individual cases that it seems to me no definitive answer could be given except in terms of very explicit instances.

Representative HORAN. You would not care to advance or to venture an opinion as to whether closing a commodity exchange had the effect of decreasing production?

Mr. VAILE. Closing a commodity exchange alone, nothing else, I would say would have the effect of decreasing production. But it is so seldom that you would get that influence alone. I am not sure that you ever could.

Representative HORAN. It would decrease the fluidity of the exchange of goods and their movement in commerce, would it not?

Mr. VAILE. Yes.

Representative HORAN. That was testified by Mr. Crawford in his excellent paper just preceding you.

Mr. VAILE. That is correct.

Representative HORAN. You have used an unfortunate term, I think, from my observation of this discussion, in using the term "muddling." I am not too sure but what we would be muddling if we were to entertain a complete control such as you suggested as the best alternative.

Mr. VAILE. I have been associated with these matters of control just enough to thoroughly agree with you.

Representative HORAN. Is it not true that we are not muddling at the present time? Do we not have the Commodity Exchange Act and Authority in full operation?

Mr. VAILE. Definitely; yes.

Representative HORAN. Is it not doing a reasonably good job?

Mr. VAILE. In my opinion, it is doing an excellent job. Yes.

Representative HORAN. You have commented to some extent on the activities of the business conduct committees of the exchanges themselves. I suspect that at least 90 percent of the members of the grain exchanges are responsible American citizens. Is that not right?

Mr. VAILE. You are very conservative.

Representative HORAN. I feel that if we can invite everybody to this party—and I want your opinion on this—and tell the people the whole truth, that perhaps we can improve upon the muddling of other controlled countries that have not advanced as far as the American people have advanced. Is that not right?

Mr. VAILE. I would agree.

Representative HORAN. I think we have a very tight situation, and I do not think the price of wheat is going to drop. Do you think it is?

Mr. VAILE. I see no reason why it should drop in the near future.

Representative HORAN. But it is not entirely the fault of America, is it?

Mr. VAILE. By no means.

Representative HORAN. It is the falling off of production elsewhere, is it not?

Mr. VAILE. That is right. And as a result of these forces, let me repeat what I have already said, perhaps; namely. that we started out 2 or 3 years ago—I have forgotten if that is the exact number of years or not—with a considerable carry-over of wheat. We have used up that carry-over plus some of the finest crops, the largest crops, of wheat we have ever had in this country, until we are now down to a very low carry-over.

We come into the current situation with a shortage of corn for the rest of this year, with some fairly definite prospects that our wheat will be less plentiful next year than it was this.

We have a disappearance of wheat in this country; that is, a domestic use of wheat in this country, already below that of a few years ago by nearly 25 percent.

I see nothing in those situations that can possibly result in a lower price of wheat.

Representative HORAN. You used an example, Mr. James Patton, who got some temperature readings from Argentina in 1909 and took advantage of that to make a profit in speculation. Is it not apt to have been true that the price would have risen whether Mr. James Patton lived or not?

Mr. VAILE. It certainly would have risen. Certainly it would have risen. There was a world shortage of wheat.

Representative HORAN. What I want to know is whether or not, in your opinion, the control patterns in other countries are having an effect on the American price of wheat.

Mr. VAILE. Would you mind repeating that?

Representative HORAN. I want to know whether the control patterns which exist in Canada, and I understand in the Argentine, as far as the grower is concerned, and in other countries, are having any effect upon the price of American wheat.

Mr. VAILE. Yes; I am sure that it is. The export-import relationships of those countries is affecting world supply. The fact that the Argentine has sold some wheat at over $5 a bushel, that fact is affecting the world situation in one direction and affecting our supply of wheat, which is cheaper than that; the fact that Canada is selling some wheat to England at a price distinctly below our price is affecting it in the other direction.

Representative HORAN. And doing it reluctantly under a pattern.

Mr. VAILE. Yes.

Representative HORAN. And they are under agrarian discontent, possibly.

Mr. VAILE. It seems to be so from the news we get in the press, and from talking with the occasional visitor.

Representative HORAN. Thank you.

Senator BALDWIN. Dr. Vaile, the other day we had an analysis of the persons who traded on the grain market in 1 day. In that analysis there were listed, of course, the people who you would expect to be in the market, the millers and others who would be looking for grain. But there are also listed some lawyers and judges, some 308 housewives, and an assortment of people who it is extremely difficult to understand why they would be in the wheat market or the commodity market. Does that sort of business, in your judgment, serve any useful economic purpose?

Does the fact that these people buy and sell in the market possibly serve any useful economic purpose?

Mr. VAILE. In the first place, there are some implications in the way you have asked your question which I would like to clear up.

My wife has more time than I have to study the situations that affect the grain market. If she put her mind to it, I am sure she could do a pretty good job on it.

I do not know who these housewives are. But it is entirely possible that some of them, at least, have made a very intelligent study of the market, but I do not know whether they have or not. But merely to say, "the housewives are unintelligent speculators," seems to me to be begging the question.

Senator BALDWIN. I do not say that at all. I simply am asking you a very earnest and sincere question, and the question is this: What economic purpose does it serve for those who do not use grain but merely buy and sell it for speculative purposes? What useful economic purpose does that serve in a period when there is a world shortage of grain?

Mr. VAILE. I can answer that. That is quite a different question.

Senator BALDWIN. That is the same question I asked before; exactly.

Mr. VAILE. All right.

Senator BALDWIN. I merely used the housewives as typical. Of course I have my own opinion as to who some of those housewives might be, too. If they were traced down, I think it would be extremely interesting.

Mr. VAILE. I am very glad to discuss the question in its present form because, it is in that form something you can get hold of.

In the first place, witnesses that have been here before me today have pointed out one economic purpose of a large number of traders—that is, people who are always there—namely, that you can place hedges, you can place them promptly, you can get out of your hedges, get out of them promptly. You can do that there, which is, in my judgment, a service.

Second, the question of whether or not the people who themselves do not own grain, never expect to own grain, have no use for that grain in the future—now or in the future—may have a very intelligent judgment as to what the market is going to be; they may be more objective, further away from this money that is likely to fall out of their pockets in their judgment of what the price is going to be in the future, what the basic conditions determining that price are going to be in the future.

They may in that way exert a very helpful and healthy influence on the market.

Moreover, keep in mind that not all the people who trade in futures contracts, either long or short, but who have no use for the grain or no present supply of grain, are either optimists or pessimists. Some of them are each. Some of them will guess that conditions are going to get better. Some of them will guess that conditions are going to get worse.

I point out to you that nobody knows the answer to that question. Nobody knows, for example, and I wish we did, just how much grain it is going to seem wise to the people who have the final decisive judgment to pass on the matter, how much grain will be shipped out of the country for export services.

No one can begin to make a guess as of this date as to what next year's wheat crop is going to be.

If we have a repetition of the 1934 or the 1936 summers next year, the wheat crop will be a whale of a lot less than we hope it is going to be.

Senator BALDWIN. In other words, your theory is that with a large number of purchasers in the market they serve in a sense as a sort of reservoir of storage.

In other words, their buying power is such that they keep the grain from going into other channels and consequently sort of level off the whole exchange in it. Is that correct?

Mr. VAILE. No. That is not the point. Because, as you yourself have said, they do not want the grain, and they do not actually take title to it in any physical sense. It is still in the storage elevator somewhere, and all they have is a warehouse receipt.

No. It is a reservoir of judgment that they exercise. Some of them guessing one way, and some guessing the other. The law of large numbers has some influence in accuracy of measurement.

Let me just cite by way of illustration a class exercise that I have used a good many times in large classes of 200 students or thereabouts.

You take a table this size, lay a foot rule on it, let people look at it, scattered all over the room. Then have them guess, or estimate, how long that table is.

Some of them will be way off. They will guess way too long, and others will guess way too short. The average of 250 or 300 guesses, or estimates, as to the length of that table will probably be closer than the average of three casual measurements with a wooden foot ruler, closer to the actual calipered measurement with a steel tape.

That is the sort of effect that this large number of buyers and sellers has.

Senator BALDWIN. In other words, you think the average judgment of a large number of buyers is more nearly accurate as to what wheat is really worth than any other way you can estimate it?

Mr. VAILE. I think it is. I think it is.

Senator BALDWIN. That is the purpose which you think a large number of people will serve?

Mr. VAILE. That is the second purpose. The first purpose is to permit the person who wants to get out of the risk of carrying the grain, but has the physical grain, and has not been able to sell it as yet, to do so, to pass it to somebody else who is willing to carry it. That is the first and primary purpose, perhaps.

The second purpose, unlike it in importance, is that you do get in my judgment a better crystallization of price.

Senator BALDWIN. The other day, in testimony here, I think the Secretary of Agriculture testified that in the buying practices of the Government—both for relief, as I understood it, and maybe for the armed services, too, but surely for relief—when the price of wheat dropped 10 cents, the Government stepped in and bought a substantial amount, and when it dropped 10 cents more it stepped in and bought a substantial amount. Would you consider that a wise practice, or would you consider that that was in effect supporting the market?

Mr. VAILE. It depends on wise practice from whose standpoint. If you are talking about me as the taxpayer, I would say "Yes; that is a wise policy."

Senator BALDWIN. We are concerned primarily with the taxpayer. That is the point of view I have in the question.

Mr. VAILE. Me as a taxpayer, that is a wise policy; me as a consumer of bread, no; because it is going to force the price of my bread up.

The CHAIRMAN. Would it make any difference whether you buy in a falling market or rising market? It increases the price, does it not?

Mr. VAILE. Yes.

The CHAIRMAN. You have to buy a certain amount of wheat. You have to buy it sometime, either in a rising market and make it rise more, or in a falling market and check the falling market.

Mr. VAILE. If I understood the Secretary's testimony and the question based upon it, these are temporary drops in the market, not drops that are going to continue.

Senator BALDWIN. I understand at one point they rode the market down.

Mr. VAILE. It did not go down very far.

Senator BALDWIN. I wondered when that was.

Mr. VAILE. Obviously, if the Government gets all the low-price purchases, then the civilian economy gets none of the low-price purchases, and the flour which you and I consume is made out of the wheat which was bought at the higher prices.

Senator BALDWIN. That is just exactly the point. In other words, if, instead of stepping in and buying in a large quantity when it dropped off 10 cents a bushel, or 5 cents, or 3 cents, would it have been better policy to have waited to see if it dropped off still more?

Mr. VAILE. Well, that is a technical market question which would take the judgment of a very shrewd dealer to answer how far it should drop, whether I as a private dealer should jump in now, or whether the Government should jump in, or whether both of us should stay out in the hope it would go lower.

Senator BALDWIN. The main point I am driving at is this, which has been denied in many quarters: The fact that the Government stepped in and bought wheat, whether on a rising or falling market, which has been perhaps the main contributing factor to the price of wheat. Is that correct?

Mr. VAILE. The Government has bought, as I understand it, somewhere in the neighborhood of 400,000,000 bushels, more or less. I do not know just how much. The civilian economy for food purposes has bought and is using roughly a similar amount.

Now, to say that one of those factors is bigger than the other seems to me to be splitting hairs. They are both of them in here in the market. It is the sum total of the two of them that is important.

If the Government was not buying, surely the price would go down. It would go down fast.

I think, and let me repeat what I said in my original presentation, that the uncertainty about the amount the Government is going to buy is one of the factors that tends to keep the price up, and that if we could be perfectly sure that when the Government buys X bushels—I do not care whether it is 400,000,000 or 500,000,000—perfectly sure that that is this year's program, I think we will see at least a break in the rise of the price of wheat.

The CHAIRMAN. Are there any other questions?

Representative HORAN. I have one other question.

The CHAIRMAN. Mr. HORAN.

Representative HORAN. I have read Mr. Crawford's statement with a great deal of interest because it comes from a man very close to the producers. He is head of a cooperative. In his statement, on the second page, he says:

> It is almost universally agreed that our present marketing machinery puts our farmers' grain through the channels of distribution at a lower distribution cost than any other commodity or merchandise.

Mr. VAILE. Yes. I would accept that statement, with this thought in mind: That Mr. Crawford is not speaking of physical distribution. That is, he is not speaking of the fact that grain has to be moved from out in western Montana to Minneapolis to be milled. He is speaking of the change of ownership and the storage that occurs during that period. With that word of amplification my own studies indicate very clearly that this is an excellent low-cost method of selling commodities. I know of no better.

Representative HORAN. I was attracted to this, Professor Vaile, because one of the things that enters into the cost of living, and its increase, quite often is the entering into the field between the producer and the consumer of unnecessary brokerages and operators, particularly true, I am told now, in the building field, and it is particularly apropos to call attention to that, I think, because we appropriated $9,500,000 for the Government to conduct research in marketing phases of farm crops, merchandising, I should say.

Mr VAILE. That is right.

Representative HORAN. I was glad to get your comment on that, because this seems to be in that field.

The CHAIRMAN. If there are no more questions, the committee is about to adjourn.

Mr. Slaughter, some of the testimony, I think the committee fairly understands the nature of the hedging process, and the function of the speculation. Some of it is cumulative. If you can eliminate as much of the cumulative testimony tomorrow as you can, I will be much obliged to you.

Mr. SLAUGHTER. Yes, sir, Mr. Chairman, we can do that. We will do it overnight.

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 5 p. m., the committee adjourned to Wednesday, December 3, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

WEDNESDAY, DECEMBER 3, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10 a. m., pursuant to adjournment, in room 318, Senate Office Building, Senator Robert Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, Watkins, O'Mahoney, Myers, and Representative Huber.

Senators Ecton, Baldwin, and Kem, and Representatives Horan and Poulson.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

The CHAIRMAN. The committee will be in order.

We will proceed with the first witness, Mr. Ferguson.

Mr. SLAUGHTER. Bearing in mind the Chair's admonition last night to avoid cumulative evidence, we have certainly tried to conform to the Chair's request. Mr. Ferguson's testimony may be in some parts a little cumulative, but he has come here to testify on margins, and he has prepared that subject particularly and since that is really the meat of this hearing, I do think that his paper will be of interest to the committee.

The CHAIRMAN. You may proceed.

STATEMENT OF E. S. FERGUSON, VICE PRESIDENT OF THE KELLOGG COMMISSION CO. OF MINNEAPOLIS, MINN.

Mr. FERGUSON. My name is E. S. Ferguson. I am vice president of Kellogg Commission Co. of Minneapolis, and have been actively engaged in the grain business for 43 years, 42 years with my present connection.

My own business, the business of the Kellogg Commission Co. is the handling of shipments of grain for country elevators, and the attention to the business of the country elevator in the terminal markets in Minneapolis and Duluth. In this business the futures trading system is vital, and we could not operate the business without it because we loan money for the purchase of grain to country elevators who, in turn, buy the farmers' crops as offered for cash only. If their grain were not hedged, my company could not loan money on it.

Margins on trades for future delivery of grain have always been considered by the grain trade as an earnest money deposit and a protection to the commission merchant or broker who carries the trade against customer's loss due to price change and a guaranty of performance of contract. They are not a percentage of the purchase price. Each trade involves a transaction by two parties, and the total of all sales of futures equals the total of all purchases. One cannot buy without another having sold.

At the rate currently in effect, 33⅓ percent, the margin of $1 per bushel is exactly one-third of the purchase price at current levels. Each buyer and seller deposits $1 and there is held as security and protection against price change $2 on each $3 bushel of grain traded. Should the margins be increased to 100 percent, there would be $6 on deposit as security against $3 worth of grain.

As the contract will come to maturity within the course of a few months or a few weeks or even a few days, such excessive deposit is far beyond any probable need.

Under exchange regulations in effect at the time the Government decided to interfere with the margins, members required margins on speculative trades of 40 to 50 cents per bushel from each buyer and seller. That meant 80 cents to $1 per bushel on each transaction. The extent of that requirement was decided independently by the governing board of each exchange, representing the judgment of each board as to the amount reasonably necessary to protect the commission merchant, his customer, and the public against loss from price change.

I repeat that the margins fixed by the exchanges were not a percentage of nor a down payment on purchase prices, for obivously the seller who must put up the same margin as the buyer has no purchase price to pay. The factors considered in fixing minimum margins are: (a) Price level; (b) probable extent of fluctuation within a short period of time.

In weighing these probabilities account is taken of such factors as backlog of supply, its proximity to the place where it is wanted, transportation and storage facilities, weather, demand, both domestic and foreign, as well as the announcement or probabilities of change in Government programs at home and abroad, and effects of Government actions, as well as disasters visited by the hand of God.

Commission merchants who carry trades for customers have some leeway and can exact margins greater than the minimum requirements if they believe the individual situation warrants it. They are constantly on the alert to protect themselves against loss on such trades. As the price goes against the customer, the commission merchant calls for additional margins. When the customer is unable or unwilling to deposit additional margins, the carrier closes out the trade before margin exhaustion and pays to the customer the balance left from the deposit, after deducting the loss on his transaction.

To sum up the foregoing, then, the exchanges and their members conceive margins as a device for their protection against customer loss and the maintenance of solvency of the customer, the member and the exchange, plus assurance the contract will be performed. Grain exchanges and their members have always condemned and deplored the use of margins or any other device for the purpose of influencing prices. They have considered such practices not within the function of a market place, against the public interest, and in violation of law.

This brings us to consideration of whether some governmental agencies should be given authority to use the manipulation or regulation of margins as a price-influencing device. We do not think such authority should be given for we believe in a free economy in which price is affected by supply and demand.

As there are proposals to give the Government power through legislation to regulate margins, let us examine the probable effect. Assuming that commodity exchanges, hedging facilities, and futures trade are desirable and are to be permitted to function as part of a free economy, then they should not be obstructed nor restricted to the point where they cannot function properly and in a manner best calculated to serve the public and the grain industry from the farmer all the way through to the baker.

High margin requirements discourage trading, drive traders with small capital out of the market, and reduce the volume of trade. To serve the public, industry and producer efficiently the market must have a large volume of trade. A market in which there is a great number and volume of open trades and in which many buyers and sellers are constantly operating affords a buyer or seller the best opportunity to make the trades which he desires with least possible effect on prices from the impact of his bid or offer.

Obviously the higher the margins required the fewer buyers and sellers are able to meet the requirements, and the smaller the amount of possible undertakings. As the market thins out under the process of restrictive margining, the volume of open commitments is reduced, the number of bids and offers from risk takers is reduced, and the market is thus ultimately thinned down to the point where the impact of a large single sale, for instance by a farmer, elevator, or miller, or a large purchase, by a miller, Government agency, elevator, or baker, causes an immediate sharp price movement because takers for offerings are scarce or sellers cannot be found to meet bids.

Hedging sellers, such as farmers, country elevators, millers, and so forth, trade as their needs arise, and their offerings seldom coincide in time and quantity with the needs of hedging buyers, such as Government, terminals, mills, country elevators, and bakers. The risk-taking speculators furnish the cushion against the impact of hedging trades, and competition among a large number of risk takers minimizes price fluctuation.

Absence of risk-taking traders from the market reduces efficiency of the market and if carried to complete elimination would practically abolish futures trading and hedging because of the impossibility of meshing hedging trades against each other in the quantity and at the time required. When a mill has sold flour and wants to buy wheat a speculator is necessary to fill the order, if there is not a farmer or an elevator offering his wheat at the time.

The Government recently has been a buyer of unprecedented quantities of grain over short periods of time. Such acquisition would have been impossible without a broad speculative and hedging market. Attempts to gather such quantities of grain by the primitive method of soliciting individual farmers would be so cumbersome as to be unworkable and would also be so disquieting as to drive the grain into hiding.

If we are to move our crops we must maintain liquid markets. They can be maintained only if those disposed to take the risks of price changes are allowed to trade freely. If their entry into or withdrawal from the market can be regulated by the caprice or whim of a Government official then the market can be closed or destroyed the same way.

Speculation neither raises nor lowers the price. Prices fall when sufficient buyers are not on hand to keep them up. Prices rise when buyers want more grain than is available at a given level, and they bid more money to get it.

It must be apparent to this committee that the influences which have driven up grain prices are the same that have increased the prices of all other commodities, goods, and services, plus the added weight of Government buying for the emergency export program, and that the speculator who sells always eventually buys back, and the one who buys always later sells out.

In summation, margins are used and should be used for the guarantee of payment of the customer's loss through price change. Speculation neither raises nor lowers prices ultimately, but acts as a stabilizer in the market. The employment of high margins as a means of keeping prices down is futile for its only effect is to remove the temporary risk taker from the market and thus create a thin and inefficient market. The imposition of high margins eliminates speculative sellers as well as speculative buyers.

Control of margins by Government places in the hands of Government a weapon which can be used to undermine the all-important risk-bearing function of futures markets. Once this function is sufficiently crippled, the entire free market structure of grain marketing in this country collapses. The stage is then set for price fixing, ceilings, rationing, allocations, and inevitable regimentation all the way from the farmer's granary to the consumer's table.

The laws of supply and demand will continue to dictate prices as long as markets are free. When laws of supply and demand are set aside by fixing of prices, the black market takes over.

The CHAIRMAN. Mr. Ferguson, you have had actual experience with these markets. You have been dealing in grain during the last period?

Mr. FERGUSON. Forty-two years.

The CHAIRMAN. During the last few months?

Mr. FERGUSON. Yes, sir.

The CHAIRMAN. What has been your experience with the market before and after imposing the 33⅓ percent margin?

Mr. FERGUSON. It has been very difficult since the imposition of the 33⅓-percent margin to get off a hedge quickly and at the price level existing when you go into the pit.

For instance, it is no trouble at all in times of liquid market to step into the wheat pit and buy 5,000 bushels of wheat, either at the current quotation or by bidding it up an eighth. But now since there are no speculative offers in the market, if you want to go into the market and buy 5,000 bushels of wheat, you may have to bid the market up as much as three-quarters of a cent a bushel. I have even seen it at times higher than that. That is because the market is thin. We have not yet seen the full impact of the 33⅓-percent requirement, because there were many open trades entered into before that 33⅓ percent was fixed.

Those trades are still open, and we are trading in that reservoir or trading from that reservoir. When we get into the deferred months, July and September, if the 33⅓ is still in force, we will have a market that is so thin as to be of questionable value.

I am not a speculator. As a matter of fact, being a member of the conduct committee in my market, I have taken an oath that I will not speculate in any of the commodities dealt on the exchange while I hold that position.

The CHAIRMAN. Thank you very much, Mr. Ferguson.

Mr. SLAUGHTER. Mr. Chairman, while Mr. Sturtevant has a prepared statement which we would like to incorporate, bearing in mind the chairman's request last night for brevity and to avoid repetition. He has boiled it down to a somewhat shorter version of it which he will use.

The CHAIRMAN. You may proceed, Mr. Sturtevant.

STATEMENT OF R. H. STURTEVANT, VICE PRESIDENT, HART-BARTLETT-STURTEVANT GRAIN CO., KANSAS CITY, MO.

Mr. STURTEVANT. My name is R. H. Sturtevant, of Kansas City, and I am in the grain business and am president of the Board of Trade of Kansas City, Mo.

I have prepared a statement dealing with the price of wheat, and I request that it be included in the record, but with your permission, I shall merely summarize this statement at this time. I have also prepared a chart that I think will be interesting to the members of the committee as it shows the various gyrations of the market since August 15. We will get to that a little later.

In the 8 years prior to 1945, wheat presented a troublesome surplus problem, but record exports in that year left a very small carry-over of 100,000,000 bushels into the 1946 crop. Although the crop of 1946 was a record breaker, record exports of some 400,000,000 bushels, together with domestic use, left a carry-over into the 1947 crop of only 84,000,000 bushels. This is the lowest in 20 years, with the exception of one which was 1937, and that I may say is a very dangerously low figure.

Fortunately, another record crop was produced in 1947, 1,406,000,000 bushels, which with the carry-over gave us a supply of about 1,500,000,000. Without large exports such a supply of wheat would be a very heavy weight on the market, and before the Government's export plans were announced, it was predicted that the price of wheat would fall to the loan level, the support price, and it did, indeed, get close to that figure. But when the export plans were disclosed, based on shipping 500,000,000 bushels abroad, it was then seen that there would be a very close adjustment between supply and demand. The Government figured that 250,000,000 bushels would be fed to livestock, and on that basis about 100,000,000 bushels would be reckoned as a carry-over into the 1948 crop.

The Department of Agriculture has expressed the opinion that not less than 275,000,000 bushels is a safe carry-over. If the Government miscalculated this amount to be fed, the carry-over could easily be much less than 100,000,000 bushels. The amount to be fed is a very uncertain factor. Last year the figure was 187,000,000 bushels, and the Government estimates 250,000,000 bushels for this year. The grain supply this year is 25,000,000 tons less than last year. Manifestly, a drain on the wheat supply, however calculated, will be so great that higher prices were inevitable.

The Commodity Credit Corporation announced its buying program on June 3 and immediately began to buy the new wheat being harvested in the Southwest, and continued steadily and is still buying wheat. Fortunately, the railroads were able to supply boxcars as required, and the movement of new wheat was the greatest after-harvest movement ever recorded in the Southwest. The Commodity Credit Corporation dipped freely into these supplies as the wheat moved. It set a price it was willing to pay of $2.25 at Kansas City, and purposely made enough higher than the Government loan price to keep farmers from making loans and thus tying up the wheat. This condition prevailed through June and July and up to the middle of August.

The Government, in effect, made the market and the prices at Kansas City held over that period in the narrow range of from $2.20 to $2.30 a bushel. The movement was so large that the Government bought up to August 15, 75,000,000 bushels in the Southwest of wheat without disturbing the market. There was still enough coming into the market to supply commercial needs.

By August 15, however, the picture changed. The movement off the farms began to taper off and it began to appear clearly that supplies of wheat would be much tighter than originally thought, and for several reasons. One was the corn and oats crop would be seriously short; corn, 800,000,000 bushels less than 1946. This indicated a greater demand for wheat. Two, the Canadian wheat crop was sharply cut, indicating a greater foreign demand for our wheat; three, the Commodity Credit Corporation buying was reported; four, the movement of grain off the farms was reduced.

From August 15 the market began to rise, and it is this rise for which the exchanges are being condemned. It is said that speculation is responsible for this price increase. I say the reason is that the market is being constantly drained of its supplies. The amount available in commercial channels is too small to assure even domestic requirements, much less to meet the extraordinary demands from abroad, and the market price rises because buyers must bid against each other for the quantity available, the scant available supplies.

Now, we come to this chart, gentlemen. No. 1 represents the cash price of wheat; that is the red line on the chart. No. 2 is the nearby future, which starts out with September and then changes over to December, and that is the green line.

No. 3 is the May wheat price all of the way through.

I shall speak first of the cash price. On August 15 it was $2.29½. From that time it moved steadily upward with no significant interruption to September 8, reaching $2.55⅜ on that day. Why did the market rise in this way? Because every day in this period Commodity Credit Corporation was buying wheat, and by September 8 had bought upward of 90,000,000 bushels from the Southwest on the crop.

The southwestern farm movement was shrinking and supplies were getting low. Every bushel bought by the Government meant that much less in the market for the mills. On September 9, the market rose 9 cents, and on the 10th another 7 cents, or 16 cents in 2 days. It was reported that more realistic Washington officials in charge of Government buying were resigned to $4 wheat probably early next year, and it was further reported that the Government would go ahead with its relief plans regardless of questions of financing shipments abroad.

On September 15 there was another sharp rise of 8 cents, springing from mill buying in a market with scant supplies, together with a statement then from Washington that the supply situation was so acute that some form of rationing would be invoked. From this high point on September 15 of \$2.74¼, the market fell back to a low of \$2.50½ on September 20. That is a decline of 24 cents. There was a break of 18¾ in 3 days. This was due to news from Washington that export allocations were being revised downward and a statement by Secretary Anderson that his Department wanted to put brakes on the State Department's goals which could only be met, it was said, at terrifying levels of prices.

But on September 22, a sharp recovery occurred. The market stepped up 7 cents, and there was more talk of critical world food shortages. Mr. Herbert Hoover and other leaders emphasized the shortage. The Cabinet met to consider it. Secretary Anderson was reported to have said that only 350,000,000 bushels could be exported. That statement pointed up the tight supply situation while the State Department asked for much more.

The price strengthened after this date and by September 26 it had reached \$2.66¼ from the low of \$2.50½ on September 20. The Daily News contained reports of renewed activities by Commodity Credit Corporation and reports that the Cabinet had approved plans to export 400,000,000 bushels of wheat. The President's statement on export plans and the world situation was a sustaining factor. PMA boosted its export flour price. On September 27, the market was up 4 cents, and on September 29, 10 cents, and on October 1, 5½ cents, a total of 19½ over 3 days. Statements were made that the Government had no intention of trimming its export goals. There was a prospect of expanding the relief program by 100,000,000 bushels on the report of President Truman's committee on foreign aid.

The Commodity Credit Corporation bought 5,000,000 bushels over the next 3 days. The market has now reached \$2.86 and we are on a new plane of high prices, and from then on the market has held pretty much between \$2.80 and \$3, as that will show.

Now, from there on, gentlemen, I have not taken the day-to-day fluctuations, because they are pretty much the same stuff, but it is in my report on page 8 if you care to read it.

The CHAIRMAN. Prices have again reached the peak of October, have they?

Mr. STURTEVANT. No; they are over here. So far as we go, November 17, they are not quite back up there.

The CHAIRMAN. I asked as of today. That is what I am talking about. This is December.

Mr. STURTEVANT. We have not gone that far. I think that they have.

The CHAIRMAN. They have passed the October peak?

Mr. STURTEVANT. Yes, sir; I think that they have.

Please observe that over all of this period the cash price has been consistently over the futures price, which I think is very significant. There is no exception to that. It was the day-to-day demand for wheat that was making the market. If it were a fact that speculation in the futures markets were making an artificial market, the cash line would be consistently below the futures line.

Now, notice the line showing the May futures, just the lower line. At all points below the other lines, and since October 1 from 15 to 20 cents per bushel under the cash prices. This is an abnormal spread due to the extraordinary demand for cash wheat. The volume of trading in May futures is greater than in the December futures. If speculation were responsible for present high prices, the May futures would reflect this condition. The Commodity Credit Corporation has bought wheat out of this year's crop in the Southwest amounting to over 120,000,000 bushels. It is absurd to think that anything like this amount could be subtracted from the supply without putting the market up, and as the Government continues to buy farmers shut off the movement, thereby intensifying the rivalry for the available supplies.

October 1 farmers in the Southwest still held on their farms or in commercial storage fully one-half of the crop. They have not sold freely since then.

Senator WATKINS. How was that ascertained? How do you know that that is the fact, that they actually hold that?

Mr. STURTEVANT. The Government puts out on October 1 a statement showing the amount on the farms.

Senator WATKINS. How do they find that out?

Mr. STURTEVANT. They have their county agents and they go around and find it out, and each county has an agent and they ascertain the amounts through those agents.

Senator WATKINS. By actual contact with the farmers?

Mr. STURTEVANT. I do not know how they go about it, but I imagine that that is the way, we take those figures as correct, those are the only ones that we have.

Senator FLANDERS. In general, you trust those figures?

Mr. STURTEVANT. Yes, sir.

Senator WATKINS. Have you found them in the past to be reliable?

Mr. STURTEVANT. We have not found them off too much; we all take them as reliable.

Senator WATKINS. Well, in view of the heavy movement of grain early in the seasons, I wondered if there was a possibility that those figures were not reliable.

Mr. STURTEVANT. You must realize, Senator, that we had the biggest crop we have ever had. For instance, Kansas raised almost 300,000,000 bushels of wheat; that is at least 100,000,000 over former big crops. We have had over 200,000,000, but 300,000,000 is unheard of. This is a double crop. It was, almost.

Senator WATKINS. Is that because of increase in acreage?

Mr. STURTEVANT. Ideal weather conditions and high prices, that always means more seedings, and they broke up more ground and more pasture land was broken up.

Senator WATKINS. Pardon the interruption. I wanted to get that clear.

Mr. STURTEVANT. That is all right.

Farmers are reluctant to sell because they do not wish to add to this year's taxable income and look forward to a tax reduction next spring.

Two, the outlook for the winter wheat crop is not promising.

Three, they realize the desperate need for wheat and foresee higher prices. The supply situation was indicated by the so-called visible supply, that is the stocks of wheat in the grain markets. Sixty-five percent of these stocks are in the southwestern markets and the larger production is owned by farmers who are not selling.

I will now give you an actual review that we made in Kansas City. The largest stock of wheat is in Kansas City, that is the largest stock in the whole business, 30,000,000 bushels at present. Of that amount, on November 15, the farmers owned 50.7 percent, and the Government 28.7 percent. Other interests owned 10.3 percent. That 10.3 percent is the amount that the merchants like myself have available for sale, which is 3,000,000 bushels. In other southwestern markets farmers owned 69 percent.

Speculation is not the cause of higher or high prices of wheat. This commodity is scarce in the market place and getting scarcer as the Government continues to buy and the farmers refuse to sell. There is keen competition for available supplies. Naturally, prices are bid up. The market is dominated by Washington news, and it moves up or moves down as the Government authorities say they will or they will not.

One day it is said only 350,000,000 bushels can be shipped abroad, and another day it is 400,000,000, and again it is 500,000,000; and then news comes that the Government will stock pile wheat regardless of goals and take all it can get. One day it is to be rationed or allocated, and another day it is not. All of these stories have a bearing on the question: How much wheat will there be for mills?

Mr. Chairman, may I ask you to turn to page 8 on my statement. I want to correct a word there.

The CHAIRMAN. That is on page 8?

Mr. STURTEVANT. Yes, sir; the last paragraph, the first sentence. The word "wholly" should be "mostly." It was a typographical error, and I would like to have it changed.

The CHAIRMAN. I suppose the effect of this comes from the fact that the domestic demand is known to be more or less stable and it is pretty well known just what it is.

Mr. STURTEVANT. The domestic demand is fairly well known.

The CHAIRMAN. And so the variable in the situation is the amount that is to be exported.

Mr. STURTEVANT. That is the key to the whole situation.

The CHAIRMAN. That is what gives that the extra weight even though perhaps it is not as big as the total domestic demand.

Mr. STURTEVANT. And that is the important thing, as to exactly what you are going to export instead of jumping all around.

Senator WATKINS. What about the amount that will be fed because of the short corn crop? Does that not enter into the picture?

Mr. STURTEVANT. That enters into the picture, but that is governed by the price, the high price will mean less feeding.

Senator WATKINS. Is it too high to feed economically?

Mr. STURTEVANT. I am not able to answer that, sir, I am not a cattleman. I think that it is in realm of possibility, though.

Senator WATKINS. For instance, take the poultry and dairy industries, they have to feed some grain, and if they cannot get corn, they are likely to feed wheat, are they not?

Mr. STURTEVANT. They prefer not to, I think, at this price.

69371—48——24

Senator WATKINS. We have to have milk and we have to have poultry products, and we cannot get along without them, and there is bound to be a certain amount.

Mr. STURTEVANT. A certain amount; yes, sir.

Senator WATKINS. Will that amount not be increased by reason of the short corn crop?

Mr. STURTEVANT. But you have a counteracting high price which would mean that they would market their stuff quicker, which would refer more to cattle than to poultry; but there is always a certain amount fed, and that is a variable amount.

The CHAIRMAN. The evidence here is that the hogs and cattle are now to be marketed at much less weight, which indicates, I suppose, less feeding because of the high price of feed.

Mr. STURTEVANT. That would follow; yes, sir.

Mr. Chairman, maybe I was not explicit enough about this chart. My purpose in bringing this chart was to show the gyrations of the market caused by the various statements coming from official sources out of Washington.

The CHAIRMAN. Do you attempt in your statement to tie those smaller items up to particular statements or not?

Mr. STURTEVANT. It is all covered in the statement. I did not take every up and down, because it would be too long but it is all in the statement. Every day is taken care of, I think.

The CHAIRMAN. Is it related to actual purchases?

Mr. STURTEVANT. That is right.

The CHAIRMAN. That is by the Commodity Credit Corporation?

Mr. STURTEVANT. Purchases and in addition to that statement that had a direct bearing on how much we were going to export, which gets back to purchases.

The CHAIRMAN. Can you tell us in a rough way when the Commodity Credit Corporation was buying and when it stopped buying?

Mr. STURTEVANT. I think so. Mr. Scott tells me it was not in there because we were not able to get the information accurately. We did have the information of when they were buying, but as I recall it, in our market they would never say definitely they were out of the market. They would mere say they would let us know later, and it might go a day or so, and you would not know whether they were buying or whether they were not.

The CHAIRMAN. You think the chief effect is the changing estimates of exports?

Mr. STURTEVANT. There is no doubt about that, Senator, and that is a very important thing. Fifty million bushels difference in this figure would make all of the difference in the world, and if we could determine definitely what we had to export, that would help us an awful lot.

The CHAIRMAN. Are there any questions?

Senator WATKINS. I would like to know if there are any buyers in the market other than the Commodity Credit Corporation for foreign export.

Mr. STURTEVANT. There is very little foreign business done. There is some done to South American nations, but the Government handles most of that on allocations.

Senator WATKINS. Does the Government do the buying as well as make the allocations?

Mr. STURTEVANT. They make the allocations, and we have a witness coming up that can answer that exactly. He is in the export business, and I would prefer that he would answer it.

Senator O'MAHONEY. Mr. Sturtevant, just a moment ago you made this statement, if I remember correctly, and you can correct me (reading):

If the Government could tell us exactly how much is to be exported, it would help us an awful lot.

Mr. STURTEVANT. Yes, sir; we would know what we had to shoot at in other words.

Senator O'MAHONEY. Then, is it your belief that Congress in determining what the Government policy should be in this great world crisis should adjust that policy to the needs of the speculators on the commodity exchange, or should the Congress attempt to adjust speculation upon the commodity exchange to suit the Government policy?

Mr. STURTEVANT. Senator, that is a pretty involved question.

Senator O'MAHONEY. That is a very straight and simple question.

Mr. STURTEVANT. It is a $64 question.

Senator O'MAHONEY. I intended it as such; it is the basic question in this whole issue, because your testimony and the testimony of every other representative for the board of trade has been that speculation in grain is the only activity that is carried on which does not affect the price and that there should be no statements or rumors or reports emanating from Washington affecting the market unless they were absolutely definite.

Now, that is a summary of your statement.

Mr. STURTEVANT. Yes, sir; and I stand by it.

Senator O'MAHONEY. So then I come back to the question.

Mr. STURTEVANT. I think speculation is incidental. I think that your effect of speculation has no effect over a long period. It is merely incidental. I will get back to that.

Senator O'MAHONEY. But when you tell us that in your opinion the Congress and the Government should definitely state how much wheat is to be exported in order that those of you who are engaged in speculation on the commodity exchange may have an easier time, is that not what you are saying?

Mr. STURTEVANT. No, sir; that is wrong.

Senator O'MAHONEY. Are you not telling us that we should adjust our policy to suit the needs of the exchange?

Mr. STURTEVANT. I do not think, or at least I did not intend, to convey the opinion that I wanted these figures to come out for my own personal benefit.

Senator O'MAHONEY. Of course, I did not mean that, Mr. Sturtevant, naturally.

Mr. STURTEVANT. What I am trying to tell you is that the amount of wheat to be exported is very important, and these different statements coming from Washington are bound to affect the market. The whole economy of the country might stand in balance on whether we exported 500,000,000 bushels or 400,000,000 bushels, and the speculation is still incidental.

Senator O'MAHONEY. Now, you do not mean to have this committee understand that when you speak of reports and statements coming from Washington, you are referring exclusively to official statements?

Mr. STURTEVANT. No, sir. I am not speaking exclusively of official statements, but official statements have more weight than unofficial statements.

Senator O'MAHONEY. If a Member of Congress should say that in his opinion it might be a desirable thing for the Government to take over the entire wheat crop, that would have an effect upon speculation, would it not?

Mr. STURTEVANT. That is almost an official statement, sir, in my opinion.

Senator O'MAHONEY. It is not official, but it would have an effect.

Mr. STURTEVANT. Yes, sir. I think it would.

Senator O'MAHONEY. Then do you believe that Members of Congress should not express publicly their views of what might be done just because it affects speculation upon the commodity exchanges?

Mr. STURTEVANT. I am not complaining about your expressing your opinions, but when you do, you must realize that you are going to affect something like this. That is up to you.

Senator O'MAHONEY. But then you said if we could have a definite figure from Washington, it would be very helpful to us, meaning the commodity exchange.

Mr. STURTEVANT. I think that that figure is very important from the standpoint of the national economy.

Senator O'MAHONEY. Now, you have presented us with a very interesting chart on the daily closing prices of wheat at Kansas City market, and with a few variations up and down, the trend of that line is upward.

Mr. STURTEVANT. Yes, sir.

Senator O'MAHONEY. It begins in what year, at what month?

Mr. STURTEVANT. August 15 of this year.

Senator O'MAHONEY. And it ends in October.

Mr. STURTEVANT. That is November 17, as far as we could get on here.

Senator O'MAHONEY. How much higher is it at the end of the chart than it was at the beginning?

Mr. STURTEVANT. I think it is about as high as the high point, but I am not definite on that.

Senator O'MAHONEY. As a matter of fact, since that chart was prepared, the price has gone higher than it is on that chart?

Mr. STURTEVANT. Yes, sir.

Senator O'MAHONEY. And you recognize the fact, and you have said so in your paper, that the soaring cost of living has become a matter of great concern to the public of the United States.

Mr. STURTEVANT. That is right.

Senator O'MAHONEY. And you believe that something should be done about it?

Mr. STURTEVANT. If it can be done, I do.

Senator O'MAHONEY. Does that qualification mean that in your opinion it is likely that nothing can be done?

Mr. STURTEVANT. Yes, sir; it is likely.

Senator O'MAHONEY. It is your belief then that Congress can do nothing to check this rising cost of prices?

Mr. STURTEVANT. I think it can do something, but maybe you are doing it; if you want a horseback opinion, I will be glad to tell you what I think.

Senator O'MAHONEY. That is what we are here for. Now, what do you think we should do?

Mr. STURTEVANT. Maybe you are doing this, but I would think if I were in your place, the first thing I would do would be to find out definitely how much wheat Europe had to have; and I mean definitely. And I would find it out through sources that I knew I could depend on.

Senator O'MAHONEY. Do you think anybody in Congress can control the weather in Europe?

Mr. STURTEVANT. I am not talking about the weather. I am talking about what they have to have to be fed.

The CHAIRMAN. Until their next crop, you mean?

Mr. STURTEVANT. Yes, sir.

Senator O'MAHONEY. Does that not depend upon circumstances and conditions that are away beyond our control?

Mr. STURTEVANT. At least you could bring it up to date and find out what you think is their minimum amount they want over there; that is the key to the whole thing, and you can start from there. Then, if you want to give them that amount and take the risk of putting prices up and possibly injuring our economy, that would be up to you, and not me, to say.

Senator O'MAHONEY. Now, if we should follow your recommendation, and I am using your words, establish the minimum amount, the speculators would still say, "That is the minimum, and now it may be beyond that," and they might push the prices up again, is that right?

Mr. STURTEVANT. It is possible, but it is incidental after all.

Senator O'MAHONEY. Now, let us get back to that incidental character. Do you want the committee to understand that in your opinion this trading upon the commodity exchange, this speculative trading, the buying and the selling, has no effect upon the market price?

Mr. STURTEVANT. I did not say it had no effect. I said it was incidental. That is my opinion.

Senator O'MAHONEY. Does it have any effect on the market?

Mr. STURTEVANT. It might have in one day, but it irons itself out.

Senator O'MAHONEY. Over what period?

Mr. STURTEVANT. I cannot tell you; but over a period like this it irons itself out.

Senator O'MAHONEY. You are a devotee of the contention that the buying and the selling of the speculators upon the commodity exchange, because they do not put any wheat in, being no producers, and because they take no wheat out since they are only speculators, has no effect at all except a very incidental effect?

Mr. STURTEVANT. That is right.

Senator O'MAHONEY. Is it not the fact that the only purpose of these speculators is to benefit from the price change?

Mr. STURTEVANT. That would be obvious.

Senator O'MAHONEY. It is obvious?

Mr. STURTEVANT. Yes, sir.

Senator O'MAHONEY. So that all of these speculators have a very definite interest in the price.

Mr. STURTEVANT. The same as the speculator in land or anything else.

Senator O'MAHONEY. And do they not sometimes try to affect the market up or affect the market down?

Mr. STURTEVANT. I could not answer that, sir, I would imagine that anybody that bought wheat would like to see it go up; whether they could or did affect it, I could not say.

Senator O'MAHONEY. Is it not a matter of fact that there are operators who at least from time to time try to bull the market and operators who from time to time try to bear the market?

Mr. STURTEVANT. I presume there are, sir.

Senator O'MAHONEY. Do not you know that there are?

Mr. STURTEVANT. I said that I "presume." That means that I think so.

Senator O'MAHONEY. Of course.

Mr. STURTEVANT. But the commodity credit exchange now has an eye on all of that, and if they see anything that is wrong, they can say so.

Senator O'MAHONEY. Of course, you know that when the commodity exchange was established, the representatives of the exchange were down here uttering the same sort of protests that are now being uttered against a possibility that we might put the margin up.

Mr. STURTEVANT. I think that that is the answer. I do not see anything wrong with that.

Senator O'MAHONEY. I am glad to have you acknowledge that.

Mr. STURTEVANT. I have not seen anything wrong with it. That is an honest opinion.

Senator O'MAHONEY. I do not say there is anything wrong in your coming down here and expressing your opinion, and I am trying to defend the business in which you are engaged. My purpose is merely to determine whether on the whole it is in the public interest that the Congress attempt to limit the effect of this speculation upon the market.

Mr. STURTEVANT. We have tried to tell you that we do not think so.

Senator O'MAHONEY. And you think it has no effect?

Mr. STURTEVANT. Yes, sir.

Senator O'MAHONEY. I am trying to make it appear, sir, that you are in the position of saying everything else affects the market; if a Member of Congress opens his mouth, that affects the market; and if somebody in Europe cannot raise wheat or if the Government undertakes to talk about exporting wheat, that affects the market; and if the farmer holds wheat on his farm instead of sending it in, that affects the market. Everything affects the market except speculation; and to me it seems to be an absurd conclusion.

Mr. STURTEVANT. Well, sir, I think that you have overlooked the fact, or rather you have admitted that the wheat is not taken out of the market by the speculator and it is not the same kind of a deal as the Commodity Credit; when he takes it out, it is out.

Senator O'MAHONEY. That is why I say it is absurd to me to think that speculative operators who add nothing to the amount of grain and who take nothing away from the amount of grain and whose only activity has to do with pushing the prices up or down have no effect upon prices.

Mr. STURTEVANT. This might help you, Senator, if you listen to me just a moment. We made a survey in Kansas City of about 7 weeks' trading, from September 1 to October 25, and in that trading the percentage of speculation was 24 percent, and the amount of long buying was 40,000,000 bushels, and the amount of long selling was 42,000,000 bushels. Now, that shows a very definite balance between speculative buying and selling, and it also shows the percentage of the total business is relatively small, and I would say that I do not think the market could operate with less than 24 or 25 percent speculative buying. That is merely my opinion.

Senator O'MAHONEY. Have you not known instances?

Mr. STURTEVANT. Do those figures make any impression on your argument?

Senator O'MAHONEY. Not much, I confess, Mr. Sturtevant.

Mr. STURTEVANT. I am sorry. I thought that they might.

Senator O'MAHONEY. Let me ask you now, have you any recollection of any incidents of trading upon the Commodity Exchange where an operator buying or selling on a large scale has so affected the price that when overextended, he finds himself cut? There is a rapid change and a lot of innocent people are injured when they sell their commodity.

Mr. STURTEVANT. When you say an "operator," do you mean a speculator?

Senator O'MAHONEY. Yes.

Mr. STURTEVANT. There is no way of telling about who is speculating. For instance, that business is handled by brokers and you do not know whether it is speculative buying at the time it is being done. I could not say as to that, because you do not know who puts the orders in.

Senator O'MAHONEY. I asked you the question because I have in mind a story which was printed in the papers rather broadly last October from the Cotton Exchange. The price had been pushed up by an operator whose name I have forgotten, a speculator, to about 40 cents, and he was overextended, and he was caught, and he had to let go, and the price tumbled to 30 cents just when the cotton producers were bringing their product to market, and they were the ones who got the low price then. Now, upon that theory, it might be a good thing to help drive prices down if we have a lot of speculation and the speculators were overextended.

Mr. STURTEVANT. Of course, that is liable to happen any time, but under the present regulations, it would not go that far in the grain markets, I think. You are bound to have corrections at any time.

Senator WATKINS. As I understand it then, it is your theory that the sellers, the speculative sellers, practically equalize those who are buying, and that is why it does not affect the market.

Mr. STURTEVANT. That is right. Any speculator that buys has got to sell it sometime, and any speculator that sells has got to buy it sometime. This survey was a spot check and it is over 7 weeks, and I think it is fairly representative, sir.

Senator WATKINS. That would be true on nearly any of the other markets?

Mr. SURTEVANT. I would say so; yes, sir.

Senator WATKINS. It seemed rather simple, but it seems to me that that probably was fairly convincing—some are pounding the price up and others are pounding it down—it would probably equalize it.

Mr. STURTEVANT. It was simple to me. That is why I said it, but the Senator did not agree with me.

Senator FLANDERS. Were you trying to make the point a while back that if the Government announced and stuck to a program of buying for Europe, that it would iron out some of this wide variation?

Mr. STURTEVANT. I think it would settle the uncertainties.

Senator FLANDERS. What would it do to those lines?

Mr. STURTEVANT. That is a matter of opinion only; but just as an example, if the Government would say, "Here, we want 50,000,000 bushels more of wheat and then our program is completed. We will buy that 50,000,000 bushels over 2 or 3 months." If they would say that, then the trade would know what they would have to shoot at, and I would think it would tend to stabilize the market; that would be my personal opinion, sir. It might move a little higher or a little lower depending on the amount they decided they wanted. It it was less than we expected, the price would go down, and if it was more, it would go up; but they would not have these gyrations, I think.

Senator WATKINS. How many years have you been dealing in grain?

Mr. STURTEVANT. About 33 years.

Senator WATKINS. You have, of course, had experience then during the last World War?

Mr. STURTEVANT. I started in the business just at that time. I was really a little too young to realize it, I think.

Senator WATKINS. You have made a study of how the operations were carried on after the Food Administration was created in 1917?

Mr. STURTEVANT. No, sir.

Senator WATKINS. You never studied that?

Mr. STURTEVANT. I was a clerk then, and I paid very little attention to it. I think there are some people here who can answer that. I know that there are.

Senator WATKINS. I notice that you said something about 100,000,000-bushel carryover. Do you feel that is a safe amount to carry over?

Mr. STURTEVANT. No, sir.

Senator WATKINS. What would be your best judgment on the amount to be carried over by this country for safety?

Mr. STURTEVANT. Not less than 200,000,000; and in fact, the Department has said along in here somewhere that 275,000,000 in their opinion is a safe carry-over so far as we can go. That carry-over is a very important thing, Senator, because if this new crop comes up short, then that is all you have got to go on.

Senator WATKINS. That is entirely a gamble, is it not?

Mr. STURTEVANT. Yes, sir.

Senator WATKINS. Nobody can tell at this stage exactly what will happen to that winter wheat crop.

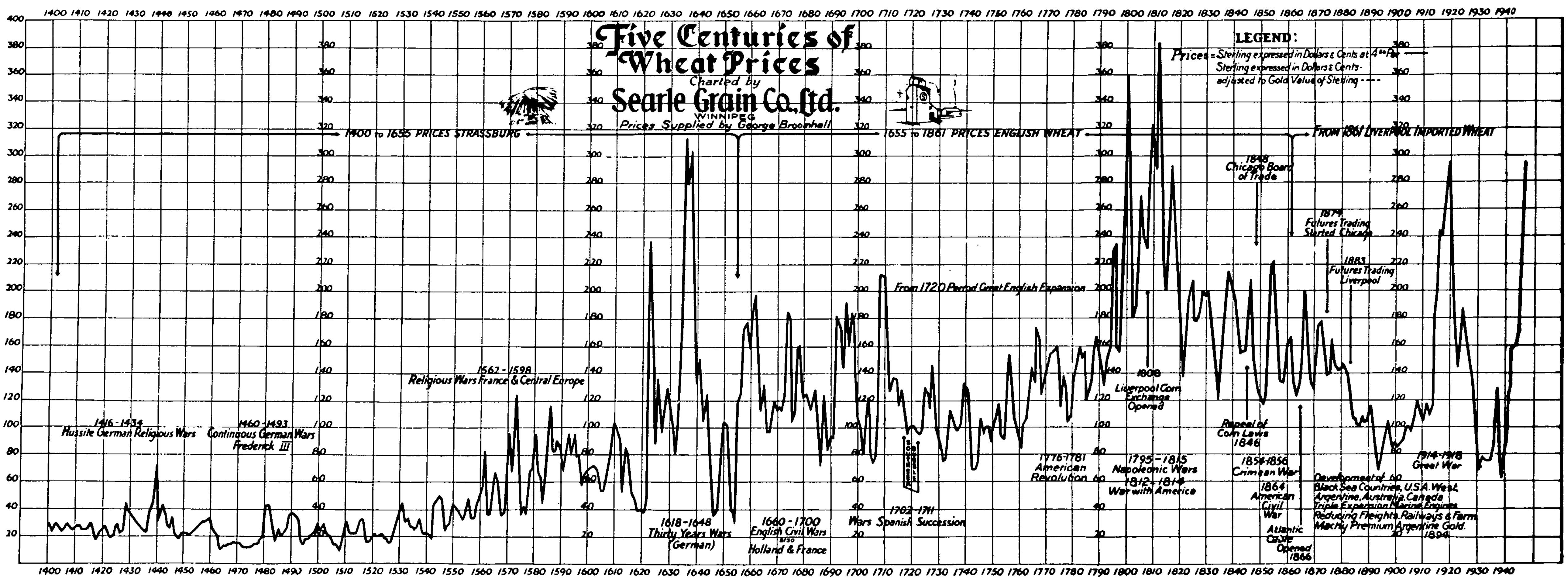
Mr. STURTEVANT. We do not even know the acreage planted yet and will not know until we get the December 1 figures, about the 10th of this month. That is the intended acreage, and of course conditions are very bad. They are not good, at least.

Senator WATKINS. What is the total amount used in this country each year on that?

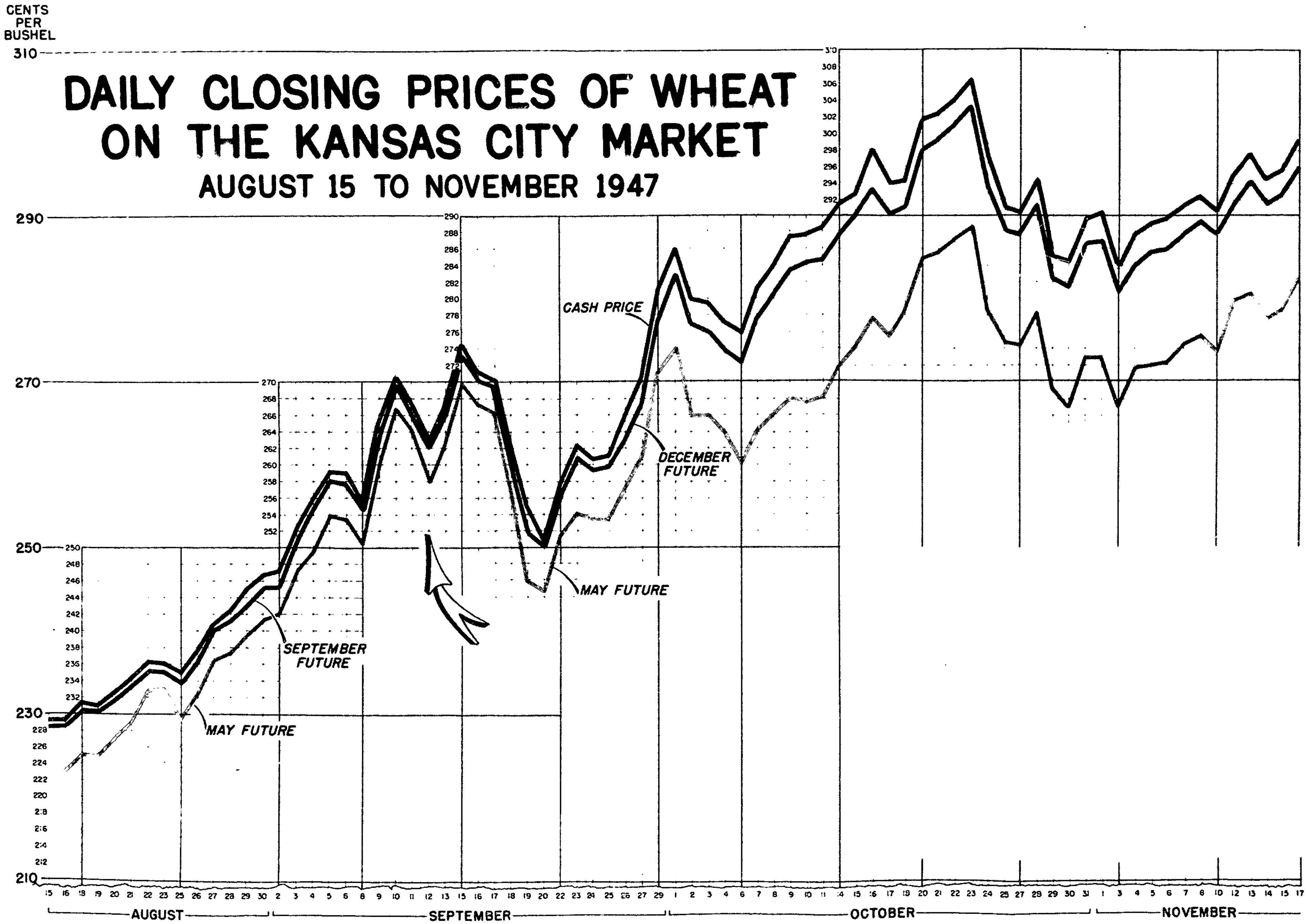
Mr. STURTEVANT. About 860,000,000 or 870,000,000 bushels.

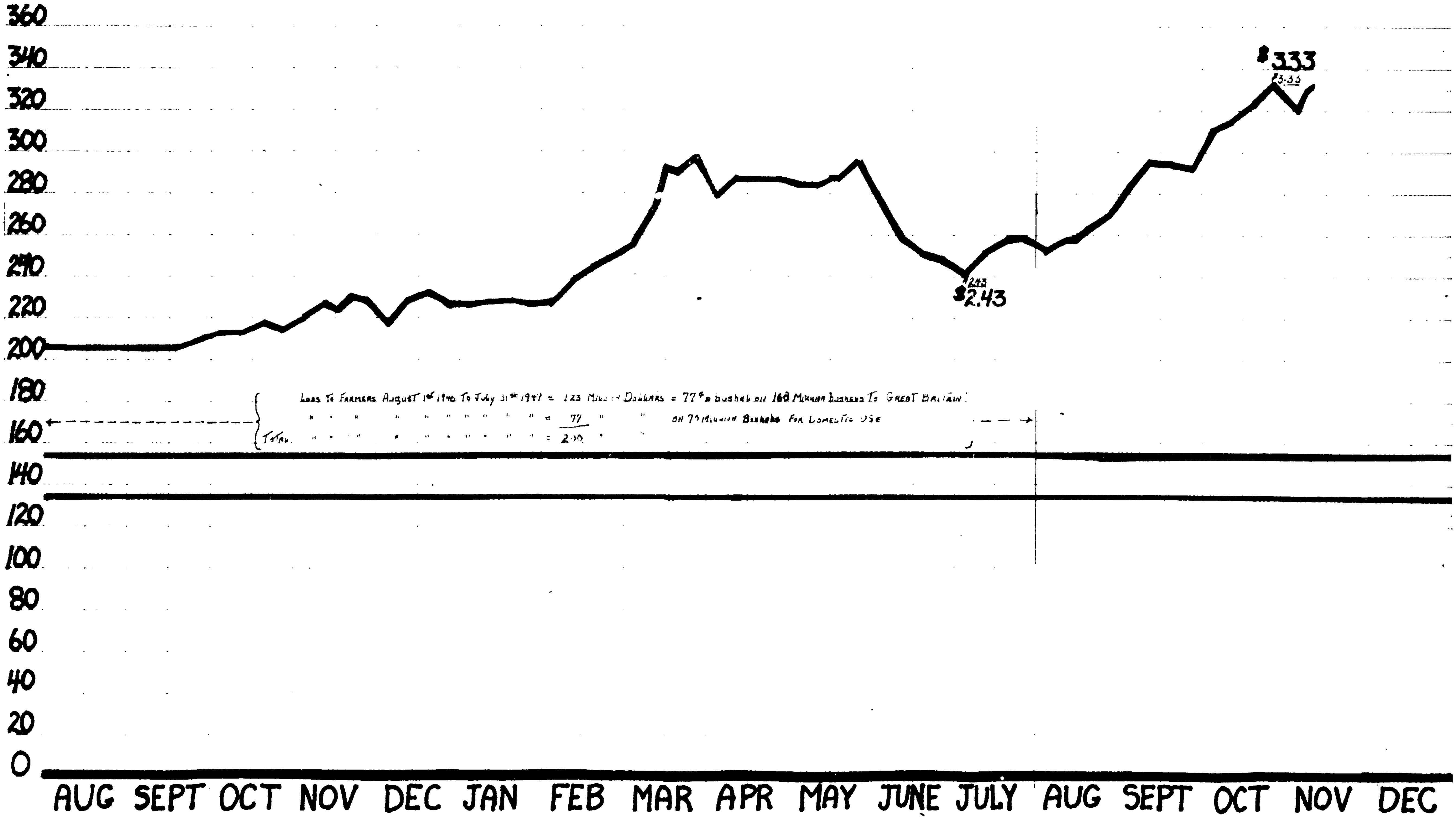
Senator WATKINS. You think 250,000,000 bushels would be a safe amount to carry over?

Mr. STURTEVANT. It is a pretty small amount, only about 3 months' supply.



Five Centuries of Wheat Prices
Charted by
Searle Grain Co. Ltd.
WINNIPEG
Prices Supplied by George Broomhall
LEGEND:
Prices = Sterling expressed in Dollars & Cents at 4.86 Par
Sterling expressed in Dollars & Cents - adjusted to Gold Value of Sterling
1400 to 1655 PRICES STRASSBURG
1655 to 1861 PRICES ENGLISH WHEAT
FROM 1861 LIVERPOOL IMPORTED WHEAT
1416-1434 Hussite German Religious Wars
1460-1493 Continuous German Wars Frederick III
1562-1598 Religious Wars France & Central Europe
1618-1648 Thirty Years Wars (German)
1660-1700 English Civil Wars Holland & France
1702-1711 Wars Spanish Succession
From 1720 Period Great English Expansion
1776-1781 American Revolution
1795-1815 Napoleonic Wars
1812-1814 War with America
1808 Liverpool Corn Exchange Opened
1848 Chicago Board of Trade
Repeal of Corn Laws 1846
1854-1856 Crimean War
1864 American Civil War
Atlantic Cable Opened 1866
1874 Futures Trading Started Chicago
1883 Futures Trading Liverpool
Development of Black Sea Countries, U.S.A. West, Argentine, Australia, Canada
Triple Expansion Marine Engines
Reducing Freights, Railways & Farm Machy. Premium Argentine Gold. 1894
1914-1918 Great War


DAILY CLOSING PRICES OF WHEAT
ON THE KANSAS CITY MARKET
AUGUST 15 TO NOVEMBER 1947
CENTS PER BUSHEL
CASH PRICE
DECEMBER FUTURE
MAY FUTURE
SEPTEMBER FUTURE
MAY FUTURE
AUGUST
SEPTEMBER
OCTOBER
NOVEMBER


$3.33
$2.43
360
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
0
Loss To Farmers August 1st 1946 To July 31st 1947 = 123 Million Dollars = 77¢ a bushel on 160 Million bushels To Great Britain
" " " " " " " " " " = 77 " " on 7? Million Bushels For Domestic Use
Total " " " " " " " " " " = 200 " "
AUG SEPT OCT NOV DEC JAN FEB MAR APR MAY JUNE JULY AUG SEPT OCT NOV DEC

Senator WATKINS. Particularly in view of the fact that we have a threatened shortage for next year.

Mr. STURTEVANT. Definitely. We may be ending the cycle of big crops, and we have had three or four of them.

Senator WATKINS. It has gone in cycles over the years?

Mr. STURTEVANT. And we might be coming to an end of that cycle, it could be possible, and it might be on the other hand that Europe is going the other way. They may be ending their cycle of bad crops; at least you have to consider the fact that we may have a short crop.

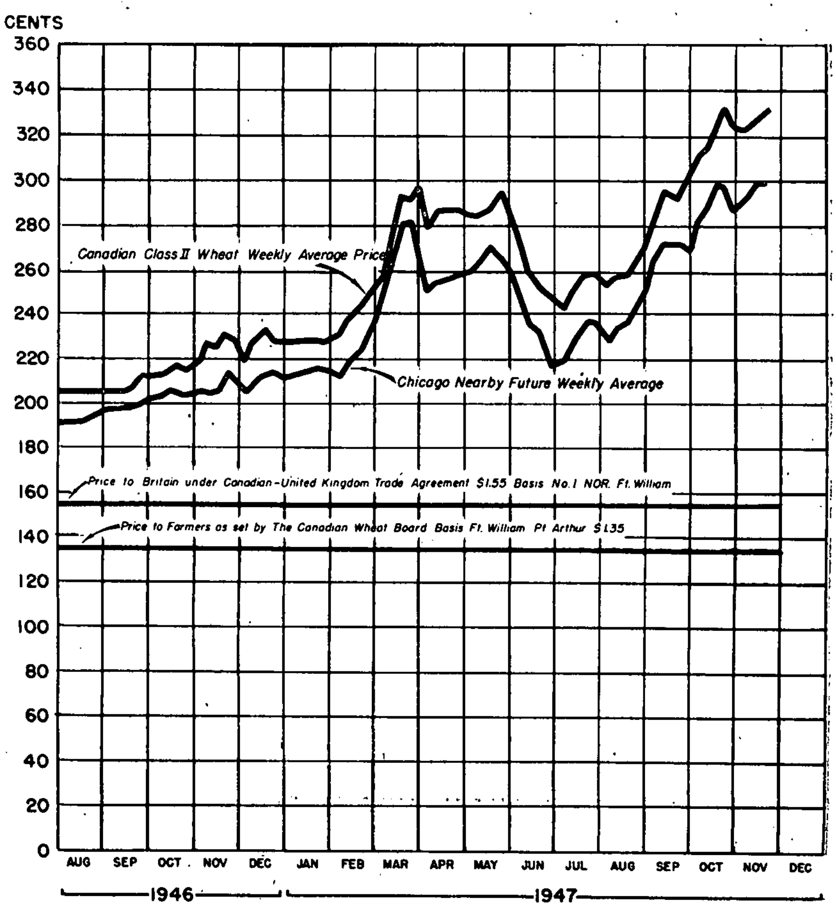
Senator WATKINS. In Europe it is not only due to the lack of weather, but the lack of fertilizer and other things have entered into the production picture.

Mr. STURTEVANT. Yes, sir.

The CHAIRMAN. If there are no other questions, we thank you, Mr. Sturtevant.

CANADIAN WHEAT BOARD CLASS II AND CHICAGO NEARBY FUTURE PRICES

AUGUST 1946 — NOVEMBER 1947



We will call Mr. Skyberg, the president of the Farmer Cooperative Marketing Association at East Grand Forks, Minn.

STATEMENT OF HERMAN F. SKYBERG, PRESIDENT, FARMER COOPERATIVE MARKETING ASSOCIATION, EAST GRAND FORKS, MINN.

Mr. SKYBERG. Mr. Chairman and Members of the Joint Committee on the Economic Report:

My name is Herman F. Skyberg. I am a farmer by profession, having lived on a farm for 43 years. The farm on which I live and which I operate is located between Fisher, Minn., and East Grand Forks, Minn. I am president of the Farmer Cooperative Marketing Association at East Grand Forks. I have been a member of the board of directors of that association for 25 of its 27 years, and president 17 years.

The farmers of our community consider our elevator a necessary part of our life. We prefer to handle our own grain through our own cooperative organization rather than to have to sell it elsewhere.

Our elevator can hold 70,000 bushels of grain. At harvest time it is filled up in a few days. After that, the only way we can make room to continue to put our grain away is to wait for boxcars, and we can haul grain into the elevator as fast as it is loaded out in boxcars.

Our capital and surplus is about $50,000. During the harvest rush we frequently own the elevator full of grain on top of the grain that is in the boxcars on its way to market, which is as much as another 30,000 bushels at some times. We cannot afford, with a capital of $50,000 to take chances on the price going down on 100,000 bushels of wheat. If it went down 25 cents a bushel, it would wipe out half our capital, and if it went down 50 cents a bushel, we would be broke on 100,000 bushels.

With the present marketing system we have protection and do not have to carry this risk. As fast as our manager buys grain from members, he sells futures in the Minneapolis Grain Exchange of a like amount. This means that we have the grain bought from the farmer and sold in the market, and whether the market goes up or down we are not affected. This gives us security and insurance.

When our grain reaches the market our commission merchant is instructed to buy back the hedges as he sells the grain. That closes the transaction. The grain has been disposed of, we have bought back our hedge, and we have earned the margin which we usually take for the cost of operation of our business.

If we did not have this market, we could buy grain from our farmer members only in the amounts which we could sell from day to day, and it might take us many months to dispose of our harvest.

Suppose that we had no hedging market. We would not dare to buy wheat which might not get to market for a month or even three or four months without taking a much wider margin in order to protect ourselves against the possibility that prices might be lower when it got there.

Besides wheat and other grains, our association handles potatoes. The potato marketing season is spread out much longer than the wheat marketing season, and we do not have very many potatoes on hand at any one time. Even so, potatoes give us much more worry than grain because we have to be hunting for markets all the time, and prices fluctuate much more rapidly, and frequently buyers are hard to find. We have no quick and positive way of hedging them and so we have a heavy risk on potatoes which does not exist on wheat.

The directors of our association unanimously approved of my coming to this hearing so that I could express their desire that our satisfactory outlet for our grain be continued.

Senator FLANDERS. Thank you, Mr. Skyberg. I would like to ask you whether you feel from your standpoint of a local elevator operator and a representative of farmers raising wheat, whether there is any improvement that could be made in the service performed by the grain exchanges from your point of view? In other words, is it perfectly satisfactory?

Mr. SKYBERG. As far as I can see it, at the present time, we are satisfied that it is handled in a very businesslike and dependable manner.

Senator FLANDERS. So far as you can see, does the present higher margin required affect you in any way, favorably or unfavorably?

Mr. SKYBERG. I do not know if I can answer that, at this present time we are past our heavy marketing season. It is usually in August and September, and therefore, it probably would not affect us so much, so far this year.

Senator FLANDERS. I was wondering if you would know of its existence at all, so far as your connections with the exchange are concerned. It does not apply to hedging, so that it would not affect you in that respect.

Mr. SKYBERG. No, our only operation through the exchange is the hedging of our own grain.

Senator FLANDERS. What is the 15 cents a bushel on hedging? How does that affect you? Do you have to put up that amount in cash?

Mr. SKYBERG. No.

Senator FLANDERS. That is done by the brokers on the exchange?

Mr. SKYBERG. That is right.

Senator FLANDERS. You are unaware of that operation?

Mr. SKYBERG. That is right.

Senator FLANDERS. You are clear of it entirely?

Mr. SKYBERG. That is right.

Senator FLANDERS. Is there some kind of a charge made to you for these operations? Is there a charge for buying and a charge for selling?

Mr. SKYBERG. Yes, sir; there is.

Senator FLANDERS. What does that amount to?

Mr. SKYBERG. At the present time it amounts to about 2½ cents a bushel on wheat.

Senator FLANDERS. Whether you are buying or selling?

Mr. SKYBERG. That covers the services; yes, sir, the commission.

Senator FLANDERS. And you are content to pay that for the services rendered?

Mr. SKYBERG. That is right. Incidentally, I might add that we, both as a company and personally, handle quite a few potatoes, and we are able to sell through commission companies, grain commission companies, at a small fee for the handling of our sales.

Senator FLANDERS. That is what you do on your potatoes?

Mr. SKYBERG. That is right. The reason for that is, I think, very definitely that in grain we have a well-established market medium of trading, and in potatoes there is no well-established method except individual contact with other individuals and to make sales that way.

Senator FLANDERS. Would you suggest setting up a potato exchange in dealing with futures?

Mr. SKYBERG. I am not indicating that at all.

Senator FLANDERS. All right, sir.

Senator WATKINS. I note that you said your heavy marketing is in August and that you are about through up in your territory.

Mr. SKYBERG. That is right.

Senator WATKINS. Is that contrary to the impression that has been created here by nearly all of the other witnesses that the farmers are carrying over past the new year a large part of their crop?

Mr. SKYBERG. I should have gone on to add that during September and October it is the heavy harvesting season of sugar beets and potatoes in our general area, and therefore, very little grain is marketed at that time.

Senator WATKINS. Why is that, simply because you have not the time?

Mr. SKYBERG. They are busy with the harvesting of potatoes and beets. However, after January 1 we do expect a resumption of hauling of grain.

Senator WATKINS. Now, you say that you are a farmer and you actually grow the grain and operate it?

Mr. SKYBERG. That is right.

Senator WATKINS. I am curious about how they check with you and the other farmers to ascertain exactly how much grain is held by the farmers?

Mr. SKYBERG. Quite often at various periods the elevator managers are asked for an opinion on what is held on farms, and they, in turn, question quite a few of their customers.

Senator WATKINS. Is that the way the information is obtained by these county agents?

Mr. SKYBERG. Insofar as I know, I do not know that the county agents, as such, do too much of that work, but there are frequent checks made by others that are interested in the handling of grain, and I know that our elevator manager has questioned a great number of farmers on that.

Senator Watkins. I got the impression from one of the other witnesses that this information was obtained by the Department of Agriculture largely through these county agents who made a survey and made a check to know how much is actually on the farm.

Mr. SKYBERG. That might possibly be so.

Senator WATKINS. I was wondering how it actually worked out from the farmer's point of view, whether they did or did not do that or whether it was just a matter of opinion.

Mr. SKYBERG. I am sure it is not only a matter of opinion. There are definite checks. Our manager, for one, could tell us very closely to the number of bushels that his patrons are holding at this particular time.

Senator WATKINS. And farmers are not adverse to giving how much they still have to go on the market, even though it could affect the market itself?

Mr. SKYBERG. They do not object to giving the information.

Senator WATKINS. Now, with respect to the shipping of your grain, if you did not have this method of hedging and protecting yourself, would your shipping be as regular as it is now? I am referring specifically now to the use of the freight cars and so on, boxcars that are required.

Mr. SKYBERG. Well, you are asking in regard to a market to dispose of this grain?

Senator WATKINS. Yes. In other words, we have had many gluts on the market, that is, the freight cars could not handle the amount of grain, and we have heard of reports of grain being stacked up in various parts of the country awaiting boxcars. Now, if you have this hedging operation so you can protect yourself and make your sales regularly, does that not tend to give you rather a gradual movement rather than to send it all at one time?

Mr. SKYBERG. That is right.

Senator WATKINS. That is spread out, the shipping?

Mr. SKYBERG. We think that is by far the better way of doing it, and we are very concerned about having a ready market for this grain, this wheat or whatever grain it might be, at the time the farmer decides he wants to sell.

Senator WATKINS. In other words, if you did not have this method of disposing of your grain and you had to ship it when somebody wanted to actually use it, you would not be shipping any in between. You would wait until that time when somebody ordered it and paid for it and you shipped it; and by this method, you could ship all of the time.

Mr. SKYBERG. This is very convenient, and the method that you have just described would be very inconvenient, where we would have to hunt up a buyer every time we wanted to ship some grain.

Senator WATKINS. I am mentioning this because one of our chief difficulties, or one of our chief shortages, in the country today, of course is the freight car.

Mr. SKYBERG. That is right.

Senator WATKINS. And if we did not have this system of marketing your grain so that you could keep it going all of the time and moving, you would have gluts in the grain piled up on the farm that needed to go out, and you would not be able to dispose of it in an orderly manner and use to the best advantage the freight cars that are available. It might make more difficulty for us in this field where we have so much shortage.

Mr. SKYBERG. That is right.

Senator O'MAHONEY. May I ask you if you went broke handling potatoes without a futures market?

Mr. SKYBERG. We have not gone broke. I should add that the volume of potatoes is much greater than the volume of bushels of grain, and hence we work on a much narrower margin because we cannot get it otherwise. It is an up and down affair all of the time. As a member of the board of directors, we have to be much more concerned with the direction of that potato division than we do with the grain elevator department.

Senator O'MAHONEY. Do you recommend that there should be a futures market with speculation available for every farm product or only for grain?

Mr. SKYBERG. It is a perishable product, so that changes the picture very materially.

Senator FLANDERS. Potatoes are perishable?

Mr. SKYBERG. Yes, sir.

Senator WATKINS. They differ greatly in grade and condition, as compared with wheat?

Mr. SKYBERG. Quite a different manner than with grain.

Senator O'MAHONEY. Now, the issue here arises out of the suggestion that authority should be granted by legislation to change the margin requirements. Do you object to the present 33⅓ percent of margin?

Mr. SKYBERG. I do not think that it probably would affect us at our grain elevator, because as I stated before, most of the grain that had been handled this fall had been handled prior to the time of this change in the margins requirement. However, the more people that are willing to buy our hedges, the better it is for the company when they want to sell.

Senator O'MAHONEY. Then do you object to the 33⅓ percent margin?

Mr. SKYBERG. I can't say that I know enough about it to say whether I do or not.

Senator O'MAHONEY. Do you think that a 20 percent margin is too high?

The same answer, I suppose.

Mr. SKYBERG. That is right. A margin that would still encourage people to come into the market and still not discourage too many others, should be satisfactory whether it might happen to be at one figure or another.

Senator O'MAHONEY. It might even by 50 percent.

Senator FLANDERS. Mr. Skyberg, I will ask you this.

Senator O'MAHONEY. Mr. Chairman, may the witness answer my question. Did you answer the question?

Mr. SKYBERG. Repeat the question.

Senator O'MAHONEY. Would it make any difference so far as your opinion is concerned if the margin were raised to 50 percent?

Mr. SKYBERG. I am inclined to think it would; yes. For this reason: that if the price is, the higher that charge or margin that is charged, the less people would be in that market, hence we wouldn't have as active a market. That is my opinion.

Senator O'MAHONEY. So your conclusion comes down to this, that so far as the grain production is concerned, it is beneficial to have a large number of speculators in the commodity exchange.

Mr. SKYBERG. It has been; yes.

Senator O'MAHONEY. That is all, Mr. Chairman.

Senator WATKINS. That 2½ percent charge covered both the sale and the purchase?

Mr. SKYBERG. Yes, and that is spot.

Senator WATKINS. That covers the entire transaction?

Mr. SKYBERG. That is right.

Mr. SLAUGHTER. Is it the same on futures?

Mr. SKYBERG. This is a commission. The actual handling of the grain as it comes into market.

Senator WATKINS. You do not have to put up any money on your hedging?

Mr. SKYBERG. No.

Senator WATKINS. Then when you buy your hedging, I want to know how much it costs a bushel for selling the future and the buying of your hedges.

Mr. SKYBERG. This is the full charge.

Senator FLANDERS. Does that cover both transactions—buying and selling?

Mr. SKYBERG. That is right.

Senator FLANDERS. It does not total 5 cents.

Mr. SKYBERG. No.

Senator FLANDERS. Two and one-half cents covers the two transactions.

Mr. SKYBERG. You see that figure varies according to the price of the grain, too. It might at one time vary from a cent and a half a bushel to 2½ cents. My understanding is that 2½ cents is the maximum.

Senator FLANDERS. The maximum you have had to pay, anyway.

Mr. SKYBERG. Yes.

Senator FLANDERS. Mr. Huber?

Representative HUBER. No questions.

Senator FLANDERS. Mr. Poulson?

Representative POULSON. I just want to follow up the question of the Senator from Utah, Senator Watkins.

Do the Department of Agriculture and the various Government departments send you repeated requests for statistics; also, on the amounts in the warehouse, keeping inventory records?

Mr. SKYBERG. I am not too familiar with that. I know they ask for reports from time to time. How frequently I wouldn't be able to answer.

Representative POULSON. Do they ask you for reports about the crops during the growing seasons?

Mr. SKYBERG. They ask—I don't know if they ask the company or not, but they ask the various individual farmers. I know many of them that are asked.

Representative POULSON. In your opinion, do you think the statements made by these various companies, farmers and so forth, are given a great deal of thought, or just a sort of guess or haphazard statement, realizing by the time that is added up throughout the country, the percentage of error could make a great difference one way or the other. Do you think there is much effort put into that to be sure to try to be as near correct as possible, or do you think it is given in a sort of haphazard way?

Mr. SKYBERG. Insofar as my knowledge of men who are giving these reports, I believe it to be as accurate as anyone's opinion could be.

Representative POULSON. Then if they got this information from people who are interested in the market. they could be—I do not say they would—but they could be influenced to color it to their advantage, could they not?

Mr. SKYBERG. An individual probably could think that way, but I repeat that I have come in contact with many individuals and groups of individuals, particularly in the potato division, and there is no attempt whatever to color the estimates.

Representative POULSON. That is all.

Senator FLANDERS. Mr. Horan?

Representative HORAN. I think the general opinion is that speculators are always buyers. Is that right?

Mr. SKYBERG. I don't think so.

Representative HORAN. And sellers are always hedgers or something.

Mr. SKYBERG. I don't think so.

Representative HORAN. A speculator could be a seller could he not?

Mr. SKYBERG. Yes.

Representative HORAN. He could operate, and I think he is in charge of the operation of depressing the market, particularly by the farmer, is that not right?

Mr. SKYBERG. That is what I have understood. One group of speculators could guess or believe that the market was going to go down, and another group could think or believe it was going to go up. Thereby we have a market.

Representative HORAN. As a farmer, your complaint about speculators, basically, is that they are not there in sufficient quantities when the farmer needs them during hard times. Is that right?

Mr. SKYBERG. I presume that that is the whole difficulty when times are hard. No one has any faith in what any market is going to be.

Representative HORAN. You are a producer of wheat. I was reading in one of the morning papers that the program before the Congress is one of confusion and control. As a farmer I think you appreciate that.

Senator FLANDERS. Excuse me a moment. Which came first?

Representative HORAN. I do not know. If we want bread we have to produce the wheat first, and if we want out of this tense situation, we are going to have to encourage and increase production. Do you feel, living as close as you do to a neighboring country that has a very, very strict control of the wheat production and has had since 1943, and has had further legislation on it this year, that we will get increased production out of controls in the clossing of grain exchanges, or any of the final and ultimate results that might come from an adventure in controls?

Do you think you will increase production as the world stands now?

Mr. SKYBERG. No. I think the production has been at the best possible peak that it could be. I don't think controls or, if you please, lack of controls, is going to change that.

I would like to add that I think that we should consider ourselves extremely fortunate that we have had the production that we have had. An all-time record of wheat for 1947, which has come at the end of many years of consecutive high production away beyond any past record.

Representative HORAN. Around 300 million bushels more. In spite of that record production, we face a tense situation and empty pipe lines in our commercial system before the next crop year comes.

Mr. SKYBERG. That is right.

Representative HORAN. Largely due, of course, to a short crop of corn and a short crop of rye.

Do you feel that the 1948 production of wheat, even with miraculous weather from here on out could be increased over this year's production?

Mr. SKYBERG. No. With the prospects in the winter wheat belt, I cannot see where it can come up anywhere near the 1947 production. That is an individual farmer's opinion.

Representative HORAN. And domestic oats and ryes also were high this year, were they not?

Mr. SKYBERG. That is right.

Representative HORAN. Barley was average, and rye was down along with corn. We can increase corn and rye, possibly.

Do you not think that the Government could wisely advocate and sponsor an increase in complement rye crops and that would give hope to the Nation if we were to analyze the situation and to figure out the complement rye crops so we could increase production at a time when we find ourselves almost in the shape of Old Mother Hubbard?

Mr. SKYBERG. In view of the domestic and the world food situation I believe that we must do everything possible to maintain a high production of all foodstuffs.

Representative HORAN. Have you talked to any of your Canadian neighbors who raise wheat?

Mr. SKYBERG. No, I have not.

Representative HORAN. That is all, Mr. Chairman.

Senator WATKINS. What about the spring wheat crop? Could that not be increased substantially over last year in your section?

Mr. SKYBERG. Acreage can be. It all depends on favorable weather. We have had, as I indicated before, the longest span of favorable grain weather that we have ever had in this country, that I have known of.

Senator WATKINS. How long is that?

Mr. SKYBERG. Six to seven consecutive years. That is, speaking of our area there.

Senator WATKINS. As far as the witner wheat crop is concerned, nothing can be done about that now. It is fixed for next year pretty much, as far as man's part of the deal is concerned.

Mr. SKYBERG. I have no personal knowledge about that, but from statements I have heard on many occasions by many people who are supposed to be well informed, they say that we would have to have exceptionally fine weather to get a normal production out of the winter wheat area.

Senator WATKINS. I think you missed my question. Is there anything that man can do about the winter-wheat crop now?

Mr. SKYBERG. I think not.

Senator WATKINS. In other words, after it is planted, it is turned over to Providence from there on.

Mr. SKYBERG. That is right.

Senator FLANDERS. Just as a matter of production information, you have had down in the Red River Valley for some years past trouble with things other than the weather. The rust came into your territory once. Do you now have means of controlling that? Do you have rust-proof wheat, or something of that sort?

Mr. SKYBERG. Yes.

Senator FLANDERS. Is that something you have to recognize as another possibility?

Mr. SKYBERG. We have several varieties of highly rust-resistant wheats and have had for several years now.

Senator FLANDERS. You do not look forward to that as a possible calamity any more. You are just praying for weather.

Mr. SKYBERG. That is right.

The CHAIRMAN. Any other questions? If not, we thank you very much, Mr. Skyberg.

Mr. SLAUGHTER. Mr. Chairman, I would like to call Mr. Uhlmann next. He has a rather lengthy statement which we are filing, and his oral statement will be very short.

The CHAIRMAN. All right, Mr. Uhlmann.

STATEMENT OF RICHARD F. UHLMANN, PRESIDENT, UHLMANN GRAIN CO., AND VICE PRESIDENT, CHICAGO BOARD OF TRADE, HIGHLAND PARK, ILL.

Mr. UHLMANN. Mr. Chairman and members of this committee: I am president of the Uhlmann Grain Co. of Chicago. My full name is Richard F. Uhlmann. In addition to being president of the Uhlmann Grain Co. of Chicago, I am also serving as first vice president of the Chicago Board of Trade.

For the sake of brevity, I have torn up the copy of the brief that I had here and shall try to talk extemporaneously on some matters that I don't think have been fully discussed up to this time.

Senator WATKINS. You are not submitting a written brief at all?

Mr. UHLMANN. Yes sir,; I am, for the record.

Senator WATKINS. I do not see any copies.

Mr. UHLMANN. I am sorry. I am sure they are here.

The CHAIRMAN. They will be distributed, Mr. Uhlmann.

Mr. UHLMANN. First of all, gentlemen, I know from the questions that have been asked here that you are greatly interested in our export situation. I might say that the present program of 500 million bushels, which to some people is only a figure, is such a vast figure that I am trying to give it to you in certain terms.

Five hundred million bushels to be exported is more than the combined crops raised this year in Australia and the Argentine. Those two are great competitors of ours. Five hundred million bushels to be exported is 160 million bushels more than has been raised this summer in Canada. Five hundred million bushels is as much wheat as is eaten by every man, woman, and child in this country. Five hundred million bushels is five times as much as the average exports in the United States since 1930.

Senator WATKINS. How many times?

Mr. UHLMANN. Five times as much as the average exports.

I give you the official figures here, which I shall be glad to leave, from the Department of Agriculture—I am using official figures only—which will show that the average exports for 17 years have been only 100 million bushels, despite some statements to the contrary.

I would also like to say that when we shipped 400 million bushels last year, which was the previous record for all time, that 400 million bushels for the United States was as much as all of the other exporting nations together exported.

In other words, there were about 800 million bushels included in the world shipments, of which the United States furnished half. So we are doing our duty.

I do want to call your attention to the fact that we have a population in this country now of 143 million people; that it has increased 32 million over the first World War, and that as a result of that we are consuming 200 million bushels more of wheat in this country than we were at the end of the first World War, and we are consuming 1,300,000 bushels more of all grains that are either fed or directly used.

So, it is quite obvious that with our domestic consumption last year of nearly 800 million bushels, and with an average crop since 1930 only 844 million bushels, what we are trying to do now can only be done in years when we have phenomenal and unusually large production.

In the history of this country, we have only had five crops that have reached the billion bushel mark or have exceeded it. The first billion bushel crop was in 1915, and we have had four successive crops in the last 4 years.

I am not a prophet, but I don't believe in miracles and I don't think that these billion bushel crops will last forever. According to the law of averages, something may happen this coming summer, particularly since our crop started rather unpropitiously.

The CHAIRMAN. One figure that impressed me somewhat on the amount was the fact that it would require approximately 1,300 ships, 10,000 tons each, to carry it, which means that three 10,000-ton ships have to leave our ports every day of the year, nearly four—every day of the year, just to carry this feed to Europe.

Mr. UHLMANN. That is right. The reason that I am trying to give you a few of these figures is that we are speaking of 400 million and 500 million, and I am trying to impress you with the fact that the average world shipments before the war were 700 to 800 million, and I have seen them as low as 400 to 450 million.

We are trying to do almost as much now as the rest of the world did before, and we can do that, but we can do it only when we have these unusually big crops.

The CHAIRMAN. One other figure. The last figures I saw on estimates was 450 million rather than 500 million.

Mr. UHLMANN. You saw that figure, Senator, last Tuesday, and if you read the newspapers Wednesday you would have seen 500 million. It was only down for 1 day. I came to Washington——

Senator WATKINS. Who made that statement?

Mr. UHLMANN. I am not certain as to that. I read it in the newspapers and the reason I am so clear on that—my mind isn't ordinarily that good—is that I appeared before the Senate Appropriations Committee, and I had to change my remarks because on the train getting off that morning, they had reduced it to 450 and by the time I finished it was raised again.

I do want to say, however, that in order to carry on this business it is necessary to buy tremendous quantities of wheat. In the 2-week period ending about October 15, 40 million bushels of wheat was bought by the Commodity Credit Corporation. To give you an idea how big that is, that is more than the exports in any of the years 1932, 1933, 1934, 1935, 1936, 1940, 1941, and 1942.

In other words, what I am trying to tell you is that we exported less than 40 million bushels over a 12-month period in any of those 8 years, and the Commodity Credit Corporation bought that quantity in 2 weeks.

In doing all this, this is the point that I am trying to make out: I am a humanitarian, and I recognize that we have to take care of these people in Europe, but in order to export 400 million bushels last year, which we did, we cut our carry-over reserve to 83½ million bushels, which was the smallest in 10 years, and the second smallest in 20 years.

The average carry-over reserve in this country is 235 million bushels, and I insist that in a country of 143 million people that this might have been regarded, and it would have been a very reckless program had it not been for the fact that this last summer we raised the largest wheat crop in the history of the country.

Senator WATKINS. Do you think it was a safe risk to take without knowing what was going to happen?

Mr. UHLMANN. I think it was a bad risk.

The CHAIRMAN. But we did know there would be a large crop by the time the final shipment was made.

Mr. UHLMANN. We didn't know the crop would come in on time. I know from our own experience in the elevators in the Southwest that very oftern the crops are late. I say to you, while we don't want bread lines in Poland, neither do we want them in Dallas or Denver or Philadelphia or in any of our cities here. So, there might have been a very bad situation with a carry-over of only 83½ million bushels, had the crop been late or had it not been large.

The question of margins I am going to touch on so briefly, I hope I may be excused. I mention that because the other witnesses, like Mr. Cate, who is in the flour milling business, and others who need that protection, as well as myself, don't feel that we can get along and carry on this business at a time when your margins are punitive and when we can't get someone to take the other side of the transaction.

During this period when 40,000,000 bushels of wheat was bought by Uncle Sam, I dare say that out firm sold 2 million bushels, maybe more. We sold the Government over a million bushels in 1 day, and we were able to cover those hedges efficiently, but we could not have covered those hedges with the same degree of efficiency in the present market as in the market we had last October.

I know that because I am in the pit sometimes myself, trying to fill orders. On 1 day when we had sold a million or three-quarters of a million bushels to the Italian Government——

Senator WATKINS. Just a moment. Do you mean to say the Italian Government buys independently as well? I thought our Commodity Credit Corporation was doing all the buying.

Mr. UHLMANN. They bought that wheat from us and it was later resold, and I think the transaction finally worked out that the Commodity Credit Corporation sold it. But we did have that transaction with the Italian Government.

Senator KEM. In that connection, Mr. Uhlmann, were there other foreign governments competing with the Commodity Credit Corporation in the grain markets at the time you mentioned, besides the Italian Government?

Mr. UHLMANN. I wouldn't know, sir. I think the French Government bought, and I think most of those transactions were later canceled out, and I think our Government sold the grain to them at the higher price.

Senator KEM. So we have a situation of the Commodity Credit Corporation buying tremendous quantities and representatives of foreign governments in the market at the same time?

Mr. UHLMANN. But the volume of it is very slight. I know of only two occasions and all of that now is handled by allocation. I don't believe any more of it is done.

The CHAIRMAN. How about the hundred million bushels going to Latin America? How is that bought? Who handles that?

Mr. UHLMANN. A good deal of it, I suppose, is in the form of flour. I am not too familiar with it. We don't do any. I know we have had many requests from Brazil, from Uruguay and other countries. I don't believe that we are permitted to do it except under export license. We have not engaged in any. I wouldn't know.

The CHAIRMAN. My recollection is the figures were 2,300,000 tons to Latin America, which is 150,000,000 bushels. I wondered how that goes, how it is handled. It is not handled through the Commodity Credit Corporation?

Mr. UHLMANN. I think not. There will probably be other witnesses here better posted on that.

The question was brought up yesterday about the amount of wheat sold for future delivery and how it compared to the amount actually delivered. I think if the figures were looked up it probably would be less than 1 percent.

I say to you, gentlemen, that in the days that I sell a million bushels of wheat to the Government, and Commodity Credit Corporation gives me a check for two or three million dollars, they don't deliver dollars to me. We are not doing business here in this country any more on barter. We are civilized. They couldn't bring that many silver dollars up into my office. That is the reason we have a little thing called a check. I recognize that while delivery is contemplated, I am selling wheat every day during the movement of harvest. As I am filling up my elevators in the Northwest and these places, I sell not necessarily to deliver, because if I make a contract with the Government the next day on cash grain, I buy that in. I have seen times in one morning when 40,000 bushels of wheat changed hands eight times.

I buy wheat from the farmer, and then I sell it to the party in Wichita, Kans., and he turns around and he sells it to another party in Kansas City. That party sells it to an exporter in New York, and then it is sold maybe to the Commodity Credit Corporation. So you have a turn-over of four or five or six to one.

Senator O'MAHONEY. I take it, therefore, Mr. Uhlmann, the amount of speculation which we carry on is the measure of our civilization.

Mr. UHLMANN. I don't know that I said that.

Senator O'MAHONEY. You said we are civilized and then began to detail all this speculation.

Mr. UHLMANN. Let me answer it in a little different way, but let me say to you that whether a person is a barber or whether he is a chiropodist or whether she is a housewife, whatever that person may be, that person performs a utility and is necessary to the trade and the liquidity of markets to keep us from having distortion.

Senator O'MAHONEY. I rather gather from what I have heard that there is a good deal of trimming in the commodity exchange.

Mr. UHLMANN. I don't know if I understand that.

Senator O'MAHONEY. You talked about the barber. I think they cut a lot of people in the exchanges.

Mr. UHLMANN. I do not speculate and the reason I need these markets is to eliminate my own individual risk and the risks of my firm. With a capital of 12,000,000 bushels, or so, and whenever the market declines ten cents a bushel, it means if we didn't have the futures market, I would stand to lose a million and a quarter dollars. That is why I am interested in seeing this thing. I am not a speculator myself. I have never made a trade in 10 years.

Senator O'MAHONEY. There is speculation though?

Mr. UHLMANN. Of course there is speculation.

Senator O'MAHONEY. And does the speculation have any effect on the price?

Mr. UHLMANN. Speculation anticipates it, but it doesn't necessarily raise it.

Senator O'MAHONEY. But I did not ask you that. I asked you, does it have any effect on price?

Mr. UHLMANN. Some times. I will give you an example of a time that it did. I was given an order one day by a large speculator. He said, "Buy me 2,000,000 bushels." I was a youngster, 20 or 21, and I ran this order into a broker. By the time he finished the market was a half cent lower.

It also has been claimed here that speculators are on the long side. I would like to submit here some official figures of the Government where on February 27 there were 16,000,000 bushels of speculative shorts and only 11,000,000 bushels long. So they are not always on one side.

You have assumed here that the speculators have been mostly long. I don't believe that is correct.

Senator O'MAHONEY. I do not know who has assumed that.

The CHAIRMAN. Is that not the function of speculation? I mean, after all, the tables we have had here show that speculators were 40,000,000 bushels long and the hedgers 40,000,000 bushels short. It seemed to me that was the natural, normal condition. Is that not what they are supposed to be? Are they not supposed to provide long markets?

Mr. UHLMANN. Yes, sir.

Senator O'MAHONEY. The actual figures, Mr. Chairman, for the 17th of September, showed the speculators about 60,000,000 bushels long and the hedgers about 64,000,000 short.

Mr. UHLMANN. I think that covers what I had to say.

The CHAIRMAN. I do not see that that is an argument against speculation. In a way, being long seems to me to be one of the purposes of having a speculative market.

Mr. UHLMANN. I have been before these committees at times, 10 and 12 years ago, when just the opposite was charged, that the speculators were bearing down the price. It seems to me that they are used as a scape-goat when prices are too high or too low. I want to give you, just briefly, one other experience.

In 1933 I was on the Bourse in Paris when the farmers, in their ignorance, smashed the windows and erased the prices because they thought that the speculation was the reason for their getting such low prices.

Senator O'MAHONEY. What puzzles me about your testimony and that of the others, is that consistently you all say speculation has no effect, except a small incidental effect.

Mr. UHLMANN. We say it because we believe it.

Senator O'MAHONEY. I do not doubt that.

Mr. UHLMANN. I would love to have you come out to Chicago, and I can prove to you over a period of time, which I cannot do in 5 minutes, that I am right. I can give you text books by economists who have gone into this thing. I admit that speculation anticipates these effects. But I don't want a punitive margin that is going to wreck the business, because there are a few people that some think are in the market who do not belong there.

I say under our Bill of Rights and under our Constitution that whether a man is a barber or whether he is anything else, he has as much right to speculate as I have. And I don't think that you want to take that right away from him.

Representative HUBER. You have to have a license to be a barber.

Mr. UHLMANN. And you have to have a license to be a broker.

Representative HUBER. A great many other men, real estate, life insurance, and so forth, whereas the casual investor can just stroll in and gamble on this market. Is that not true?

Senator WATKINS. You do not have to have a license to buy a farm and speculate on farms.

Representative HUBER. You have to have a license to sell it.

Senator WATKINS. You do not have to sell it.

Senator O'MAHONEY. As a matter of fact, I think that that is a little bit beside the point, because all law, at some time or another, limits a person's individual rights, just as the traffic lights down on Constitution Avenue limit our right to drive as we please. The point here is, is it in the public interest for Congress to take any further action with respect to imposing regulations on the Commodity exchange.

You say no. Therefore, as I say, I find difficulty in understanding your contention that this tremendous amount of speculation, which according to your testimony just given here, results in transactions in bushels of wheat, amounting to 99 percent of the actual amount of deliveries. That was your testimony, was it not?

Mr. UHLMANN. Something to that effect, yes.

Senator O'MAHONEY. In other words, the deliveries, the actual changing of title in grain, amounts to scarcely more than 1 percent of the total amount of transactions which take place in the exchange. So, then, the information that I desire to get is whether or not in your opinion this 99 percent of this activity has no appreciable effect upon prices.

Mr. UHLMANN. Let me say this to you, Senator.

Senator O'MAHONEY. You can answer that question or not.

Mr. UHLMANN. I am going to. I do a very large business. I don't do it all in cash, either. Maybe I have only two or three hundred dollars in the cash box, but yet I am fulfilling all of my obligations. I would say to you that if I buy wheat at 10 o'clock and sell it at 11, as a free American I should have the right to cover my hedge and not make that delivery next May. That is exactly what I am doing, and I am trying to keep my business fluid and I am trying to prevent distortion so that it can go for export, so I can take care of my milling demands, so I can take care of all customers that come along. But if those people, once I had put my hedge into wheat for next July, couldn't get their wheat until then, what sort of situation would you have?

Senator O'MAHONEY. Still that does not answer my question, which calls for just yes or no. Does it have any effect at all upon the price?

Mr. UHLMANN. Probably it does, yes; temporarily.

Senator O'MAHONEY. Only temporarily?

Mr. UHLMANN. Yes; because the man who is in now may be out tomorrow, and it also has an effect when he goes out. But that is the thing that keeps our market liquid.

Senator O'MAHONEY. How much of an effect does it have?

Mr. UHLMANN. How long is a piece of strong? I can't really answer that. I am not trying to be caustic.

Senator O'MAHONEY. I hope you are not.

Mr. UHLMANN. I would say if a man bought a million bushels it might not always have the same effect as when a man bought half as much. It depends on the market.

Senator O'MAHONEY. Are there speculative operators who sometimes try to drive the market up and speculators who try to drive the market down?

Mr. UHLMANN. Any speculator who buys hopes it will go up.

Senator O'MAHONEY. Do you not know they sometimes try to bring about this result?

Mr. UHLMANN. They do. They are human; of course they do.

Senator O'MAHONEY. But I would judge from your testimony here, sir, that the people who are in the Commodity Exchange are inhuman in their perfection. There are mistakes, of course, Are you trying to tell the committee that although these operators sometimes try to drive the price up and sometimes try to drive the price down, they do not affect the price which the farmer receives and which the consumer has to pay?

Mr. UHLMANN. I wouldn't say that. I wouldn't answer that affirmatively.

Senator O'MAHONEY. You will not say that they do not have an effect?

Mr. UHLMANN. No; I won't.

Senator O'MAHONEY. You will not say how much of an effect you think they may have?

Mr. UHLMANN. I couldn't. I don't think any human being could answer that question intelligently.

Senator O'MAHONEY. Could you give an intelligent answer to this question: Do they have an appreciable effect?

Mr. UHLMANN. Sometimes. And sometimes when I am buying 50,000 bushels as a hedge, it has an appreciable effect. But I do want to make the statement that the market does not recognize personalities. Because a man of some prestige buys, it isn't going to put the market any higher than if somebody else buys.

Senator O'MAHONEY. It recognizes rumors and reports, but that is neither here nor there. Your testimony is that speculation is a desirable thing and should be maintained and Congress should not increase the margins.

Mr. UHLMANN. Let me point out this, if it hasn't been brought out before. We are continually changing our rules on the Board of Trade, and have over a period of 100 years safeguarded the public interest. We do change them. I don't say that we should be static and not do anything, but I think that those people are in a better position to do it than to have margins arbitrarily handled here. I say that margins, like credit, should be based on a persons ability and integrity and character, and I don't think that the system of 10 percent or 20 percent or 30 percent, is a good one. I would be perfectly willing to carry you to the market if I were permitted, and from John Doe, who came in, I would want 30 or 40 percent. When I was in England some years ago, they asked me the question, "Why do you have margins at all?"

Senator O'MAHONEY. Do you object to the one-third margin?

Mr. UHLMANN. I do.

Senator O'MAHONEY. You think it is too high?

Mr. UHLMANN. Much too high.

Senator O'MAHONEY. How about the 20-percent margin?

Mr. UHLMANN. I think it is nearer in line, but I think even that is too high for some people. Why does a bank give some credit to one person and none to another? I think your whole system is out of order. I did business in this country because I wanted to safeguard myself and I didn't have to have Congress or the Board of Trade rules tell me how much margin to exact. I asked every customer a different margin on what I thought the liability was.

Senator O'MAHONEY. Of course, the whole point here, Mr. Uhlmann, is that we are in an admitted crisis so far as the world supply of food is concerned.

Mr. UHLMANN. Correct.

Senator O'MAHONEY. And the suggestion has been made that it would be easier for the world to handle this problem if we had less pure speculation upon the Commodity Exchange. Your testimony is that regardless of the emergency, in your opinion regulations on speculation in the Commodity Exchange will not be beneficial and should not be undertaken.

Mr. UHLMANN. I agree with that, and I will also say that the price has done a great deal that others were unable to do here in Washington. A few months ago it was figured that there would be 325,000,000 bushels of wheat fed to animals. That has been reduced down to 250,000,000. I say to you that the reduction has taken place because $3 wheat doesn't go into the hog trough. If you want to get prices down, solely in terms of price, let me call your attention to the fact that 4 years ago in this country we fed 488,000,000 bushels of wheat which was almost as much wheat as went into human consumption. I am not for that. I am trying to be practical in this, and I must recognize that price is an important factor.

Senator O'MAHONEY. You gave us some statistics on the tremendous size of this export of wheat to Europe. You gave us the figures on our own crop history, but you have not given us any figures upon European production. Take these years that you have mentioned, 1933, 1934, 1935, 1936, 1940, 1941, and 1942. Do you know the European production in those years?

Mr. UHLMANN. I could probably give it to you roughly. We will have an expert on exports and will bring that in. I prefer to leave that to him.

Senator O'MAHONEY. There was considerable production abroad, was there not?

Mr. UHLMANN. Yes, sir.

Senator O'MAHONEY. How does it compare with Argentina, for example?

Mr. UHLMANN. You mean the European production compared with Argentine production? The Argentine production in a normal year is only about 250,000,000 bushels.

Senator O'MAHONEY. The European production is greater than that?

Mr. UHLMANN. Much greater.

Senator O'MAHONEY. Would you agree that anything that can be done to restore European production will result in decreasing the demand upon our own production for export?

Mr. UHLMANN. Absolutely.

Senator KEM. Mr. Uhlmann, I think you were about to comment on the English practice with reference to margins. Would you do that? I think that would be of interest.

Mr. UHLMANN. I shall be very happy to. A friend of mine in London said to me, "It is a funny thing the way you call margins in America."

I said, "How does it differ from your system?" He said, "If an account is so bad that we have to call a margin, we don't want him at all and we won't take his business."

I would like to say, while there is a slight lull here in the questioning, I am a great believer in this law of supply and demand. I think it is doing a perfectly wonderful job. While it does make prices, sometimes high prices and sometimes low prices, I think that it is something that should go into the record here.

Senator O'MAHONEY. What does the speculator add to the supply?

Mr. UHLMANN. Ordinarily, nothing.

Senator O'MAHONEY. Does he do anything to demand?

Mr. UHLMANN. Temporarily; yes.

Senator O'MAHONEY. So you believe in supply and demand.

Representative HORAN. I would like to ask Mr. Uhlmann some questions. I happen to be a producer of farm crops, not grains, and I have seen the time when I had to consign carloads of farm commodities as far as 7,000 miles from my market. So, I have been trying to get at the facts in this case. I think one thing that bothers most of us—and I would like for you to corroborate me if you can—is that all speculators, of course, enter the market to make money, do they not?

Mr. UHLMANN. Absolutely.

Representative HORAN. They do that by anticipating that the market will rise?

Mr. UHLMANN. Yes, sir; or fall.

Representative HORAN. Or fall. And when they anticipate that the market will fall they are bearish.

Mr. UHLMANN. That is right.

Representative HORAN. They drive the price of grains down.

Mr. UHLMANN. Not necessarily.

Representative HORAN. Not necessarily?

Mr. UHLMANN. No, sir.

Representative HORAN. Would you enlarge on that?

Mr. UHLMANN. Well, if the market is in a position to absorb it and there happens to be more buyers at a price—it is true that almost every day that at some price or other, the Commodity Credit Corporation has instructions to various people to buy. It is like hitting your head up against a stone wall. My little 10,000 or 20,000 bushels that I might want to sell would simply run into a buying order, and the market would go down.

Representative HORAN. Right now they are anticipating that the market will rise?

Mr. UHLMANN. Who is?

Representative HORAN. The speculators.

Mr. UHLMANN. Some are. On the books of speculative houses, commission houses, there are probably a good many shorts and a good many longs. I don't think that there is an unanimity of feeling on that. Some people have been fighting this market every since it left $2.50 because they thought that price was too high, and they have paid for their error. They have been wrong.

Representative HORAN. Anybody who is active in society does one of two things if he makes constructive contributions. Either he produces a commodity or he performs a service.

Mr. UHLMANN. Correct.

Representative HORAN. Then what we have to determine here is whether a speculator in a well-organized grain exchange performs a service. We admit he is producing nothing.

Mr. UHLMANN. That is right.

Representative HORAN. You are a member of the Chicago Grain Exchange?

Mr. UHLMANN. Yes, sir.

Representative HORAN. You are vice president.

Mr. UHLMANN. I am for this year; yes.

Representative HORAN. It has come to my attention that the responsible men in the grain trade last year on July 16, came to Washington because they had analyzed the situation and were immensely disturbed. I want them to receive full credit for everything done in that respect.

Mr. UHLMANN. Thank you.

Representative HORAN. It is my understanding that they discussed with the President of the United States well in advance of popular knowledge, the facts of the case and the situation which they anticipated.

I would like to know if you or your institution or organization made any contribution, representation or suggestions to the President as to procedures that should be entered into in anticipation of the very situation which now exists.

Mr. UHLMANN. That question is in two parts. My own firm did not. My own firm privately engages in business. As vice president of the exchange, I naturally discussed this with Mr. McClintock. We decided it was a service rather than a disservice to call attention to certain pertinent facts even though they might not be wanted, but we were so imbued with the fact that even with the largest crop in the history of the country, there were certain inherent dangers of price advance, and we knew that this flight toward higher prices was something that we would be just as much interested in as anyone else in the country, and we wanted to call attention to that fact, very largely for the reason that for the past 2 years our reserve stocks have been permitted to go down to dangerously low levels, and we were afraid of repetition.

Representative HORAN. Did you have any exchange of letters with the Government, or with the White House?

Mr. UHLMANN. I couldn't answer that. I had none. Mr. McClintock may have had a letter of thanks from the President. I don't know. I really can't answer that.

Representative HORAN. It is my understanding that somewhere in the fabric of the grain trade, either among the processors or among the grain dealers, an exchange of letters indicating some things that should be at least explored was had, and I trust that this committee will be supplied with that information sooner or later.

Mr. SLAUGHTER. Those letters will go into the record by a later witness.

Representative HORAN. Thank you.

Mr. UHLMANN. I am advised if it is permissible by Mr. McClintock, that there was such an exchange of letters and they will be provided.

Representative HORAN. You see how responsible it is. If we have responsible overtures from responsible parties of the fabric of our economy and we do not take full advantage of it, the whole structure of freedom and individualism is at stake.

Mr. UHLMANN. Yes, sir.

Representative HORAN. We progressively move in the direction of depositing all social responsibilities in the Government, and we approach an approximation of the very communism that we are fighting in Europe. If we are going to save America, we have to respect those who are honestly trying to do that.

Representative POULSON. I would like to ask the amount, or limitation on the amount, of grain any one man can deal in, in any one day.

Mr. UHLMANN. The longest amount any one trader may have long or short is 2,000,000 bushels.

Representative POULSON. Is that not the answer to the question brought up by Senator O'Mahoney? If, as you say, speculation on the market does not affect it, why would you say that the statements made by responsible authority here in Washington would affect it, for instance, by men handling the Commodity Credit and the like? The buyer can only effect 2,000,000 bushels, which is inconsequential in view of the fact that you said they exchanged 50,000,000 bushels in 1 day. Is that not true?

Mr. UHLMANN. I don't think I made that statement, but it is correct that the volume in a single day has been that large.

Representative POULSON. All right. A statement made by the head of the Department of Agriculture or any Department directly dealing in wheat, if they make a statement one day they are going to buy 50,000,000 or 400,000,000 or 100,000,000, that in itself would affect the market far more than the mere 2,000,000 that the limitation is placed on.

Mr. UHLMANN. Far more. The peculiar part of markets is that there is generally somebody on the other side willing to bet that the person making the trade is wrong.

Representative POULSON. I just wanted you to verify that. In other words, the administration might think that inasmuch as these statements are affecting the market, it might be easier to close up the stock market than it is to close up the statements made by the various heads of our Government.

Mr. UHLMANN. That is right.

The CHAIRMAN. Are there any other questions? If not, we thank you very much, Mr. Uhlmann.

Mr. SLAUGHTER. Shall we proceed?

The CHAIRMAN. Yes. Mr. Slaughter, we have had some of the other commodity exchanges set for this afternoon. I do not know what to suggest. We are not going to be able, I am afraid, to finish everybody today. We still have some more tomorrow morning.

How fast can you get through the rest of this list? You have five more.

Mr. SLAUGHTER. We had anticipated that we would just about finish this morning. Then, you remember, I spoke to you yesterday. Perhaps with an hour tomorrow morning we would wind up.

The CHAIRMAN. I understand they will wait, so we will go ahead and finish as early this afternoon as we can.

You may call your next witness.

Mr. SLAUGHTER. Mr. Gordon.

STATEMENT OF COLIN S. GORDON, VICE PRESIDENT, QUAKER OATS CO., CHICAGO, ILL.

Mr. GORDON. Mr. Chairman and Members of the Joint Economic Committee: It gives me pleasure to appear before you today. My name is Colin S. Gordon, and I live at 4300 Lake Shore Drive, Chicago, Ill. I am vice president of the Quaker Oats Co.

My principal duty is that of obtaining grains of many types and varieties and kinds used in our cereal feed and processing business.

Our company has 13 major plants and numerous smaller specialized units in the United States as well as affiliated plants in Britain, Europe, Canada, and elsewhere. Grains are our greatest raw material. However, in a small way we are in other lines of business than grain processing.

In grains we use quantities of the following:

For cereals: Oats, yellow corn, white corn, barley, wheat, rice, rye, buckwheat; for feeds: Oats, corn, barley, wheat, milo, buckwheat, and many other ingredients.

We are millers of: Oats, corn, wheat, rice, buckwheat, soybeans, and barley.

We produce such products as: Oatmeal, cornmeal, grits, corn flakes, wheat flakes, family, bakers, and pancake flours, pearl barley, livestock and poultry feeds, dog food, and chemicals.

Prepared cereals and mixes, and numerous other products.

Current inventories and commitments required to operate over such a wide area of necessity are large—in excess of $35,000,000.

From the foregoing, you can readily understand my interest in the statements of the people who have appeared before you in the last few days giving you information on the grain exchanges and their various functions.

Our company is constantly looking for ways to spread, minimize, or eliminate our risks—what some call speculation. We insure our plants; we inspect our products; we have retirement and wage plans to protect our employees; and we turn to the exchanges to secure protection against inventory losses, probably using more different futures than most processors because of our many and varied product line.

We caution you gentlemen that these market places must be kept liquid to protect their reflecting the true picture of supply and demand. My personal observation of the market since the administration obtained a 33⅓ percent margin definitely indicates a reduction in volume and an increasing fluctuation when market orders appear. With the large open interest, that lack of liquidity has not been very serious. However, if the margin is maintained and the open interest is greatly reduced, real damage may appear.

Senator FLANDERS. Excuse me, Mr. Gordon. Will you explain what the open interest is?

Mr. GORDON. The open interest is the total commitments that are registered as open at the present time on the board of trade. There was 102,000,000, I believe, bushels open in contracts when the 33⅓ percent margin went in. Today it is, I believe, about 75 or 80.

Senator FLANDERS. Still you do not understand. I think I am a little bit stupid, probably. When you say the contracts are open, what do you mean by that?

Mr. GORDON. That means, Senator, when I want to hedge, there are other people who have an interest in the market that may take it from me.

Senator FLANDERS. Yes.

Mr. GORDON. That is the open interest that I am talking about.

Senator FLANDERS. They stand ready to take over.

Mr. GORDON. Still they are going to close up. They may take mine.

Senator FLANDERS. I see. All right.

Mr. GORDON. My sincere desire is to impress on you gentlemen that the exchanges are of tremendous value to grain processing companies like our own as well as large merchandisers of grain and to the whole economy of agriculture. Any action that limits their proper functioning will tend to narrow the farmers' markets and increase price fluctuations.

The CHAIRMAN. Mr. Gordon, there are a number of these things you cannot hedge, I suppose, are there not; rice and other things?

Mr. GORDON: That is true, sir.

The Chairman. What happens there?

Mr. GORDON. We have to take away the margin on those items, to provide a margin of profit, and we carry less inventory and try to avoid that risk. But we do have such as fish meal, of which we may have to buy a year's supply at a time.

Senator FLANDERS. In other words, without the margin you have to take a larger share in the increase of price between the farmer and the consumer.

Mr. GORDON. That is right.

Senator FLANDERS. So the market, on the basis of what you are saying, has an effect of reducing the spread between the farmer and the consumer. Would you want to go so far as to say that?

Mr. GORDON. Very definitely, that is my opinion.

Another point I would like to make, with the mechanization of farms, with use of combines for small grains, corn pickers, cotton pickers, surplus crops that move off the farms are coming to market in a shorter period of time.

To prevent market gluts and the possibility of serious price breaks, because of this movement, that will unjustly punish the farmer, you must have purchasers like ourselves who are willing to buy large quantities of grain.

We may cover our milling requirements for months, but will not buy and take the inventory risks unless we can go into the market and hedge our purchases.

Processors or handlers will not be free buyers unless they can protect themselves through future sales or hedging in the market, and furthermore, banks will not loan money to buy grain unless the buyer hedges his purchases. So it is important for growers, handlers, processors, and the public to have broad markets with controls and regulations that will eliminate the abuses but not destroy the usefulness of the exchanges in our economy.

During World War II, I was asked to come to Washington shortly after Chester Bowles was made head of the OPA and the attempt was made to bring businessmen in to try, and I say try advisedly, to avoid some of the impractical ideas that were being forced on the public.

For about 15 months I served as price executive of the Cereals, Feeds and Agricultural Chemicals Branch. Later I returned for a few months as Director of the Food Division, leaving finally at the time that the mistaken economists had convinced many, though not all, of the top administration that we could have a bulge in the price line—wages going up and hours worked going down—without the general price line being broken.

Can we implement Mr. Truman's immediate anti-inflation program by this 10-point program? No. Let me give you my strongest reason for that emphatic "No." It is my personal experience where I observed that at least 90 percent—probably closer to 99 percent—of all the people who came to see me in Washington said, "I want to cooperate and live up to the OPA rules because I have a son in the Service."

In other words, gentlemen, blood is still thicker than water, and today the biggest motivating reason for OPA existing has been removed.

Can you play on the emotions today a tune as powerful as the one you had during the war? No.

True, we have a troubled situation abroad. But let's be realistic as well as emotional about the need for European relief.

I recommend that you counsel long and carefully and not with the one-time visitor to those stricken areas, but those few who visited those areas before the war, during the war, and each year since the war. My impression is that their answer will be, "Make those countries go to work physically and clean up their black markets and stabilize their currency and you will once again see exchange of goods and distribution that will bring in from the farm areas to the urban areas badly needed food and that this will reduce materially requirements from this country."

Representative HUBER. May I ask at this point: Have you been to Europe personally?

Mr. GORDON. I haven't said it here, but I have.

Representative HUBER. I have not run across any of these witnesses who have seen the devastation of homes and factories and facilities of all kinds, and who consider the fact that over 6,000,000 people were executed. I cannot reconcile that these people are unwilling to work physically. I have not found any visitors who can.

Mr. GORDON. I am quoting as I say here later, from people that I have talked to who have been over before, during and each year since the war, and that is my impression.

The CHAIRMAN. Obviously they are only working 40 hours, in many cases only 36 and many 30. So I think the facts are stated by many of those who come back.

Senator KEM. It is 27½ in the English coal mines.

Representative HUBER. I think on their ration they have many who are fortunate enough to be able to work at all.

Mr. GORDON. I think we should do whatever we can do to clean up the currency, the black markets, and to produce.

We have got to produce or we are going to have further inflation. I don't say that you can stop it. I am just saying what we can do that would help materially in reducing the amount of goods required from this country.

Then what aid we can give, if given under proper administration, will not need to destroy us through inflation.

Now let me give you a few facts from my own experience. Let's look at the metals. At the start of World War II, I worked closely with the Rubber Reserve in connection with our company building a chemical plant for the synthetic-rubber program. I saw develop a shortage of steel.

As this developed, we saw the demand transfer to aluminum, then to copper and, as things became tighter, to silver. We were allocated some thousands of pounds of silver to be used in our electrical connections because of the shortage of copper. Fortunately we were able to get copper in the end or we probably would have had to have guards on duty to keep track of all the silver. The same thing spreads at any time we take one commodity in short supply and start allocating. The demand is transferred to some other commodity, usually not quite as good and usually more costly, adding to the fire of inflation.

Today we have voluntary allocation in steel and we are all aware of the so-called "gray market." If you put a law on the books for the allocation of steel, my opinion is that you will transfer this from a gray market to a very black market.

Grains and meals for feeding: While in Washington with OPA, I saw the movement of commercial corn come to a practical standstill with a very high percentage of the corn moving from the farms reputedly in the black market. This stoppage came about because no man is able to adjust, second by second, to the changing economic conditions that affect the price and value of corn.

Whenever it is allowed to become very much more profitable to feed corn to livestock than to market, you find cattle moving into the areas where the corn is, the result being that the corn walks off his farm in the form of finished livestock.

However, during the war this caused one of the many crises to the point that food plants were curtailed or shut down so the little corn available in the commercial channels might be channeled to those manufacturers of corn flour so that it could be shipped to foundries making airplane engine castings.

The CHAIRMAN. You mean corn was too cheap, is that it? It was held below the economic value of corn.

Mr. GORDON. That is right.

How does this manner of controls tend to grow? Let's take potatoes and corn as examples. What happened in one commodity happened in each commodity to a greater or lesser degree with, I believe, exactly the same result depending upon the degree of shortness in relation to available supply.

No Government agency, functioning apart from free prices in free markets, can ever arrive at a "ceiling price" which will reflect, even briefly, a true comparative value for a commodity so arbitrarily priced. The imposition of the price ceiling may, in itself, defeat its own aim.

For instance, during the early time of OPA, there was a ceiling price in the fall on potatoes. This price was based as nearly as OPA specialists could figure on historic and geographic differentials, as well as differentials between various commodities in similar demand and use.

But apparently the price of potatoes was set a little too low. Potatoes quickly became the cheapest good starch food available. There was an encouraged demand for potatoes, which started in quite plentiful supply. But the demand soon was so great that after midwinter there was a real shortage of potatoes. They became frequently unobtainable in restaurants. Housewives could buy them only infrequently at the ceiling price. The public simply "used up" a plentiful supply, which by our order had been priced out of relation to competing commodities. In a free price situation, price would have regulated distribution and use of the available supply throughout the year. And we would have avoided a potato black market.

The same thing happened to corn. For sometime the OPA had priced corn at a lower price per ton than grains which could be used in its place. The demand for corn became exaggerated out of its true feed value position. The ceiling price of corn made it more advisable for the producer to feed it to animals and to sell the animals at ceiling prices than to sell the corn as such at corn ceiling prices. Industrial users of corn, therefore, were in a desperate situation. There arose deviations from the intent of the OPA Act, such as "legitimate" trade, of some other scarce item at its ceiling price—the exchange of nylons, tires, whiskey, syrup, cars, and so forth, for corn.

There was at least some inference by OPA that violations and evasions of the law occurred in the trade as a rule. I believe the rule was that violations first occurred outside the trade. Persons not before in the grain trade set themselves up in business in order to take what they considered wide OPA mark-ups—or to particpate in extra-legal aspects of the trade.

In many instances, perhaps, individuals in the trade were forced into doubtful evasions of the regulations because—to stay in business at all—they had to meet practices of the new entries, sometimes on a doubtful legal basis, to obtain corn.

The larger the company, the more certain it was it could not, and did not, step over the legality line. For the OPA investigations, as I saw them were centered on the "big boys" whose books were easily reached, and not on the "little fellows" who were legion but sometimes hard to find. Much of the late trouble of OPA in the field of corn was with the truckers who were hard to find and harder to pin down on weights, grades, prices, and so forth.

In the end, there was an elaborate manifest regulation on truckers which was not observed. The legitimate trade believed that much of the corn black market originated and worked in the trucking field.

It is difficult to see how price ceilings could be maintained on "a few" grains. Grains are readily interchangeable to a large measure in feeding animals—that is, especially wheat and corn—and are interchangeable readily at a price. OPA experience was, as I observed it, that the list of controlled commodities had to be expanded steadily and rapidly to sustain the enforcement of commodities already priced, and the services surrounding those commodities.

We were forced not only to set the farmside price of corn, but also to make allowances for haulage to the nearest shipping point, for ear corn as against shelled corn, for the warehouseman's handling margin, the broker's mark-up, the mark-up of the wholesaler, jobber, retail dealer, terminal warehouseman, and the lake shipper. We even had to make elaborate regulations concerning integrated businesses, atlhough they did not last long enough to recognize a "disintegrated" business.

I forgot the commission merchant; we gave him his set mark-up, too; and then we went into the warehouse industry and set up maximum storage rates, often in contradistinction to State law with which we came into conflict at least in one memorable case.

On top of these mark-ups, we had to recognize all the differentials between grades and weights, and various conditions that may or may not have been recognized in Federal grain standards. The point here is that once started on the "control" road in distribution of commodities, there is no place to stop and say, "We have solved the question here; we need go no further."

There is widespread comment that the OPA was killed; that, following the warning of OPA'ers and New Dealers, prices rose rapidly and steadily with the removal of OPA. In the case of grain this is debatable. Grain prices, I believe, have risen because of the Government export programs, not because of domestic supply and demand.

Certainly there was honest opinion in 1945–46 that grain prices under normal supply and demand conditions would steadily ease off. No one could foresee the future export program of the Administration following the winter kill and drouth in Europe in 1946–47. Briefly, the rising price of grain in the United States was occasioned by outright action of our own Government—something that could not have been foreseen. This is clearly supported by a statement of the President's Council of Economic Advisers, in its October, 1947, report, page 22 Here is their language:

> * * * In spite of the increase in the export surplus, prices remained relatively stable from March to June 1947. The increase in exports undoubtedly affected the price level during this period, but mainly by way of preventing a decline which might otherwise have occurred in many prices.

The most classic example of the situation caused by having one segment controlled and another segment not controlled, was in connection with the Eastern Mushroom Growers. They came to us in OPA requesting that a price ceiling be placed on horse manure to protect their mushroom operations. Certainly, gentlemen, this is an example of how ridiculous this matter of controls can become.

It has been asked by those looking for an easy way out, "Can we have allocations without price controls?" My personal experience would lead me to answer this in the negative. It makes no difference what is substituted for supply and demand in the form of legal regimentation. Ways will be found to overcome these restrictions and, call them what you will, they are a form of black market.

I have said I do not believe that the 10-point program should be accepted in any part. Now you gentlemen have the right to ask me what I would do about the matter. It certainly is not right to criticize without being willing to suggest some other action.

First, I want to make very clear that we at Quaker Oats realize that today's food inflation seriously pinches the American public. We deplore that. We also know that we as a company could operate more easily if that pinch were removed. No harried housewife, I assure you, is more eager than we to see today's food prices return to normal.

My appraisal of requirements abroad has been built up from my acquaintances who have been abroad, correspondence from abroad, and through information in the public press rather than from actual observation myself.

I believe that you gentlemen have a right and the responsibility to see that what leaves this country goes where you are told it will go. You have a further duty and should put on export controls that will prevent scarcities and inflated prices at home through excessive exports.

The difference between keeping this country in a constant short supply of grains and keeping it in adequate supply is a relatively small quantity. This small quantity could readily be found in the European countries if their black markets were eliminated and a sound currency brought about through a free movement and distribution of the grains now being hoarded in those countries. The short supply situation in this country would be removed by the reduction of our Government's export buying program. This could well change the picture from inflation to minor deflation in the food field. In my opinion this is only possible through free and open markets and an avoidance of further regimentation and controls.

We all recognize the validity of hedging as insurance, and virtually all of the banks have accepted this as an established fact. This is the reason that the grain trade's credit has been mobilized and safeguarded to a very high degree of business efficiency. By the same token the banks have always loaned almost the full amount of the value of the warehouse receipts.

At the present time, there is considerable differentiation between the Chicago futures market and the Kansas City or Minneapolis markets. For example, an order to buy a million bushels of grain in the Kansas City pit might raise prices very sharply. The same order might have less immediate effect on the Chicago market. Hence, the larger orders arriving in the secondary markets are first placed in the Chicago pit and then gradually worked back to the secondary market a fraction at a time. However, if we reduce the Chicago market to the volume ordinarily traded at Minneapolis or Kansas City, it would, indeed, limit the scope of business that could be legitimately accomplished. Only those who have had actual experience can understand these realities.

We recognize the attacks that have been made upon us by those not too familiar with grain marketing. However, over a series of years, during periods when there is a lack of coordination between production and normal consumptive demands, there occurs at times a certain marked downward trend of prices or certain long-continued upward movement of prices. These big downward swings would wreck even the large flour millers, the manufacturers, the big bakers, and others with forward contracts, were it not possible to shift risks of this kind to traders on the futures market. Losses in such cases are passed down step by step to the traders who are in and out of the market. It may be compared to passing a load down the stairs one step at a time instead of throwing it down with one big crash. The whole commercial world benefits by having business stabilized and kept relatively free from sudden and violent changes. It would be a disaster for the Nation if these various attacks now being made should succeed. Every person knows that the free operation of the exchanges is essential to the system of free enterprise. The attacks upon the grain trade are, therefore, nothing less than an attack upon the American economy as a whole.

If we are going to have a degree of Government controls, they must be conservatively and intelligently applied. The services of the futures markets cannot be obtained by any other means. If we are told that the public is prejudiced against futures trading because of the taint of gambling, the public must be educated to understand that there is no specualtor in futures who does not perform an economic service; that it is the investor in futures who assures the continuity of the market, and who assumes the risks of price fluctuations, helps to finance the movement of the world's crops, and the carrying forward of surpluses from one season to another.

Furthermore, the public must be told that the investor performs these services cheaply and economically, and that it is only through the futures markets that manufacturers and millers can obtain the raw material at a price which enables them to compete with other countries. The only possible alternative is for governments to assume the risks and provide the finances, which in turn would mean a loss to the public instead of a gain. Certainly we cannot afford to dispense with futures markets merely because of lack of popular understanding in the services they perform.

I thank you for your courtesy in allowing me to appear before you.

The CHAIRMAN. Any questions to Mr. Gordon?

Mr. Gordon, I think Mr. Hoover made a statement several weeks ago that in his opinion it was not safe to export more than 400,000,000 bushels of wheat. I suppose the thing we should determine is how much it is safe to export. I do not know whether the conditions may have changed that. There may be less feeding, or there may be more feeding available. Do you not think someone ought to determine what that safe surplus is?

Mr. GORDON. I certainly think that that is one of the aims of you gentlemen, to determine what is safe, and then to see that no more leaves this country or is bought up to affect the market.

The CHAIRMAN. Are there other questions?

Representative HORAN. Mr. Gordon, are there any estimates as to the amount of grain that is being hoarded in other countries?

Mr. GORDON. Not as to estimated quantities.

Representative HORAN. It is my understanding that there the commodities are controlled. One way around that is for suburban dwellers to obtain acreage and produce what is known as mixed corn. Are you familiar with that phrase?

Mr. GORDON. No, I am not familiar with that phrase, but when I say "hoarded" I don't say hoarded in the sense that we have frequently talked of hoarding here, of having tremendous quantities.

Representative HORAN. I understand they plant in one field barley and oats, and they are permitted by the Government because it is not a segregated crop, to keep that and they use that instead of money. I was rather impressed with the point you bring up about the need for currency stabilization as a basis now for rehabilitation.

Mr. GORDON. I make that statement after talking to the Under Secretary of Agriculture, after he had come back, saying in so many words, that the people who had almost bushels of marks couldn't buy anything with it.

Representative HORAN. I was talking with one individual who said, "I, with my four tons of mixed corn, which is barley and oats, I am a millionaire. I can trade that to somebody down the street for a 6-months supply of milk, and I can trade it 2 miles away for the eggs I get." This was in England. It certainly struck me that in this country at this time when we are approaching such crises in our domestic security it is time to investigate. I am pleased with your assertion that we should be very, very exact in our actions at this time.

Mr. GORDON. We certainly feel—I don't think there is anybody in America who doesn't believe—that food should be given to the needy. That is certainly my opinion. But I believe that if we can clear up the currency situation there will be improvement within their own country. One of the women who was in the Dutch underground told me how she gave an oriental rug for a liter—about 2⅕₀ pounds—of butter. Those things come about when our currency isn't good, and what little they have to help themselves over there could be brought out if their currencies were brought back to the status of real currency and taking off controls.

Representative HORAN. We are virtually, in the absence of a sound currency that can be used, forcing people to become barterers, are we not?

Mr. GORDON. That is my opinion, very definitely.

Representative HORAN. Therefore, some correction in that field probably should at least parallel our effort to rehabilitate and to be humanitarian at this time. There is a longer range blessing to accrue from that than from merely providing the sustenance on the bread line.

The CHAIRMAN. Any other questions? If not, we thank you, Mr. Gordon.

STATEMENT OF RAYMOND J. BARNES, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, NEW YORK, N. Y.

Mr. BARNES. My name is Raymond J. Barnes, and I am president of the North American Export Grain Association, New York, which association has a membership of 37 grain export firms. This includes virtually every grain exporter in the United States and Canada. This position is an honorary one which I have held for the past 10 years.

I am also engaged in the business of exporting and merchandising grain with offices in Philadelphia and Baltimore.

I should like to address my remarks to the international situation in grain, the importance of free markets, and the immediate need for continued controls over the flow of grain for export.

The international situation is well known to the members of this committee; merely as a background, however, may I review briefly the present situation.

Compared with the prewar period of 1935–39, world food production is down 7 percent and world population is up 8 percent (International Emergency Food Council Report, October 27, 1947).

In Europe alone, where the bread grains, wheat and rye, are so much more important in the daily diet than in America, the production in these cereals the past season was 7½ million tons below the preceding year. On that basis of figuring, we figured 37⅓ bushels to the ton.

The wheat harvest in France, for example, dropped from a prewar average of 286,000,000 bushels to approximately 150,000,000 bushels, which is a little less than 50 percent.

Italy's production dropped from 279,000,000 bushels to 205,000,000 bushels, a reduction of 26.5 percent.

Holland's output dropped from 15,000,000 bushels to 8,000,000; Belgium from 16,000,000 bushels to less than 7,000,000 bushels; Sweden from 26,000,000 bushels to 15,000,000 bushels, the rest of the European countries run pretty much along the same lines.

No comparable figures are available for Germany; we only know prewar Germany had an average annual wheat production of 147,000,000 bushels and an even larger rye crop which averaged 205,000,000 bushels.

We also know that the greater part of that production was in territory now included in the Russian zone. This accounts for the fact that in each month's grain export quotas announced by the Department of Agriculture, from 20 percent, to 25 percent of the total allocations are destined to the occupied zones in Germany.

Yugoslavia and Rumania together produced more than 200,000,000 bushels of wheat before the war. Much of this wheat entered into the commerce that was then carried on between eastern and western European countries.

But now those countries are just about out of the picture entirely—actually we know very little about them. More than likely, their crops also suffered from Europe's untoward weather conditions of last winter and the past spring and summer.

Be that as it may, Russia's domination of Yugoslavia and Rumania removes them from the scene of international trade, for the present, at least.

While my own interests and those I represent here are confined strictly to grain—rice, another staple food, figures prominently in the world food situation at this time. Due to this Nation's assumed obligations in Asia and the Far East, that part of the world which used to contribute to the food needs of Europe cannot feed its own expanding population, let alone send anything to Europe. The help that the Far East has had to receive from the outside world, chiefly the United States, has not been unimportant.

It is indeed fortunate that this country has been blessed with bountiful crops, and although our harvests have been plentiful the demands have been more so. It should be no surprise to anyone that prices have advanced, when we consider all of the factors that operate in a free country—the kind of economy America wants until some other sort of economy is proved to be better.

Due to the fact that the average disposable income per person in this country in 1947 is slightly more than double what it was in 1940, it seems only natural that prices on commodities should rise; they usually do not decline under such circumstances.

We are faced with this domestic situation along with our export demand. Last crop year we shipped abroad cereals and cereal products aggregating approximately 15,000,000 tons.

This crop year, with a net reduction of 18,000,000 tons in our three principal crops—wheat, corn, and oats—we are scheduled to export approximately 12.5 million tons, and that schedule seems likely soon to be extended to 15,000,000 tons—the same as last year.

As a matter of explanation, predicated on 400,000,000 bushels of wheat and 700,000,000 bushels of coarse grain, the goal now, as I understand it, is 500,000,000 bushels of wheat and 700,000,000 bushels of coarse grain.

Supporting data

	Million bushels
Wheat crop:	
1947	1, 406
1946	1, 155
Plus 251 equals 6.7 million tons.	
Corn crop:	
1946	3, 287
1947	2, 447
Down 840 equals 21.0 million tons.	
Oats crop:	
1946	1, 509
1947	1, 231
Down 278 equals 4.0 million tons.	
Less wheat grain 25.0 minus 7.0 equals 18.0 million tons.	

It is not our intention to criticize the export program, drastic as it may seem. The world needs these basic foods to keep body and soul together in the hope that a new and peaceful world may soon get underway toward reconstruction.

We do criticize, however, the charges leveled at organized grain exchanges, blaming these institutions for seemingly high prices.

When such eminent authorities as Dr. D. A. Fitzgerald, Secretary-General of the International Emergency Food Council, writes in the October issue of Country Gentleman in answer to the question: "How long will the world need American food?" that—

> Even assuming good weather it will be 1952 before Europe can return to prewar production of wheat and rye and Asia can get back to prewar production of rice

—it can hardly be construed as bearish.

The same authority made public the council's report on October 27, which included the following:

> Stated requirements have changed only slightly since the Special Cereals Conference. They amount to around 44,000,000 tons for food and 6,000,000 for feed, or a total of approximately 50,000,000 tons, and exceed the presently estimated supply by nearly 80 percent.

The report also states:

> At the present time export availabilities appear unlikely to exceed 29,000,000 long tons as compared to the 32,000,000-ton estimate submitted to the Special Cereals Conference in Paris.

Does it seem fair to blame grain exchanges for high prices in the light of these authoritative estimates that have been made known to all the world?

I do not profess to know the answer, and I don't think anyone else can say with certainty that they do know, but I will say this: I am not at all sure that prices of wheat and other grains would not be even higher than they are now, if we did not have the operations of the futures markets in the United States as represented by the three contract markets—Chicago, Minneapolis, and Kansas City.

Publicly made transactions executed in the light of all known supply and demand factors have a strange but unerring way of finding their proper level in relation to many outside economic influences, and that in our opinion is as it should be in America.

We can hardly expect to take close to 2,000,000 bushels of grain each and every business day for a whole year and export it to all parts of the world without noticing such a strong persistent demand pricewise.

This association has previously gone on record as being in favor of export controls on grains. The present law expires February 28, 1948. We recommend that export controls on grains be extended up to June 30, 1948.

We feel that somewhat prior to this date we will have fairly accurate knowledge of the size of our next crop of wheat. and we will have some idea as to the approximate size of our crop of corn.

Also, we will have a reasonably certain idea of our crop of oats. If, somewhat prior to that date, it may be found necessary to extend export controls beyond June 30, 1948, Congress no doubt will exercise its right to do so. We believe that export controls are the key to the entire situation and should be sufficient control for markets and prices.

The price of wheat, for example, from here on is entirely dependent upon the amount of our carry-over on July 1, 1948, and the Government has the power to control exports, consequently the amounts exported up to July 1, 1948, will eventually determine the amount of our carry-over.

Therefore, we believe that no further controls are necessary for the organized futures markets, which we think have served a most useful purpose and should not be tampered with in any careless manner.

We would like to stress from the standpoint of exporters that futures markets must be liquid at all times, and to be liquid, there must be a good volume of transactions daily. In order to have a good volume, there must be speculation of all sorts—from pit scalpers who make their livelihood in that manner; from so-called investment houses and their clientele; from those persons who have risk capital and believe their judgment in trading may be better than the fellow on the opposite side of the transaction.

As exporters, if we were permitted to sell abroad, which at present we are not, except in a small way and in cereal products, mostly flour, it would be most difficult to function without liquid futures markets.

Exporters usually accumulate stocks of grain in various positions to be transported to our several ports along the Atlantic seaboard, our Gulf ports, and our Pacific coast ports. As the cash grain is accumulated and before the export sale is made, it is usually hedged in the futures markets.

For example, a cargo of wheat usually is about one-third of a million bushels. An exporter normally makes an offer of a cargo overnight by cable, and if the offer is accepted, he must cover his futures the following morning. If the futures market is not liquid, the results could be disastrous.

In normal times exporters have to meet the competition of other producing countries such as Canada, Argentina, Australia, and sometimes Russia. There are times when exporters make a sale of one or more cargoes of wheat or other grain prior to the time the grain can actually be accumulated and ready for shipment.

When such is the case, the hedge would be in the opposite way—the futures would have to be bought immediately as a protection against price rise.

Again, a liquid market is necessary.

It can be readily seen that a constant good volume of trade in futures is required to cushion the impact of a sale or purchase of even one cargo of grain.

Due to keen competition, exporters usually operate on a very small margin of profit—usually less than 1 percent. Violent fluctuations would, of course, be quite disastrous to those in the export grain trade.

This brings us to the point of attempting to influence price levels by the imposition of substantially increased margin requirements.

It can be correctly stated that the present increased margins have failed to hold prices down, in view of the world supply and demand situation, as outlined above.

I think there is another important phase that should be mentioned. Margins of $1 per bushel on wheat, in my opinion, are unfair to the little fellow.

Large operators with plenty of capital at their command are in a much better position to operate than the small trader.

This, perhaps, is one of the reasons the markets have been so sensitive. A widespread number of small orders to either buy or sell is essential to a continuous liquid market.

In our opinion, the usefulness of the futures market would be hampered by further controls.

As above stated, if the Government has the power to regulate exports, it also automatically has the power to control the quantities of grain that remain in this country.

With these powers in the hands of the Government, there is no need for any law to control domestic allocation of grains to processors and users, and if the present export controls are used wisely there will be enough grain left in this country to supply all domestic requirements.

The CHAIRMAN. Thank you, Mr. Barnes.

I asked this before, the figures show 2,300,000 tons of grain and flour. I suppose the flour goes to the Latin American countries. Is that handled through the Government or by private exporters?

Mr. BARNES. Usually by private exporters. Most of it, I believe, is flour. Some wheat is shipped to Mexico.

The CHAIRMAN. They buy from the mills, then. They buy flour, do they?

Mr. BARNES. That is right. Mexico usually buy wheat and flour both, but mostly wheat.

The CHAIRMAN. That is bought by brokers for the Mexican Government, is it, or for Mexican traders?

Mr. BARNES. It is bought by the Mexican Government. But through private traders in this country.

The CHAIRMAN. Do you know anything about the suggestion that the French and Italian Governments went in the market to buy wheat?

Mr. BARNES. Before the movement of our crop last July 1, a number of governments tried to buy wheat here. Some of the exporters made tentative sales to them, but the exporters were not able to obtain a license. All transactions were cleared through the International Emergency Food Council, and allocations were eventually given.

The CHAIRMAN. Are there questions of Mr. Barnes?

Representative HORAN. How do you finance the exporting of wheat now?

Mr. BARNES. How do we finance it?

Representative HORAN. Yes. How do people pay for it?

Mr. BARNES. Most of the wheat that is exported, a large portion of it, is bought by the Government, and the Government pays the exporter to deliver his wheat aboard steamer.

Representative HORAN. It is far different from the way it was carried on in so-called normal times before the war.

Mr. BARNES. Very much different.

Representative HORAN. Have you any suggestions along the lines of Mr. Gordon, who suggested the need for stabilizing currencies?

Mr. BARNES. I think foreign currencies will eventually have to be revalued or devalued, but perhaps tht time is not ripe yet. We hear that a great many people in various European countries have no faith in their own currencies, with the result that there is a lot of grain hoarded. The farmers use the grain to trade for other commodities.

Representative HORAN. Have you any idea how much?

Mr. BARNES. There is no way of telling that, sir.

Representative HORAN. That is all, Mr. Chairman.

The CHAIRMAN. Any more questions? Thank you very much, Mr. Barnes.

Mr. BARNES. Thank you.

The CHAIRMAN. I understand Mr. Lang has a very brief statement.

Mr. SLAUGHTER. No written statement at all.

STATEMENT OF BENJAMIN S. LANG, VICE PRESIDENT, FIRST NATIONAL BANK, ST. LOUIS, MO.

Mr. LANG. I am Benjamin S. Lang, vice president, First National Bank of St. Louis, in charge of grain loans. I specialize in that. I was in grain business many years before I came to the bank. So I am sometimes called a grain man instead of a banker.

I am very glad to appear here inasmuch as we are, of course, vitally interested in the hedging program of our borrowers. I might say that we haven't had a loss on a grain loan in the 25 years and I think that is due largely to the fact that our borrowers are properly hedged. We usually exact a 12½ percent margin on warehouse receipts or grain documents that are deposited with us, and to show how dependent we are on the grain exchange, we get hourly quotations from the Kansas City, Chicago, exchanges and at the end of the day if there has been any change of consequence, the figures are put on my desk giving the standing of every borrower. If there are not extreme changes, it is done the following morning. We are heartily in favor of the limited fluctuations per day. It gives everyone a chance to sort of clean house, you might say, and get in touch with the borrowers if necessary. We, too, are very happy in the fact that the exchanges have segregated their customers' accounts. We have several large brokerage accounts, and they are very punctilious about segregation of the customers hedging margins and so on.

The CHAIRMAN. Could you make your loans in the absence of a hedging market?

Mr. LANG. Yes, but we would have to have a much larger margin. We could make it. We would still function, but we couldn't do it with high prices, as I think they are, on a 12½-percent margin. That would have to be increased.

Then, too, our interest rates, as you all know, are very low. Our average for all of our grain loans would be about 1⅝ percent. We just cannot afford to take a loss.

The CHAIRMAN. You would have to increase the rate of interest? Is that what you mean?

Mr. LANG. I think if our customers were not hedged, we would have to exact a higher rate of interest. That is my thought. That hasn't been talked over.

Senator KEM. Would there be any disadvantage to the producer, the farmer, if we did not have the open market?

Mr. LANG. I think so.

Senator KEM. Would you work that out for us?

Mr. LANG. A country elevator or terminal or any buyer of grain when it moves, if he was not in position to hedge, would have to figure, I think, in a wider margin to take care of an emergency, decline, and so forth.

Senator KEM. There would be greater cost in handling the grain and getting it to the market?

Mr. LANG. There would be greater cost in handling the grain and I think the farmers would not profit by it at all. That is my individual thought.

Representative HORAN. I would like to know what motivates those who attack this medium that provides the liquid market where the farmer can sell at will. We have heard from exporters of grain and people who actually perform service and now from one who underwrites the production of next year's crop, which is also important, all supporting the futures market and the grain exchange.

What motivates those who have attempted to place the futures market in disrepute?

Mr. LANG. I have always considered over my years of experience in the grain business and the banking business, that speculation is necessary. I am glad to see that the exchange voluntarily put on restrictions. Maybe you are too young to remember a person who tried to corner the market. The result was substantially a loss. In the meantime it did work a hardship on people while prices were going up.

Representative HORAN. Then you think the attack on the grain exchange is a throw-back to the abuses that did exist at one time?

Mr. LANG. I think that is largely it.

Representative HORAN. Which subsequently has been corrected by the passage of the Commodity Exchange Act and the institution of business conduct committees in the exchanges themselves.

Mr. LANG. I think the officers and directors of the various exchanges are using every effort, you might say, to counteract the feeling that existed when there were abuses.

Representative HORAN. At this period, Mr. Lang, when we recognize the serious situation, do you think that there is inherent in the personnel and membership of the grain exchange the ability to assist the Government through the period ahead of us?

Mr. LANG. I think they are a very high-class bunch of business men.

Representative HORAN. Do you think they have something to offer?

Mr. LANG. They have something to offer and something that would be helpful.

Mr. SLAUGHTER. How many years did you say it had been since you had a loss in a grain transaction?

Mr. LANG. We never had a loss in the 25 years.

Representative HORAN. I think we ought to call on you and your colleagues to supply that assistance. Thank you.

The CHAIRMAN. If there are no more questions, the committee will recess until 2:30, at which time Mr. Sanford and Mr. Strange will testify.

Are those the only two remaining witnesses?

Mr. SLAUGHTER. Yes, Mr. Chairman.

The CHAIRMAN. Then we will proceed with the New York Commodity Exchange.

(Thereupon, at 12:55 o'clock p. m., the committee recessed, to reconvene at 2:30 o'clock, p. m., of the same day.)

AFTERNOON SESSION

The committee reconvened at 2:40 p. m., at the expiration of the recess.

Senator FLANDERS. I think there are now a sufficient number of peoples assembled so that their instruction can proceed.

Mr. SLAUGHTER. Major Strange.

Senator FLANDERS. You will be the first witness, Major Strange. You have a prepared manuscript, sir?

Mr. STRANGE. Yes, sir.

Senator FLANDERS. Oh, yes, we have it right in front of us. You may proceed.

STATEMENT OF H. G. L. STRANGE, DIRECTOR, RESEARCH DEPARTMENT, SEARLE GRAIN CO., LTD., WINNEPEG, CANADA

Mr. STRANGE. Mr. Chairman and members of the Joint Committee on the Economic Report, my name is H. G. L. Strange, and I am the director of the Research Department of the Searle Grain Company, Ltd., Winnepeg.

I thoroughly well appreciate, sir, the high privilege that I, as a Canadian citizen, have of being permitted to appear before your most distinguished committee.

I am asked to present to your committee a picture of the wheat handling and marketing situation as it exists in Canada.

Wheat in Canada is a state monopoly. I will try, as briefly as I can, to show how that sa'd state of affairs has fallen upon us.

In 1929 our Canadian wheat pools, a cooperative organization, which handle about 40 percent of the Canadian wheat crop, suffered a loss of $23,000,000, which they owed to the banks and could not pay.

They lost this money because they had adopted a policy of marketing their wheat straight to millers of the world, without using the facilities of the Winnipeg open futures market.

Senator O'MAHONEY. Who lost this money?

Mr. STRANGE. Beg pardon?

Senator O'MAHONEY. Who lost this money?

Mr. STRANGE. The Canadian wheat pools, a cooperative organization handling 40 percent of the wheat.

Senator KEM. How much did they lose?

Mr. STRANGE. $23,000,000.

Senator FLANDERS. Were the members of these pools wheat raisers or merchants or what?

Mr. STRANGE. Farmers.

Senator KEM. Is that loss in 1 year or over a series of years?

Mr. STRANGE. 1 year.

Fearing political and economic repercussions if the pools went bankrupt, their losses were guaranteed to the banks by the Provincial and Dominion Governments of Canada, and the Dominion appointed an administrator over the pools' affairs.

From such a small beginning started the Canadian Wheat Board which, for some years up to September 27, 1943, functioned primarily as an agency to implement a guaranteed moderate floor price of wheat, the wheat, however, then being sold through the facilities of the futures market.

This went along quietly until September 27, 1943, when the government decided that wheat was a munition of war, and should be sold to certain countries only and withheld from certain other countries, much of the distribution being a state secret.

The government, then, on September 27, 1943, temporarily suspended the Winnipeg wheat futures market, with the full expectation that it would be reopened as soon as the war was over. The wheat futures market, however, has remained closed to this day, and is still closed.

From 1943, therefore, the sole marketing agency for all Canadian wheat has been the government itself, through its Wheat Board which is headed by three commissioners.

Since 1943 Canadian wheat has become a complete state monopoly. Canada normally has to sell abroad eighty percent of all the wheat offered by sale by prairie farmers from an average crop of around 400 million bushels a year.

For the crop year 1943–44 the Government set the price of wheat to Canadian farmers at a considerably lower figure than the price reflected by the Chicago futures market. For that year, our farmers received $136,000,000 less for their wheat than they would have received had they enjoyed the same price that American farmers were being paid through the Chicago and other U. S. A. open futures markets.

For the year 1944–45, our farmers received $147,000,000 less, and for the year 1945–46, $126,000,000 less than American farmers received.

Canadian farmers showed little discontent of these losses during the war years, feeling that this was their contribution toward the winning of the war.

When the war ended, however, discontent began to grow until today the majority of farmers are extremely dissat sfied with the low prices set by the Government to farmers.

Since the futures market was closed in 1943, the Government alone has had to sell year by year all the Canadian wheat crop.

The Government became somewhat frightened, apparently, at the possibility of unsold surpluses, so, in July 1946, the Canadian Government accepted an invitation from the British Government to engage in a 4-year bilateral wheat agreement to sell wheat at $1.55 a bushel for the first 2 years. This wheat to Britain is called class 1 wheat.

As we all know, prices rose steadily from $1.55 after August 1, 1946, the start of the agreement. The Canadian Government and their advisers guessed wrong about price.

Senator KEM. Excuse me just a minute, Major; is that price figured in Canadian funds or in American funds or in British funds?

Mr. STRANGE. Well; sir, they were Canadian funds, but at the time they were all at par; they are still at par today, Canadian and American; but not British. The contract was for $1.55 in Canadian fund, basis No. 1, northern Fort William, which would be equal to the basis Chicago, which is the equal in Canadian funds.

Representative HORAN. Actually, Mr. Strange, they are not quite equal to the Canadian dollar.

Mr. STRANGE. I beg your pardon?

Representative HORAN. I say, actually they are not par.

Mr. STRANGE. Officially, they are at par.

Representative HORAN. Officially, but they fluctuate between 90 and 96 cents.

Mr. STRANGE. We in Canada call that the black market. We will not admit that the Canadian dollar is not at par, and if you bring Canadian dollars to the States, and they gave you 15 percent, we claim they are black marketing. We may not be right. That may be the open market price, I will not say that it is not, but officially, between the two Governments, the currencies are at par.

Representative HORAN. But if you have a bank down here in Washington, D. C., put money in the Winnepeg bank, which is hardly a black market operation——

Mr. STRANGE. Yes.

Representative HORAN. You would have gotten between 90 and 96 cents American for a Canadian dollar.

Mr. STRANGE. Yes. If you go to a bank, sir, as I did to come down here, with Canadian dollars, you get the exact equivalent in American dollars from any Canadian bank. There is no deduction at all. What a bank will give here for Canadian dollars, I do not know. I have not tried.

Representative HORAN. I was merely raising the point to improve your story, and that is the only reason for interrupting you.

Mr. STRANGE. Yes. The Government of Canada announced sometime ago in the House of Commons that our prairie farmers had lost $123,000,000, equal to 77 cents a bushel, during the first year of the agreement, compared with what they would have received had they been paid much higher prices at which Canadian wheat—that is, class 2 wheat—had actually been sold by the Government's own wheat board to some 65 different countries of the world, other than Britain.

It is to be noted here that the Canadian Government's instructions to their wheat board, as contained in bill No. 23, are to the effect that the board shall sell any surplus wheat it had over and above quantities required for Britain and for domestic consumption, "for such prices as it (the board) considers reasonable."

This surplus is called class 2 wheat. The $123,000,000 lost on the first year was, however, not all the loss. For it became apparent that the Canadian Government had seized on this comparatevely low price of $1.55 that Britain was paying to oblige our farmers to sell wheat for Canadian consumption as flour and bread to 12,000,000 Canadian people also at $1.55.

The loss to our Canadian farmers on wheat for domestic consumption, approximately 70,000,000 bushels a year, came to an additional $77,000,000, making the total loss to our farmers for the first year of the agreement almost exactly $200,000,000.

I have calculated that if anything like present prices of wheat, as set by the Canadian Wheat Board or even as registered by the Chicago open market at a somewhat lower level, prevails until December 31 this year, that the total loss to our prairie wheat growers, approximately 250,000 farmers, will amount to $419,000,000, or about $1,600 loss on the average to each farmer; and the losses are going on today at the rate of around $1.80 a bushel, a most serious loss to our prairie farmers, who are receiving much less, too, than our American farmers for their coarse grains and for their livestock.

Our prairie farmers are daily becoming more and more discontented. A recent survey made shows that 79 percent are demanding that the Government shall pay prairie farmers the full world market price for their wheat and coarse grains, particularly, as our farmers note the much higher prices for the same wheat and coarse grains that are being received by American farmers just across the international border line.

A few weeks ago, a farmer, Mr. J. Hume Lee, who has a farm at Gretna, Manitoba, and an adjoining farm immediately across the border line at Neche, N. D., informed me that last year he sowed his adjoining farms at Gretna and Neche with Thatcher wheat and with OAC 21 barley.

He harvested both crops together, with the same implements; he sold his wheat at the American elevator for $2.56 a bushel, and at a Canadian elevator for $1.20½ a bushel.

He sold his barley at the American elevator for $2.10, and at a Canadian elevator for $0.80½. Since then, the quotations for wheat of the date of November 19 at these same elevators were $2.94 for wheat at an American elevator, and a same price as formerly, $1.20½ at a Canadian elevator.

It is to be noted that while Britain is buying wheat from Canada under Government agreement at $1.55, Britain is paying for American wheat the much higher prices as reflected by the Chicago futures market.

A new farm organization has been started in western Canada, the Farmers Protective Association. Its objects are to demand that the Government shall pay farmers the full world market price for their wheat, coarse grains, and livestock, and that if Canada wishes to subsidize Britain and the people of Canada with cheap wheat, that these subsidies should be paid by the Government and not by our prairie wheat growers alone.

The association draws attention to the simple fact that Canadians who are supplying Britian with lumber, pulpwood, paper, nickel, asbestos, copper, zinc, lead, automobiles, and farm machinery are selling these things to Britain at the full tiptop world market prices, and that, moreover, the goods that Britain is selling to Canada, much of them purchased by our Canadian prairie farmers, are also sold by Britain at a full world market price. Why, asks this association, should our farmers be the only people required to subsidize Britain with the cheap products?

To implement the Government's monopoly over wheat and the sale of wheat to Britain, the Government recently found it necessary to bring down bill No. 23, passed by the House of Commons on March 13, 1947.

This bill completely nationalizes or socializes the marketing of our wheat. The bill also gives the Government complete control over the production, the authorized acreage from which farmers can thrive, the amount farmers can deliver to the elevators from each acre, and the handling and marketing of all wheat.

Senator FLANDERS. May I inquire about that phrase "the amount farmers can deliver to elevators from each acre."

Mr. STRANGE. Yes, sir.

Senator FLANDERS. Does that mean that they are placing a limit on the productiveness of the land?

Mr. STRANGE. Absolutely, sir; yes, sir. They say, for instance, today, the rule is up to this last year, not this present crop, we have a short crop, that the farmers of this crop can deliver all they can or all they like because we are very short, sir; but last year's crop was 14 bushels at the start of the season, and that was all that could be delivered.

Senator FLANDERS. What did they do with the rest of it?

Mr. STRANGE. Well, the rest of it was eventually marketed, sir, when they discovered they were short of wheat.

Senator FLANDERS. What did they intend to do with it if they had had a full crop?

Mr. STRANGE. The farmer would have to keep it on his farm unsold, and hold it there until they hope some day there would be a short crop, and they would market it.

Senator FLANDERS. That is an ever-normal granary.

Mr. STRANGE. Exactly. They are copying what Joseph did. I hope the results will not be what Joseph's were; very disagreeable.

Wheat, therefore, in Canada is now a complete state monopoly just as are the socialized industries in Britain.

The new act imposes heavy penalties, extremely heavy penalties, on farmers and others for any infraction of the multitudinous rules and regulations that are now set, and which even may be in the future set by the wheat board without any further legislation.

One reason given by the Government for taking over complete control of the whole wheat industry was, as they put it, to prevent speculation in wheat, and to prevent speculators from making profit at the expense of farmers.

The fact is, however, that those who signed the agreement for the Canadian Government themselves engaged in the greatest speculation of all time; they actually sold short 600,000,000 bushels of unproduced wheat over a term of 4 years, and for prices they could not foresee.

They sold short not with their own money nor with the Government's money, but with the future income of our prairie farmers.

Senator O'MAHONEY. That was a Government operation?

Mr. STRANGE. Government operation, sir. These well-intentioned people forgot or did not realize that speculation has no real effect upon the price of wheat, either up or down.

They forgot also that because wheat in Canada is harvested and threshed and a good part of it delivered to market within 90 days in the fall, and because the millers of the world only require and buy their supplies in a steady daily stream throughout the year, that wheat cannot be marketed without the aid of speculators, for whoever buys wheat from the farmer in the fall so that the farmer can be paid for it, and holds that wheat for months until millers require it later, is a speculator.

When the Government buys and holds the wheat, therefore, as it is doing in Canada today, then the Government and, hence, all the taxpayers, become speculators in wheat, whether they realize it or not.

These people forgot, too, it seems, that speculators as a group lose money, and that their losses go to the benefit of both producers and consumers.

Senator FLANDERS. Just a moment there, sir. You are saying a mouthful when you say that speculators—just what did you say? As a group——

Mr. STRANGE. Yes, sir.

Senator FLANDERS. Lose money. Are you speaking advisedly when you say that?

Mr. STRANGE. Yes, sir. I am prepared to prove that, sir.

Senator FLANDERS. You have supporting data?

Mr. STRANGE. Yes, sir.

Senator FLANDERS. May I inquire whether that data applies only north of the border or does it apply south of the border?

Mr. STRANGE. It applies particularly south of the border, sir, because the survey was made of the results of 4 years of speculation of wheat in the United States by the Food Research Institute of California, and I have their official document with me.

Senator FLANDERS. Just one other question. I would suppose that under those circumstances the wheat speculators would consist of a revolving body, coming in at one end and going out at the other and drained dry in the process. Is that the situation?

Mr. STRANGE. That is right. You are quite right, sir. And the fact is that those who know about it, such as myself and you gentlemen, if you did not know of it before, now that I have advised you, I suggest that you hold it as a close secret so that they do not know about it so that we continue to have our daily speculator to perform this important economic function.

Senator WATKINS. What is the incentive then, may I inquire?

Mr. STRANGE. Sir?

Senator WATKINS. I say, what is the particular bait that gets them in at the intake?

Senator FLANDERS. The same thing that makes one bet on a horse.

Senator WATKINS. I do not keep betting on the same horse.

Mr. STRANGE. One or two friends that I have advised follow my example, and never, under any circumstances, speculate, knowing in the end as a group they will lose. Maybe the odd men will win, but my friends that I advise, they say to me, "Well, we know perfectly well that is all right, but we are just a little smarter than the others, so we are all right."

Senator O'MAHONEY. Mr. Chairman, I think the frank, the very frank Mr. Strange, has demonstrated to us——

Senator FLANDERS. Strangely frank Mr. Strange.

Senator O'MAHONEY. The strangely and very frank Mr. Strange has demonstrated to us why the millers and those who, if they were required to put up a larger margin to engage in trading, would have to use a little more of their own money are so anxious to have in the market this group of speculators who always lose.

Mr. STRANGE. That is right, sir.

Senator WATKINS. I guess you ought to change their names, and you ought to call them "suckers."

Mr. STRANGE. If you would permit me, sir, I would add this.

Senator O'MAHONEY. May I ask now whether you are adding to Mr. Slaughter's testimony or your own at the moment?

Mr. SLAUGHTER. I did not catch his ear long enough, Senator.

Mr. STRANGE. I would like to say that I know nothing about American millers, but I know Canadian millers, though, that if they did not have the speculator it would not be only that they would have to put up more of their own money, but they might have to put up more than they own, and have to go out of business. That is how important in Canada the speculators are. You could not conduct a country elevator system, as my company does, and you could not conduct a mill in Canada if you did not have speculators.

Representative HORAN. And does it follow that the price, without speculators, would be higher?

Mr. STRANGE. I beg your pardon?

Representative HORAN. Does it follow that the price without speculators would ultimately be higher for wheat?

Mr. STRANGE. That the cost would be higher?

Representative HORAN. The cost——

Mr. STRANGE. The cost of handling?

Representative HORAN. And, therefore, the consumer's price would be higher.

Mr. STRANGE. If you would permit me, Mr. Chairman, I could give you a very excellent piece of first-hand, second-hand evidence on that. Before the Stamp commission, Sir Josiah Stamp asked these questions in 1930, when he was looking to the futures market: Do speculators lose money or not? That was one question he asked, and hence this document from the Food Research Institute, who did this study because of the job that he asked them to do.

But the second thing Sir Josiah said was this:

> Is there anybody who was in the business before the futures market started, and who is in the business afterward, if anybody, I would like to talk to that man to see what difference the futures market made.

They found but one man, Sir Ronald Roblin whose evidence is in the evidence of the Stamp commission for all to see, and he said:

> I was a grain merchant buying grain from farmers before the futures market in Winnipeg was established—

and he said—

> It was our custom then, and we had to do it, besides charging farmers the few cents a bushel necessary to pay our operating expenses and a little profit, we had

to charge them an additional 10 cents a bushel, set it by in a reserve fund to take care of possible future losses. The very instant that the futures market came in and the speculator came in and took the hedges from us, we no longer had to deduct that 10 cents from farmers.

Yes; that is your answer.

Senator O'MAHONEY. Mr. Chairman, it is necessary for me to go to another meeting of the Appropriations Committee.

Senator FLANDERS. I think that is most unfortunate.

Senator O'MAHONEY. If the witness and the Chair would bear with me, I would like to ask Mr. Strange one or two questions before I go, if that is agreeable.

Mr. Strange, may I call your attention to page 5 of your statement, the first sentence at the beginning of the third paragraph, which reads as follows:

These good people forgot, or did not realize, that speculation has no real effect on the price of wheat, either up or down.

Mr. STRANGE. Yes.

Senator O'MAHONEY. Now, in that connection, let me say parenthetically that that coincides with the testimony which has been given and presented to this committee by all of the officers of the Chicago Board of Trade, and by the representatives of the exchanges, the commodity exchanges; they all agree that speculation does not affect the price up or down.

Mr. STRANGE. Yes, sir.

Senator O'MAHONEY. Then, I want to call your attention to page 4 of your statement, sir, the last sentence of the first paragraph in which you say:

It is to be noted that, while Britain is buying wheat from Canada under Government agreement at $1.55, she is paying for American wheat, and has been paying all these years, the much higher price as reflected by the Chicago futures market.

Now, inasmuch as the shortage of wheat in Europe is the same for Canada as for the United States, inasmuch as the demand for wheat is the same in Canada as for the United States, let me ask you how you reconcile these two statements, and whether or not, in your opinion, if Canada adopted the futures market that we have in the United States, the price of wheat in Canada would be as high as it is in the United States?

Mr. STRANGE. Yes.

Senator O'MAHONEY. Is the answer yes?

Mr. STRANGE. The answer, sir, is that the price of wheat in Canada, in the judgment of the Wheat Board, is higher than it is on the Chicago futures market.

Senator FLANDERS. This is a Government-set price.

Senator O'MAHONEY. I am asking a very simple question which, I submit, could be very simply answered. I say, if you had in Canada the American futures market, which we have here, would the price in Canada be as high as the price in the United States?

Mr. STRANGE. It would be 16½ higher, sir, I can tell you that, because that is the average at which the futures market in Winnipeg always was higher than Chicago on the average, with a little jiggling up and down; 16½ cents for years and years before it was closed.

Senator O'MAHONEY. That 16½, then, is a margin which experience has shown has existed between the Canadian market and the American market so that may be attributed to whatever circumstances create the difference.

Mr. STRANGE. Yes.

Senator O'MAHONEY. But it remains true, according to your testimony, that if they had speculation in Canada the price would be higher than the government is keeping it.

Mr. STRANGE. I do not quite get that, sir. I would say this, if I might put it this way, and if this answers your question. If we had a futures market in Canada today it would register today and day by day 16 cents per bushel more than Chicago would register.

Senator O'MAHONEY. So that there would be a much higher price for Canadian wheat than there now exists under the Government action.

Mr. STRANGE. Pardon me, sir. I have not made myself clear. To Britain unquestionably for $1.55, but not to that surplus of wheat which is sold to the rest of the countries of the world which is class 2 wheat, which today the Wheat Board fixes as a reasonable price at 26 cents higher than Chicago; at least, that is how it is, which they call a reasonable price.

Senator O'MAHONEY. You have misunderstood my question. I am asking you to state what the price of wheat would be in Canada if you did not have your Wheat Board, but had only the same type of futures market which we have in the United States.

Mr. STRANGE. Yes, sir. Well, sir, my simple answer to that is that it would be approximately 16 cents higher than is registered at Chicago, both markets.

Senator O'MAHONEY. So that in the degree to which the present Chicago price exceeds the price of wheat in Canada, it would exceed the price under the system of the futures market, if that existed in Canada?

Mr. STRANGE. Yes, you would have it——

Senator O'MAHONEY. That is my question.

Mr. STRANGE. Sixteen cents higher.

Senator O'MAHONEY. Yes, sir.

Representative HORAN. Mr. Chairman, I have to go to the same meeting, and I am very much interested, having previously read your statement, in knowing if under control, production of wheat has increased in Canada.

Mr. STRANGE. It has decreased, sir. The production of wheat under these low prices to farmers has decreased.

Representative HORAN. Wheat has decreased. You attribute that to controls and to false prices which do not reflect the true supply and demand pressure on wheat.

Mr. STRANGE. Right, sir. We went down from 25,000,000 acres to 23,000,000 acres, because of the low price the farmers are getting. The present price they are getting is not an incentive that enables, and that encourages them to increase acreage as you increased it in the United States.

Representative HORAN. Do you know how many countries in the world today are raising wheat under what might be called a free agrarian economy?

Mr. STRANGE. Yes. In the Argentine, and in Australia, they are selling their wheat for extremely high prices, even higher than Chicago, incidentally; that is the Argentine, and Australia approximately the same as the Chicago price.

Representative HORAN. Is that the individual grower?

Mr. STRANGE. No; that is the government monopoly selling the wheat at world prices; in the Argentine much higher, since it is up to $5 a bushel. But they adopt the same principle that they do in Canada, both in Argentina and Australia. They only pay the farmers a fraction of what they sell the wheat for, so that the farmer receives such a small amount of money and has had no inducement to increase his acreage.

In the Argentine, it has gone down 13 percent since last year, and that 13 percent in itself is about 10 percent lower than the prewar average.

In Australia, they have not decreased acreage, because the farmers there are promised dividends at the end of the year, between the price they are receiving and the price at which their wheat is sold, but they have not in Australia decreased wheat acreage; they have the same acreage on 100,000 bushels, 12.4 and 12.3 are the two figures; they have not increased nor decreased in Australia.

Representative HORAN. Is it true that the United States is the only country in the world that is raising wheat under what might be termed an approximation of a free economy?

Mr. STRANGE. Yes.

Representative HORAN. We are the last.

Mr. STRANGE. I would say that; yes, sir. In Britain they have increased acreage because they are paying their farmers a large sum of money; they are desperate in Britain to get more wheat.

The land will only feed 20,000,000 people, and they have a population of 27,000,000, and they are paying their farmers for this next year, next harvest, $4.88 for the first 300 bushels, and $4.44 after that on the farm; those are the prices.

Senator KEM. That is out of the proceeds of the so-called British loan?

Mr. STRANGE. Yes, sir. Well, if you like to put it that way, sir. Your loan and our loan.

Representative HORAN. Do you look with favor upon any action on the part of this country toward the emulation of the experience in Canada?

Mr. STRANGE. I beg your pardon, sir?

Representative HORAN. Do you look with favor, sir, upon any action in this country to follow the steps that Canada is now following?

Mr. STRANGE. I did not quite catch that.

Representative HORAN. I do not know whether it is a fair question. I say, do you look with favor as a friendly neighbor toward this country's following in the steps that Canada has taken to create allocations and controls that would eventually result in a government monopoly?

Mr. STRANGE. I am afraid, sir, that if you were to follow in our steps and decided on it, all the troubles that we have there, the great disturbances, the discontent of farmers, the political turmoil that has got into politics now and the low prices to farmers and a severe reduction of acreage, would inevitably, without any question, follow in this country.

Representative HORAN. In other words, it is the incentive that naturally flows from a free eonomy that has resulted in our raising a record crop of 300,000,000 bushels above anything ever experienced in this country before?

Mr. STRANGE. Yes. It had much to do with the high prices the farmers were privileged to have.

Representative HORAN. If we had not produced as much wheat as that, though, the price could be enormously higher, could it not?

Mr. STRANGE. Yes.

Representative HORAN. Supply and demand being still a factor.

Mr. STRANGE. Yes.

Representative HORAN. So, we are to be thankful that we did have a record wheat crop——

Mr. STRANGE. Yes.

Representative HORAN. Which came from the ability of our farmers to raise in a free atmosphere.

Mr. STRANGE. Yes.

Representative HORAN. Thank you.

Mr. STRANGE. It is a great blessing for the whole world that the United States has got this large amount of wheat.

Representative HORAN. A little louder on that, Mr. Strange.

Senator KEM. Major, have there been any elections in the prairie provinces since this arrangement went into effect?

Mr. STRANGE. One, sir, at Portage la Prairie, and the government was very badly defeated. It had had a seat there as far as anybody could remember. The Liberals and Conservatives made an issue of the wheat agreement and they just got in, that is all.

Senator O'MAHONEY. Do you wish to suggest to the committee that any disadvantageous effects would follow from an increase in the margins in the futures market?

Mr. STRANGE. Yes, sir. From my study of the futures market, and I have in Winnipeg an excellent opportunity because I have no particular job to do excepting to study anything that I want to study and relay that information to the farmers in my department. I have no particular work to do. I study just what I please, and one of the things I have studied, because I thought it was in the farmers' interest, was the futures market, and I believe, sir, that the freer that you can make it, the easier that you can permit speculators to come in, without making it hard for them, the easier it is for our farmers to market their wheat.

Senator O'MAHONEY. In other words, the more speculators who lose their money, the better it is for the farmers.

Mr. STRANGE. Exactly, sir. There is no question about it. I hope, sir, as a result of this meeting the speculators as a group do not find this out.

Senator FLANDERS. You may be interested in knowing that the largest single nonprofessional group on the census taken of the operators in this Chicago market on a given day, were housewives.

Mr. STRANGE. Oh, yes; very likely, sir.

Senator FLANDERS. I suspect some of them have husbands, however.

Mr. STRANGE. Yes, sir. We were reminded yesterday of a barber that did well, was it not; a barber that did well, sir?

Senator KEM. There was some talk this morning about chiropodists.

Mr. STRANGE. Chiropodists. Well, all glory to them, I say; good luck to them. I wish I could do that, that is all.

These people forgot, too, that speculators, as a group, lose money, and that their losses go to the benefit of both producers and consumers so that speculators, besides performing the important service of holding the farmers' wheat for months until buyers require it, not only do this at their own expense, but indeed pay a little for the privilege of performing this important and essential economic function, all as shown in a study entitled, "Financial Results of Speculative Holding of Wheat," published in "Wheat Studies," for July 1931, by the Food Research Institute of California.

Speculators in wheat, then, perform a necessary economic service. They should be encouraged and not abused. Speculators are not gamblers.

My own observation is that whenever a government handles wheat and sets the price for it, the price set is hardly ever in accordance with economic considerations, but is greatly influenced and sometimes entirely governed by political pressure; because of this, such government prices are usually quite unable to fill their natural economic functions.

Senator KEM. Major, I was interested in this: You make a distinction between a speculator and a gambler.

Mr. STRANGE. Yes, sir.

Senator KEM. Just what is that distinction?

Mr. STRANGE. Well, sir, I would say this, that a gambler is a man who deals in a self-created risk that has no social significance, such as betting on a horse race, betting on a roulette wheel. He may win or lose and it has not added to the interest or the welfare of society at all.

A speculator, I would say, is a man who assumes an already existing risk, and he just takes the risk over from somebody else. That is in the social interest.

For instance, wheat, from the moment a bushel of wheat is produced, undergoes risks before it finally is put into bread, and the consumer of the world eats the bread. It has the risk of weevils; it has the risk of mites; it may be out of condition; it may be bad; it may be musty, a hundred and one risks are affected with it as it goes along the line to the miller and to the baker and before the person finally eats it.

Whoever assumes the risk of the ownership of wheat assumes a risk that existed the very moment that the wheat was harvested. He is a speculator, that is the way I see it, and not a gambler, because it is a risk thst is inherent, and somebody has to take it. If the farmer keeps it on his own farm, then the farmer speculates in his own wheat.

Senator KEM. Suppose the risk is taken on an exhibition that has entertainment value? Which class would you put that in?

Mr. STRANGE. In which, sir?

Senator KEM. Suppose the risk is taken as the result of an exhibition that is for public entertainment? Would you say that was a speculation or a gamble?

Mr. STRANGE. Well, that is a very difficult thing to say. I would say it depends on the entertainment, sir. I would say, for my part, if it were grand opera or the ballet, it would be a speculation; but I am perfectly certain, sir, as some friends of mine would say, that that is a gamble because ballets are not necessary for the welfare of the world.

Senator KEM. Suppose it was an exhibition for improving the breed of horses?

Mr. STRANGE. It used to be absolutely and completely true when we needed horses for military purposes. Farm horses are going out.

I would say up to 10 years ago, it was absolutely a necessary speculation. Today it is becoming the situation that horses are becoming of less value in the world, excepting, of course, for saddle horses. But for military purposes, they are not used. But if you were to ask me, and I do not ride a horse, but I have a friend who rides a saddle horse and very proud of it, he would be most indignant if you said it was not in the public service to ride a saddle horse.

Senator KEM. I do not want to pursue the point, but what would you say about a football game?

Mr. STRANGE. Well, sir, I think a football team is a legitimate and proper speculation, and I will tell you just my own opinion, sir. It first builds up the physique and the mind of young men; it makes them better citizens; it teaches them to take punishment, and not squeal, and all in all, tends to make them, I would say, better human beings.

Now, anything that tends to do that, I think, is worthy of support. It fills a social function and, therefore, it is a speculation, if you go into a big rink or are paying for the expenses of a football team.

Senator KEM. Thank you very much.

Mr. STRANGE. I have compiled records of the many, many attempts to fix prices by kings, princes, generals, and the state on wheat, and on many other commodities during the past 5,000 years of recorded history. Every attempt failed, not one succeeded. Usually they merely made conditions much worse than they had been at the start.

Senator WATKINS. May I ask you a question there? Did you take into consideration the situation during World War I in the United States, when the price was fixed on wheat?

Mr. STRANGE. When the price was fixed, sir?

Senator WATKINS. Yes, in the United States during the First World War. Did you study that?

Mr. STRANGE. I am excepting, sir, the war conditions. I do not mean war conditions. I am speaking really of normal times.

Senator WATKINS. Well, you do not think these are normal times, do you?

Mr. STRANGE. Today, sir?

Senator WATKINS. Yes.

Mr. STRANGE. I think they are not sufficient of an emergency condition to interfere with natural economic laws; that is the way I would put it.

Senator WATKINS. There would be a difference of opinion on that point.

Mr. STRANGE. Of course, naturally, sir, but I would say that war is a condition for this reason, that during the course of war nobody can permit a merchant in the natural order of events for the making of profit or running his business, to sell wheat to somebody who would, by some triangular method become an enemy, and the Government must seize the product and see that it only goes to their friends and is withheld from their enemies. The merchant has not always that information, I think.

Senator WATKINS. Would that be the only justification, you think, for fixing prices even during a war?

Mr. STRANGE. Oh, yes, I think so. I would say this, as they did in Canada, that the Government should fix prices in war as low as they can get away with it, with the farmers, without their kicking too much.

Senator FLANDERS. Or without reducing the output.

Mr. STRANGE. Yes, quite so; so that the Government saves money and, therefore, has more of the taxpayers' money with which to prosecute the war; that would be my opinion, sir.

Senator WATKINS. Pardon the interruption. I have some more questions when you get through.

Mr. STRANGE. Free prices, as reflected through a futures market in accordance with the multitudinous factors of supply and demand throughout the world, not only of wheat, but of every foodstuff with which wheat has to compete, besides rewarding producers and making foodstuffs available to the people of the world, have additional work to do.

They must perform the function of maintaining an equilibrium between supply and demand, and when, for any reason, certain causes bring about a disequilibrium between supply and demand, then free prices, if left alone under the influence of competition, tend to restore the balance, but they must be free competitive prices to do the work.

When a scarcity occurs, higher prices are registered which induce farmers to produce more and induce consumers to waste less and to be more thrifty with the product; in short, to buy less.

Conversely, when supplies are overabundant, free prices, if left alone, fall, inducing farmers to produce less and the people to consume more.

When prices are unsatisfactory, it is not the market that is wrong, but the causes that affect the market that are out of adjustment.

Personally, I regard the open futures market as one of the great economic achievements of man, as tending to distribute foodstuffs quickly and at an extremely low cost and to insure at all times that as the population of the world increases, as it is at the rate of 22 million additional mouths to be fed each year, or at the rate of 1 percent per annum, producers will be induced to put forth extra efforts to fill these additional demands for foods as they come along year by year.

No Government bureau, no matter how able its members may be, can sell as much wheat, I am sure, as can hundreds of merchants, each with his own money invested in his own business, probing every market of the world for possible extra sales, with the hope of making a profit, and working even harder for the fear of making a loss.

It is to a great extent because the United States has enjoyed an open futures market with its reflected high prices to the United States farmers that the United States last year increased its wheat acreage.

It is because of the government-set price, of necessity a low price to farmers, that Canada last year, in spite of the world's great hunger, actually reduced its wheat acreage, for there was no incentive to Canadian farmers to increase acreage, as I think they should have done.

Senator WATKINS. May I ask a question at this point? I find I have to leave for a committee, as well. Suppose they had set the price higher in Canada?

Mr. STRANGE. Sir?

Senator WATKINS. Suppose the price had been set much higher in Canada or on a scale which would be reflected by the world price, with a guaranty.

Mr. STRANGE. Yes.

Senator WATKINS. What then would have been the result?

Mr. STRANGE. Oh, they would have increased acreage tremendously.

Senator WATKINS. That could be done, of course, by government fiat, the same as they have fixed the price where it is now?

Mr. STRANGE. With the greatest of ease, sir. We have in western Canada a system of what we call summer fallowing. We maintain in crop about 25 million acres, and we maintain about 19 million acres of summer fallow this year with which this land is used to accumulate the rainfall for 2 years' crop so that you will have a better crop.

But in many areas they got a fair amount of rainfall so that the amount of summer fallow you carry is very elastic. At any time you can meet a world emergency, and take 5, 6 or 7 million more acres out of that summer fallow and sow wheat and have it as an emergency. With rising prices, our farmers would have done that.

Senator WATKINS. Then the argument is that what Canada has done is a matter of fixing prices, and if they had raised the price, had some formula worked out that would have been fair to the farmer, the results you now have up there would not have occurred, would they?

If I make myself clear, I say, if they had worked out some formula that would have been fair to the farmers, you would not have had a reduction in acreage and in the reduction of wheat.

Mr. STRANGE. Sir, I would make one very important point there, if you will permit me, which is this: They thought they were fair to the farmer when they made this $1.55 agreement with Great Britain.

Senator WATKINS. The agreement tied them up. The agreement they made was the thing that tied them up and forced them to do what they are now doing.

Mr. STRANGE. Quite.

Senator WATKINS. And eventually, they may still have to pay those farmers the difference between what they should have had and what they are paying them.

Mr. STRANGE. The farmers protective association wants that to be done, but there is no law to make them do it.

Senator WATKINS. There is no law, but there is plenty of political pressure, if it works the same there as it does in this country.

Mr. STRANGE. That is something, sir, that I am not supposed to deal with; when you get into this question, you have to keep in mind the political effect, as well as the other. In short, I myself would not want to be in the Government's shoes in Canada today.

Senator WATKINS. Nobody would.

Mr. STRANGE. Since the government closed the futures market in Canada in 1943, our farmers have received much less money for their wheat and coarse grains than they should have.

This, I am convinced, is no accident. It must, I am convinced, always happen under government monopoly.

I confidently make the prediction that if the futures markets of the United States were to be closed or even were they to be unduly hampered by unnecessary governmental regulation, that much the same great losses that have been incurred by each of our Canadian wheat producers would most certainly eventually fall upon your American grain producers.

There is always much talk about the evils of speculation for the reason that the important economic functions filled by speculators are not usually understood.

It is often forgotten that should the speculator who operates through futures markets be eliminated that the farmers themselves then would become speculators by withholding their wheat from the market or even from the government, hoping for higher prices in the future, and that even though prices were to be set at a low figure for a considerable period, then farmers would reduce acreage, and in other ways reduce production, and that nothing could be done about it.

Higher prices are the only inducement of which I know that will ever in peacetime persuade farmers to do extra work to bring forth greater production.

It will have been noticed that the present absolutely complete state control over Canadian farmers and over the Canadian wheat industry, all as set out in bill No. 23, actually started in a very small and mild way in the year 1930, but that it has gone along with a number of quiet, successive gradual steps until we have arrived today at complete State monopoly which illustrates, I suggest, how insidiously government control little by little creeps upon the people once it is permitted to start. Illustrating, too, the truth of the old French proverb which tells us, "It is the first step that counts."

I venture to recommend to our good friend, the United States, not to take that first step of control over your wheat industry for, if it is taken, it will inevitably lead to still further steps until eventually you would have the farmers of the United States end up in the same bad position, suffering serious losses of income in which our Canadian prairie farmers find themselves.

I have heard it stated by some that wheat prices as reflected by the Chicago open market are what some call speculative, meaning perhaps, that they think these prices are too high.

I venture to draw attention to the simple fact that the price of wheat as set by the Canadian Wheat Board itself has always been higher than prices reflected by the Chicago futures market.

Now, our Canadian prices for class 2 wheat, as set by the wheat board, are set under a definite instruction or order to the board by the government, which says that the board, and I quote, "will sell grain at such prices as it considers reasonable."

If, therefore, our Canadian prices for class 2 wheat are reasonable, how much more reasonable must be the Chicago futures market prices which are consistently lower.

During the course of its 60 years of activity, no less than 18 royal commissions have thoroughly investigated the Winnipeg futures market. Not one of them ever recommended that the market should be closed; not one even recommended any curtailment or hampering of its operations.

These commissions decided the futures market was in the interest of producers, and that the market performed important services to both producers and consumers.

Representative HORAN. Would the gentlemen yield right there? What I have to say is off the record.

Mr. STRANGE. The forefathers of our Canadian people made great sacrifices long ago to win their liberty and freedom from kings, princes, emperors, and from the state. They often sacrificed their very lives for that purpose.

Today in Canada, our farmers have unwittingly become merely humble servants of the state. The state is their master. Thousands of us in Canada look longingly to the United States, where farmers still enjoy the liberty and freedom fought for and won by their ancestors against kings and governments.

Many of us in Canada today believe fervently that the United States is an oasis of liberty in a gradually extending world desert of human servitude.

It was not to have their every action policed and dictated by bureaucrats, with a constant fear of fine and imprisonment for the breaking of minor regulations, that Canadian farmers made very great sacrifices in order to assist in winning two great wars for human freedom.

We in Canada are hoping, therefore, that some day we may again be blessed with that same individual liberty and freedom which is still fortunately enjoyed and cherished by our brother farmers in the United States.

Senator KEM. Major, some of the advocates of governmental control and regimentation refer to themselves as liberals, and their doctrine as liberal. Do you consider that to be a correct use of the term?

Mr. STRANGE. No, sir. It is my humble opinion that it is a complete warping of liberalism. We have to go back to define the word "liberal." I think we have to go back far, far beyond the history of the United States, into old England at the start and they defined "liberalism" as freedom from control by the state. That a man enjoyed his own individual liberty. I think it started with the Magna Charta and the Bill of Rights; that is what has been called liberalism. It has been warped by people who call themselves "leftwing liberals," and they advocate socialism with government control, and that is one more step to communism, and then you have the dictator.

Senator KEM. It is a complete misuse of the word in its historical sense, is it not?

Mr. STRANGE. Quite so. I have always thought, Mr. Chairman, one very useful service might be filled by one of your committees. Whether your Economic Committee could do this or not, I do not know; but I have always thought it would be a very useful thing for some important organization, and which the whole world respects, such as your committee, to set out for the public use a set of terms and do your best to define them according to how they are, so that everybody would know what they are talking about. I think it would be a very useful thing, sir; and you might well start with that word "liberalism."

Representative HORAN. Mr. Chairman, might I inquire of Mr. Strange what efforts have been made to have a uniform production policy throughout the States still able to produce wheat; and, if no coordinated effort in that direction exists, why an effort to have a uniform pattern has not obtained? It is obvious that Canada and the United States have, in the eyes of the world, a very similar responsibility; and yet how different the terms and activities in the program of supplying the vitals of that responsibility.

Mr. STRANGE. Yes; there is a little triangle there, sir; that, perhaps, may not be as well appreciated in the good United States as it might be, and that is our kind of spiritual and racial feeling for Great Britain; and which comes in so that, while economically we are in Canada tied very tightly to the United States, we could not exist without the United States in any way at all, and we certainly could not defend ourselves; yet, at the same time, because 48 percent of the people in Canada are of British blood and quite a large percentage of people have come from Britain, they cherish this love of Britain in their breasts, and they are anxious to do everything they can for her.

Why then, and perhaps this is what you are leading to, sir, why did Canada make, the Government of Canada make, such a price for Britain for wheat? Had it been China that asked for that commitment or France, they never would have gotten it, but they were swayed a little bit by their feeling, "Well, here is poor old Britain, and she has had a hard time; she spent about twice as much in personnel during the war than any other country in the world; she has sacrificed all of her investments; she is in a thoroughly bad way, and Britain wants to make an ageeement," and even though it is not economic, it is a force; it is a pull there.

Representative HORAN. It is a historic fact that you have reduced, by one whim or another, the total amount of wheat produced?

Mr. STRANGE. Yes.

Representative HORAN. There has been no great effort to increase acreage, has there?

Mr. STRANGE. That is it. I am afraid, sir, that if you were to ask why was that not envisioned at the time, as it was to the economists, I hardly like to say this, sir, but I will put it this way: That you would be implying that our politicians in Canada have a good deal more vision than they actually possess, let me put it that way.

Senator FLANDERS. I would like to ask the indulgence at this point of the witness and the other members of the committee. I also have to run out, like so many others, and one of the members of this committee who left, left with me three questions, which I would like to ask you, and then I shall have to go.

Mr. STRANGE. Yes.

Senator FLANDERS. The first question is this: Why did the Canadian Government get into this wheat business in 1930?

Mr. STRANGE. Because the wheat pools lost $23,000,000.

Senator FLANDERS. I asked that question earlier, but some of these men were not here so, perhaps, you had better tell what a wheat pool is.

Mr. STRANGE. The wheat pools are a large cooperative wheat organization owned by farmers and, as I explained in the text, sir, they adopted a system of avoiding the futures market. They did not hedge their wheat, and they found themselves with about 75,000,000 bushels of wheat unhedged, and the price went down on them, and they went bankrupt, and owed $23,000,000 to the banks, with no assets; $23,000,000 over and above their assets.

Fearing political repercussions, they asked the provincial government to look after them to guarantee this money, which the provincial governments did, and then the provincial governments found that it was impairing their own credit, and they called upon the Dominion Government to help them, and the Dominion Government said, "We will appoint the administrator," and his job was to feed that 75,000,000 bushels of wheat into the market without depressing prices, very slowly, hedge it in a way; that is what he had to do, and it took him a long time to do it, and so started the Canadian Wheat Board. He was a Government official, and he wanted some help, and then when prices fell, it is very interesting to note, in the depths of the depression, 1932 and '33, there was a great uproar from the farmers, so the Government then gave their administrator the right not only to sell that wheat, but to withhold it from the market, and then later on they gave him more power, which was to buy additional wheat to stabilize the market, all of which failed. It did not stabilize it. That is how it happened, sir.

Senator FLANDERS. The next question is: Does the Canadian consumer benefit from low wheat prices?

Mr. STRANGE. Very much so, sir, absolutely. Our farmers today are subsidizing 12,000,000 people with wheat at $1.55, whereas the world price of wheat, as set by the Canadian Wheat Board today is $3.35; they are losing $1.80 on every bushel, or farmers are giving cheap bread to 12,000,000 people in Canada today who are among the wealthiest people in the world, with the exception of the United States.

Senator FLANDERS. I might say that I come from a border State, Vermont, and I have had a great deal of correspondence from the people living on the border inquiring why they have such a low price for flour, when across the border they pay such a high price.

Mr. STRANGE. Yes.

Senator FLANDERS. The next question is this: Are Canadian meat prices lower than in the United States? Meat prices.

Mr. STRANGE. What wheat prices do they mean?

Senator FLANDERS. Meat prices. M-e-a-t.

Mr. STRANGE. Meat. Very much lower, sir, because exactly the same condition that pertains to wheat pertains to coarse grains, which feed the livestock. I have in my bag, if anybody is interested, the exact prices. I publish them every 2 weeks. They are very much lower because the coarse grains are much lower, and again the farmers are subsidizing all the people in Canada with cheap meat and cheap butter.

Senator FLANDERS. There must be another element in that, however, because meat prices in this country, or the livestock prices, are well above the cost of production. In other words, you probably have a larger production in proportion to your home consumption than we do.

Mr. STRANGE. That is right. We have a much larger percent for export than you do; yes, that is true.

Senator FLANDERS. The next and final question is this: Is Canada threatened with inflation as we are? I should say that is a very mild statement about our being threatened with inflation, but that is the way the question is asked. Are you threatened with inflation?

Mr. STRANGE. Well, sir, I have not yet among all my economist friends had a definition that satisfied me as to what inflation is, where does it start, and where does it go.

Senator FLANDERS. I suggest that you move across the border.

Mr. STRANGE. It is a word in common use.

Senator FLANDERS. You may still be unable to define it, but you can see it.

Senator MYERS. You can feel it, too, Senator.

Mr. STRANGE. My wife tells me that she wants more housekeeping money. Is that a good indication?

Senator FLANDERS. That is an indication.

Mr. STRANGE. So that we are frightened by it, and I do not know, prices are certainly going up. But do not let us forget this, Mr. Chairman, that it is the farmer who gets the prices, and when you do anything about keeping prices down with foodstuffs it simply means this simple thing, as I see it, you are saying to the farmer, "We are going to pay you less, that is all."

Senator KEM. How is it that the Argentine Government can sell their wheat for $5.25 a bushel in a world market, where the prevailing price is $3.30?

Mr. STRANGE. Well, sir, today, unfortunately there is no Liverpool futures market, and there is no Winnepeg futures market, and no Buenos Aires futures market, and a lot or most of the wheat in the world today is not bought and sold on futures markets as it is in the States and a few countries that buy it from the States, but the great bulk of the wheat in the world today is a government monopoly and bought by government boards, what they call bulk buying and bulk selling, and today the world is hungry, so that the Argentines discover a country with great hunger, such as Brazil, with a fair amount of money, and they say, "There is our price; take it or leave it." They say, "All right, we will get some wheat from the States," but they cannot get enough from the States; they can get some from Canada, and the Canadian Government says: "We are not going to give you any," and finally, they find the only source of supply in the world with excess capacity is Argentina, so that they can get away with it.

Senator KEM. When those transactions are made, does not the world price become $5.25?

Mr. STRANGE. I have heard it said, sir, and it is very difficult to contradict it, that the Chicago prices, the prices registered on the Chicago market, are much too low. They are not prices, world prices, if you want to put it that way. I do not know.

Senator KEM. It would seem to me that the world price is the price that a willing buyer will give to a willing seller.

Mr. STRANGE. Quite right, sir, so that today there is no question that the price, the proper price, of Argentine wheat in Brazil is $5 a bushel, because that is what Brazil is paying for it.

Senator MYERS. Major, I regret exceedingly that I missed your testimony, but I was attending another committee meeting. I heard you say a moment ago, however, that the farmers in Canada are subsidizing about 12,000,000 people.

Mr. STRANGE. Subsidizing.

Senator MYERS. I say subsidizing, yes; and that the prices of meat are low in Canada because the farmers are also subsidizing those who are eating meat.

Mr. STRANGE. Yes.

Senator MYERS. Let me ask you this: Are the farmers making money today in Canada or are they losing money?

Mr. STRANGE. Well, sir, it is very hard to apply profit and loss to farms, because it ends in what standard of living do they live at, does it not? I mean, it is not a business transaction like in a business, where you can employ a bookkeeper, and you know what your expenses are, and you know how much you are taking in and if you have made money or not.

But on the farm, a farmer can reduce the standard of living of his people down low, with low prices, and he gets by with it, and he stays on the farm, and he does not send his children to school.

Senator MYERS. Has the Canadian farmer reduced his standard of living?

Mr. STRANGE. Pardon me, sir?

Senator MYERS. Has the Canadian farmer reduced his standard of living?

Mr. STRANGE. Well, he has not reduced it, sir, because he started it almost the other day with the great depression, when it was exceedingly low. His level of living today is higher than it was, at present prices, than it was in the years of the great depression.

Senator MYERS. Of course. How is his standard of living today compared with the standard of living 2 or 3 or 4 or 5 years ago or 1939?

Is his standard of living higher today than it was in 1939?

Mr. STRANGE. I would say perhaps the same, not an advance; perhaps the same; but definitely lower than the standard of living of the American farmers, most definitely lower.

Senator MYERS. Well, I think, generally, the standard of living of the Canadian industrial worker and city dweller is somewhat lower than the standard of living of the industrial worker and the city dweller in the United States.

Mr. STRANGE. Perhaps. Might I make this comparison, sir, that might be a picture. The standard of living of our industrial labor in Canada has gone up since 1939 very, very much higher than the farmer's standard of living, from the index numbers published by the Government.

Senator MYERS. Still, it is extremely difficult for you to answer the question as to whether or not the farmer is making a reasonable profit today?

Mr. STRANGE. Yes, I would not say that. My own personal opinion is that he is lagging behind; he is lagging behind the industrial worker of Canada.

Senator MYERS. That may be very true, but my question was directed to whether or not he was making a fair profit; whether the farmer, the Canadian farmer, is making a fair profit; whether the wheat grower of Canada is making a fair profit.

Mr. STRANGE. I cannot answer that, sir; it is too entangled. I would say that he would not be prepared to go along for very long as shown by this simple fact, that 79 percent of the farmers, from a recent survey, are extremely dissatisfied with present prices.

Senator MYERS. There is no question about that. Many people are dissatisfied with present prices, and some would like to see them go a lot higher, and some in America would like to see them go a lot lower; that is not my point.

I am just wondering whether he was making money; when you say he is subsidizing all of these people, very frankly, he might be making a lot more money, but I am wondering whether he was getting a fair and reasonable return for his labor. That was the only purpose of my question.

Mr. STRANGE. My answer would be, no; as well as I can answer it, because there is no yardstick that you can apply to farm enterprise.

First of all, somebody has got to be able to say what the farmers should have; what they should have to live as well as the man in the city; should they live better than a man in the city? Should they be able at certain times to recoup a higher price, because of the low prices they have to take other times?

Now, for instance, during the years of the depression they took a tremendous beating; they went into debt; they had debts, and they owed a lot of money.

Senator MYERS. Well, everyone did that, Major; millions and millions were unemployed in the cities here in America, and they took a beating, too.

Mr. STRANGE. Quite right, sir. But what I am thinking of is this: Has the farmer then, when good prices come along, the moral right to have those good prices to recoup somewhat for the difficulties that he had 5, 10 or 20 years ago?

Senator MYERS. What controls, price controls, are in effect in Canada, Major?

Mr. STRANGE. They are pretty well all off but just now, with the exception of wheat, the other day, they were reimposed on some imported vegetables, because of the difficulty Canada is in in being unable to pay the United States for all we are buying from her.

Senator MYERS. Are they the only price controls that were reimposed?

Mr. STRANGE. Two or three.

Senator MYERS. When did they go off, Major?

Mr. STRANGE. They went off about 2 weeks ago.

Senator MYERS. Two weeks ago.

Mr. STRANGE. But they have been reimposed because they came to the conclusion, when we have had to control importations from the United States, because we owed the States more than we could pay her.

Senator MYERS. Did prices increase rather rapidly in those 2 weeks, that 2-week period?

Mr. STRANGE. Yes; they went up, not very rapidly; they went up quite a little, which was evidence that they had been held down, the economists think, too far before by the price ceilings; they made a bumper when the price ceilings were increased.

Senator MYERS. What percentage increase would you say, Major?

Mr. STRANGE. I would say, it is very difficult to say that, but I would say if you take this rather as a rough estimate on my part, sir.

Senator MYERS. That is all I would expect.

Mr. STRANGE. Perhaps 15 percent.

Senator MYERS. And then controls, certain controls, were reimposed?

Mr. STRANGE. Certain controls have gone back on a few important things that mainly we import, and do not grow in Canada, from the United States.

Senator MYERS. Did you have any black markets in those articles or products during the time of price control?

Mr. STRANGE. No. As in Britain, black markets are not considered to be the thing to do in our country; very little of it.

Senator MYERS. I think that both you and the British are to be congratulated because both countries have a great respect for the law.

Mr. STRANGE. That is very kind of you to say that.

Senator MYERS. And obey the law.

Mr. STRANGE. Yes.

Senator MYERS. That is all, Major.

Representative HORAN. Mr. Chairman, I would like to call attention, to assist the witness, in your prepared statement on page 4 at the bottom of the page, you state, and I quote,

The Farmers Protective Association draws attention to the simple fact that Canadians who are supplying Britain with lumber, pulpwood, paper, nickel, asbestos, copper, zinc, lead, automobiles, and farm machinery are selling these things to Britain at full world-market prices, and that moreover, the goods that Britain is selling to Canada, much of them purchased by Canadian prairie farmers, are also sold by Britain at the full world-market price. Why, asks this association of farmers, should our farmers be the only people required to subsidize Britain with the cheap product?

If we were dealing justly with this matter, we would have to give consideration to the farmers' right in the light of his experience during the depression, when he certainly produced at a loss——

Mr. STRANGE. Yes.

Representative HORAN. To recoup through the years a reasonable return upon his time, investment, and knowledge, is that not right, Mr. Strange?

The CHAIRMAN. Are there any other questions? Thank you very much, Major Strange.

Mr. STRANGE. Thank you, sir.

The CHAIRMAN. Mr. Sanford.

STATEMENT OF H. E. SANFORD, PACIFIC MANAGER, CONTINENTAL GRAIN CO., PORTLAND, OREG.

Mr. SANFORD. Mr. Chairman, my name is H. E. Sanford, and my address is 500 Lewis Building, Portland, Oreg. I am Pacific manager of Continental Grain Co. During the war in 1943 and 1944, I was given a leave of absence to serve in Washington as Chief of the Feed Section of OPA, in order to assist in drafting the maximum price regulations covering grains.

I think that all of us enjoyed hearing Major Strange, and I feel a little bit as if I were trying to sing opera right after John Charles Thomas.

I have been asked as a last-minute proposition to try to do a little job of summing up, so to speak, sweep out the corners in some of the questions that have been asked, and that some of us have felt have not been answered to your satisfaction, or perhaps entirely to our own.

We also have in mind that we should close by making as definite an answer as possible to charges that have been made against the grain trade in connection with gambling on grain exchanges, forcing up prices of grains, and contributing to the increase of the cost of living.

The other is the accusation that the grain trade are "greedy men, trafficking in human misery."

Then we think, in closing, that we should give an outline, at least, of our suggestions as to what should be done. I think it is only fair that we should be asked to do that; that is particularly true, because whether it was the purpose of this hearing or not, the matter of the President's proposals in his message to Congress on November 17, and some of the recommendations of Secretary Anderson and his aids, have been injected into this hearing.

You may want to limit us in our comment on that, and I assure you that it will be brief. You have been very liberal as to time, and we appreciate it. I want to be as economic of your time and attention as possible.

I have made some notes, and I can say that perhaps one of my greatest problems at this moment is to read my own writing. These are notes of some of the questions that have come up during the last day, or at least, the ones that I have heard.

The first one that I have on my list is in regard to the subject of speculation and its effect upon the grain markets, and to what extent the speculation has been responsible for the rise in price.

Most of our witnesses have answered categorically in the negative, although several have admitted that great speculative buying might have a temporary effect on prices. I do not think that our witnesses have succeeded in convincing Senator O'Mahoney, at least, that speculation is not doing the job.

I do not know whether the Senator's conviction or lack of conviction is intellectual or emotional or what the nature of it may be. Frankly, I despair of changing his mind.

I would like to add my few words on this subject. I have been in the grain business for 30 years, and in the course of that business have had considerable contacts with futures markets, but I would like to say now that I have never made a trade for my own personal account in any commodity or, as it happens, even in any security.

That is not from any moral objection to doing that. I think there is nothing wrong about it for people who are in that public sort of position.

In our company, for instance, any employee who speculates in the commodity in which we are trading or even any other commodity would be immediately dismissed, if he were discovered. We do that because we want their entire time and attention devoted to our business and not to the business of speculation which, in our opinion, is a business of its own.

With that introduction, I would like to add that I had the pleasure of being a witness before Senator Watkins' committee in Portland. I was called on extemporaneously, and the president of the Portland Exchange, Mr. Barbaree, presented a statement which was prepared, and then I perhaps participated more in cross-examination than anyone else.

With your permission, I would like to read to you a few paragraphs from that statement in connection with the philosophy of speculation, you might say, the philosophy of price risk.

I had this in mind to do before I heard Major Strange, and I think he contributed quite a bit to that.

I also would like to say at this point that we had planned this hearing a little differently from the way it turned out. The arrangements had been made for a succession of papers to be presented which would deal with each of these subjects.

Owing to the length of the cross-examination, that had to be changed all around, to shorten things up, and I do not think that was adequately done.

I think, for example, that the hearing should have started off with certain definitions of the terminology that we use in the grain business, the definition of cash grain, a definition of just what a futures contract is, and a definition of a futures market.

I am not sure that Senator O'Mahoney still understands what a futures contract is; because yesterday, in cross-examining Mr. Cate, who represented the flour mills in this hearing, he talked about this matter of buying spot wheat at $2.88 a bushel in Kansas City, and how could he sell it in the future and deliver it at $2.68 in Kansas City.

Well, that is an indication, at least, that the full operation of the futures market had not registered with him.

We should have defined hedging, and we should have gone on with these other discussions.

I would like to read those paragraphs anyway because they do lead up to some of the things I am trying to say to you.

After some preliminary discussion of the situation on the Pacific coast, where we do not have hedging markets or futures markets on the Pacific coast. Except we attempted about 20 years ago, and did establish in Portland and Seattle grain futures contract markets. They were moderately successful for a time, but during the depression, speculation died out, and trading died out until we reached the point where they are useless for hedging purposes.

For example, in 1930, the trading on the Seattle futures market was 15,000,000 bushels; the next year it was 12,000,000, the next year it was 5,000,000, and the next year it was 2,000,000, and this year it has been 544,000 bushels, to date.

Portland, in 1930, we traded in 19½ million bushels; by 1942 we were down to 36,000 bushels; there has not been a single trade made in Portland futures market since 1942.

Now, we had discussed why hedging was necessary, which I am not going to repeat, but we went on to say, which you know I am sure, that it is in balancing the purchases and sale.

Senator MYERS. Might I interrupt you there? I wonder why you have no futures markets on the Pacific coast? You said trading fell off during the depression, but why do they not serve a useful purpose today and why therefore, have you not reestablished them on the Pacific Coast?

Mr. SANFORD. Speculation died out entirely during the depression.

Senator MYERS. I understand that. But why should they not now serve a useful purpose?

Mr. SANFORD. We have no speculators out there; they had such a bad experience when they got into the markets in the early thirties and could not get out of them. In other words, if they wanted to get in the market they had to bid the price up as much as 2, 3, 4, 5 cents a bushel.

Senator MYERS. How do you provide for your hedging operations?

Mr. SANFORD. We do not hedge.

Senator MYERS You do not hedge?

Mr. SANFORD. Unless you want to hedge them in Chicago or one of the eastern markets, and I might say that, owing to the price-market differentials between our market and the Chicago market and Minneapolis and Kansas City markets, hedging and these differentials are so uncertain and they vary so much that hedging there, to say the least, is a very dubious safeguard. Frequently it is much easier to guess whether the whole market is going to go up or down than it is to guess whether a hedge in Chicago is going to work out.

Senator MYERS. I am merely seeking information. Then, why should hedging and speculation play such a vital part in other parts of the country if they play no part and are not necessary on the Pacific coast?

Mr. SANFORD. I might say, Senator, that on the Pacific coast we have had to resort to a rather primitive type of cash-grain business, where we have to match our purchases of wheat every day against the kind of wheat and the quantity of wheat which we can sell on that particular day.

The result of this is that, many days at a time, the farmers have no market for their wheat, and that happens, particularly, if there is a big price break. You get a rapidly falling market, and the farmer is stuck until that break is all finished.

Now, I must qualify that. That is an incorrect statement. He is stuck until the Portland price drops to a point where the grain can be shipped to Kansas City or to Minneapolis or to Chicago. On the basis of present freight rates, the minute the price reaches a point where the grain can be shipped to those markets and sell at the same price that cash grain is selling at in those eastern markets, then we become tributaries to Kansas City, Minneapolis, and Chicago, just as much as cities in those States are tributaries. We have been that way several times since I have been in the grain business, conspicuously late in 1933 and early in 1940.

The CHAIRMAN. The freight reduces the price the farmer gets?

Mr. SANFORD. Ordinarily our price will range in Portland from 10 to 15 or 20 cents under the Chicago rate price.

Representative HORAN. What is the cash rate?

Mr. SANFORD. 55 cents a bushel. That is a bushel. That is a blanket rate from all over that territory into Chicago. Naturally, as we begin to come into line with the Chicago market, the point taking the highest freight rate is Portland. At those points the price is made by the Portland price less the freight. The higher the freight is in Portland, the lower the price is f. o. b. the country shipping point.

Then, you can add 55 cents to that, and that point begins to come in line. Do you want to pursue that any further? At that point we become a tributary to the eastern markets and we can then hedge safely. That does put a backstop under the decline which the farmer suffers. We can start buying the wheat then in unlimited volume. The rest of the time we have to wait until someone wants to buy some actual wheat from us.

I started to say that it was in balancing the purchases and sales of futures by bona fide hedgers that the speculator is a requisite to the marketing process. Without adequate volume of speculative buying and selling, no futures market can long exist.

While speculators are always on both sides of the market, some buying and others selling, prices must always move to a point where the net speculative buying or selling will exactly offset the net selling or buying by hedgers.

Maybe I went too fast for you, but the net position of all speculators, that is, sales minus purchases, exactly equals the net position of all hedgers, purchases minus sales. The two must equal. The excess of speculation above that must have speculators on one side and also speculators on the other.

For example—I won't read this paragraph because I just said it to you. Anyway, it describes how that net speculative position must exactly equal the net hedging position. I explained that with an example similar to the one I just gave you. I said, without the speculative trading, only 2,000,000 bushels of hedges could have been sold in this example. I think I had better give it to you because it doesn't make sense.

The CHAIRMAN. Mr. Sanford, really, we have had all of this testimony and there are three or four gentlemen waiting. It seems to me if you have something specific to add to what has been given, you should go ahead. It seems to me this is entirely cumulative up to this time, except for the portion about the Portland Exchange. I would very much like, if we can, to get through and get some New York commodity people.

Mr. SANFORD. Yes, sir. I was not aware that you were trying to get them on this afternoon.

We also had in the definition of speculation, which I won't repeat because Major Strange gave it to you.

A question came up of who these speculators are, housewives and clergymen and so on. I don't know whether the objection to this is on account of the effect on the market or whether it is a social problem, whether you think that they should be protected from their folly. Whatever that reason may be, I think that the indirect method of margins controlling that, in spite of the jeopardy it might place on the market, is not the way to do it. If you don't want housewives to speculate, or clergymen to speculate, better pass a regulation that housewives and clergymen cannot speculate. On the other hand, the risk is very similar to your insurance risk. Housewives probably own stock in insurance companies, perhaps. That is just as much a speculation as in grain. Our rate on the grain elevator is ⅛ of 1 percent We have a 1,000,000-bushel elevator where we have 3,000,000 bushels of wheat. An insurance company would bet us $3,000,000 that that elevator won't break down, and will bet $3,000,000 against our $3,750.

We question why it is that the Secretary asked for authority up to 100 percent margins. This is testimony before you on the 21st of November, Secretary Anderson said:

> The Department believes that speculative activity may be curbed effectively through regulation of margins on speculative positions in the commodity futures. I believe it would impair the facilities necessary to hedging.

He goes on to say:

> I would say that throughout nearly all of the war the exchanges were extremely cooperative in what the Department requested. The exchanges did regulate margins at our request. At the present time, as you are well familiar with, the exchanges have put through a change in margin specifications at the request of the Department of Agriculture.

Why, then, does he need power to regulate margins clear up to the 100-percent point. He knows that would close the markets. I would like to leave the question in your minds of the connection between that request and the request made days later that they be given full control and authority to take all wheat from the farmer and handle the entire thing themselves. I think if you refused allocations and price controls but grant the other request, you really will have been doing the same thing.

The CHAIRMAN. I got the impression the Secretary was willing to take 50 percent as the limit of his power to increase margins.

Mr. SANFORD. I am not going to repeat our testimony, Senator, that we think the margin should be an amount sufficient to guarantee the financial integrity of the contract, and that is the only bearing that margins should have on this subject. Who is the best judge of that? I don't know, but I should think it was the people whose money is being risked.

Representative HORAN. Is it not true, also, Mr. Chairman, that he did not want the thing written into the bill?

The CHAIRMAN. I gathered he did not particularly want it, but he did not particularly mind.

Mr. SANFORD. Senator O'Mahoney seemed to have great objection to the fact that only 1 percent of all the futures contracts actually were ever delivered. That, of course, does not make very much sense. It is like saying that there is something wrong because only 1 percent of all the houses that are insured don't burn down. There is not very much connection between them. I am sure that the Senator doesn't think that every futures contract that the grain hedged under every futures contract should be held and delivered until the delivery month in which it was sold. Futures months are made in July, September, and December. Right now we would be hedging in May wheat, I suppose. He certainly doesn't mean that every lot hedged he wants to be held until May and delivered on the Chicago futures market.

Where would the Commodity Credit Corporation get their wheat, or anybody else?

I would like to know from the Senator whether what he is after is to close the futures markets or not.

Mr. Horan said that he wants to be temperate about tampering with something that works and to study the alternative, which is the Government's taking over the system. That is what we are afraid of. We don't want the Government to take over the system, and we believe that killing speculation in futures markets would do exactly that.

We have had the same situation in Portland, and I am sure that someone is going to ask how we get along in Portland without a futures market. Other witnesses have described the eventualities that succeed the narrowing or disappearing of the futures markets. The following, however, are some of the actual occurrences on the Pacific coast. This is the place where this has happened.

Most of our farmers have no choice but to speculate in their harvested crops. In the absence of hedging markets, there are no buyers for any larger percentage of their grain at harvest time. Farmer marketing must be spread over the crop year, except, of course, in seasons like this when Commodity Credit Corporation is eager to acquire unlimited stocks, I might say that in answer to your question, for the past 9 years with the support price program, we have in effect had a backstop, and during the Government buying period we have in effect made use of Commodity Credit Corporation as a dumping ground of our hedging market in a very roundabout way, as you might put it. That has been our method of operation.

I have been told that flour mills on the Pacific coast demanded a higher conversion charge to cover the risk they are obliged to assume. I have no proof of this statement, but several national firms who operate firms both out there and in the Middle West have said that their margins of profit have to be wider to compensate for the risk they take for carrying stocks on the Pacific coast.

Grain merchants and exporters find it necessary to operate in a semispeculative fashion. If cargo wheat is sold involving some 300,000 bushels, it may take several days or considerably more to buy any wheat. In the meantime the exporters are at the mercy of the market and dependent upon the selling mood of the farmers. Only large firms can financially weather a series of misfortunes or last long enough to get the benefit of an average run of luck. As a result, there are no small grain firms in Portland or Seattle, except for a few individuals doing small local business principally in other commodities.

With one exception, the terminal grain merchants and exporters are all branch offices of national or international concerns. They can take limited risks, which they can afford to assume because the Pacific coast business constitutes only a small fraction of their total. The over-all story is told by the fact that of all the grain firms who were in business in Portland and Seattle when I started, right after the last war, there is only one still in existince. I have been with three of them who have failed.

This necessity of the Pacific coast farmers to hold their grain for a long period has required that ample country storage facilities be provided. Flat warehouses can be built cheaper than elevators. So until recently, most of the grain has been handled in jute bags. This has been costly to farmers, requiring great outlays of money for labor and bags. Both were expensive and scarce during the war, so there followed a period of rapid construction of bulk elevators. Now, about 95 percent of our grain is handled in bulk.

In the absence of hedging markets which could be used by country elevators and others, our farmers in the past have taken terrific losses during sharply declining markets. I have explained that and I won't go on with it.

The loan features I told you about. The constantly rising prices since 1939 have made speculation in cash grain very profitable for the farmers. With adequate country storage, they can readily qualify for loans, and these provided a perfect backstop for their speculation. It was heads I win and tails the Government loses.

On the other hand, the nonrecourse loan program has had one unfortunate result in that wheat frequently has been a scarce article for feeders, exporters or flour mills, even while storage elevators may have been bulging with it. The AAA program was designed to encourage farmers to withhold their grain from market until prices advanced substantially above the loan rate.

Mr. Horan and Senator Watkins asked Mr. McClintock what grain men had proposed to the President. I would like permission at this time to insert in the record the correspondence between the grain people and the President last July and August.

There is a letter of July 24 addressed to the Honorable Harry S. Truman, from Mr. Woodworth, chairman of the National Grain Trade Council [reading]:

> In referring to possible food shortages in your midyear Economic Report, released on Monday last, you have suggested that, if conservation measures are found necessary, the Government should seek the voluntary cooperation of the grain trade in carrying out any program designed to conserve supplies.
>
> The National Grain Council, a trade association which includes six Nation-wide grain and feed trade associations and all of the 28 organized grain exchanges of the United States, assures you of its willingness to cooperate whole-heartedly with any agency of government you may designate to consider or formulate arrangements whereby the public may be fully informed on the actual supply and demand situation.

They had a reply signed by John R. Steelman, the Assistant to the President, dated August 1 [reading]:

> The President has referred to me your letter of July 24 in which you express the desire of the National Grain Trade Council to cooperate wholeheartedly with the Government in considering plans for voluntary food conservation measures, if a short corn crop this year should make them necessary. This expression of your

interest is very gratifying, and in the event that it becomes necessary to take special measures to conserve grain, I am sure that your counsel will be most helpful.

The grain situation, as you know, has not developed sufficiently since issuance of the Economic Report to warrant any definite action at this time. It is earnestly hoped that as grain prospects become more certain it will not be necessary to ask for any further restrictions.

Again, on August 26, Mr. Woodworth, in behalf of the National Grain Trade Council, wrote to the President [reading]:

On July 24 the National Grain Trade Council assured you of its willingness to cooperate wholeheartedly with any agency of Government you might designate to consider informed on the actual supply and demand situation prevailing in grain.

In view of the fact that export grain quotas were established for the crop year beginning July 1, 1947, when corn crop prospects were more promising and in the light of crop developments subsequent to our letter of July 24, we respectfully recommend a conference of all interested parties to review the food export program of the United States.

We consider it of first importance that the public be fully informed on the impact of the foreign relief program on the American economy.

We hope that such a conference as we suggest can be promptly arranged. We renew our assurance of wholehearted cooperation and will be pleased to supply a man of national competence in grain handling to assist in a comprehensive review of this vital subject.

Mr. Steelman answered on August 30, saying [reading]:

The President has referred your letter of August 26, 1947, to me and has asked me to discuss your suggestion for a conference on the food export program with Secretary Anderson and other interested Government officials.

The recent unfavorable development in the corn crop enhance the difficulties of our problem of meeting domestic needs and minimum export requirements for grain without creating further serious inflationary pressures on the United States economy. Resolution of this problem will require the best thought and the fullest cooperation of all private and public agencies concerned. For this reason, your renewed offer of cooperation and assistance is particularly appreciated.

As soon as I have had an opportunity of discussing the matter with the interested agencies, I plan to get in touch with you again.

Mr. SLAUGHTER. Tell the committee whether or not after you made that offer of cooperation you ever heard from the administration again.

Mr. SANFORD. We have had no reply whatever.

The CHAIRMAN. There was no meeting?

Mr. SANFORD. No action was ever taken.

The CHAIRMAN. But you did have a meeting with Mr. Anderson regarding the financing of the 33⅓?

Mr. SANFORD. The heads of the three grain exchanges had that meeting. This letter is from the National Grain Council which includes all the grain exchanges in the United States as well as six national grain and feed associations.

The CHAIRMAN. I see.

Representative HORAN. Do you have reason to believe that Mr. Steelman or the President got the letters?

Mr. SANFORD. He answered it.

The CHAIRMAN. I thought you said you had had no answer to that.

Mr. SANFORD. He promised in his last letter that we would hear from him further, which we have never done. That was in August—August 30, I think.

Representative HORAN. But there has been no actual answer to that particular letter?

Mr. SANFORD. Not one word.

Representative HORAN. Do you know whether the letter was received by the addressee?

Mr. SANFORD. The last letter was from Mr. Steelman acknowledging our letters and saying that we would hear from him further after he had had a chance to talk to the interested agencies.

Mr. SLAUGHTER. That was 4 months ago.

Mr. SANFORD. August 30, I think, is the date.

Senator MYERS. You say the three exchanges met with Secretary Anderson when they voluntarily imposed a 33⅓ percent margin?

Mr. SANFORD. I said that the officers of the three major futures markets met with Secretary Anderson.

Senator MYERS. The margin agreed upon was a margin to which they voluntarily agreed; is that not so?

Mr. SANFORD. At that conference there was no agreement made. Actually, I shouldn't be testifying on this subject because I am not personally in any one of those markets. I would ask if I say something wrong that Mr. McClintock or Mr. Uhlmann or Mr. Woodworth, in the back of the room, correct me. But I believe I am right in saying that there was no agreement made at that meeting. They made a change in their margins on a sliding scale basis which was not satisfactory to Secretary Anderson, and after a short period of time all exchanges, including the Portland Exchange and the Seattle Exchange—and there had been no trades in the Portland Exchange for 5 years—received a very peremptory telegram request from the President's office that we cooperate to the extent of increasing margins to 33⅓ percent.

Personally, I want to say that I think the exchanges did the right thing in acceding to the President's request. As Secretary Anderson said, they have always cooperated all during the war. They did this very reluctantly. They felt it would have a bad effect and might make trouble, particularly make trouble in connection with the Commodity Credit Corporation getting their grain for export.

Senator MYERS. Do you know whether or not it is their intention to continue that margin for some period in the future?

Mr. SANFORD. I couldn't testify as to their intentions, Senator. I don't know. I have heard no talk of their reducing it.

Legally, of course, they could reduce it tomorrow, for that matter.

I want to talk just a little bit about a question that Senator Watkins asked. He asked the alternative that we might suggest to take care of Europe, to take care of our own people and to prevent high prices. That is a pretty big question, and I would like to discuss it in order of those three things.

Let's talk first about the matter of taking care of Europe.

You have the decision to make on the size of the European need. That has been kicked around so much that of course there is wide difference of opinion, but if you want to know the size of the European need, I would refer you to the evidene of Dr. D. A. FitzGerald, who is Secretary General of the International Emergency Food Council, now called the World Food Council, who said only a few days ago that the requirements were 50,000,000 tons of grain, and that the total available supplies in the world were 29,000,000 tons.

So they are short 21,000,000 tons of grain. Twenty-one million tons of grain is almost 800,000,000 bushels.

Various members of the committee have said that we must take care of Europe. If they are correct, we must take care of them for 800,000,000 bushels more than the 500,000,000 bushels that we have already promised; in other words, a total of 1,300,000,000. That wouldn't leave us any grain in this country.

Senator MYERS. Mr. Sanford, the Secretary of Agriculture has said the plan calls for the export of 400,000,000 bushels of wheat and an additional 100,000,000 bushels if the Luckman committee's program should result in that much saving. No one in the Government has indicated anything beyond 500,000,000, and not that far unless through the food conservation program we can save 100,000,000 bushels.

Mr. SANFORD. That is exactly the point I am trying to bring out, that the requirement we talk about is 1,300,000,000. The question is not whether we take care of the requirement, because obviously we can't. The question is, how much of it can we take care of?

Can we take care of 300,000,000 or 400,000,000, or 500,000,000; and what would it do to prices? That is the important point. I think you are aware that 500,00,000 bushels is not Secretary Anderson's or the Department of Agriculture's figure. After the corn estimate was in and with some idea that the winter wheat crop was not too favorable, Secretary Anderson said publicly that the program would have to be reduced to 350,000,000. You know then that a couple of weeks later the Foreign Aid Committee under Secretary Harriman met, and Anderson was forced to change hs program.

Secretary Harriman and the Secretary of State got their way, and it was raised from 350,000,000 to 500,000,000. I don't think Secretary Anderson even yet is too sure about the safety of shipping 500,000,000 bushels of wheat.

Personally, I think we can come pretty close to it without any serious price disruption. I will tell you why. The amount of wheat fed last year was less than 200,000,000 bushels. If we should feed only 200,000,000 bushels this year, we would have a carry-over of about 200,000,000 bushels on July first. If we have that kind of carry-over in sight, the price repercussion should not be too serious if it is bought with a degree of skill. It has also been shown that even with a 500,000,000 bushel program, the Commodity Credit Corporation has only about 100,000,000 bushels still to buy. That does not include the amount of flour that will go out, which will be procured privately. With that in mind, having the wheat to take care of the allocation through March, it would seem that they need not press their purchases during December, but should wait until after the tax year is pretty well by.

Senator, I want to wind up and let you get away. I want to make one statement at the end about this matter of prices and whether speculation or the actual cash grain situation has made it.

If I should meet my dentist on the street corner and he should say, "Mike, what are you grain people doing to the price of grain. You people gambling down there have run things up, prices are out of sight, and it is raising the cost of living. Why do you want to make all that money?" I think I would say to him just this:

I wish I could get this through your head that last year we had a total supply of grains to start the season of 6,865,000,000 bushels. We exported 563,000,000 of that, and that means that we ate up in this country last year 6,300,000,000 bushels minus the amount we carried over July first.

That quantity last year after exports was 182,000,000 bushels more than we had this year before exports. I hope you get that. Being short 182,000,000 bushels this year before exports as compared with the quantity last year after exporting that, on top of that we plan to ship another 570,000,000 bushels of all grains.

In reply to the question of whether the export program had a material effect on the price of grains as compared with speculation in the futures markets, I would like to quote the authority of Dr. Stein of the Department of Agriculture, who is one of the most highly regarded economists over there. He said that if it were not for the exporting program, the price of wheat probably would be around $2 or on the support price, you might say.

I told you in the beginning that we would try to give you a few of our suggestions as to what should be done. We are not authorities on fiscal matters, but we believe that you have some steps in mind along those lines.

Monetary tax, credit measures, perhaps a campaign to increase the public buying of Government bonds. The second point is that we believe that it would be wiser and result in more food going to Europe if we adjusted exports now without controls than put on controls and didn't adjust exports.

Our reason for saying that is that if you put controls on, you can't put anything on to make the farmer deliver his grain. He is the one who has the grain. On October 1st the farmer had about 70 percent of the grain in his possession. He is the man you have to get that away from. You can legislate all you want, telling people not to do something, but under what my friend Major Strange calls the law of mandamus—I don't know whether he mentioned it or not—you can't legislate for somebody to do something. You can put a policeman out, as they do in Canada, to tell a man he can't haul his grain to market, can't haul it into an elevator, but you can't force a farmer to grow grain and you can't force a farmer to deliver grain.

That is what you would have to accomplish if you tried to handle this matter by controls.

We categorically recommend that you do not try to control prices. We told you all of our reasons why, I think. The same applies to allocation and rationing. Rationing implies that the person doing it knows how much there is and how much you should give each person so you won't run short. In which case the old and the corpulent and the ill can't get there to get their share.

There has been a recommendation made about the Commodity Credit Corporation extending their activities into foreign countries. I would think that if it could be agreeably worked out with European countries, that suggestion might have some merit. Their problems are with their own farmers over there, to get them to deliver the stuff after they raise it. The turn that suggestion seemed to take from Mr. Farrington was the Commodity Credit Corporation extend itself into Argentina and those countries. I don't believe those countries would welcome our going in there and supporting the prices to their farmers and their intervening in their internal affairs. A great many of their difficulties are because they pay their farmer only 18 pesos, equal to $1.65 a bushel, for wheat they sell at $5.17.

There have been a number of voluntary programs suggested by members of our industry. In July and August the grain and feed trade was pointing out to the public the need of grain conservation in the United States if we were to export such huge quantities. Some weeks before the President appointed Mr. Charles Luckman to manage a food conservation campaign, the Grain and Feed Dealers National Association had begun the distribution of bulletins urging the stretching of grain supplies by requiring that the grain be fed by use of proper supplements and careful culling of animals to be fed. More than 100,000 of those bulletins were distributed largely through retail feed stores direct to farm feeders. At the same time the American Feed Manufacturers Association was pointing out to its members and to the public the tight situation in feed supplies. This manufacturers association called together the feed specialists of many state colleges for a survey of the situation and after this conference it issued a bulletin on feed supplies and needs that represent the best thinking of our college groups.

This association, too, stressed the need of grain conservation in order to maintain our animal population in the face of the Government's export program.

It is important to note here that these trade groups had started their grain conservation campaigns well ahead of Federal Government's efforts.

The National Grain Trade Council, sensing this impact of the export program on domestic supplies, began in July to urge upon the administration an inventory of our supplies in relation to the demand. Later, as the administration set up the Citizens Food Committee and later when Secretary Anderson, Secretary of Agriculture, and Mr. Luckman, brought together the trade groups for a conference on grain conservation, the grain and feed groups were represented. They pledged their further and entire support to the department's program. The president, Walter Berger, of the American Feed Manufacturers Association, was one of the steering committee of five named by the Secretary to direct the campaign. I want to point out that this is a different group entirely from the National Grain Trade Council who had written those letters. Both of these national associations in the grain and feed trade consistently before and since the inauguration of these Government programs had been urging their members to save grain. Special bulletins have gone out and now are ready to further press the Government's program as soon as its details are passed along to the trade groups.

They have estimated savings of grain for poultry at 56 million bushels; estimated savings by distillers, 10 million to 20 million; estimated savings by bakers, 9 million; by brewers, 3 million; armed forces, 2 million to 3 million; wet and dry corn millers, 15 million to 30 million; or a total of 95 million to 121 million bushels.

Mr. Chairman. I know you are anxious to get away.

The CHAIRMAN. I am not anxious to get away. I am anxious to have three other witnesses who have been waiting all afternoon to testify, Mr. Sanford, if you please.

Mr. SANFORD. All right, I will close.

Representative HORAN. There is one question I want Mr. Sanford to answer.

Are you through now?

Mr. SANFORD. I am through.

Representative HORAN. This is of importance to the district I represent and to the area in which you operate. I am entirely serious about this, because it is obvious from the figures you have supplied us out in Portland, and some that I have had from the Department since we cannot operate as we did last year without depleting the pipe lines in the Pacific Northwest. It is obvious that if we were to attempt the program we had last year of the utilization of wheat produced and shipped in from Montana, we would be short by 20 million bushels, which would raise hob with the whole economy out there and it is obvious that somebody is going to have to restrict. I was hopeful that perhaps the trade could do that.

Mr. SANFORD. Mr. Horan, I would like to discuss the figures with you. I don't know that the committee wants to take the time. Actually, I don't believe it is too serious out there. They may not be able to ship quite as much as last year. We have a surplus of from 60 to 65 million bushels.

If the Commodity Credit Corporation ships what they did last year, about 53 million, it would leave about 12 million for California and other places. I don't believe they would be able to buy the wheat and ship quite as much as they did last year.

Representative HORAN. That is an expression of pious hope, and that would not help much if we find ourselves in a very, very serious situation, considering our poultry needs and the other demands upon our grain products in the Pacific Northwest. It is obvious that we perhaps should have this in ink instead of in water, so that we will have something to refer back to in case things are not too well. I was wondering what procedures might be entered into voluntarily, perhaps by the trade, to make sure that we have a balance in the grain economy of the Pacific Northwest.

Mr. SANFORD. I can give you those figures a little later if you would like them. What I expressed was not a hope. It was a statement I didn't think the Commodity Credit Corporation would be able to find the wheat to buy so that they could ship that much. The farmer probably will take care of holding back enough wheat so that we will be safe.

Representative HORAN. My judgment is based upon the Commodity Credit's and the Department of Agriculture's own figures of the utilization of all sources, export and so forth, for last year, and what the known available supply is at the present moment. It is a serious matter. It is serious to the area. It is a concrete matter that will have to be met.

Mr. SANFORD. We will have a very close adjustment at the end of the year. In fact, we have had for 2 years past and have carried only about 6 million bushels. When you carry over that little, actually it is not a commercial stock. You never could find it.

Representative HORAN. Of course, our average carry-over from 1927 to 1942 was 6 million. The carry-over 1945 to 1946 was even higher than the average. Last year the carry-over was 9 million.

Mr. SANFORD. Six million six hundred thousand was my recollection.

Representative HORAN. It says eight here.

Mr. SANFORD. I think you are referring to the three States, are you not?

Representative HORAN. That is right.

Mr. SANFORD. We talk about only Oregon and Washington and northern Idaho, because southern Idaho is more tributary to Kansas City.

Representative HORAN. That is right. This is Washington, Oregon, and northern Idaho. Well, in the absence of an adequate answer, we will just have to keep this in mind, I suppose, Mr. Chairman.

Mr. SANFORD. I could go into great detail.

Representative HORAN. We will have to.

Mr. SANFORD. Unless you want this in the record. If you do want it in the record, I will be glad to prepare figures for you and send them to be inserted.

The CHAIRMAN. Is it the power of the Commodity Credit Corporation to buy less wheat?

Representative HORAN. It is in their power right now to adjust their operation, and they have assured me in an off-the-cuff way the same as Mr. Sanford, that they will do it. It is of considerable concern to the millers out there in particular.

Mr. SANFORD. I would say they have handled their program quite satisfactorily, with the possible exception of the last month. We have felt they had enough wheat to last quite a while. They didn't need to count the millers out of the picture quite so hard until 1948 when the tax problem is no longer with us.

Mr. SLAUGHTER. Mr. Chairman, that concludes the case of the Chicago Board of Trade, the Kansas City Board of Trade, and the Minneapolis Grain Exchange, which was presented because the committee was kind enough to give these exchanges a chance to answer the charge that they were gamblers in grain and traffickers in human misery. We think, at least we hope, that we have demonstrated that these exchanges do perform a service, and I just want to call the committee's attention to one thing in closing.

I can readily anticipate that some members of the committee might say about Mr. Sanford's testimony, Mr. McClintock's or anybody else's who testified, as to what might happen for the future exchange, that you are just talking about possibilities, but we do call your attention to the testimony of Major Strange from Canada, where they have closed them, and of Mr. Sanford where they closed them on the west coast, with the result that farmers can't get grain.

Furthermore, so far as Major Strange goes, it seems to me that his story of a controlled economy where the Government takes the whole wheat crop, speaks for itself where the Canadian farmer gets $1.18 and the American farmer gets $3.

The exchanges are very grateful for this hearing, both to the chairman and the committee.

I thank you.

The CHAIRMAN. Thank you.

(Statement by H. E. Sanford before the Joint Committee for the Economy Report, Washington, D. C., December 3, 1947:)

Mr. Chairman and members of the committee, my name is H. E. Sanford, address 500 Lewis Building, Portland, Oreg. I am vice president and Pacific coast manager of Continental Grain Co. During the war, in 1943–44, I was given leave of absence to serve as head of the Feed Section of OPA in Washington, for the purpose of assisting in writing the maximum price regulations for grains. I take pleasure in appearing before you committee to tell you something about grain marketing on the Pacific coast. I have also been asked to summarize, as briefly as possible, some of the points which we wish to emphasize before closing these hearings which you have been kind enough to grant us.

Speaking in terms of grain, the Pacific coast is more or less of a "foreign country" within the United States. This becomes more true from month to month as rail rates steadily advance and cheap ocean freight is no longer obtainable to the Gulf and Atlantic coast. It now costs over 55 cents to ship a bushel of wheat to Chicago by rail; it costs about $1.27 to ship a 100-pound sack of flour to New York.

The Pacific Northwest, consisting of Oregon, Washington, and northern Idaho, normally grows about one-tenth of the wheat crop of the United States. This year the crop is estimated at slightly over 95,000,000 bushels. Owing to relatively small population, we consume only about 13,000,000 to 15,000,000 bushels in the form of flour. We cannot grow corn commercially in this area, so about 10,000,000 to 20,000,000 bushels of wheat is fed to our poultry and livestock. Another 4,500,000 bushels is used for seeding.

In other words, our wheat production runs from 85,000,000 to 115,000,000 bushels and our consumption averages 30,000,000 to 35,000,000 bushels. The balance is surplus and must find a market outside this area. In the past, we have exported wheat to Europe, and have shipped wheat and flour to the Orient—both in large quantities. California is a deficit wheat area and normally we supply a large part of their wheat and flour requirements.

We grow, principally, a soft type of wheat. It is highly valued for hot breads, pancake flour, pastry, crackers and ice cream cones. There is seldom enough soft wheat grown in the Middle West, and this is especially true since soybeans have taken so much of the soft wheat acreage in Ohio, Indiana, Illinois, Iowa, and Missouri. We have a pretty regular business in our soft wheat and flour to the Southeastern and Atlantic States, although lately this has been restricted by advancing freight rates.

People interested in growing, marketing, or processing grains in the Pacific Northwest have no reliable way of hedging their purchases and sales. The differentials between our market, and the Chicago, Minneapolis, and Kansas City markets, are so uncertain and vary so much that hedging in those markets is a dubious safeguard. In an attempt to supply this deficiency in our local marketing machinery, futures contract markets were organized in Portland and Seattle about 20 years ago. They were reasonably successful for a few years but, during the depression, speculation died out and the volume of trading became so small that the markets have been practically useless for hedging purposes since then. In Seattle, for example, trading in 1930 totalled over 15,000,000 bushels. Since 1932 trading has averaged between 1,000,000 and 2,000,000 bushels per year, and for 1947 to date, the total has been only a little more than 500,000 bushels. In Portland, trading in 1930 was over 19,000,000 bushels. By 1942 it had dwindled to 36,000 bushels, and there has not been a single trade in the Portland futures market since that season.

In the absence of an effective hedging market a grain merchant or a country elevator must, each day, limit his purchases from farmers to the amount of grain and kind of grain which he can sell on that same day. In normal times this means that a farmer cannot always find a buyer for his grain on the day that he elects to sell. It also means that a flour miller, feed mixer, or an exporter cannot accept sales orders unless he can find farmers or others who are ready to sell on the particular day he gets such an order—unless, of course, he is willing to speculate by selling short.

The question frequently has been asked, how we manage to get along on the Pacific coast without hedging markets, and what the effect has been on farmers, processors, grain merchandisers and consumers. There are a number of consequences which may be summarized somewhat as follows:

1. By and large, Pacific coast farmers have had no choice but to speculate with their harvested crops. In the absence of hedging markets, there are no buyers for any large percentage of their grain at harvest time. Farmers' marketing must be spread pretty well over the crop year except, of course, in seasons like this when Commodity Credit Corporation is eager to acquire unlimited stocks.

This means that prior to the Agricultural Adjustment Act of 1938, with its price support and nonrecourse loan provisions, our farmers have taken terrific losses during sharply declining markets. Since country elevators and other buyers have had no way of hedging their purchases from farmers, the tendency of buyers has been to stand aside during falling markets until the price decline has run its full course. Eventually, Pacific coast grain might fall to sufficient discount under Kansas City, Minneapolis, or Chicago, so that grain in our territory actually has become tributary to those markets, freightwise. At that point, hedging in those markets became safe and buyers for grain in volume again appeared. Farmers then could sell freely, even though the market trend perhaps continued as strongly downward as ever.

The necessity for Pacific coast farmers to hold their grain for long periods has required that ample country storage facilities be provided. Most of the crop is initially stored at country points near the farms, and most farmers take warehouse receipts for their grain, to be held until eventual sale. Flat warehouses can be built with far less investment than grain elevators of equal size, so until recently most of our grain has been handled in jute bags. This has been costly to farmers, both in labor and in the purchase of bags, and particularly so during the war when both were unusually high, and hard to get. There followed a period of rapid bulk elevator construction, and now about 95 per cent of the Pacific Northwest grain is harvested and handled in bulk. The developemnt has been slower in California, but even there, the bulk percentage is rapidly growing.

2. The nonrecourse storage loan feature of the 1938 Agricultural Adjustment act has, during constantly rising markest since 1939, made speculation in cash grain a profitable business for Pacific coast farmers. With adequate country storage they could qualify readily for Government loans, and these provided a perfect backstop for a farmer's speculation in his grain. It was "Heads I win, tails the Government loses;" and, of course, there has been a tendency for farmers to withohld their grain until prices became eminently satisfactory to them. Wheat frequently has been quite a scarce article to feeders, processors, and exporters even though storage elevators may have been bulging with it. The AAA program was designed to enable farmers to force the market to pay a fictitious price, and it has succeeded at times, at least to the extent of our domestic consumption. The consequences, it is believed by nearly all grain people and most economists, will be disastrous to farmers whenever there may be a prolonged period of falling prices; however, this is not the subject for discussion here today.

3. It is quite well established on the Pacific coast that, in local domestic business, processors demand, and obtain higher conversion charges to cover the risks they are obliged to assume in the absence of hedging markets. Mr. J. M. Mehl, Administrator of Commodity Exchange Authority, in testifying before you on November 24, said, "I do not think there is any question but what the ability to use the futures market to hedge enables country elevators and merchants and processors to handle their business on a little narrower margin of operating costs." This statement is in general agreement with our experience on the Pacific coast, and the fact that competition between grain firms does not always permit taking the needed margin of profit to cover market risks, has resulted in rather a high mortality rate among them. Flour mills seem to be somewhat more successful in securing for themselves the needed reserves.

Grain merchants and exporters for many years have had to operate in a semispeculative manner. When an exporter sells a cargo involving some 300,000 bushels, it may take from several days to a week to buy in the cash grain. In the meantime he is at the mercy of the market, and is dependent upon the selling mood of farmers. Only large firms are financially able to weather a series of misfortunes, or to last long enough to get the benefit of an average run of luck. As a result, there are no small grain firms in Portland or Seattle, except for a few individuals doing a modest local business, principally in commodities other than grain. With one exception, the terminal grain merchants and exporters all are branch offices of national or international concerns. They take limited risks which they can easily afford, because the Pacific coast business is only a small fraction of their total.

The over-all story is told by the fact that of all grain firms who were in business in Seattle, Tacoma, and Portland when I returned from the war in 1919, only one has managed to survive.

The purpose of this Pacific coast testimony is to describe conditions in a market where the disappearance of futures markets already has occurred. Just now, our farmers are quite content with their lot: They have been forced to speculate throughout a period of generally rising prices and they have made handsome profits. They are more worried about income tax payments than by any thought of what their position may be in a protracted market decline. I think, in a general way, they simply depend upon the Government to bail them out, whatever may happen. Our wheat farmers are mostly wealthy people now; there seems a question about the fairness of taxing and forcing artifically high prices upon laborers, clerks, and small business people for the sole benefit of so prosperous a group. Most wheat growers have valuable assets in their land, their livestock, and their equipment, while many of those being taxed, own nothing.

The other purpose of my testimony is to sum up a number of the answers which we have attempted to make in this hearing, to specific charges by the President and the Attorney General against the grain exchanges and the grain trade.

The Attorney General, speaking in Boston, charged that the grain trade—which presumably includes all of us—is composed of "greedy men blinded with lust for money, trafficking in human misery."

We submit that on the basis of the evidence presented to you, not only by our own witnesses, but also by Secretary of Agriculture Anderson, Mr. J. M. Mehl and Mr. Carl C. Farrington, there is not an iota of truth in the Attorney General's uncalled-for and irresponsible statement. Mr. Mehl's analysis of futures market trading shows very little speculation in grain by members of the grain trade, and that such open trades as existed were fairly nearly in balance as to purchases and sales.

The great preponderance of the grain trade is scattered widely over the United States, and aside from using futures markets for hedging, they have no contact with those markets at all. The few firms who operate within the three major markets and handle transactions for the general public, are an extremely small fraction of the grain trade. They are closely regulated and perform a legitimate and recognized function. Their only profit in this business is the extremely small brokerage which they are permitted to charge, and which undoubtedly contributes more than its own value through the fact that the very existence of the futures markets makes possible the economical handling and procurement of grain for domestic use and for foreign aid. Certainly the total of all brokerages, and probably the total of the combined net profits of all terminal grain firms, were less last year than the approximate $200,000,000 which Secretary Anderson reported in a recent speech to be the profit of Commodity Credit Corporation. Does the Attorney General intend to infer that this governmental agency is likewise "trafficking in human misery" just because it did not lose money?

The President, it seems, has indulged in two assumptions in connection with grain and the grain markets:

1. That prices are too high.
2. That margin controls will lower them.

In answer to the first, you have received much evidence to the contrary. Our wheat is the cheapest wheat currently offered to foreign countries. You have been presented with comparisons between grain prices and prices for other commodities which are not traded in futures markets. Our grain prices have the great virtue of being free prices, and as a result we are the only Nation on earth where production has held up, where farmers have sold willingly, and where there are no black markets or any hiding of supplies.

Prices have important work to do in this world, but they can do their job only if they are left free to tell the truth. Prices may be higher than we like to pay, but if they are truthful prices we may be sure that they are not higher than is required for them to get on with their task of encouraging production, accomplishing distribution, and equalizing supply and demand. Already, we have seen price in action, reducing the amount of wheat fed to livestock in the first quarter of this crop-year, and thus through price—and price alone—the needed 100,000,000 bushels of wheat for Europe has been found.

As to the President's second assumption, that margin controls will lower prices, all of the evidence seems to be contrary to the theory that speculation in futures markets has any appreciable long-range effect on commodity values. Speculation neither brings any supplies into the market, nor takes anything out of the market. The supply and demand fundamentals are left unchanged. It is true that because speculation takes into account the future prospect, it has the effect of helping to speed up price corrections, and perhaps is influential in cushioning the market shock of events, by anticipating and discounting them from time to time, in advance of their occurrence. It should be remembered, however, that price adjustments hastened along by speculative trading are of no permanent effect unless speculative opinion has turned out to be correct. Speculators in this day and age do not try to make the market go up or down; they try to anticipate its action and act correctly. If their judgment is wrong, they will surely lose their money.

Now, the President's approach seems to be that prices can be kept down by curbing speculation, and that the way to control prices is for Congress to give government the permanent power to regulate margins. Both Secretary Anderson and Mr. Mehl were obliged to testify in favor of receiving this authority from Congress, but both were definitely lukewarm in their testimony as to its effectiveness in lowering prices. Very early in his testimony, Mr. Mehl specifically said, "It is not believed that speculation is a basic factor in determining the general level of price in the long run. It is believed, however, that an undue amount of speculation tends to make price fluctuations more erratic and accentuates price trends."

We agree that speculation, in any adequate volume for hedging purposes, has a tendency to make prices respond more immediately to news and developments than otherwise might be the case. We think this is beneficial rather than harmful, and tends to cushion what a little later would be more serious market effects in cash grain, thus injuring farmers, processors and cash-grain handlers. We also submit that the most erratic and dangerous market is a thin market, where prices must be moved several cents in order to execute a necessary trade. We are approaching such a market now, and have recently seen prices put up 2 cents merely in executing a buying order for 100,000 bushels of wheat. Before the margin increase, 1 or 2 million bushels had no such effect, in the absence of any disturbing market news, as was true at the time of this recent trade.

We submit that competent evidence demonstrates that niether reduced speculation, nor complete elimination of speculation, nor even the closing of all futures markets, can exert one ounce of influence on the prices which grains may eventually attain. We believe that prices will depend upon a number of factors, such as the fiscal and monetary policies of this government; the employment and buying power of our people; crop developments in this country and abroad; and upon the amount of grain which we export. Dr. O. C. Stine, one of the outstanding economists of the Department of Agriculture has stated that, in his opinion, were it not for the export program, our wheat would be selling at around $2 per bushel and we agree with him.

The basic issue before the committee is the soundness of the proposition of some individual or governmental agency decreeing that prices are too high or too low. It is highly questionable if any person or any agency at a given time would be endowed with the wisdom to make such a farsweeping determination. Certainly, the last peacetime attempt of this kind was thoroughly unsatisfactory—the NRA. The OPA fared little better, once the war was over, for the determination of an artificial price is meaningless unless commodities can and will come into the market. In support of this statement we call the committee's attention to the Administration's belated action in taking the ceiling price off meat in late October 1946. We say this with no political implication, but merely as a statement of fact, for at that time there was no meat on any butcher's counter at the OPA price, but unlimited quantities were available in the black market.

So-called high or low prices are determined by the law of supply and demand. Before any governmental agency can say that a price is too high or too low, it must first say that a given commodity is in scarce supply or in surplus. The fallibility of departmental thinking has been demonstrated this year, for as late as May potatoes were being destroyed by the Government because they were believed to be in surplus supply; potatoes, incidentally, which could have been used as a substitute for wheat.

The evidence adduced before the committee is to the effect that margins were instituted to protect the performance of a contract. Margins were not conceived as a means of price fixing. The fact that the imposition of the one-third margin requirement in September failed to halt the upward rise of wheat is indicative of the proposition which we support now, namely, that imposition of unreasonable margin requirements will not keep down the price of a commodity. What it will do, on the other hand, is to destroy the liquidity of a market, which has been done to a large extent, with the result that now a purchase of 10,000 or 50,000 or 100,000 bushels of grain can affect the market to the extent of a cent or two per bushel, whereas in an actively flowing market it would have no effect whatsoever.

Governmental tinkering with margin requirements is nothing but an attempt to impose ceiling prices by the back door. The effort cannot succeed, but it can and will do irreparable damage to our hedging market, which means that the millers and other processors will be obliged o secure a higher margin of profit, the ultimate consumer paying the bill.

With all the evidence that controlling margins will not reduce prices in the slightest degree, why does the Administration insist that Congress grant this permanent authority? We strenuously object, and for several good and sufficient reasons:

1. The power to impose margins up to 100 percent carries with it the power to close futures markets entirely, and thus pave the way for establishing an entire new grain marketing system, operated or dominated by government. There is no other adequate alternative if futures markets are eliminated.

2. The Administration has made no satisfactory showing that this authority will accomplish the purpose for which it is demanded. Mr. Mehl's own testimony reads much the same as ours, and is as good an argument against the request as it is in its behalf. Both Secretary Anderson and Mr. Mehl have testified that they have at all times had the cooperation of the grain trade, and the inference is that their wishes will be regarded so long as they are within the bounds of reason.

3. It can be effectively argued that excessive margins will discriminate in favor of large speculators, amply financed, rather than to the benefit of small speculators. Consequently, it can reasonably be assumed that in a short time a very small number of speculators would dominate the field, which is inevitably in the direction of manipulation or monopoly. We have a high regard for the average good market judgment of a large number of small speculators; that such a large number creates a healthy condition and serves to minimize the influence of large speculators. A few large speculators can make hedging an uncertain and dubious operation, seriously subject to the whims and fortunes of those speculators; while a large number of small speculators makes for a stable, continuous and fluid hedging market.

4. Last of all, we have tried to point out that our grain-marketing machinery is an intricate and delicate device; a logical and natural result of our whole voluntary enterprise system of money and prices. The machinery did not spring full-grown from the minds of any group of men, but it evolved naturally as conditions arose which could be met in no other way. And the beauty of it is that it works, automatically, and in spite of the many foolish things which men are prone to do. It will continue to work if we will only permit it to do so, and do not try to make it run satisfactorily with a few bureaucratic monkey-wrenches thrown here and there into the machinery. This machine will, if you let it, tell the inevitable and inexorable truth about the values of grains. It ceases to function if Government or anyone else tries to make it tell lies about prices, whether through margin manipulations, price ceilings or otherwise. We are seeing this tried in every other country on earth; and every attempt is so conspicuous a failure, that it is amazing to find our own Government urging and insisting that we follow in their tired and frustrated footsteps.

The CHAIRMAN. Mr. Baer?

STATEMENT OF JULIUS B. BAER, GENERAL COUNSEL, COMMODITY EXCHANGE, INC., NEW YORK CITY, N. Y.

Mr. BAER. Mr. Chairman, and gentlemen of the committee, Mr. Edward L. McKendrew, president of the Commodity Exchange, had intended to come down here and read this paper, but he was suddenly taken ill and I am reading this paper as counsel for Commodity Exchange.

My name is Julius B. Baer. I am counsel for Commodity Exchange, Inc., New York City, which maintans a market for trading in hides futures. The Commodity Exchange is opposed to any legislation which would authorize a governmental agency to regulate margin requirement on trades made on commodity exchanges for the following reasons.

This hide futures market, established in 1929, is the only hide futures market in the world. The market from the time of its opening to date has afforded facilities to producers of hides, dealers in hides, tanners, and shoe manufacturers in all parts of the world for hedging.

It has been continuously in operation since its opening, excepting only during the 4 years World War II period when it suspended trading because hides were subjected to government controls, allotment and ceiling prices.

The exchange exists solely for the purpose of providing a market place where buyers and sellers can meet from all parts of the world for the purpose of buying and selling hides. It is truly a free and open market and the price which is registered is dictated solely by the law of supply and demand.

It is essential to the orderly functioning of our market that it should be broad. A broad market means a market which is capable of absorbing all offerings in the course of the normal trading day without the price of hides being unduly affected by mere volume of sales.

A broad market is essential for the successful use of the hedge; and because his presence makes a broad market, the speculator is a necessary aid to the hedger.

Hedgers as a class are not sufficiently numerous to make possible an adequately broad market. The speculator is present ready to buy when the hedger wants to sell and he stands ready to sell when the hedger wants to buy. Speculation also smooths out and steadies prices thereby preventing sharp distortions.

The bylaws of Commodity Exchange, Inc., make it obligatory for every transaction in hides to be margined. The Board of Governors of the Exchange meet from time to time and increase or reduce these margins as the trades require more or less security. During the past 4 months margins have been increased three successive times by order of the Board of Governors. Since the resumption of trading in November 1946, the Exchange price, with the exception of a few days, has been at all times substantially below the spot price.

A Government agency should not be given the authority to dictate margins in order to manipulate prices. Margins on the futures markets are regarded only as a guaranty of contract performance and a security to the broker. In this respect the commodity markets and the security markets differ.

The participation of the speculator in hide trading on the Exchange is small and barely sufficient to provide hedging facilities. If excessive margins are required from speculators they will not trade and the markets will not function as efficiently because its liquidity will be destroyed.

We share the concern of the grain exchanges over Government domination through use of the margin power for price-fixing purposes. We fully support their position. However, the demand for new Federal control power stems from food shortages and we strongly believe that the Government is using that emergency to further enlarge bureaucracy. There can be no other reason for bringing the products in the Commodity Exchange, Inc., and the import markets under margin controls. It is another step down the road to the regimentation that has destroyed markets and governments through the ages.

The CHAIRMAN. Mr. Baer, are you subject to control by the Department of Agriculture?

Mr. BAER. No, sir.

The CHAIRMAN. You are not subject to any control?

Mr. BAER. None at all.

The CHAIRMAN. I mean the Commodity Exchange Act does not apply to hides?

Mr. BAER. It does not.

Representative HORAN. Are you not subject to export controls?

Mr. BAER. No; no export controls.

The CHAIRMAN. You mean there is no export control on hides?

Mr. BAER. There is non that I know of.

The CHAIRMAN. There is power to put them on.

Mr. BAER. Oh, yes.

Senator MYERS. What margin requirements do you have now, Mr. Baer?

Mr. BAER. On what we call hedging operations, it is $1,500 per contract.

Senator MYERS. Regardless of the amount of the contract?

Mr. BAER. There is a unit of trading, you see, which is 40,000 pounds, and that is called the contract. On a contract of 40,000 pounds a hedger puts $1,500; a speculator puts up $2,000. That is the minimum. When a customer's margin is diminished to a point where the balance on deposit or equity is less than two-thirds of the initial margin requirements, the customer's margin must be restored to the full initial requirements.

Senator MYERS. Has there been any suggestion or recommendation that the Government be given power to regulate margins on hides futures?

Mr. BAER. When Secretary Anderson recommended that the Government be given authority to regulate margins on the grain exchange trades, he also recommended that authority be given to the Commodity Exchange Authority to impose those margins on hides, coffee, sugar, cocoa, and several other commodities. He stated that the only effective way was to bring those particular import commodities under the Commodity Exchange Administration.

Senator MYERS. Of course, I think, Mr. Baer, those who have advocated that the Government be given some authority to regulate margins in those commodities have advocated that that be done in order that prices may not be manipulated by the speculators. Yon have turned that around and have said, on the second page:

> A Government agency should not be given the authority to dictate margins in order to manipulate prices.

Those who have advocated such power have advocated it in order that speculators might not manipulate prices. I think that the previous witness, also, misunderstood to some extent what has been advocated. I am convinced that speculation is needed and necessary in the grain market as in your market. The question is whether, as a witness said the other day, whether they are informed or uninformed speculators, and whether speculation is getting out of hand and has contributed to the rise of prices. That is our problem.

I do not think anyone denies that some speculation is necessary to keep the markets liquid and fluid. I will admit that, and I think every member of this committee will admit that. But many of our witness who have appeared before the committee, at least the witnesses that I have heard, have turned the thing around as if those who are advocating margin requirements are opposed to any and all speculation.

Mr. BAER. The commodity exchanges are apprehensive about giving the Government the right to regulate margins on exchange transactions because to the exchanges is that those margins the Government may impose margins so high it would drive speculators out of the market, destroy the liquidity of the market and make it impossible for hedgers to operate.

Senator MYERS. What concerns me, are the present spiraling prices. Take the prices of shoes. Most of your hides, I imagine, go into the manufacture of shoes. Baby shoes cost $5 today in Philadelphia. They wear them for 3 or 4 or 5 weeks and grow out of them. Hides have gone up terrifically in price and the prices of shoes have gone up terrifically.

Whether something might be done at least to stabilize those prices is the worry and the concern of this committee. At least it is my concern. I hope we might be able to do something.

If speculation—and I mean speculation on the part of those who are really gambling and not speculating—is partially responsible for the prices which the American people now are paying, I think it is our concern and our duty and our responsibility and our obligation to look into that. I am not opposed to all speculation, nor do I advocate 100 percent or 75 percent margins, but the grain people say 20 percent margin is sufficient, 33 percent is too high. That appears to be the area of conflict in there where one cannot agree.

But hide prices have gone up terrifically.

Mr. BAER. The hide prices increased substantially during the last 10 months because the ceiling price imposed on hides all during the war was abnormally low.

Senator MYERS. How did they do during the war, Mr. Baer? How did the hide people do during the war? Did they all go broke and into bankruptcy?

Mr. BAER. The Government allocated these hides to the various tanners throughout the United States. That also took place with respect to import hides. Every import hide in the United States was allocated.

Senator MYERS. I understand that. My question was, were they making money or did they all go into bankruptcy?

Mr. BAER. Some of them made money.

Senator MYERS. Of course they made money.

Mr. BAER. The producers of hides are the slaughterers, the packers, the abbatoirs and hides are a byproduct: the animal is not raised for the purpose of merchandising the hide; but for the purpose of merchandising meat.

Senator MYERS. I am in thorough agreement with you on that, because we also had some testimony along those lines, too. I have nothing more, Mr. Chairman.

Representative HORAN. Mr. Chairman, I would like to ask Mr. Baer some questions.

A year ago I was deluged with letters from shoe dealers in my area complaining about the shipment of hides abroad, and I took it up with the Department of Commerce, and received a two-page letter which indicated that there was something wrong with the movement of hides in this country. The tanners would not take hold of them. They would not buy them, they were subject to export.

Mr. BAER. That is not so, sir. There isn't a hide produced in the United States that the tanners are not avid to get. I don't think there is any tanner in the United States that has surplus stock on hand.

Representative HORAN. Do you know how many hides we exported last year?

Mr. BAER. I do not.

Representative HORAN. I believe the letter stated some 60,000. That would certainly have the effect of raising prices in this country.

Do you advocate the utilization of export controls on hides?

Mr. BAER. I would say not.

Representative HORAN. On the assertion that baby shoes at $5 are pretty high.

Mr. BAER. I would say the cattle population in this country today is somewhere around 77,000,000, which is almost as high as it has been at any time in the history of the United States. I think there was only one time in 1943 when the cattle population was higher. While there are no surplus stocks of hides, sufficient hides are produced to fill the demands and the requirements of the public, and if the price of feed grains goes up, naturally more cattle will come into the market and we will get more hides.

Representative HORAN. Do you have to have an export license from the Department of Commerce to export hides at this time?

Mr. BAER. No.

Representative HORAN. This letter to me indicated that they had studied the matter and that the reluctance of the domestic tanners to take these hides off the market had aroused the desire on the part of the slaughterers to export them for a very, very much improved price, I might say, over what they could get domestically and that they had granted them permission, I believe, to export 60,000 tons of hides.

Mr. BAER. I have been informed by hide dealers that the tanners are pressing the dealers for hides and that dealers can't at the moment obtain sufficient hides to supply the tanners. Hides go through a processing of somewhere from 60 to 120 days.

Representative HORAN. Mr. Chairman, in order to keep this thing straight for the record, I would like permission to insert the letter I received from the Department of Commerce at this point, because it is in direct opposition to the testimony of the witness.

The CHAIRMAN. The letter will be received.

(It is inserted in the record with another Department of Commerce communication at the end of Mr. Baer's testimony on pp. 456-457.)

The CHAIRMAN. Is there, in general, a free world market in hides?

Mr. BAER. The Commodity Exchange is the only one.

The CHAIRMAN. Generally, do hides circulate through the world? Is there a world price?

Mr. BAER. There is no world price at the present time. The Argentine is the largest exporter of hides, and it sells hides at an abnormally high price; a much higher price than prevails in the United States.

The CHAIRMAN. Thank you very much.

Mr. Gardner, I think probably you would get better attention and more consideration if you would care to stay over until tomorrow morning.

Mr. JOHN C. GARDNER. I shall be glad to, sir. I was planning to stay in the city tonight, anyway.

The CHAIRMAN. I think we will adjourn at this time, until 10 o'clock tomorrow morning, at which time we will hear Mr. Gardner.

(Thereupon, at 5 p. m., the committee adjourned, to reconvene Thursday, December 4, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

THURSDAY, DECEMBER 4, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10 a. m., pursuant to adjournment in room 318, Senate Office Building, Senator Robert Taft (chairman) presiding.

Present: Senators Taft, Watkins, O'Mahoney, and Representative Huber.

Senators Baldwin and Kem, and Representatives Horan and Poulson.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Will you take the stand just a moment, Mr. Baer, to complete your testimony?

STATEMENT OF JULIUS B. BAER, GENERAL COUNSEL, COMMODITY EXCHANGE, INC., NEW YORK CITY, N. Y.—Resumed

The CHAIRMAN. Mr. Baer, Mr. Horan wants to put in the record a press release from the Department of Agriculture on the subject of the exportation of hides in February 1947.

Representative HORAN. Mr. Baer, one of the things that this committee must consider seriously is the impact of any exports upon domestic prices. Last year, as I told you yesterday, at the time that we were having hearings of the Department of Commerce on appropriations, I was being deluged by letters from the shoe dealers, saying that the proposed exportation of hides would be another inflationary pressure to force up the price of shoes. They were disturbed. I took it up with the Department of Commerce, and on March 14, received a two-page letter which I will insert in the record, which outlines the situation and the reasons that they give for proposing to allow 60,000 hides to be exported. That was subsequently raised, however, to 70,000 hides, 26,000 of which were imported dry hides and the remaining 45,000 were heavyweight, winterkill hides.

Were you familiar with that situation?

Mr. BAER. My understanding is that the export regulations have been completely lifted on hides.

Representative HORAN. I will read from the record here. This is the letter of March 14:

Members of the hide-producing industry, however, exerted considerable pressure in Washington, advancing as their arguments that, comparatively speaking, hide prices are unduly depressed and that the removal of export control will give them a much needed price advance; on the other hand, shoe manufacturers and retailers have been equally vehement in their statements that advance in hide prices will mean higher shoe prices to the consumers and a possible unemployment in the shoe factories. As you are aware, it is not the function of export control to control prices—

This is a letter written to me, you see, and they are telling me what their job is—

* * * and we have therefore endeavored to make our decision entirely on the basis of demand and supply considerations. We do feel, however, that price considerations are frequently helpful in examining the effective supply and demand picture and we have consequently studied the market reaction to the February export quota. Briefly, it may be said that hide prices advanced from 15 to 20 percent at the time of the establishment of the February quota. * * *

That is the quota for exporting.

and are now approximately 80 percent above the former OPA ceiling. Hide prices are, however, still 10 percent below the figure reached immediately after OPA price decontrol.

When were hides decontrolled?

Mr. BAER. They were decontrolled about November 1, 1946.

Representative HORAN. That is right. It was on October 30.

Mr. BAER. Yes.

Representative HORAN. And hide prices doubled within 2 weeks?

Mr. BAER. I don't recall the trend of hide prices, Congressman.

Representative HORAN. I will quote again from the letter.

Mr. BAER. I am not in the hide business.

Representative HORAN. I want to show what the free movement of goods will do.

Hide prices doubled within 2 weeks, after which, as they satisfied demand, they began to decrease. However, even at their peak, domestic prices were still well below world prices. A substantial portion of the small quantity of hides imported were unsorted, dry hides. Customarily, these hides are sorted in this country and the lower grades reexported. We are usually a net importer of cattle hides, are we not?

Mr. BAER. Usually we are. Before the war we imported about 20 percent of all the hides consumed in this country; a majority of those hides were what is known as frigerifico hides that come from South America, principally the Argentine.

However, those hides have been going to Europe and the price of those hides for a considerable length of time have been higher than the price of our domestic hides.

Representative HORAN. Does it reflect the pressures of the world market?

Mr. BAER. It is because the Argentine Government, which has been purchasing these hides from the packers, has kept these hides off the market for a considerable length of time, and it is variously estimated that they accumulated some 4,000,000 hides. They held those for high prices and sold them anywhere from 15 to 30 percent above the price prevailing in this country. Most of those hides were sold to Europe.

Representative HORAN. It is apparent from this letter and from your testimony yesterday that prices were arbitrarily held at the figure in this country under price control that was not even tenable on the basis of supply and demand, and that naturally there had to be a release. It is apparent from what is historically brought forth in this letter, however, that after that release, they subsidied and found their own level on the domestic market. Then from the industry came a pressuring of the Department of Commerce, who gave in and permitted the exportation of 70,000 hides which had its influence on the prices of leather and subsequently on all leather goods, including shoes, in this country.

The point I am getting at here is that I am inclined to appreciate the function of commodity exchange in our free commerce, but I do recognize at the same time that the men who manage and run those commodity exchanges must be alert and aware of all the influences which play upon the effect of that commodity exchange. Do you not think so?

Mr. BAER. There is no question about that, sir.

Representative HORAN. I am a little bit disappointed that our witness appearing for the hide exchange was not able to give us a little more light on a situation like this which has a direct bearing on high prices.

Mr. BAER. As I explained to you yesterday, Congressman, I am the attorney for the exchange, and Mr. McKendrew, who was supposed to be here and who is the vice president of Armad Schmoll, Inc., one of the largest dealers and importers of hides in the world, was taken suddenly ill and I read his statement.

While I am somewhat familiar with exchange technique, hedging and trading, I am not well versed in hide statistics.

Representative HORAN. Suppose, Mr. Chairman, that we leave it this way, that Mr. Baer, for his superiors or his clients, supply for the record an answer to this letter from the Department of Commerce and also to the record the things that they can do to assist those of us who are trying to stabilize the American economy as it applies to hides.

Mr. BAER. I will be very happy to do that, sir.

Representative HORAN. And also, briefly, to say why the commodity exchange is important in the stabilization of prices. You will note from this letter, of course, that the Department of Commerce refuses all responsibility as regards prices.

Mr. BAER. Yes.

Mr. CHAIRMAN. Of course, the pressure referred to in the letter from the producers of hides are not from the traders in hides. I take it the exchange is more or less a market place. They must be the producers of hides, or the packers.

Mr. BAER. Packers and slaughterers are the producers of hides. For the exchange to take a position in a situation such as the Congressman outlined might be attacked as an attempt on the part of the exchange to influence price movements.

In other words, the exchange is a market place where buyers and sellers meet to buy and sell hides. I don't know whether it would be ethical on the part of the exchange to interfere in a situation of this kind.

The CHAIRMAN. Thank you very much.

Representative HORAN. Mr. Chairman, I want to say it is my own considered opinion that we cannot only say it is ethical, but it is your duty to regard your own security as part of the total security of the Nation.

The CHAIRMAN. I only want to point out, Congressman, the pressure from producers has nothing to do with the exchange. Producers of hides are not exchange traders. They are the packers, the slaughterers, and I suppose, perhaps, tanners. I do not know.

Mr. BAER. Tanners are all buyers of hides.

The CHAIRMAN. They are all buyers as far as your exchange is concerned; tanners are buyers?

Mr. BAER. Yes, sir.

Representative HORAN. That is right. They exert pressure on the Department of Commerce. They gave us their excuse that the tanners were not buying because they thought the price was going to drop way down.

Mr. BAER. I will get you authoritative information on that.

Representative HORAN. That is what I want.

The CHAIRMAN. Thank you very much, Mr. Baer.

(The letter from Department of Commerce is as follows:)

DEPARTMENT OF COMMERCE,
Washington, D. C.

Hon. WALT HORAN,
House of Representatives,
Washington, D. C.

DEAR MR. HORAN: I give below the recent developments in this Agency culminating in the establishment of an export quota for hides. This information is in response to your discussion with Mr. Wilson Sweeney, of this office.

Traditionally, the United States is a net importer of cattle hides. During the first half of 1946 this Government entered into a working arrangement with foreign governments under the auspices of the International Combined Hides, Skins, and Leather Committee. As a result of this Committee's activities in endeavoring to allocate the world supply of hides as equitably as possible, the United States hide exports for the first time were nearly equal to imports. The Committee was abandoned June 30, 1946, following which no more licenses to export hides from the United States were granted for 7 months. At this time the world price on hides was considerably higher than the OPA ceiling price, with the result that practically no hides were being imported into this country. The OPA decontrol of hide prices occurred on October 30, 1946, and hide prices doubled within 2 weeks, after which they began to decrease. However, even at their peak, domestic prices were still well below world prices. A substantial portion of the small quantity of hides imported were unsorted dry hides. Customarily these hides are sorted in this country and the lower grade reexported.

During 1946, export allocations on most scarce commodities, other than food products, were made by the Civilian Production Administration. However, a change in procedure was instituted January 1, 1947, wherein the Export Policy Committee was formed and the chairman, Mr. John Garrett, appointed by and made directly responsible to the Secretary of Commerce. The Committee consists of members from CPA, OHE, Department of Agriculture, Department of State, ODC, OSB, and OIT. Representation by both the Office of Domestic Commerce and Office of International Trade is considered helpful in insuring that the interests of both domestic and foreign commerce will be represented at the Committee.

In January evidence was presented to the Department of Commerce that stocks of cattle hides were accumulating in various sections of the country and Mr. Schnitzer, in the Office of Domestic Commerce, and Mr. Sweeney, in the Office of International Trade, discussed the situation with representatives of other Government agencies including the Civilian Production Administration and the Office of War Mobilization and Reconversion. At these discussions it was determined that the probable domestic hide production for 1947 will be in the neighborhood of 21,500,000 hides while domestic consumption, if continued at the 1946 rate, would be nearly 27,000,000 hides.

It was thus apparent that if the consumption in 1947 remains at the same high level, hides would still be in short supply, particularly since any import of hides is extremely doubtful.

However, in view of the fact that 1946 consumption of hides resulted in a record production of 530,000,000 pairs of shoes, the Office of International Trade felt that a complete embargo was not justifiable, particularly in view of the desperate needs of certain war-ravaged European countries for hides.

The problem then resolved itself around the question of how many hides this country could spare without harming the domestic economy. No figures were available on minimum essential requirements in this country, as differentiated from actual demand, and, accordingly, Mr. Schnitzer and Mr. Sweeney agreed to suggest a February export quota of 60,000 hides which would represent 3 percent of domestic production. This quantity was approved by the Export Policy Committee chairman and has been licensed to Norway, the Netherlands, Belgium, France, Turkey, Switzerland, and Sweden.

Members of the hide-producing industry, however, exerted considerable pressure in Washington, advancing as their arguments that, comparatively speaking, hide prices are unduly depressed and that the removal of export control will give them a much-needed price advance; on the other hand, shoe manufacturers and retailers have been equally vehement in their statements that advance in hide prices will mean higher shoe prices to the consumers and a possible unemployment in the shoe factories.

As you are aware, it is not the function of the export control to control prices and we have therefore endeavored to make our decision entirely on the basis of demand-and-supply considerations.

We do feel, however, that price considerations are frequently studied in examining the effective supply-and-demand picture and we have consequently studied the market reaction to the February export quota.

Briefly, it may be said that hide prices advanced from 15 to 20 percent at the time of the establishment of the February quota and are now approximately 80 percent above the former OPA ceiling. Hide prices are, however, still 10 percent below the figure reached immediately after OPA price decontrol.

In determining the types of hides which could be exported under the quota the guiding principle applied by the CIT and the ODC was consideration of the types of hides in the freest supply. Thus the hides approved for export in February were restricted to heavy-weight winter-kill hides. When the Export Policy Committee met to discuss March hide quotas, it was apparent that certain of the poorest of grades of unsorted dry hides, imported when this product was under international allocation, were unsuitable for domestic use. Consequently, the total export quota was raised from 60,000 to 70,000 but with the stipulation that 25,000 would be imported dry hides and the remaining 45,000 heavy-weight winter-kill hides.

As long as we are permitted to exercise export control, this Department will endeavor to remove restrictions on the exportation of commodities as rapidly as the supply situation will permit, but where serious injury to the United States economy would result from uncontrolled export, we would seek to retain such restrictions until supply and demand are more nearly in balance.

Sincerely yours,

THOMAS C. BLAISDELL, Jr.,
Assistant to the Secretary for International Trade.

EXPORT CONTROLS ON CATTLE HIDES

The Office of International Trade endeavors to review continually items of importance in world commerce with the aim of removing export restrictions as soon as circumstances permit, or conversely of reinstituting export restrictions if necessary to the best interests of the United States. Price control is not the function of this office and adoption or removal of export restrictions solely in order to control prices is contradictory to our policy.

We are informed by the Office of Domestic Commerce that 1947 will probably see the second largest domestic yearly hide production in over 15 years. However, imports into the United States in 1947 will be so much lower than in prewar years that the total hides available, both domestic and imported, will be only slightly above the 1935–39 average. In this connection it must be borne in mind that historically the United States is a net importer of cattle hides, and this fact must be given due consideration in endeavoring to determine whether or not the cattle-hide-supply situation will permit exports.

The Office of International Trade is generally of the opinion that export control in the form of licensing should be continued where unrestricted exports would definitely be injurious to the domestic economy but that an export embargo should be employed only in the extremely exceptional circumstances.

After a careful analysis of all the pertinent factors available, the Office of International Trade has arrived at the following conclusions:

1. The cattle-hide situation in the United States is sufficiently acute to warrant retention of export controls.

2. However, the situation is not sufficiently acute to warrant an embargo on the export of cattle hides.

In implementing these conclusions we have retained cattle hides on our "Positive list of commodities which require an export license" but have set up, through the duly constituted mechanism, an export quota of 60,000 cattle hides for the month of February 1947, which it is estimated will be approximately 3 percent of production. Licenses will be restricted to heavy-weight winter-kill hides. Subsequent quotas and restrictions by type will be determined on the basis of monthly review of the hide situation.—Export Control Operation, Office of International Trade, Department of Commerce.

FEBRUARY 6, 1947.

The CHAIRMAN. Mr. John C. Gardner?

Mr. Gardner, you may proceed.

STATEMENT OF JOHN C. GARDNER, PRESIDENT, NEW YORK COFFEE AND SUGAR EXCHANGE, INC., NEW YORK CITY, N. Y.

Mr. GARDNER. Thank you, Mr. Chairman. For the record, my name is John C. Gardner. I am president of the New York Coffee and Sugar Exchange; a director of the National Association of Commodity Exchanges and Allied Trades, Inc.; vice president of the sugar-brokerage firm of Lowry & Co., 99 Wall Street.

My entire business life of 28 years has been spent in the sugar business, mostly as an agent for producers, a broker, importer, dealer, and distributor of sugar and related products.

For the past 20 years I have been directly responsible for the sugar-futures transactions of my firm on the New York Coffee and Sugar Exchange.

I come here as spokesman for the New York Coffee and Sugar Exchange, Inc., in opposition to the requests from the executive branch of the Government for power to fix margins on futures trading in coffee and sugar, and to any other requests for additional executive or administrative controls over the exchange on which these commodities are traded.

Basis of opposition: Our opposition is based upon the premises that, first, margins should be set solely with the aim of guaranteeing faithful performance of the contract by both buyer and seller, and not for punitive purposes or with the aim of influencing or controlling prices. We oppose the use of margin powers for any purpose other than security, whether exercised by government or by others.

Second, margins for security can be better regulated by the members of the trades who make up the directors of the clearing association and the board of managers of the exchange—men who are most familiar with the day-to-day and hour-to-hour conditions in the industry, and who can best calculate the changing requirements of security.

Third, general regulatory powers by the Government over coffee and sugar trading are unnecessary because these commodities are of a class that have historically been in chronic oversupply. They are not now in critical short supply, and in the case of sugar we are faced with a possible oversupply in 1948 because of the reduced world purchasing power.

The exchange throughout its existence has demonstrated its own ability and willingness to regulate properly and police the trading practices of its members and to conduct its affairs in the public interest.

Fourth, coffee is an import commodity and does not, in our opinion, properly fall under the jurisdiction of a governmental agency or regulatory body.

The domestic and insular sugar industry is already controlled in large measure by the Sugar Act of 1948. The domestic price level is virtually in the hands of the Secretary of Agriculture by virtue of his power to fix marketing quotas for the various producing areas supplying this market.

By expanding or contracting quotas, the Secretary of Agriculture can wield a direct influence on price entirely apart from the normal operation of world supply and demand. In this situation, the sugar-futures market provides a valuable protection for refiners, importers, manufacturers, and distributors, against possible price fluctuations which may result not only from changes in quotas or miscalculations on the part of the Secretary of Agriculture as to the probable demand, but which normally occur within the price range possible under any specific quota.

It seems inconsistent to us for the administration to request margin controls on sugar for the ostensible purpose of holding prices down, while it is simultaneously preparing to hold prices up by restricting the amount of sugar that could be available to the American housewife in 1948.

According to press reports, the President has recently signed a proclamation ending the wartime suspension of sugar quotas. The Secretary of Agriculture is said to be preparing for public hearings to assist him in determining a proper quota for United States consumers in 1948.

What does this imply? If there is a shortage of sugar we certainly need no quotas. On the contrary, we should encourage the importation of sugar from any offshore area where it is available.

By its plans for the reimposition of quota controls, the administration admits that there is a surplus of sugar available for this market in 1948 and that quotas are necessary to prevent a decline in price below a level that would be fair to the domestic sugar industry.

Fifth, the exchange performs a useful economic function in providing price insurance for producers, importers, dealers, distributors, and processors. To be fully effective a broad and continuous market is essential, and any artificial or arbitrary controls that would restrict its volume, continuity, or sensitivity would lessen its utility and result in greater distribution costs, to the detriment of both producer and consumer.

With your permission, sir, I should like to file a more extended brief, which I have prepared. You have heard a great deal about the grain elevators, the millers, food processors in grain trades, and I have prepared an analysis which goes into rather exhaustive detail as to the organization, the policing powers that the exchange has, and exactly how it is used by the various segments of the sugar industry.

With your permission, sir, I would like to file that with you today.

The CHAIRMAN. That will be placed in the record, then, if it is not too long.

Mr. GARDNER. It is fairly exhaustive, but I should like to file it, for I think there is noting controversial in it other than a statement of the functions that our exchange performs for the various segments of the industry.

I have taken up or have extracted from it, to save the time of the committee, a few points in which I think sugar differs, perhaps, from some of the other commodities about which you have heard testimony recently.

There is, I think, one important point with respect to speculation on and off exchanges. That is apropos current allegations that speculation on the futures markets is responsible for the rise in commodity prices, an I should like to cite the market actions of sugar during the late months of 1919 and the early months of 1920.

In August 1919, after several years of wartime control and crop-purchase contracts, the first sales of Cuban raw sugar were made for shipment during January 1920.

The price was $6.25 per 100 pounds f. o. b. steamer, Cuba. In May 1920, I have personal knowledge of a sale of a cargo of Cuban raws at $25 per 100 pounds f. o. b. In other words, sugar had quadrupled in price in 9 months. The sugar debacle of 1920 has been used frequently as the horrible example of speculation on commodities.

For the record, however, let it be stated that the exchange was closed during most of this speculative period. The reopening after World War I was February 16, 1920. Futures trading for many months was purely nominal, and could not possibly have contributed to the speculative excesses of that period. I have the exact figures for the number of contracts dealt in during the first four months of exchange operation in 1920. They are:

	Contracts	Tons
February 1920	70	3,500
March 1920	209	10,450
April 1920	752	37,600
May 1920	1,016	50,800
Total	2,047	102,350

You will note that the total trading from the reopening of the exchange to the end of May 1920 was only 102,350 long tons—just about 1 week's normal consumption in the United States. In later years, as trading expanded, that much business was frequently done during one single trading day.

I have cited the exchange volume up to the end of May 1920 because that date marked the beginning of the end of the speculative boom. It is accepted the opinion in trade circles that prices would not have risen so high nor collapsed so violently if a broad futures market had been in operation during that period.

Certainly, many distributors and processors would have had an opportunity to protect themselves against market loss on the stocks of sugar which they had to carry in the normal operation of their businesses. The principal point what I am trying to make, however, is that there can be violent speculation in a commodity without a futures market.

Now, speaking more or less as a member of the trade, we of the coffee and sugar trades accept the exchange not only as a matter of course, but as an absolute necessity if we are to continue merchandising and distributing our commodities on the very narrow competitive spreads existing today. I know of no individual, whether he be producer, processor, or distributor, who would willingly suppress or destroy the exchange.

Conclusion and summary: We maintain that our exchange performs a useful economic service because it provides price insurance for the grower, producer, processor, importer, and distributor. It facilitates and lessens the cost of financing growing crops and warehouse stocks. It reduces the distribution costs between producer and consumer because it permits the elimination of major market risks. It links all the markets of the world and provides a ready continuous market at all times for both buyers and sellers. By supplying sensitive price information, it facilitates the forecasting of future trends in supply and demand and enables the businessman to plan ahead more intelligently.

Fortunately, the case for commodity exchanges and the role of the speculator therein does not have to rest on my testimony. It has already been stated by such eminent jurists as Hughes, Taft, and Holmes. Ample additional testimony is available from economists, bankers, editors, and other students of our markets.

In my more extended brief, I have cited some of the judicial opinions as to the value of the commodity exchanges.

We come then, sir, to ask you that you accept the thesis that our commodity exchange performs a useful service, we ask that no hasty or ill-considered legislation be enacted under the guise of a temporary emergency that would lodge with the executive branch of the Government powers to regulate our exchange, to discriminate against one class of traders, to try to influence prices by manipulating of margins, or to otherwise upset the delicate balance between the forces of supply and demand, thereby impairing or destroying the usefulness of the exchange as a hedge market.

We submit that the burden of proof rests upon those asking such powers to show that the coffee and sugar exchange does not operate in the public interest, and that they are more competent to regulate its affairs than the men in the industry.

The CHAIRMAN. Mr. Gardner, what margin do you have today?

Mr. GARDNER. As between the clearing association and the brokers who carry contracts with it, we have a variable scale. On sugar, that is a contract of 50 tons or 112,000 pounds. For the first 500 contracts, we require a margin deposit of $850. That is about 14 percent of the value of the contract. The scale then runs up as the number of contracts carried. If you care to have those, between five hundred to a thousand contracts, it is $1,000. The value of the contract is about $6,000, sir.

The CHAIRMAN. You are not subject to the Commodity Exchange Act at all at present?

Mr. GARDNER. No, sir; we have never been.

The CHAIRMAN. Will you tell me about the price of sugar? Was the price fixed until the 1st of November?

Mr. GARDNER. You are speaking of this year?

The CHAIRMAN. This year.

Mr. GARDNER. Yes, sir. Throughout the entire war period, the American Government, acting more or less as pool buyer for the Allies, bought the Cuban crop and the Puerto Rican crop and had various support and subsidy programs with the domestic beet industry and in the islands. The price was fixed throughout that period from about August 1941, I think it was, until this summer, or very recently.

It was fixed at wholesale level by the Government.

The CHAIRMAN. That act expired, did it not?

Mr. GARDNER. The act itself, which was called the Sugar Control Extension Act, passed by the Congress early this year, expired October 31, although it did leave in the hands of the Secretary, I believe, the power to impose inventory controls and a few other powers until March 31, 1948.

The CHAIRMAN. But price controls came off. What happened to the price? Did the exchange then open?

Mr. GARDNER. The exchange opened, as a matter of fact, on July 1, for trading in sugar, by permission of the Secretary of Agriculture, who had repeatedly stated that it was one of the aims of the Department in the decontrol program to reopen the coffee and sugar exchange.

With his permission and a certain modification in the administrative regulations and rules, we opened on July 1, 1947. Our prices opened slightly higher on the first day, higher than the control price, but they rapidly dropped below the control price and are now selling at a considerable discount.

I would say about perhaps a quarter of a cent, or thereabouts, maybe a little more.

The CHAIRMAN. The price control came off then on the 1st of November, the price control?

Mr. GARDNER. Yes; that is right. Price control came off. Some of the other regulations came off earlier.

The CHAIRMAN. On the 1st of November. What has happened to the price of sugar since the 1st of November?

Mr. GARDNER. It has, generally speaking, declined. It is now below; in other words, we can buy sugar for 1948 delivery at a considerable discount under the existing price. The price is in effect still controlled, because this Government owns all the raw sugar that is available to refiners during 1947. So it has an effective control because it controls the raw materials. But forward deliveries are selling at a discount below the present price.

The CHAIRMAN. Let me read to you a press release of the Department of Agriculture on October 15. That is 15 days before price control was to come off.

> The Department also announced that it is currently notifying the International Emergency Food Council that the Department has agreed to sell about 484,000 short tons of Cuban raw sugar to the Army for use in occupied areas of Japan, Korea, and Germany. This 484,000 tons is in addition to 127,000 tons previously allocated to the Army for use in Japan and Korea. Sugar being shipped to these occupied areas from the west coast of the United States has been or is being procured under the previous allocation of 127,000 tons.
>
> The Department emphasized that there are no restrictions on the quantity of raw sugar which can be brought into the United States by CCC prior to January 1, 1948. If, at any time, it appears that the quantity of raw sugar which will be required by United States refiners prior to January 1 will be either greater or less than the quantity designated for this purpose by the IEFC, the Department's sales to other areas can be decreased or increased accordingly.

Are you familiar with that?

Mr. GARDNER. Generally. I have no original documents, but generally we in the trade are familiar; yes, sir.

The CHAIRMAN. That resulted in a tremendous increase in the amount of sugar that was intended to go to the occupied areas.

Mr. GARDNER. I believe it was greatly in excess of the amount originally allocated by the IEFC; yes, sir.

The CHAIRMAN. And the effect of that purchase 15 days before price control came off would be to raise the price of sugar; would it not?

Mr. GARDNER. Normally, that would be true, but as I say, the Cuban crop was purchased by the American Government more or less as pool buyer, and it was allocated by the International Emergency Food Council. But because of the unexpected increase in Cuban production this year, and because some foreign governments did not take up all of the allocations made to them by the IEFC—France was an outstanding example, relinquishing a considerable quantity of her allocation. Some of the smaller countries did also. As a result of that, and also as a result of Cuba not being able to sell in foreign markets as much as she had thought she could, and had reserved from the crop sale, and because her local consumption was not as large as expected, the CCC became the possessor of various fragments, relinquished IEFC allocations, Cuban production, and Cuban withholding from the contract, so as a consequence, the CCC thought it was going to be faced with a substantial carry-over in excess of the amount allotted to us during 1947. That is the sugar to which they refer.

It is really an attempt to get rid of what appeared to them to be an excess supply over and above our requirements for 1947.

The CHAIRMAN. The Government was deliberately supporting the price of sugar rather than letting it go down, taking 500,000 tons of sugar off the market, which otherwise might have come to America.

Mr. GARDNER. I think there is no question, sir, that there was an excess; yes, sir, over and above the amount allocated to this country.

The CHAIRMAN. That is all.

Senator WATKINS. In other words, there would not be any competition in the sale of that because the Government itself owned the sugar.

Mr. GARDNER. There can be no competition with the Government during 1947. They own all the available raw sugar except small quantities in South America. So the Government does own all the stocks and can either increase or decrease the price or increase the supply or decrease it as it sees fit, in 1947.

Senator WATKINS. This may be a very ignorant question, but how does the exchange operate when there is only one seller of sugar?

Mr. GARDNER. We are not operating and we are not trading in 1947 deliveries. Our first delivery month is May 1948, which falls within the free market period.

Senator WATKINS. There is not any dealing now whatever?

Mr. GARDNER. In December, for example, there is not; no, sir.

Senator WATKINS. We had testimony here yesterday that the speculators as a whole, as a unit, lost money all the time; that they never win in the commodity exchange in their dealings. Do you subscribe to that?

Mr. GARDNER. I think that depends upon the period under review, sir. If you took from 1925, the middle twenties, until the middle thirties, there was more or less a constant decline in sugar prices. The forward months usually sell at some premium. So when you take into consideration the premium paid by the speculator for the forward position, his costs of doing the business, and the declining trend in the market, an analysis of that 10 years will probably show a loss on balance. If you take from 1935 until 1947, a rising trend in the market, then if a man averaged and purchased in each year an equal quantity you might find him a gainer.

On the whole, I would say, excluding 1919 and 1920, it would just about balance out and might be the cost of doing business. There might be a small loss. I wouldn't want to state that as a general proposition.

Senator WATKINS. Did you hear the testimony of the gentleman from Canada yesterday?

Mr. GARDNER. I did, sir. I heard his testimony.

Senator WATKINS. That is what I was interested in finding out, if the speculators in sugar and coffee are generally losers.

Mr. GARDNER. I think my answer stands that it depends upon the period of analysis.

Senator WATKINS. At least they are not very heavy winners, are they?

Mr. GARDNER. I don't think so. We in sugar have a terrible time disposing of our product normally, and it is a battle constantly to find markets for sugar and coffee. So under those circumstances, I would say that the speculator perhaps over the long period, doesn't fare too well.

Senator WATKINS. Do you anticipate an ample supply of sugar for the domestic market in 1948?

Mr. GARDNER. That I think is a very important question and I would like to make for the record this point, that we are apparently faced with a surplus of sugar under present world buying powers, that is, the purchasing power of the world.

For example, in the Foreign Commerce Weekly, we have a statement to the effect that the major problem now confronting Cuba is how to find a market for the 1948 surplus production in excess of the United States quota.

Senator WATKINS. Is that because of the shortage of dollars?

Mr. GARDNER. A combination of both dollar shortages and large Cuban production, sir. It is largely due to a shrinkage in dollars. So at the present outlook the problem of the trade and of Cuba in particular, is how to market the surplus.

Senator WATKINS. Are we going to be able to get cheaper sugar in the United States because of the surplus?

Mr. GARDNER. The answer to that is how much money or how many dollars will be made available to foreign buyers.

Senator WATKINS. What effect does that have on our domestic market, whether foreign buyers have any dollars or not?

Mr. GARDNER. Our domestic market is regulated by quotas set by the Secretary of Agriculture. We include in that the domestic beet, Louisiana and Florida cane, Hawaii and Puerto Rico. That gives us a basic quantity of sugar. The difference, our marginal requirements, is imported mainly from Cuba. Cuba has a crop ample, greatly in excess of our marginal import requirement. That leaves an amount estimated anywhere from 2½ to 3 million tons to dispose of elsewhere.

Prewar Cuba disposed of about 1 million tons of that, so there is an apparent excess of a million and a half or 2 million tons.

Therefore, we have ample sugar from Cuba, but if we provide dollars or if sugar is purchased and exported to a point where Cuba does not have sufficient remaining to give us our marginal needs, then we would have a shortage.

Senator WATKINS. In other words, by loaning money to foreign countries we can increase their buying power to the point where they could cut down the amount of the sugar Cuba should send to us.

Mr. GARDNER. It is conceivable that such could take place and I would like at this point to establish if that is done or if buying power is unduly increased, or excessively increased, or if there are more buyers than we now anticipate, then obviously you will have a rise in price. It is only a commonplace, sir.

Senator WATKINS. Then our foreign program could substantially affect the price of sugar.

Mr. GARDNER. It could, sir.

Senator WATKINS. Under the present requests or suggestions under the Marshall plan, is that likely to increase the price of sugar in the United States?

Mr. GARDNER. No, sir; I do not think it is, not in the United States. I think it would tend to increase the world price, the price that Cuba gets for the excess, but we have a two-price system. We have one price, a domestic price, regulated more or less broadly by the size of the quota set, the marketing quotas.

Senator WATKINS. If the Cuban quota were cut down to the point where she could not send it in, then it would have an effect.

Mr. GARDNER. Then it would have a definite bearing, yes, sir.

Senator WATKINS. Are you acquainted with the requirements of the Marshall plan on sugar?

Mr. GARDNER. Yes, I am; sir. I haven't the figures available, but I know that they are not as stated in the plan in excess of the probable amount available.

Senator WATKINS. In other words, Cuba will have plenty of sugar to take care of their requirements and fill their quota to the United States?

Mr. GARDNER. My opinion is that there will be sufficient over and above our marginal import requirements. I want to make the point it may affect the price of the world quota, the sugar that Cuba sells elsewhere. Today we have a price of about 4¼ cents a pound. That discounts something. It discounts a certain take. If you change the take, then you will influence the price up or down from the 4.25 level. But that would not necessarily affect our price until Cuba exports so much that there would be insufficient left to fulfill our marginal requirements. But I don't think that is likely.

Senator WATKINS. Where did you get your information on the requirements of the Marshall plan in the way of sugar?

Mr. GARDNER. In volume 1 of the Report of the Committee of European Cooperation, in which they state the prewar per capita consumption and what their goal is for 1947, and following years.

Senator WATKINS. Speaking now of the foreign requirements set up by the 16 foreign governments?

Mr. GARDNER. Yes, sir. It is so stated in volume 1.

Senator WATKINS. Is that what the Marshall plan asks for?

Mr. GARDNER. I have no knowledge of that, sir.

Senator WATKINS. You do not have?

Mr. GARDNER. No, I have no knowledge of that.

Senator WATKINS. I just wanted to find out where you got it from. Maybe we can get a copy.

The CHAIRMAN. Mr. Gardner, 484,000 tons is a tremendous amount of sugar. If the Department of Agriculture agreed to sell this to the Army, the Army would have to pay for it. How many dollars would it take for 484,000 tons of sugar?

Mr. GARDNER. That would depend, sir, on what price the Commodity Credit Corporation charges the Army. The Commodity Credit Corporation has settled with Cuba at a price of $4.96¼ per hundred f. o. b. Cuba, for raw sugar. That is, unrefined, crude raw, as it comes from the mills. If the CCC charges the Army the same price that it has made Cuba, then it would be $4.96, or roughly, $5 per hundred, which is $100 a ton—$100 times 484,000 tons is about $48,000,000.

The CHAIRMAN. That would be for raw sugar. Of course, the Army would want refined sugar. That would be somewhat more.

Mr. GARDNER. Then there would be a refining charge. I think the Army would have to take part of the raw.

The CHAIRMAN. Raw would be $48,000,000, would it not?

Mr. GARDNER. It would be $100 a ton. I am not sure where the decimal point is. Is it $100 times 484,000?

The CHAIRMAN. Perhaps $60,000,000, if it is refined for shipment abroad.

Mr. GARDNER. Yes. The Commodity has a small amount of refined sugar in Cuba. That is part of the Cuban purchase, but only about 50,000 tons, I believe. Their selling price on that is, I believe, about 6¼ to 6½ cents.

The CHAIRMAN. In any event the price of sugar is practically entirely in the control of the Department of Agriculture, is it not, because of the large amount of sugar they have available.

Mr. GARDNER. For 1947 it is completely in the hands of the Department of Agriculture. The refiners' only source of material is from the stock owned by CCC, and they are now paying more for that sugar from CCC than they could buy 1948 deliveries from Cuba in the free market. That is correct, sir.

Senator WATKINS. Do you know any way the administration can reduce the price of sugar if they get power to roll back prices?

Mr. GARDNER. I feel that we have no particular price problem in sugar, sir, because of an apparent import surplus and this quota control. In normal times, any so-called speculative excess in sugar is utterly impossible. All the Secretary has to do is to open the floodgates a bit, increase his quota, which he has power to do under the sugar act. So as long as there is a surplus of sugar, he can make the price virtually anything he wants to.

Senator WATKINS. Then it is in his hands if he wants it reduced, to reduce it?

Mr. GARDNER. Absolutely, sir.

Senator WATKINS. He does not need to ask Congress for any power whatsoever to do that?

Mr. GARDNER. It is my belief that that is correct.

Representative HORAN. How many commodity exchanges are there that affect the domestic supply of coffee and sugar?

Mr. GARDNER. I don't get the question, sir.

Representative HORAN. You represent the New York Sugar Exchange?

Mr. GARDNER. That is the only sugar exchange in the world, sir.

Representative HORAN. It is the only one in the world?

Mr. GARDNER. The only one in the world. There was formerly one operating in London, but now it has been closed since the beginning of the war and has not reopened because Britain still has a very rigid control on its sugar economy.

Representative HORAN. Aside from Government procurement or purchases, what proportion of the domestic supply does the New York Coffee and Sugar Exchange effect?

Mr. GARDNER. We are in the process of reopening a contract by which we traded prewar in this surplus Cuban sugar which I have been speaking about, the so-called world contract. No part of that sugar whatsoever enters our shores at any time. The contract might be used by the Java producer, the European beet producer, the South American producer, any world producer. They did use that contract for hedging world production as we use our second contract for hedging and protecting ourselves domestically. That contract we hope to have going shortly. No part of that sugar ever reaches our shores and could not because of the operation of the 1937 and 1948 Sugar Acts.

Representative HORAN. Could any importers or dealers in coffee or sugar in the United States buy independently and not through the commodity exchange?

Mr. GARDNER. Oh, yes, a great many do, sir.

Representative HORAN. That is what I am after. What proportion of the domestic supply is supplied by independent dealers? I am tempted to ask this because it is apparent to me that in the case of hides, the commodity exchange has a responsibility that is not clarified and I would like to clarify yours.

Mr. GARDNER. The function of our exchange, sir, is not to merchandise sugar directly through the channels and mechanics of an exchange delivery. Most of the sugar is purchased by the refiners, by the importers and dealers, from the producers in the off-shore or domestic areas. Now we come into possession of that sugar, and while processing it or while carrying it in stock awaiting trade demands; we may not want to take the market risk on it, and therefore we sell it on the coffee and sugar exchange as a price protection. It would be highly uneconomic to pass it through the deliveries of the exchange.

Representative HORAN. I understand that. You are talking about the futures market as differing from the spot.

Mr. GARDNER. What we call the spot market.

Representative HORAN. I think I understand that. But we are trying in this committee, at least I am, to tie together this tangle of responsibility, that of the importer for physical sugar and the refiner as aside from those who deal in futures and stabilize the market, and then again the responsibility of the Government through the sugar act and through the Department of Commerce, and so forth.

Mr. GARDNER. I think it can be clarified if you will think of the exchanges more or less as insurance companies. What part does the insurance company take in the movement of merchandise and production throughout our country? Directly, it has no responsibility, it takes no part in it, has nothing to do in effect, with the goods which move. But it writes an insurance policy if the handler of the goods so desires against various risks, while the merchandise is flowing in normal channels between importer, dealer, refiner, processor and producer. So the exchange itself, I feel, has no responsibility, and only you might say an academic interest in what goes on in trades, but stands ready to write a price-risk insurance policy for the merchants who are really doing the business.

Representative HORAN. I appreciate that. Of course, you have been accused as though you handled all of the sugar and coffee at times, or rather the futures market has. We were trying to clarify that because if we are to make a frontal attack on inflation, we will have to have all of these responsibilities clarified. I appreciate that.

Mr. GARDNER. We are trying, sir, to disabuse your minds of some of these loose attacks and I think the insurance parallel is perfectly valid in the case of most of the exchanges.

Representative HORAN. That is all, Mr. Chairman.

Senator WATKINS. Insurance is underwritten, then, by the speculator.

Mr. GARDNER. Yes, sir; by the buyer, whatever you want to call him. It is the man who takes the other end of my hedge.

Representative HUBER. Mr. Gardner, if you act as an insurance company, why shouldn't you be regulated? All the insurance companies are regulated.

Mr. GARDNER. I don't quite follow.

Representative HUBER. You say your operation acts as insurance on these commodities, seeing that they trickle down through the channels of trade. Would not regulation be good for the various exchanges?

Mr. GARDNER. I don't quite see the analogy. Maybe it is a valid one.

Representative HUBER. It is your statement. You brought up that you act as an insurance company. You explain it to me. I am not familiar with all the ramifications of it.

Mr. GARDNER. I didn't raise the issue of regulation, sir. My point is that the exchanges operate their business, in my opinion, in such a way that it does not require interference. I would call it, rather, interference with operations which have been carried out to the satisfaction of the trades who use it for protective purposes.

The CHAIRMAN. I suggest that the difference is that the insurance companies write a certain contract and have a large amount of securities and capital as a rule, which may be dissipated, and you have regulation to see that those securities are really there. You do not seem to have any capital to back your insurance. You simply have a market of speculators who come into the operation to give you the capital. I suppose you might render insurance if you had enough capital.

Mr. GARDNER. The exchange itself does not participate in these operations. It only provides the market place where the traders can carry on their operation. The contracts are between the traders; not between the exchange and the traders.

Representative HUBER. Maybe if some of the speculators take out policies, we would be all right, too. The grain people testified that their operations are of assistance to the producers. I would like to ask how is your exchange of assistance to the producers.

Mr. GARDNER. I have answered that, sir, in a more extended brief which I have asked permission to file with the committee. It is used very extensively. I think perhaps an example might clarify it.

Representative HUBER. In the interest of time, I will be glad to look that over. I have no doubt you touched on that.

Mr. GARDNER. Thank you, sir.

Representative HUBER. I want to ask you this: What is the present spot market price of coffee today on the New York spot market, approximately?

Mr. GARDNER. We have two contracts. One contract is around 13 cents a pound, I believe; and the other contract is about 24 cents a pound. That is a matter of difference in grades and growths. This is the closing price of December 2. The December was 23–20 in the so-called Santos contract, and the Rio contract was 12–50.

Representative HUBER. There is not a shortage of coffee today?

Mr. GARDNER. I am told there is not, sir.

Representative HUBER. According to the Bureau of Labor Statistics figures, June 10 was .258.

Mr. GARDNER. .258?

Representative HUBER. And .261 on August 10, and .272 on November 7.

Mr. GARDNER. There are more types and grades of coffee than you have hairs on your head, almost, and I am not a coffee merchant. We have what we call premium grades and quality coffees, and they all sell at different prices. The so-called spot market, I think, is generally speaking, considerably higher than the exchange prices. The exchange has to adopt a more or less average grade, and I believe the average, or so-called poor or mediocre grades are not in demand in this country. You have a sort of situation that there may be a surplus may be of common grades and perhaps something of a shortage or little extra demand for premium grades.

Representative HUBER. This grade they charge us 15 cents a cup for in our local hotels is probably not the premium grade, I imagine.

Mr. GARDNER. Some of it is pretty bad, sir, I concede. I would attribute that to the method of making and not to the quality of the coffee we trade in.

The CHAIRMAN. Are there other questions?

If not, we thank you very much, Mr. Gardner.

Mr. GARDNER. Thank you very kindly, sir.

(The extended statement of Mr. Gardner follows:)

TESTIMONY OF JOHN C. GARDNER, PRESIDENT, NEW YORK COFFEE & SUGAR EXCHANGE, INC.

NAME AND BACKGROUND OF WITNESS

For the record, my name is John C. Gardner. I am president of the New York Coffee and Sugar Exchange, Inc.; a director of the National Association of Commodity Exchanges and Allied Trades, Inc.; a vice president of the sugar brokerage firm, Lowry & Co., Inc., 99 Wall Street, New York City. My entire business life of 28 years has been spent in the sugar business mostly as agent for producers, broker, importer, dealer, and distributor of sugar and related products. For the past 20 years I have been directly responsible for the sugar futures transactions of my firm on the New York Coffee and Sugar Exchange.

OPPOSITION TO EXECUTIVE CONTROL OF MARGINS

I come here as spokesman for the New York Coffee and Sugar Exchange, Inc., in opposition to requests from the executive branch of the Government for power to fix margins on futures trading in coffee and sugar, and to any other requests for additional executive or administrative controls over the exchange on which these commodities are traded.

BASIS OF OPPOSITION

Our opposition is based upon the premises that:

(1) Margins should be set solely with the aim of guaranteeing faithful performances of the contract by both buyer and seller, and not for punitive purposes or with the aim of influencing or controlling prices. We oppose the use of margin powers for any purpose other than security, whether exercised by Government or by others.

(2) Margins for security can be better regulated by the members of the trades who make up the directors of the Clearing Association and the board of managers of the exchange—men who are most familiar with the day-to-day and hour-to-hour conditions in the industry, and who can best calculate the changing requirements of security.

(3) General regulatory powers by the Government over coffee and sugar trading are unnecessary because these commodities are of a class that have historically been in chronic oversupply. They are not now in critical short supply, and in the case of sugar we are faced with a possible oversupply in 1948 because of the reduced world purchasing power. The exchange throughout its existence has demonstrated its own ability and willingness to properly regulate and police the trading practices of its members and to conduct its affairs in the public interest.

(4) Coffee is an import commodity and does not, in our opinion, properly fall under the jurisdiction of agovernmental agency or regulatory body.

The domestic and insular sugar industry is already controlled in large measure by the Sugar Act of 1948. The domestic price level is virtually in the hands of the Secretary of Agriculture by virtue of his power to fix marketing quotas for the various producing areas supplying this market.

By expanding or contracting quotas, the Secretary of Agriculture can wield a direct influence on price entirely apart from the normal operation of world supply and demand. In this situation, the sugar futures market provides a valuable protection for refiners, importers, manufacturers and distributors, against possible price fluctuation which may result not only from changes in quotas or miscalculation on the part of the Secretary of Agriculture as to the probable demand, but which normally occur within the price range possible under any specific quota.

It seems inconsistent to us for the administration to request margin controls on sugar for the ostensible purpose of holding prices down, while it is simultaneously preparing to hold prices up by restricting the amount of sugar that could be available to the American housewife in 1948. According to press reports, the President has recently signed a proclamation ending the wartime suspension of sugar quotas. The Secretary of Agriculture is said to be preparing for public hearings to assist him in determining a proper quota for United States consumers in 1948.

What does this imply? If there is a shortage of sugar we certainly need no quotas. On the contrary, we should encourage the importation of sugar from any offshore area where it is available.

By its plans for the reimposition of quotas controls, the Administration admits that there is a surplus of sugar available for this market in 1948 and that quotas are necessary to prevent a decline in price below a level that would be fair to the domestic industry.

(5) The exchange performs a useful economic function in providing price insurance for producers, importers, dealers, distributors, and processors. To be fully effective a broad and continuous market is essential, and any artificial or arbitrary controls that would restrict its volume, continuity, or sensitivity would lessen its utility and result in greater distribution costs, to the detriment of both producer and consumer.

ARGUMENT

In support of these premises, I should like to outline briefly the history of the New York Coffee and Sugar Exchange and show how it is the direct outgrowth of "spot" trade practices that existed before the exchange was organized and which would come into existence again if the exchange were closed; enumerate some of the regulatory powers now vested in the board of managers of the exchange; and trace in some detail how this machinery is used by the various segments of the industry for protection against price risks on growing crops, warehouse stocks, and raw material in process.

HISTORY OF EXCHANGE AND ORGANIZATION OF COFFEE FUTURES MARKET

Our Coffee and Sugar Exchange was organized in 1882, first as the New York Coffee Exchange, and trading was confined to the one article. Its formation, according to one account, was due largely to the disorganization existing in the spot coffee trade as a result of overproduction, falling prices, and the failure of a syndicate that had tried to maintain a monopoly during the preceding years. It was an attempt to bring order out of chaos; to stabilize prices by broadening the market and offering protective hedge facilities to growers, roasters, and dealers; to establish definite grades and standards; to root out unethical trade practices and set up machinery for the arbitration of disputes; and to collect and disseminate accurate and useful trade statistics and market information.

These are perhaps some of the more compelling and specific reasons leading to the formation of a definite organization or exchange, but the essentials of the idea were already there, because it is also recorded that trade practices very similar to a futures market were in operation. The coffee importers and merchants of that time were faced with the same problems as our present-day merchants. Their customers wanted to purchase for future delivery, and it was up to the merchant to make the sale and then protect himself as best he could against a rising market. Or, perhaps the merchant and roaster had to accumulate stocks at times in anticipation of the future demands of customers, and then protect themselves if they could against a falling market. Sometimes specific shipments suffered loss at sea, or boats were delayed. A merchant, under those conditions, in order to make good on his promised delivery, would turn to other local merchants and acquire the needed goods. For these and many other reasons, all quite logical and common in the merchandising and distributing trades, the coffee merchants of New York were constantly buying and selling "spot" and "to arrive" lots among themselves.

As this type of trading grew with the expansion of the entire market, it frequently became quite burdensome just to pass the essential documents of title down the chain of buyers and sellers and make settlement on a specific lot. Sometimes in an active market it was found that a bill of lading, a dock receipt or warehouse receipt had changed hands so many times that all available space for endorsements had been used up. Sometimes an intermediate receiver would find the same lot of coffee coming back to him from another receiver further down the chain.

The more progressive members of the trade finally got together and said, in effect, "Look here, we should have enough intelligence to do this thing more efficiently and more safely. We should set up machinery whereby all this burdensome physical handling and transferring are eliminated as much as possible." This led to the procedure known as ringing out. Under this system, when it was established that the same lot of merchandise had been sold and resold among the ring group prior to delivery, the original seller presented documents direct to the ultimate buyer and all others involved in the series of transactions said each other off by settlement of the respective differences in the prices involved. This was a vast improvement over the system of the physical delivery of the documents in each instance as it eliminated the laborious checking and duplicate checking of invoice, weights and grades.

There was another very important consideration in this type of trading. That was the factor of financial risk. Several months might elapse between the time goods were contracted for and delivered. One could never be sure, especially in periods of drastic price change, of the solvency of any one of the parties of a chain of transactions which might form the so-called ring. This credit risk, of course, applied to a lesser degree on simple transactions for extended delivery between two firms alone. To eliminate this credit risk, the interested merchants agreed for their self-protection to establish margins prior to delivery.

Here, then, in the "ring" settlements and margin requirements, we have the forerunners of our modern futures markets and auxiliary clearing houses.

SUGAR TRADING INAUGURATED

Sugar futures trading was inaugurated in December, 1914. Prior to that time the sugar trade had looked to the terminal markets of Hamburg and London for hedging facilities. When these markets were closed upon the outbreak of World

War I, leadership passed to New York. To overcome the inconvenience resulting to producers, dealers and consumers of sugar from the absence of recorded sales showing the consensus of the world's opinion with respect to prices; and to reestablish hedging facilities in sugar, the Coffee Exchange added sugar to its trading list. In 1916, the name was changed to the New York Coffee and Sugar Exchange, Inc.

Upon the entry of the United States into World War I, trading was suspended in sugar and not resumed until February 16, 1920. The real beginning of sugar futures trading in this country, therefore, dates from about 1920.

SPECULATION WHEN EXCHANGE CLOSED

Apropos the current allegations with speculation on the futures markets is responsible for the rise in commodity prices. I should like to cite the market action of sugar during the late months of 1919 and the early months of 1920. In August 1919, after several years of wartime control and crop-purchase contracts, the first sales of Cuban raw sugar were made for shipments during January 1920. The price was $6.25 per 100 pounds f. o. b. Cuba. In May 1920 I have personal knowledge of a sale of a cargo of Cuban raws at $25 per 100 pounds f. o. b. In other words, sugar had quadrupled in price in 9 months. The sugar debacle of 1920 has been used frequently as the "horrible example" of speculation in commodities. For the record, however, let it be stated that the exchange was closed during most of this speculative period. The reopening after World War I was February 16, 1920. Futures trading for many months was purely nominal, and could not possibly have contributed to the speculative excesses of that period. I have the figures for the number of contracts dealt in during the first 4 months of exchange operation in 1920. They are:

	Contracts	Tons
February 1920	70	3, 500
March 1920	209	10, 450
April 1920	752	37, 600
May 1920	1, 016	50, 800
Total	2, 047	102, 350

You will note that the total trading from the reopening of the exchange to the end of May 1920 was only 102,350 long tons; just about 1 week's consumption. In later years as trading expanded, that much business was frequently done during one trading day.

I have cited the exchange volume up to the end of May 1920 because that date marked the beginning of the end of the speculative boom. It is the accepted opinion in trade circles that prices would not have risen so high nor collapsed so violently if a broad futures market had been in operation during that period. Certainly many distributors and processors would have had an opportunity to protect themselves against market loss on the stocks of sugar which they had to carry in the normal operation of their business. The principal point that I am trying to make, however, is that there can be violent speculation in a commodity without a futures market.

SUGAR FUTURES CONTRACTS

Prior to 1936, the exchange provided only one principal sugar contract which was based upon raw sugar delivered in licensed warehouse in New York. Our quotations reflected the approximate c. i. f. delivered value of Cuban raw sugar and it was an easy matter, by deducting current ocean freight and marine insurance, to compute the f. o. b. Cuban equivalent at which price sugars were offered indifferently to all buyers whether in the United States, United Kingdom, Europe, or elsewhere. In other words, there was a one-price market in Cuba for the entire world, and a single contract was sufficient to give hedge protection for all buyers and sellers throughout the world.

During the middle thirties, our domestic sugar legislation establishing sugar quotas for the areas supplying the United States changed all this and established a two-price market: One price for consumers in the United States; another price for buyers in other parts of the world. Cuban producers and other producers who had a quota in this market soon found that they could still hedge that part of their production on our exchange; but not that part which must be sold outside of the United States. Our exchange quotations, as a result of this quota legislation, had begun to reflect our internal domestic prices, which in turn fluctuated inversely with changes in quotas and were often wholly unrelated to world values. Our contract overnight had become virtually useless as a hedge medium for Cuban "world" sugars, or for the production of other areas such as Santo Domingo, Peru, Java, or Europe that had no quota, or an insignificant quota, in the United States market.

To remedy this defect, the exchange devised an entirely new contract in 1936 designated No. 4, based upon raw sugar delivered in licensed warehouse in Cuba, which would give producers throughout the world the same protective hedge facilities for "world" market sugars that they had theretofore enjoyed in our old contract. The Cuban Government cooperated with the exchange in devising the new contract and by Presidential decree conferred certain preferential rights and exemptions upon sugars entering into the channels of exchange trading. The contract worked very satisfactorily for 6 years until trading was suspended shortly after our entry into the war, and was used extensively by Cuban and other producers throughout the world for the purpose for which it was designed.

Thus, we have devised two contracts, one a domestic contract which we call the No. 5 and the other, a "world" contract identified as No. 4. Each calls for the delivery of 50 long tons in licensed warehouse either in New York or in specified Cuban ports. The trading range in both is 18 months, including the current month. In other words, we are trading now for deliveries as far ahead as May 1949. We have recently resumed trading in contract No. 5 after a wartime suspension of more than 5 years. Trading in the world contract No. 4 has not been resumed after its wartime suspension, but Cuba has recently expressed a desire to have this special contract revived because of its value to her producers in marketing that portion of their production destined to countries other than the United States.

ADMINISTRATIVE ORGANIZATION

I shall pass very briefly over the administrative organization of the exchange since it is similar to that of other commodity exchanges; or corporations organized under our State laws. There are the usual elective officers, a board of managers and various appointive committees—all of them men experienced in the trades from which they come.

PROTECTION AND POLICING

The board of managers of the exchange is constantly on the alert seeking at all times to safeguard the interests of members and nonmembers who trade in the futures contracts provided by the exchange.

Of particular importance are the provisions contained in section 17a and 35d of the bylaws which experience has shown essential to the orderly conduct of business on the exchange—especially at those times when usual factors create situations which may have a detrimental effect on the many and varied interests involved.

Section 17a permits the board of managers, when in its opinion a situation or interest exists that may jeopardize the normal functioning of the exchange, to request the President to appoint a control committee (not members of the board of managers) to serve for such period of time as may be necessary to carry out the duties prescribed in section 35d.

Section 35d authorizes the control committee, upon its appointment, to require information from members with respect to their own and clients' positions and accounts. This information is given to the treasurer of the clearing association, and is tabulated and reported by him to the control committee, using numbers and symbols in the place of names. Should the control committee find, upon its examinations of such reports, that a market interest exists which might jeopardize the normal functioning of the exchange it may then obtain from the treasurer the names attached to any number of symbol.

In the event the committee finds any violation of the bylaws or rules, it is reported to the board of managers for their action. If it is found that there exists, in any month or months, a situation or interest which might jeopardize the normal functioning of the exchange, the committee endeavors to bring about a correction thereof. If this does not succeed, the committee reports its findings, together with its recommendations, to the board of managers.

By a two-thirds vote of the entire board, the board of managers may require:

(*a*) The liquidation within a specified time of such position of any member's contracts (whether carried for the member's individual account or for the account of the member's customer) as the board may deem advisable;

(*b*) Liquidation within a specified time of all open contracts (whether carried for member's individual account or for the account of the member's customer) of all open positions in any designated month or months and determine, if deemed advisable, the price at which such liquidation is to be effected.

ARBITRATION

Under the charter of the exchange the board annually elects by ballot five members who are not members of the board of managers, to serve as the arbitration committee. The duty of this committee is to hear and decide any controversy which may be voluntarily submitted for arbitration by members of the exchange or any persons claiming by, through, or under them. Upon filing of the submission and award in the office of the clerk of the city and county of New York, duly acknowledged or proved in the same manner as deeds are required to be acknowledged or proved in order to be recorded, a judgment may be entered therein according to the award, and after docketing and filing of transcripts, executions may be issued thereon, as authorized by law in regard to judgments of the Supreme Court. Judgments entered in conformity with such award are not subject to be removed, reversed, modified, or appealed in any manner by the parties thereto except for frauds, collusion, or corruption of said arbitration committee or some member thereof.

CLEARING ASSOCIATION

All contracts made on the exchange must be cleared through a clearing association, an organization separate from the exchange. The function of this association, which is known as the New York Coffee & Sugar Clearing Association, Inc., is similar to that of a clearing house for banks.

Each clearing member must advance to the clearing association an amount of funds (presently $15,000) which collectively (together with such surplus as the clearing association may devote to the same purpose) constitutes a "guaranty fund." These funds may be used for payment of any loss or damage to the clearing association resulting from the default of any clearing member, thus providing protection for the clearing association, the clearing member, and the customer.

This association accepts contracts offered to it by clearing members for clearance, and by such acceptance assumes the obligations imposed and succeeds to all the rights and benefits accruing therefrom, becoming thereby the seller to the buyer, or the buyer to the seller, as the case may be.

Each daily report of the clearing member to the association is accompanied by a check to the order of the association or a draft upon it to the drawer's order for the amount necessary to cover market variations on outstanding contracts and to adjust them to the day's closing prices. The association restricts its members as to the number of contracts that they may carry.

ORIGINAL MARGIN REQUIREMENTS

The directors of the clearing association regulate the margins required from the members who carry contracts with it. These margins vary from time to time depending upon market conditions and the calculated risks of default. Prewar, the margin required on a coffee contract of 32,500 pounds was generally about $250; on a sugar contract of 112,000 pounds, it ranged from $250 to $350 on the domestic, and from $125 to $350 on the world contract. Today the coffee margin is $750; sugar $850.

The exchange regulates the margin relationship between broker and client. Today the broker may accept business from a trade customer without requiring a deposit. A nontrade client, however, must deposit with the broker the same margin that the broker puts up with the clearing association. In the case of coffee the nontrade client must deposit margins in excess of clearing association requirements.

Please note that all brokers who carry contracts with the association must deposit the required margins. They are permitted to accept business from trade customers without deposits, but if they do so, then they are in effect acting as bankers in financing the hedge transactions of their clients. Many coffee and sugar brokers, having only a modest capital, will not accept business even from trade clients unless accompanied by original margins in the same amount as the broker is required to deposit with the clearing association.

MARGINS IMPOSE ADDITIONAL FINANCING BURDENS

Original margins, if excessive, can work a very severe hardship on the producer. For example, to completely hedge a 50,000-ton sugar crop requires $850,000 in the way of margins. If our margins were increased to 33⅓ percent, or $2,000 per contract, the same operation would necessitate margin deposits of $2,000,000.

The same situation exists with respect to the importer, refiner, or processor. He has not only the burden of financing his raw materials while in process or in warehouse, but also the additional burden of providing margins while they are covered by the protective hedge sale. Commercial banks might be reluctant to underwrite transactions involving such double financing if margins were set unduly high.

As a consequence, it is argued that an increase in margins when prices are advancing might tend to further increase prices on the exchange, because hedge selling would be discouraged by the additional financing required.

The margin requirements of our exchange are now considered too high by many members of the trade and we are constantly receiving petitions for their reduction.

Throughout its history the exchange has regulated margins with a minimum of complaint from its members, and there has never been a default on a contract carried by the clearing association.

COMMODITY EXCHANGES DO NOT MAKE PRICES

Because of the popular belief to the contrary, it cannot be overemphasized that commodity exchanges themselves do not buy or sell the commodities dealt in on their floors. The Coffee and Sugar Exchange has never bought or sold a lot in its 65 years of existence, and it has no power to do so under its charter. We provide a meeting place for buyers and sellers, and facilitate in every way possible the transaction of business; but, in general, we have no control over the quotations made on our floor except certain technical controls common to all exchanges. The actual trading is done by brokers who, in many cases, are acting for clients such as producers, refiners, processors, coffee roasters, importers, industrial users, and speculators. The exchange provides certain machinery and a meeting place where approved individuals or firms may execute their orders in a very rigid exact contract, in accordance with the trading rules prescribed by the exchange, under the watchful eyes of the floor committee. We hold that it is not the function of an exchange to influence this stream of activity other than to see that it is kept clean and conducted in an ethical and equitable manner. Above all, we hold that it is not the function of the exchange or of the Government to manipulate prices by margins or otherwise.

Unfortunately, there are too many persons ready to indict the exchanges merely because they register in their quotations unpleasant fundamental economic conditions and future trends. The exchanges might be likened to a clinical thermometer. They may indicate a fever, but they do not make it. The wise physician seeks the cause, and does not break his thermometer because it registers 105°.

HEDGING EXAMPLES

Permit me to cite a few examples of how our exchange is used by various segments of the industry. I limit myself to sugar, and draw only from my own knowledge and experience. Nearly all the examples would apply, however, to coffee by merely substituting the words "coffee grower" for "cane farmer," or "coffee roaster" for "sugar refiner." Dealers and distributors' stocks are protected in the same manner whether they be sugar or coffee.

HEDGING BY A RAW-SUGAR PRODUCER

In Cuba there are about 160 active mills that grind cane and process it into raw sugar. The cane is planted and cultivated in part by farmers known as colonos and in part by the mills themselves on company-owned land. During the grinding season, which extends from the first of January to the end of May, the colono delivers his cane to the mill and is paid for it on the basis of the average New York market price for sugar. These cane settlements are made fortnightly. At the same time, the mill is grinding its own company-owned cane. From this you can see that the mill becomes the owner each fortnight of two batches of raw sugar; one batch produced from its own cane and the other produced from the cane bought from its farmers or colonos. Since the Cuban crop is sold over a period of 12 months, the mill assumes a very substantial market risk during the grinding season. It is the almost universal practice of the modern enlightened mill owners to sell on our exchange all or a substantial part of the colono sugar which they are required to take over during the grinding season. They may likewise hedge part of the sugar that has been produced from their own cane. Many mills, of course, make sales of actual sugar to American seaboard refiners during the grinding season but, since there is a limit to refiners' storage capacity, it is necessary that the Cuban producers have some other sales outlet if they are to protect themselves against market declines during the second half of the year.

HEDGING BY THE COLONOS

The cane farmer or colono also utilizes our exchange. Sugarcane requires 12 to 15 months to mature. During this period the colono incurs certain cultivation expenses. Sugar prices and labor costs may be very high during the year of cane growth, but the colono is not able to cash in on these high market prices since he is not paid for the cane by the mill until it is actually cut and delivered. Therefore, if he anticipates a substantial decline in the market during the crop year in which his cane will be harvested, he sells sugar futures for delivery 6 to 12 months in advance. If his forecast has been correct, he will receive less money for the cane, but this will be offset in a general way by the profit on his futures sale. When the cane is delivered to the mill, he naturally repurchases his outstanding futures unless he is still bearish on the market and wishes to remain short. In that case, his position changes from that of hedge seller to outright speculator on the bear side.

HEDGING BY SEABOARD CANE REFINERS

Cane refining is a big-volume business requiring large plants and ample capital. Despite the fact that sugar is used daily by every citizen in more or less equal quantities, its distribution from the refiner level is extremely uneven. The distributing trade buys on what are called moves; taking on at one time 30 to 45 days' supply. This means that the refiner must buy large quantities of raw sugar, process it into refined and carry it in his warehouses until the trade is ready to take it off his hands. Many times when his inventories become uncomfortable on a declining market, he has to resort to our futures market for temporary protection.

HEDGING BY BEET PROCESSORS AND GROWERS

The situation of the beet factories in our Western States is not greatly different from that confronting the Cuban raw-sugar mill. The farmer grows the beets and delivers them to the factory. The beets are processed by the factory and the resulting refined sugar sold over a period of 12 months. After deducting taxes, discount, freight, and selling expenses, the net proceeds of the year are divided approximately on an even basis between the factory and farmers. In this case, you will note that the beet processor does not take the same market risk as the Cuban mill because he does not pay for his beets at a fixed market price during the harvesting period. Nevetheless, if the market is declining, both the factory and the farmer receive a lower average net price. If the market is attractive during the harvesting season, the best factory can sell part of its expected production on the exchange, repurchasing later as the sugar is sold. The beet farmer can also sell futures against his growing crop if he anticipates a decline.

HEDGING BY LOUISIANA CANE REFINERS

The Louisiana cane crop is harvested during the last 3 months of the year. The cane is processed into raw sugar by small country mills. In accordance with long established marketing practices the raw sugar is usually sold to the large Gulf refiners on an average price basis. The pricing period is of about 13 weeks' duration, spanning the harvesting season and extending somewhat beyond.

As a consequence, the Gulf refiners frequently find themselves with substantial stocks of raw sugar on hand at the end of the harvesting season, priced perhaps at an unfavorable level, with no prospects of moving all the resulting refined sugar into the channels of consumption until spring or summer. Under such circumstances, it is not unusual for the refiners to place a protective hedge sale in the futures market, repurchasing later as stocks of refined move out to consumers.

HEDGING BY INDUSTRIAL USERS OF SUGAR

Many of our large industrial users of sugar, such as the bottlers, candy manufacturers, bakers, and others, use the exchange as a matter of ordinary business routine. For example, a candy manufacturer may book orders for the Christmas or Easter trade several months in advance. If he finds it inconvenient or impossible at that time to buy the necessary sugar from a refiner, he merely purchases an equivalent amount of sugar futures on the exchange. Then later, as the sugar is needed for processing in his plant, he goes to a refiner and purchases for prompt delivery and closes out his exchange hedge. If the price of sugar has advanced, he pays the refiner more but makes an approximately offsetting profit on his futures purchase. If the market has declined, he would naturally sustain a loss on his futures but then he would be paying less for his refined sugar.

These are by no means all of the hedge possibilities of the futures market, but they are perhaps the most outstanding examples.

THE ROLE OF THE SPECULATOR

In nearly all the hedging examples cited you will note that a sale of futures is involved. The sugar factory, the beet grower, cane farmer, and coffee producer sell against growing crops or warehouse stocks. The importers and dealers sell against their stock-in-trade while it is being held in warehouse awaiting demand from the consumer. The refiner, roaster, and manufacturer sell against raw materials in various stages of processing, or against necessary inventories and working stocks. The importers and dealers sell against their estimated orders.

It is pertinent to ask you buys all these futures contracts, especially during the peak of production when supply temporarily outruns demand. Obviously one seller cannot sell to another seller. The answer is that the speculator absorbs a substantial portion of it. It is true that some trade selling is matched by trade buying. It is equally true that some speculators are found on the short side of the market, but on net balance their accounts will generally be found on the buying side during the producing season. Thus they act as professional risk bearers for the producers and processors who wish to be relieved of market worry and left free to devote their time to producing and processing. The speculator in these cases assumes the combination role of banker and warehouseman. He hopes that his interest and warehouse charges will be returned to him in the form of a higher price later on as the commodities move into the channels of consumption.

Some speculation is on a short-range basis. It may be to make only 1 cent on a hundred pounds of coffee or sugar within a few hours, or a couple of cents in a few days. This type of speculation is nevertheless useful for the trade hedger. It is in fact essential. It is the thing that gives breadth and continuity to the market, so that the trade hedger knows that he can always find a buyer or a seller within a very few points of current quotations.

The role of the speculator in our present day marketing methods is well expressed in the report of the Hughes' committee on speculation in 1909, which said: "Speculation consists in forecasting changes in value and buying or selling. * * * When carried on in connection with either commodities or securities it tends to steady prices. Where speculation is free, fluctuations in prices, otherwise violent and disastrous, ordinarily become gradual and comparatively harmless. Moreover, so far as commodities are concerned, in the absence of speculation, merchants and manufacturers would themselves be forced to carry the risks involved in changes of prices and to bear them in the intensified condition resulting from sudden and violent fluctuations in value. Risks of this kind which merchants and manufacturers still have to assume are reduced in amount, becaues of the speculation prevailing; and many of these milder risks they are enabled, by hedging, to transfer to others. For the merchant or manufacturer, the speculator performs a service which has the effect of insurance."

The legality and usefulness of our futures markets has long been upheld by out courts. In a case involving our own exchagne in 1924, Chief Justice Taft, in delivering the opinion of the Supreme Court, said in part:

"* * * the usefulness and legality of sale for future delivery, anf of furnishing an exchange where under well-defined limitations and sales, the business can be carried on, have been fully recognized by this Court. * * * Those who have studied the economic effort of such exchanges for contracts for future deliveries generally agree that they stabilize prices in the long run instead of promoting their fluctuations."

The same idea, with a caution against crude attempts to suppress speculation, was expressed by Justice Holmes in a United States Supreme Court decision (*Board of Trade* v. *Christie*, 198 U. S. 236–246). I quote:

"People will endeavor to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophies, equalizing prices, and providing for periods of want. It is true that the success of the strong induces imitation by the weak, and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn. But leguslatures and courts generally have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such coarse attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being are harmful and vain."

EXCHANGE CONSIDERED ESSENTIAL BY THE TRADES

We of the coffee and sugar trades accept the exchange not only as a matter of course, but as an absolute necessity if we are to continue merchandising and distributing our commodities on the very narrow competitive spreads existing today. I know of no individual, whether he be producer, processor, or distributor, who would willingly suppress or destroy the exchange.

CONCLUSION AND SUMMARY

Much of my testimony has been devoted to an analysis of the exchange I represent. I have tried to take it apart and show you in considerable detail how it developed, how it is governed and regulated and how it serves the coffee and sugar industries.

We maintain that our exchange performs a useful economic service because it provides price insurance for the grower, producer, processor, importer, and distributor. It facilitates and lessens the cost of financing growing crops and warehouse stocks. It reduces the distribution costs between producer and consumer because it permits of the elimination of major market risks. It links all the markets of the world, and provides a ready continuous market at all times for both buyers and sellers. By supplying sensitive price information it facilitates the forecasting of future trends in supply and demand and enables the businessman to more intelligently plan ahead.

Fortunately, the case for commodity exchanges, and the role of the speculator therein, does not have to rest on my testimony. It has already been stated by such eminent jurists as Hughes, Taft, and Holmes. Ample additional testimony is available from economists, bankers, editors, and other students or our markets.

If, then, you accept the thesis that our commodity exchanges preform a useful service, we ask that no hasty or ill-considered legislation be enacted, under the guise of a temporary emergency, that would lodge with the executive branch of the Government powers to regulate our exchange, to discriminate against one class of traders, to try to influence prices by manipulation or margins, or to otherwise upset the delicate balance between the forces of supply and demand, thereby impairing or destroying the usefulness of the exchange as a hedge market.

We submit that the burden of proof rests upon those asking such powers to show that the Coffee and Sugar Exchange does not operate in the public interest, and that they are more competent to regulate its affairs than the men in the industry.

GENERAL FOODS CORP.,
New York, 17 N. Y., December 1, 1947.

Mr. JOHN GARDNER,
President, New York Coffee and Sugar Exchange,
New York 4, N. Y.

DEAR MR. GARDNER: We are concerned regarding legislation proposed by the administration which would give them the right to regulate margin to control prices. As a member of your exchange, we trust you will do everything possible to convince the Washington authorities that supply and demand regulate prices and that punitive margin requirements will tend to destroy the liquidity and, therefore, the value of our exchange.

While we, of course, must follow markets up and down in pricing our products for ultimate consumer use, there have been times in the past and there will likely be times in the future when it is necessary for us to make forward sales and the only way this can be done when we are unable to cover actual raw materials, is to use the exchange.

Very truly yours,

GENERAL FOODS CORP.,
J. N. WILLIAMS.

THE NATIONAL SUGAR REFINING CO.,
New York 5, N. Y., December 1, 1947.

Mr. JOHN GARDNER,
President, New York Coffee and Sugar Exchange, Inc.,
New York, N. Y.

DEAR SIR: We refer to your request for further information on the usefulness of the New York Coffee and Sugar Exchange to a refiner of raw sugar. At the request of the exchange I wrote the paragraph under the title "The Sugar Refiner" on page 9 of the New York Coffee and Sugar Exchange's booklet 1882–1947 issued this year.

In brief, a sugar refiner, the same as any other manufacturer, is obliged to carry an inventory to properly service customers. On raw supplies for the reasons of voyage alone a refiner must have either on hand in stock or purchased to arrive a minimum of a 30-day supply of raw sugar. For loading and voyage time from the source to refinery it requires 12 to 15 days, providing a vessel is on hand at loading port and the latter is an exception rather than the rule. To this elapsed time must be added the availability of the vessel plus the time it takes such vessel to travel to the source of production to load. To this inventory of raw sugar must be added an inventory of refined sugar which is essential to the proper conduct of the business.

Therefore, a refiner is subject at all times to an inventory loss inasmuch as he works purely on a refining margin between raw and refined sugar including a very modest profit per pound.

To insure against this possible loss, the ideal situation is to purchase the necessary supplies of raw material and simultaneously sell (hedge) this on the exchange. When selling the refined product to his customers he simultaneously would repurchase his exchange sales thereby eliminating market risks. Unfortunately the exchange has not, since its reopening, had sufficient buyers to enable the refiner to operate on the sound principles outlined above. To remove this speculative feature from a refiner's business would require a volume of approximately 16,000 tons per day for refiner operation alone.

Aside from the so-called trade operations, where, when positions have been previously established and the liquidation of such transactions in turn permits fresh operations by other parties, it is absolutely necessary to have buying or selling interests from the investment public to permit the trade to eliminate risks. Any steps taken to further restrict or hamper the free use of our market would accomplish nothing more than to force the refiner to again take a speculative risk which is not his proper function in the business.

I would also like to pass on to you this word of caution as pertaining to any participation we might have in futures trading. On an imported commodity such as ours, restrictive measures of any nature, whether only authorized or actually effective, will create a demand on the part of some of the trade to establish an exchange at the source of production where no uncertainties or restrictive measures exist. In addition to some inherent dangers in our trading on an exchange located elsewhere it would also be unfortunate to those employees and individuals enjoying income in the form of wages, rent, etc., to have the exchange functions performed in a foreign country.

Yours very truly,

G. W. KNAUTH,
Manager, Raw Sugar and Export Department.

THE FRANCISCO SUGAR CO.,
New York 5, N. Y., December 1, 1947.

Mr. JOHN C. GARDNER,
President, New York Coffee and Sugar Exchange, Inc., New York, N. Y.

DEAR MR. GARDNER: In view of the prevailing atmosphere in Washington to regulate commodity exchanges, we, as Cuban sugar producers of almost half a century, wish to make a strong plea against any form of Government regulations.

The Cuban sugar crop, as you know, is produced in 5 months and marketed over 12 months or longer. During the harvesting period, before the days of the exchange, Cuban sugar producers were forced to sell a substantial portion of their crop in order to liquidate with farmers and bankers regardless of whether the market was high or low. Consequently, prices were easily depressed.

The New York Sugar Exchange, where it is possible to buy or sell for future delivery, changed all that. It provided the only kind of insurance where we and our farmers can now market our crops over a longer period instead of on a spot basis.

A free exchange, acting as a price stabilizer, is the only medium which provides a constant competitive market and facilitates financing and eliminates risks which formerly hampered production and distribution.

W would greatly deplore any attempt to restrict the free functioning of the sugar exchange.

Yours very truly,

THE FRANCISCO SUGAR CO.
J. S. LEVENE, *Secretary.*

S. A. SCHONBRUNN & CO., INC.,
New York, November 28, 1947.

MR. JOHN GARDNER,
President, New York Coffee and Sugar Exchange,
113 Pearl Street, New York, N. Y.

DEAR MR. GARDNER: We wish to register a vehement protest against the contemplated plans of the administration to regulate margin requirements on the commodity exchanges and to also put the coffee, cocoa, and sugar exchanges under commodity exchange administration.

It is our opinion that the members of the various exchanges, through their respective clearing house board of managers, have the general welfare uppermost in their minds and fix margin requirements accordingly.

We think you will agree that margins that are set too high will undoubtedly restrict trading in some exchanges to such an extent that their functions will practically cease.

We have been in the coffee roasting, importing and jobbing business since 1899 and have found the facilities of the coffee exchange to have been of great assistance to our growth and progress. We have not only used it to buy futures on occasion and receive coffees for our use, but have used it to hedge purchases against market declines.

Many opportunities present themselves on various occasions whereby planters in the producing countries offer coffees for far off shipments and buyers of these coffees here take advantage of these opportunities to make attractive purchases and protect themselves from market declines by selling futures on the exchange; but to sell futures it is necessary to have a buyer which high margins might prevent. The benefit of these attractive purchases, through competition, are passed on to the consumer.

As coffee is an import commodity there are many factors to be taken into consideration when purchasing or selling, and it is our conclusion that the exchange acts as a great stabilizer on harmful prices to the consumer and on ruinous prices to the producer, and any impairment of its functions through governmental interference will be a calamity to the general welfare.

Appreciating your efforts in enlightening the proper governmental authorities so that they may reconsider their plan, we are,

Sincerely yours,

S. A. SCHONBRUNN & CO., INC.,
E. M. WILKINSON

SOUTH PORTO RICO SUGAR CO.,
Jersey City, N. J., November 28, 1947.

JOHN C. GARDNER, ESQ.,
President, New York Coffee & Sugar Exchange, Inc.,
New York, N. Y.

DEAR MR. GARDNER: In view of newspaper comments that Congress, during the present special session, may consider legislation designed to increase Governmental control over commodity exchanges we wish to emphasize the importance to sugar producers of the maintenance of an exchange where the free forces of supply and demand may reflect the true value of our product. We believe that arbitrary controls over the size of margins, or restrictions on the use of the exchange by speculators, only serve to narrow the market and thus make the use of the exchange by producers a hazardous operation instead of the protective function it is supposed to afford.

As you know, Puerto Rican producers purchase sugarcane from thousands of cane growers under a contract whose terms are drafted, or approved, by the Department of Agriculture. The price to be paid to these growers is the average as quoted in New York for each fortnight during which the grower delivers his sugarcane. The resulting sugar is sold in cargo lots as it becomes available, but only as fast as the market can satisfactorily absorb those quantities. More often than not sugar must be marketed over a considerably longer period of time than the delivery period of the sugarcane. As long as Department of Agriculture determinations require the purchase of sugarcane on the simple average of daily quotations during a restricted period and the location of the Puerto Rican producers makes it necessary to sell raw sugar only when sufficient quantities are accumulated for cargo shipments over a longer period, there must be available for all producers a free market place where small quantities of sugar can be marketed each day, if necessary.

The most important factor is for the volume of transactions on the sugar exchange to be great enough to reflect truly the real value of that product. Speculators are helpful in providing that volume.

Although it is not often realized, speculators are both buyers and sellers and usually their net position in any market is small. Primarily they serve to provide the needed volume of orders so producers and users of the product may find a buyer or a seller, at a price, whenever necessary.

Very truly yours,

W. C. KEMPER,
Assistant to the President.

STATEMENT OF GEORGE C. SCHUTTE, PRESIDENT, NEW YORK COCOA EXCHANGE, INC., NEW YORK, N. Y.

Mr. SCHUTTE. Mr. Chairman, my name is George C. Schutte I am vice president of Scarburgh Co., Inc., cocoa merchants of New York, and president of the New York Cocoa Exchange, Inc. I am appearing here as spokesman of New York Cocoa Exchange, Inc., of New York.

New York Cocoa Exchange, Inc., desires to register vigorous opposition to requests from the executive branch of the Government for power to fix margins on futures trading in cocoa as being against the public interest.

New York Cocoa Exchange, Inc., believes firmly that the margin power in commodity markets should properly be used for the purpose of guaranteeing the integrity and performance of the contract, and for this purpose only. The rate of margins must never be manipulated for the purpose of attempting to influence price at any time, by anyone.

The public interest requires that the Nation's great public market places be free at all times of any influences that can possibly interfere with the establishment of prices by the forces of supply and demand.

Our public market places exist to perform a vital economic function for the producers, importers, processors and consumers of our basic commodities. They perform this vital economic function efficiently in direct proportion to their breadth and liquidity. They are, above all, markets for hedging purposes, and all of the sound and proper factors which contribute to the efficient placing and removing of a hedge must always be nurtured and protected. They must never be discouraged, and the liquidity of the market place must never be tampered with.

The consummation of the placing and removing of a hedge requires two sides to the transaction. There must be a ready buyer for the hedge the seller must place, and a ready seller for the hedge the buyer must remove. The immediate availability of the other side of the hedger's transaction is one of the primary considerations necessary to the efficient functioning of the futures markets.

The highly complex economic factors behind this consideration have been exhaustively presented to your honorable committee by the grain trades over the past 2 days. Rather than burden your committee with further repetition of the basic exchange economics herein involved, in behalf of the New York Cocoa Exchange, Inc., I wish to enter into the record the fact that the same technical and mechanical conditions rule in the cocoa futures market as in the futures markets for the domestic commodities. Our exchange subscribes fully to the statement of the case as set forth by the grain exchanges on this matter. Excessive margins would damage the utility of the cocoa futures market, for the cocoa trade and for the public.

Cocoa is an import commodity. As such, unique and peculiar trade customs and conditions apply to its importation to these shores and its distribution to our people. We in the cocoa-import trade believe that a thorough and basic knowledge of all of these conditions is necessary at all times to the proper regulations of our market, including the proper rate of margins to assure its most efficient functioning. We believe that whenever new regulatory measures are necessary, the board of managers and members of the New York Cocoa Exchange are better qualified to determine them than any Government agency.

Current high prices of cocoa beans, wholly an imported product, can be attributed to the following causes:

1. General price increases and inflationary conditions not only here but in producing countries.
2. Supply and demand.
3. Single selling monopolies in west African and Brazil cocoa.

Cocoa, for the major part, comes from west Africa and Brazil, and is usually sold on 2- to 3-month shipping period spreads, and allowing for transportation elapsed time, it is not unusual for cocoa to arrive in this country 3 to 4 months after the time of original purchase. This makes the exchange extremely important—one from the standpoint of protection to the importer, and another that it provides a medium for assuring supplies on these shores.

Under the circumstances, it does not tax the imagination to estimate the effect of two monopolistic sellers controlling 78 percent of our requirements; British, 50 percent, Brazil, 28 percent.

The world cocoa market was brought to the United States of America by the establishment of the New York Cocoa Exchange in 1925, from London, Liverpool, and Hamburg. Formerly, a large part of African cocoa was shipped to these places and Amsterdam for transshipment to New York.

World monopolies now threaten the primacy of the New York market. The exchange must be kept as free as possible from any interference in order to fight the battle against monopolies and the exchange must not be throttled by domestic peacetime controls. Government controls in England, Brazil, and Santo Domingo could, in time, destroy free trading and dictate the fate of the American chocolate industry which consumes over 40 percent of the world's production.

The New York Cocoa Exchange is the lone sentinel in the totalitarian world cocoa markets. It is the sole lighthouse in the sea of darkness which threatens to engulf trading in the cocoa supplies of the world.

Despite pleadings of 3 years, we have had no help from our own Government in combatting foreign monopolies.

The totalitarian controls of the United Kingdom and Brazil have been instrumental in driving spot cocoa up to 54 cents per pound during November. The highest price concurrently quoted for any month on the New York Exchange nearest to the spot price for that month is 45 cents for December futures, and every other active trading month into 1948 on the exchange has been progressively lower, September at one time being 15 cents per pound lower than December.

When spot British west African cocoa and Bahia cocoa in the United States of America commanded 54 cents per pound, September 1948 cocoa futures were being traded in at about 32 cents per pound or about 20 cents per pound lower than spot cocoa.

The exchange has been, and is, a thorn in the side of the foreign cocoa monopolies because it hearlds to the world the truer values of cocoa produced in the free producing markets of the world. If the exchange is throttled with any Government controls whatsoever at this crucial moment, it would be aiding and abetting the world monopolies who could obtain and perpetuate a death group upon our chocolate industries.

The CHAIRMAN. Can you tell us, Mr. Schutte, just how the British monopoly operates?

Mr. SCHUTTE. Mr. Chairman, permit me to say I am prepared to discuss the effects of these monopolies, what effect they have had on recent current prices. However, if you would like to discuss the question of the British controls at any length, I would like to suggest that my colleague, Mr. Witkin, who was president of the cocoa exchange up until a month ago and who, with a committee of cocoa merchants, handled this matter for the past 4 years, is here and prepared to testify, if you wish, in a complete report.

The CHAIRMAN. Does the committee wish to go into any other matters on the cocoa exchange?

You may go on into the question of monopolies.

Senator O'MAHONEY. I would like very much to have this witness, or any other witness, describe the monopoly. Mr. Schutte says in his paper "Despite the pleadings of 3 years, we have had no help from our own Government in combating foreign monopoly."

Mr. SCHUTTE. Exactly, sir.

Senator O'MAHONEY. Will you tell us what those pleadings were, to whom they were addressed and what the foreign monopolies have been doing to your disadvantage and what you think can be done about it?

The CHAIRMAN. Are you prepared to do that, yourself?

Mr. SCHUTTE. In order to save time, Mr. Chairman, inasmuch as Mr. Witkin handled that for 4 years, and can give a very full statement, I suggest he would serve better than I.

The CHAIRMAN. Mr. Witkin, will you take the stand, please?

STATEMENT OF ISAAC WITKIN, PRESIDENT, GENERAL COCOA CO., NEW YORK, N. Y.

The CHAIRMAN. Will you tell us how the British monopoly operates? Maybe it is all one story. Tell us how that operates, what you have said, and to whom you have complained in the Government.

Mr. WITKIN. My name is Isaac Witkin. I am president of the General Cocoa Co., in New York, which imports and distributes cocoa from all parts of the world. I have been in the cocoa business for 33 years. I was one of the organizers and founders of the New York Cocoa Exchange and its first president, in 1925, and during the 3 years up to November 1, 1946, I was also president of the exchange.

I was also a member of a committee of three representing not only the exchange but the entire cocoa trade, excluding manufacturers. This committee was representing the importers, brokers, and distributors of cocoa, which has been coming to Washington with respect to all the problems of the United States cocoa importing and distributing trades before OPA, Department of Agriculture, State Department, and so forth. In that capacity, I have participated in making attacks upon a British white paper which was published during September 1944, wherein the Colonial Office asked the British Parliament for powers to make permanent its wartime controls of cocoa, carrying their powers into the peacetime period.

Since that paper was published the committee came to Washington, filed briefs with the State Department, had numerous interviews, wrote numerous letters, kept the State Department fully posted on what was being done in Britain to impose these controls.

During the latter part of that period, in fact almost the entire period except possibly the first year, the Department of Agriculture was in charge of regulating import quotas and the distribution of cocoa, regulating the manufacturers' grinding quotas on the basis of prewar years' grindings, and, generally, was fully cognizant of the efforts of our trade committee to induce the State Department to try to prevail upon the British Government not to implement the white paper on cocoa.

Despite all our pleadings and efforts, the white paper on peacetime control was enacted sometime during August or September of this year, possibly earlier and it went into effect with the commencement of the present year, which runs from October 1 to September 30, and this is the period during which the majority of crops from the producing countries of the world are harvested.

The CHAIRMAN. Do you know what the State Department did? Did they take the matter up with the British Government?

Mr. WITKIN. Yes; I think they took it up very, very vigorously from time to time. We were kept posted of what they were doing.

The Senator asked what specific steps we took. On December 11, 1944, my committee addressed a letter to Hon. Edward R. Stettinius, Jr., Secretary of State, giving him a full brief on the proposed control and our objections to it, and there were subsequent papers presented to the State Department. We were in touch with the head of the Commodity Division of the State Department regularly up to the time the paper was finally enacted. Our State Department informed us from time to time that it had assurances that American interests would be protected. At times we thought that the importunities of the State Department with the Colonial Office, through the British Foreign Office, would succeed in avoiding the establishment of the control, but they failed.

We tried to persuade the State Department to tie up our fight against the implementation of the white paper with the loan to Great Britain. Our committee went so far as to file a brief with the Ways and Means Committee, which we were not asked to appear before when it considered House bill 2652 in connection with the extension of the Reciprocal Trade Agreements Act. We suggested that possibly provision might be made in that extension agreement that the benefits of that agreement could not apply to any country which practiced cartelization or monopolies of products vital to our industries.

The CHAIRMAN. I think perhaps we could more clearly go back to that if you will tell us just what the British control is.

Mr. WITKIN. The British produce; that is, the Gold Coast Colony and the Colony of Nigeria produce approximately 55 percent of the cocoa of the world.

The world's production currently is about or was last year, 625,000 long tons. It is estimated in the current year it will be 650,000 long tons.

Prior to the war; that is, in 1939, 1940, and 1941, the world production was about 725,000 long tons.

There has been a sharp drop in production of cocoa in the world.

During the war years the British Control Board, operating under the Colonial Office in London, was in charge of the purchase and sale of cocoa in British West Africa. It fixed prices for the natives.

When the war broke out, we had in this country a supply equal to 15 months' requirements, based upon prewar consumption.

Early in 1942, because we had this enormous supply, imports from Africa of cocoa were prohibited for the balance of the year until we used it up and reduced our supply eventually to a 3 or 4 months' stock.

The Colonial Office was faced with the dilemma of disposing of African crops.

Because of submarine warfare and the scarcity of shipping it was evident that surpluses would accumulate on the Gold Coast and in Nigeria.

We in the trade believe that the Colonial Office feared that when the war ended there would be a glut of cocoa on the market, and whether it was motivated by that, or whether it was motivated by the scarcity of shipping and with the fear that the cocoa would rot anyhow, the Colonial Office through the British Control Board destroyed approximately 250,000 long tons of cocoa on the Gold Coast, and in Nigeria and the French Cameroons.

The British, incidentally, handled the French cocoa. The latter amounts to about 8 percent of world production, bringing their control up to 63 percent of world production at that time.

The French now control their own cocoa, but during the war the British controlled a totla of 63 percent of the worlds' cocoa.

The CHAIRMAN. You say they controlled it. Do they buy it or how does it operate?

Mr. WITKIN. The British Colonial Office fixed the price, something like 2 cents a pound, which was paid the native on the farm..

Senator O'MAHONEY. Who paid them?

Mr. WITKIN. The War Produce Control Board, an agency created by the Colonial Office.

Senator O'MAHONEY. Then this British Government agency bought all of the product?

Mr. WITKIN. It fixed the price and bought all the cocoa and then independently sold all of the cocoa.

During the war years it was sold first to our Commodity Credit Corporation. The Government did not buy or sell to the trade. All cocoa was sold through the importers, with the exception that the Commodity Credit Corporation at first and then the Department of Agriculture sort of negotiated the deal at the ceiling price and allocated the cocoa to the importers based upon historical records of imports in 1939, 1940, and 1941.

And it may be said that during the war years, our Government, namely, the Department of Agriculture, channeled the cocoa from the British War Produce Control Board to importers and importing manufacturers based on their historical records.

The CHAIRMAN. Can an importer now go to the Gold Coast and buy cocoa from anybody?

Mr. WITKIN. No, sir; that system obtained until October of this year.

Senator O'MAHONEY. Was that system helpful to the importers?

Mr. WITKIN. During the war?

Senator O'MAHONEY. Yes.

Mr. WITKIN. With prices fixed under war conditions, yes; I think it helped the industry.

Britain had to sell the cocao here at prices fixed around 9 cents per pound.

I might add that during the first 5 years of control, the War Produce Control Board made about $40,000,000 profit on its operations.

During the year which ended September 30 last, it made about $50,000,000 on its operations. That is the spread between what it paid the natives and what it received in the United States and foreign markets.

And during the current year, if it sells the balance of its crop at the price which it obtained for the first forty-odd thousand tons recently sold, it will enjoy a profit between $150,000,000 and $200,000,000.

Senator O'MAHONEY. As I understand it, after the war the British Government by the issuance of this white paper and its subsequent implementation extended this state monopoly in the purchase and sale of the cocoa product of the Gold Coast and Nigeria.

Mr. WITKIN. With a slightly different set-up, if I may explain, sir.

Two corporations were established, one on the Gold Coast, and one in Nigeria, each with a capital, I think, of a quarter of a million pounds, and they have boards in which natives and local members are participants.

Directors of those two boards sit in London and work with a director of sales who is the same gentleman as directed the sales of cocoa in London during the war period.

Formerly the War Produce Control Board, a creature of the Colonial Office, was officially in charge of the sale of the cocoa to the world.

Now Mr. Erik Hansley has been appointed by the two colonial governments, by and with the advice and consent of the Colonial Office, probably, to direct their sales.

You have two colonial corporations operating in London through a board in London, at the head of which is Mr. Erik Hansley, who controls the purchase and sale of all British West African cocoa.

Senator O'MAHONEY. During the war the Department of Agriculture and the Commodity Credit Corporation pursued a policy which was helpful to the importers and to the industry, as you have said.

Mr. WITKIN. I think so.

Senator O'MAHONEY. After the white paper was issued, the State Department vigorously presented your case to the British Government?

Mr. WITKIN. We think so.

Senator O'MAHONEY. In spite of that representation by the State Department, the British Government put the white paper into effect.

Mr. WITKIN. Yes, sir.

Senator O'MAHONEY. So now you are confronted with a situation which demands or does not demand Government action.

Will you tell us what that Government action would be and whether you have asked for any such action?

Mr. WITKIN. No; I don't think we have asked for any direct action since the white paper went into effect on October 1.

Senator O'MAHONEY. What did Mr. Schutte mean then by his statement:

> Despite our pleadings of 3 years, we have had no help from our own Government in combating foreign monopoly.

Mr. WITKIN. He is judging by results. His conclusions are based upon results.

We would rather have good results from little effort than no results from big effort.

Representative HORAN. Mr. Chairman?

The CHAIRMAN. Representative Horan.

Representative HORAN. Mr. Witkin, I would like to have you state further on "The New York Cocoa Exchange is the loan sentinel in the totalitarian world cocoa markets."

I understand by that the United States is the only free country indulging in free trading in the cocoa distribution in the world?

Mr. WITKIN. Practically, with few exceptions, yes.

I believe that most European buying countries still buy on a bulk basis. They are forced to.

I must add that cocoa is allocated internationally under the IEFC plan—International Emergency Food Council plan—for the coming year.

I believe that our State Department agreed to participate in the IEFC meetings held last July or later to fix import quotas, despite the fact that the manufacturers association and our association jointly asked the State Department to stay out. We wanted no part of it.

We felt that the sooner we got out of the IEFC and had a free market, the sooner we might break down these controls.

We are the only cocoa exchange operating in the world. Before the war there was one in London operating on a limited scale.

I might add that not only is there control in Britain, but there is control in Brazil but on a lesser scale.

When the British control went into effect, the Brazilians emulated it and created a single seller and buyer, a semi-Government institution.

Brazil handled cocoa the last year or two before the end of the war in similar fashion to the British.

But when OPA regulations were dispensed with in June, rather a month or two before that, Brazil restored complete free trade for cocoa commencing May 1, 1946—the Brazilian crop commences in May—until October 2, 1946, during which brief period cocoa trade in Brazil was completely free.

When price ceilings were restored in the U. S. A. on a higher level on October 2, 1946—on cocoa at about 14.95 against 8.86—per pound Brazil restored a modified control.

It retained freedom of trade of cocoa within the country. The farmer was free to sell to any exporter, the merchant free to sell to any processor in Brazil, but it provided that the same Government agency, the Institute of Cocoa (Instituto de Cacau da Bahia), would be responsible for and control all export sales.

All sales had to be channeled through the Institute and approved by the institute even though the sale was made directly by the exporter in Brazil to the importer in the United States or elsewhere abroad, with the result that, in effect, you still have a monopoly in the sale of cocoa from Brazil to the rest of the world.

The CHAIRMAN. What price did the British corporation get for the first 40,000 tons this year?

Mr. WITKIN. Forty-six cents a pound for the first 5,000 tons for immediate shipment in November, simultaneously with the sale of 15,000 tons additional at 43 cents for the Accra—Gold Coast—cocoa, and 43 cents and 42½ cents for the Nigerian cocoa, all for shipment during November and December.

The last sale before that under wartime control was at about 29.5 or 30 cents for the balance of the intermediate crop which was shipped during September or October.

The CHAIRMAN. What do they pay the producer?

Mr. WITKIN. The producer now gets a price of 50 shillings a head load in Accra—a head load is 60 pounds, what a porter can carry on his head—and less than 10 shillings which is withheld for a future subsidy fund in case prices should drop. So, in effect, he gets 40 shillings—$8—for 60 pounds, which is about 13-odd cents a pound; but adding the cost of bringing that cocoa to the port and prepaying freight to the United States, I would say, in effect, he gets approximately 18 cents a pound basis delivery at New York.

The CHAIRMAN. So that they pay 13 cents, and it costs 5 cents to process it, and that is 18 cents, and they charge a profit of 25 cents, giving a total of 43 cents; is that right?

Mr. WITKIN. Yes, sir, on those first transactions. And later transactions during the past week or 10 days have taken place at lower prices, it is rumored, down to 41 cents.

The CHAIRMAN. What is the effect of that on the production of cocoa?

Of course, if the producer got the higher price himself presumably there would be a good deal more cocoa planted, would there not?

Mr. WITKIN. In time it would stimulate the production of cocoa, but unforutnately it takes a minimum of 5 years to get any fruit from a newly planted tree, and an average of 7 years before the tree reaches maturity, and 8 or 9 years before you get the maximum production of the tree.

In some areas cocoa can be produced by scientific cultivation in as little as 3 or 4 years. That is the exception rather than the rule.

But there is no incentive to the native in Africa.

The CHAIRMAN. And the effect of this control, you say the production has decreased?

Mr. WITKIN. One hundred thousand tons to the end of last year, and we expect this year the loss will be seventy-five thousand tons, approximately.

The CHAIRMAN. Do you lay that to control during the war or not? What is the reason?

Mr. WITKIN. Several causes for that.

In most countries labor became scarce for cocoa as other industries more important to the war effort required labor, manganese mines, rubber in Brazil, other minerals produced in Africa.

American Army installations attracted labor away from the farms.

But also because during the war the native in Africa received about 2 cents a pound for the cocoa, although it was raised in later years to 4 or 5 cents a pound.

He could utilize his time and labor more effectively in other industries, and as a result many farms were neglected.

This process had been going on for some time because cocoa has been in a depressed condition with a few minor runners-up for 10 years and that has resulted in lost production throughout the world.

In Brazil the system practiced there definitely militated against getting all the cocoa Brazil was capable of producing because the institute established the system of receiving all cocoa on consignment, and I don't recall the exact price they paid the natives, 4 or 5 cents a pound, and they paid the producers 60 percent of the value when they took the cocoa from them and at the end of the year gave them an accounting for whatever was left divided up pro rata for all shipments to the institute.

The result was the farmer lost all incentive to gather a crop for which he received 60 percent promptly and the 40 percent maybe 8 or 9 months or a year thereafter.

When controls were abandoned in Brazil, the production in Brazil jumped very sharply. Whereas in Brazil the normal production was 2,300,000 bags a year, about 17 bags per ton, it had been declining so that for the crop of 1945–46, it was about 1,600,000 bags.

When in May the prices were lifted—that is, the control was lifted and the farmer could sell his cocoa to whomever he chose—and when in June our ceilings went off, he was able to gather during that year 2,475,000 bags, the largest crop on record in Brazil.

Now, unfortunately, in January of this year there was a serious drought in Brazil, as all over South America, and production in the current year, despite the fantastic prices the farmer is receiving for his cocoa—he received as high as 44.5 cents recently, cost and freight, New York—production may fall to 1,500,000 or 1,600,000, possibly 1,700,000 bags.

The CHAIRMAN. You are familiar with the provision of the Atlantic Charter for which we fought the war that all nations should have access throughout the world to raw materials on an equal basis, are you not?

Mr. WITKIN. I have been nicknamed "Atlantic Charter," Mr. Senator, because I have used that so much in my papers and my pamphlets.

The CHAIRMAN. You called that to the attention of the British Government, I suppose, during your negotiations?

Mr. WITKIN. Yes, and to the attention of our State Department, and also from time to time to the attention of various Senators and Representatives with whom we have had opportunity of conversing.

Senator KEM. You spoke of the enactment of the white paper.

Is that an act of Parliament?

Mr. WITKIN. An act of Parliament.

I have here a copy of the original proposal for the white paper published in September 1944, if it is of any use to the committee.

Senator KEM. Does it have any limitation of time?

Mr. WITKIN. It has no limitation of time. It is perpetual until it is repealed.

Senator KEM. Where do the profits of this cartel go?

Mr. WITKIN. Very interesting. We don't know. I believe there has been some act of Parliament passed which has turned part of the money over to the Government of Nigeria and the Government of the Gold Coast on the books of the Bank of England.

Those questions have been raised in Parliament from time to time; we get the answers, but they never seemed clear enough to us.

I believe that £1,000,000 was appropriated—in fairness to our British friends—for purposes of protection of crops, improvement in cultivation, the establishment of experimental stations, and so forth.

The farmer never got any part of the extra price which was realized on the sale of cocoa. I mean there is no record that any of that money has been turned over to him.

When I spoke of the profit that could be realized at the present price, I do not include 10 shillings per hundredweight which the local governments are withholding as an insurance fund against possible low prices in the future.

You might want an explanation of how the market could rise 15 cents a pound from September of this year until October, almost in 1 month.

Senator KEM. On the question of the application of the profits, has it been suggested that the part derived from sales to the United States be applied on the British loan?

Mr. WITKIN. Not to my knowledge.

We had suggested to the State Department that when the British loan was being considered, it try to suggest that it might help the British loan speed through our House of Congress if the British gave us assurance that the white paper would not be implemented.

Representative HORAN. What was their answer?

Mr. WITKIN. The State Department's?

Representative HORAN. Yes.

Mr. WITKIN. I must say the State Department, especially Mr. Edward Kale, with whom we treated mainly, although we also had conferences with Mr. Willard Thorpe, was extremely cooperative. I have no criticism of the men with whom we treated.

I believe that their trouble was always upstairs.

Representative HORAN. I did not mean to interrupt Senator Kem, but I was interested to know what reasons they gave, if they gave any, for not using that as a reasonable lever.

Mr. WITKIN. I think the attitude of the British is that there is a scarcity of cocoa in the world, and I subscribe to that view.

There is a scarcity brought about in some degree by the destruction of 250,000 tons of cocoa during the war years.

Incidentally, that represents less than one whole crop of West African cocoa, and based upon the experience in 1937 when they had a farmers' hold-up strike—the British always played with monopolies down there—private monopolies, which the British Government, the Colonial Office, never interfered with them—despite the strike of 8 to 9 months, the farmers were able to protect that crop and ship it 6, 7, 8, and 9 months later, and none of it which came into the United States was turned down for quality, despite the primitive conditions and inadequate facilities for storage it.

They were able to carry one whole crop, 250,000 tons, less than one whole crop, and 250,000 tons represents 4½ months of American consumption today.

Senator WATKINS. Who ordered the destruction of the crop?

Mr. WITKIN. The British Colonial Office.

Their position was the cocoa would rot, and there were no ships to spare to lift it. We believe it was a fear of low prices, because when the British Government first handled cocoa on a control basis in 1940–41, they sold the bulk of it to the United States and other parts of the world at 4 cents per pound.

I believe they feared they would have a glut of cocoa in the market when the war was over.

Potentially the world could consume, based upon prewar estimates and the estimated increase in population, 800,000 to 850,000 tons of cocoa.

It is quite clear that 650,000 tons is inadequate for the world at reasonable prices. What the world will take at current prices is still something unknown because, in fairness to the American manufacturer he has not passed current high prices on to the consumer immediately.

It has been the general practice in the industry to average costs and keep an accumulative average cost and price finished goods on that average cost, with the result, concretely speaking, that, say in September most of our manufacturers were selling finished goods on the basis of 20 cents to 25 cents per pound.

On October 1, they were forced to raise their prices possibly to 30 cents or 35 cents a pound, but as we approach January every one of them, no matter how large an inventory he carries, probably will have to predicate his prices on the 40 cents a pound.

How that will affect consumption, we can only tell as we move into the next few months.

Europe has resisted buying cocoa at 42 and 43 cents. Switzerland, Holland, and Sweden up to recently did not take their quotas.

On this point, I might tell you how the British sold their cocoa up to recently. They departed from their system which they practiced for the past year or so after we took off controls.

They changed it a week or two ago.

When our ceilings went off, London would announce that we will consider bids for 10,000 or 15,000 tons, and everybody here scrambled on his own and sent bids to the brokers in London and the British selling controller sat back and looked at the bids and accepted the highest ones.

Some brokers sent over blank bids, orders at the market.

Until recently most of the cocoa offered was oversubscribed. It was like a loan issue or a stock issue.

There was a transition period between the old crop and the new crop, and that is probably the cause of the 15 cents advance in cocoa.

London took the position that until the white paper was actually law on the Gold Coast and in Nigeria, it couldn't sell any cocoa, despite the fact that in September of this year before the control went into effect, London named the buying price for the crop.

In other words, London said: "We are not empowered to sell something we don't have. We haven't bought any yet. We haven't collected any but we can fix the price at which we will buy the cocoa when the peacetime control commences on October 1."

Then even after October 1 it took 2 or 3 weeks before the legal formalities, Government formalities, and red tape to be cut to implement the new control.

The result was that during that period no cocoa was sold.

Therefore London would invite bids from the States for their quotas under IEFC regulations before the cocoa was ready for shipment.

But it took the position in September and October it couldn't sell any cocoa which it didn't yet own, and it waited until the end of October before it invited bids for the first 20,000 tons.

Under private enterprise in cocoa on the Gold Coast and in Nigeria, the large British shippers would make their contracts with the native farmers, the native brokers, in July, August, and September for part of their crops.

The crop is harvested in a period of from 2 to 3 months. It has to be sold for use over 12 months, and those private firms would sell 40,000 or 50,000 tons sometimes in anticipation of what they expected to buy because they would have to buy.

These large British companies had their stores down there. They sold goods to these people on credit, and they even made advance payments for cocoa in anticipation of receiving it, with the result that our manufacturers normally in August and September would have paper contracts on their books.

The importers would have paper contracts on their books which would enable them to sell futures on the exchange and the market was kept down.

With no such contracts available and getting orders from their customers for autumn goods, the manufacturers had their tongues hanging out for cocoa while London sat back and said: "We are waiting until the cocoa is here."

And they waited until the steamers were practically at the dock and loaded before selling.

The first 20,000 tons was oversubscribed. Then they put 10,000 tons more up for sale and it took them about 10 days or 2 weeks to sell that 10,000 tons, with the result, once having sold initial installments of 20,000 tons at 44 cents, they wouldn't take less for more, and it took them 10 days to sell the 10,000 tons.

Whereupon Mr. Tansley announced he was going to abolish the public auction system and put his selling on a day-to-day basis, and trading thus went back behind closed doors with secrecy prevailing.

I think to some extent this puts a manufacturer at a disadvantage because a manufacturer does not know when another manufacturer is going to make a confidential deal for 10,000 or 15,000 tons, possibly the deal being closed on condition that no more will be offered for 10 or 15 days.

That was the practice when the British Government first took over in 1940 and 1941, and the trade is now forced again to work in secret.

There were some advantages in announcement of what total sales were to be made, because everybody would jump in and pay what the leading manufacturers pay, but now they have to work completely in the dark.

The CHAIRMAN. In other words, a cartel?

Mr. WITKIN. In my opinion, absolutely.

The CHAIRMAN. Any more questions?

(No response.)

The CHAIRMAN. If not, thank you very much, Mr. Witkin.

Mr. WITKIN. Thank you.

The CHAIRMAN. The next witness is Mr. Creekmore.

STATEMENT OF E. F. CREEKMORE, AMERICAN COTTON SHIPPERS ASSOCIATION

Mr. CREEKMORE. On behalf of the cotton industry, I want to thank you and the members of the committee for giving us this opportunity to appear.

I am E. F. Creekmore, president of E. F. Creekmore & Co., Inc., with headquarters in New Orleans.

I have been actively engaged in the purchase and sale of spot cotton for more than 40 years. During that time I have had the opportunity of knowing, working with, and for 10 years working for cotton farmers in all cotton producing States.

I am a member of the American Cotton Shippers Association, founded in 1923, which through its affiliated State and regional associations has as its members more than 95 percent of all cotton dealers operating in the cotton States.

I have been requested by its officers to present its members' views on the subject you are now considering.

We have asked for the opportunity to present our views of the proposal made by the Secretary of Agriculture to curb inflationary speculation through granting authority to regulate margins up to 100 percent on speculative positions in cotton.

We believe such legislation will do far more indirect damage than is justified by any conceivable benefit it can offer.

Speculation and the futures exchanges have often been the subject of severe criticism. The careful and temperate statements of Secretary Anderson and Administrator Mehl increased our already high respect for them.

But the most they offer in support of the request for authority to fix margins is that they can then curb inflationary speculation of the small speculators.

We believe the proposal should be denied for the following reasons:

1. Power to prescribe higher margins or their actual imposition will not materially affect the price level of cotton.

2. The existing commodity exchange provides authority to curb or practically eliminate all speculation.

3. Adoption of the proposal will be detrimental to all cotton producers.

4. It will be a step toward further governmental regimentation.

Power to prescribe higher margins or their actual imposition will not materially affect the price level of cotton: Increased margins will slow up operations on the exchanges. Margins are applicable to the seller as well as to the buyer but increased margins will not eventually eliminate the law of supply and demand.

Consider the recent record of wheat.

The wheat exchanges on October 7, at the President's request, increased margins to 33⅓ percent.

December wheat, Chicago, the day before closed at 2.79¾ but on November 28, December wheat contracts closed at 3.19, an advance of some 40 cents per bushel despite the increased margins.

Consideration of the proper rate of margin on cotton is largely based on the statutory loan rate on cotton. The loan rate this season on cotton, Mid $^{15}/_{16}$, the basic quality, is 27.94 cents.

The loan rate is available to all producers of cotton. It establishes a virtual floor for cotton at approximately 28 cents.

Banks are glad to make loans to farmers knowing it can be turned over to the Government.

Banks do not hesitate lending dealers and others 75 percent of the value of unhedged cotton, which at current prices would amount to a loan of 27 cents.

Congress has expressly authorized loans on cotton by the Federal Intermediate Bank to its customers of 75 percent of its value.

A very substantial percentage of small speculators in the cotton States consists of business and professional men who own or have interests in cotton farms.

Ginners, warehousemen, and oil-mill men are close to and are interested in spot cotton as well as futures. They will to some extent transfer their operations to speculating in spot cotton if buying futures contracts is made more difficult or if future margins are higher than margins required by local banks on spot cotton.

Another point which it is easy to overlook is that every futures contract is for delivery during a specific month.

The long speculator is not in position to hold on indefinitely.

A speculator holding a contract for March delivery must make up his mind by February 25 either to receive the actual cotton or he must sell back the contract. If he wishes to continue his long interest in futures he has to buy another and later month.

Experience shows that your futures speculators wisely prefer to leave the handling of the actual spot cotton to the cotton merchants, and everyone in the trade knows that practically every long speculative contract in March, for instance, will be sold.

It is for that reason that we do not think the elimination of the futures speculator can have any material effect on the price of cotton.

Whatever effect any purchase has now is offset by the sale as the month matures. That is one of the real contributions of your futures speculator, and it is of the utmost value to the producer and the merchant when the crop is moving in the fall.

The present CEA Act provides authority to curb or practically to eliminate speculation in futures. Following the drastic decline in cotton prices in the fall of 1946, the cotton exchanges, cotton dealers, cotton cooperatives, and, to some extent, cotton mills, realized that some action was necessary to guard against a recurrence of such a situation.

While the matter was being seriously considered, officials of the Commodity Exchange Authority made exhaustive inquiries into the operations on the exchanges.

Following its inquiry and after consulting with officials of the exchanges and others interested, an order was issued by CEA limiting the amount to be owned or controlled by any one speculator to 30,000 bales in any one market and a maximum of 90,000 bales in all markets.

Under the CEA Act an order can be issued to reduce the maximum interest of any speculator to 1,000 bales in any one market, or even to 100 bales, provided those entrusted with such authority care to accept the grave and full responsibility of such action.

In any event, authority to regulate margins is not necessary to curb inflationary speculation.

Detrimental to cotton producers: Cotton farmers' transactions in cotton futures are more or less nominal but they are vitally interested in the efficient operations of the cotton exchanges.

The price they receive for their cotton is based on futures markets quotations.

Excessive margins, practically eliminating the speculator, will cause a dull and inactive market.

Such a market will widen the spread between the price received by the farmer and the price paid by the mill.

Cotton merchants, under normal trading conditions in the futures markets, feel free to buy actual cotton from farmers, realizing they can promptly offset their purchases with the sale of futures, but with a dull and inactive market, with quotations between trades ranging from 10 to 25 points, or at times very much more, the probable loss in hedging must be anticipated and deducted from the purchase price.

Cotton mills operations in buying cotton are much the same as the cotton merchants.

Mills generally offset their purchases of cotton with the sale of futures or the sale of manufactured goods. With a dull, inactive market, the price they pay for cotton necessarily must be lowered to take care of their anticipated loss resulting in the placing of hedges.

Converters, jobbers, and large retail stores in buying cloth use the futures market to some extent. They too would be affected by an inactive market. This would serve to further increase the spread between the farmer and the mill.

In fact, excessive margins would result in an increased spread between the price received by the farmer and the price paid by the consumer.

The operations of the speculators in the cotton futures market not alone assist in providing an active market but, generally optimistic, they perform a service to the farmer by assisting in carrying a substantial part of the weight of a crop harvested within some 3 to 4 months but which must be distributed and consumed during 12 months.

Their operations cushion the shock of the heavy movement during the harvesting season.

Speculators' activities in commodities are often criticized, sometimes properly, perhaps more often unjustly.

Excessive speculation is detrimental even to the speculator but there are but few instances when anyone has the full knowledge and ability to definitely state when speculation does become excessive.

Congressional committees at various times have inquired into the activity of speculators in commodities but as yet no plan has been found to eliminate the speculator without the probability of doing more harm than good.

Perhaps the most exhaustive inquiry into commodities was made by the Federal Trade Commission, which after more than 2 years' study, at the request of the Senate, submitted in 1937 a complete report of its study and findings under the title, "Agricultural Income Inquiry."

In its recommendations, with special reference to the cotton trade, it stated in part:

> In any changes made consideration should be given to the fact that maximum safety of futures for hedging purposes neither involves increases in the volume of cotton delivered nor does it necessarily involve any reduction in speculative trading, without which the futures market cannot furnish the satisfactory hedging facilities which are so important in securing better returns to the farmer.
>
> The speculator must absorb the excess of hedges sold over hedges lifted in the crop-movement season and return to the market the volume of hedges lifted over hedges sold at other times. His presence in the market therefore cushions the impact of any excess hedges placed over hedges lifted and vice versa.

Step toward further governmental regimentation: During the war governmental controls were in evidence in practically all lines of business and all walks of life.

The great majority patriotically accepted those controls with the belief that they were necessary wartime measures but with the hope and belief that controls would be eliminated following the end of the war.

We are aware, to some extent at least, of the serious problems now confronting the Government and its people in regard to the high cost of living.

It must be remembered it also applies to the farmers and increases their cost of production.

Increased production, reduced costs and eventually lower prices should be one of our objectives.

Farmers during the war, even with controls, badly handicapped by shortage of labor and machinery, performed and produced in a way which commanded the admiration and appreciation of the country generally.

The Second World War is over but it is our belief that the incentive of high prices, permitting reasonable profits, will cause the cotton farmer to produce abundant crops, weather permitting, which after all is the sound way to eventually reduce the price of commodities.

The CHAIRMAN. Mr. Creekmore, what is the present margin on cotton exchanges normally?

Mr. CREEKMORE. It ranges from 20 to 25 percent.

The CHAIRMAN. Twenty to 25 percent?

Mr. CREEKMORE. Yes.

The CHAIRMAN. Have you received any request from the Secretary of Agriculture to increase that margin to 33⅓ percent?

Mr. CREEKMORE. No, sir.

The CHAIRMAN. There has been no suggestion on his part you should increase it to 33⅓ percent?

Mr. CREEKMORE. No suggestion either from the Secretary of Agriculture or from the Commodity Exchange Authority.

The CHAIRMAN. The division under the Secretary?

Mr. CREEKMORE. That is right.

Senator O'MAHONEY. Is there any limitation now, Mr. Creekmore, on the amount of cotton to be owned or controlled by any one speculator?

Mr. CREEKMORE. Yes, Senator.

The Commodity Exchange Administration perhaps a year ago, well 9 months ago, issued an order limiting the amount to be owned or controlled by any one individual in any one market to 30,000 bales.

Senator O'MAHONEY. Was that the Administration or the Authority?

Mr. CREEKMORE. The Authority—I think it is one and the same. I probably used "Administration" ill advisedly.

The CHAIRMAN. The Authority is simply a bureau of the Department of Agriculture, is it not?

Mr. CREEKMORE. Yes.

The CHAIRMAN. And is the power vested in the Secretary or in the Board, or what?

Mr. CREEKMORE. I think the power is vested in some particulars in the Secretary, and when it comes to control, it is my understanding two others, perhaps the Attorney General and the Secretary of Commerce must agree on limitations.

Senator O'MAHONEY. When I saw you referring to the Commodity Exchange Authority, I thought you were referring to an organization of the exchange?

Mr. CREEKMORE. No.

Senator O'MAHONEY. I see you were not.

Mr. CREEKMORE. No, sir, I was not; I was referring to the Government.

Senator O'MAHONEY. You were referring to the law itself and the administration of that law.

But, in any event, your testimony was the CEA conferred with the officials of the exchanges and others interested.

Mr. CREEKMORE. Quite right.

Senator O'MAHONEY. And agreed upon the limitation of the amount to be controlled.

Mr. CREEKMORE. I don't believe, Senator, I said they agreed, the Commodity Exchange officials consulted with the officials of the cotton exchange and others interested and reached the decision themselves.

Senator O'MAHONEY. Did you object to it?

Mr. CREEKMORE. Personally I was very much in favor of some limitation.

But there was quite a difference of opinion. Some of the cotton exchanges felt they could take care of the situation by excessive margins after any speculator reached a certain amount.

But I think the cotton trade generally, as well as others interested, realized that such a situation could not be permitted to happen again.

So while there were different ideas, the idea of the trade was very much in line with the idea of the Commodity Exchange Authority to do something.

Senator O'MAHONEY. I gathered from your testimony that you recognized the fact that at least sometimes there is excessive speculation.

Mr. CREEKMORE. Yes, Senator; that is correct.

Senator O'MAHONEY. And that this particular situation which you referred to was so grave that in the opinion of those in the exchange and in the trade, something had to be done?

Mr. CREEKMORE. Quite right, and had it not been for the action of the Commodity Exchange Authority, the cotton exchanges themselves would have taken some action.

Senator O'MAHONEY. You think such condition may also exist in grain exchanges?

Mr. CREEKMORE. I know very little about the grain exchanges, but I have before me the statement prepared, I believe, by Mr. Mehl, regarding the accounts in aggregate position by occupation of traders, Chicago Board of Trade, September 17, which shows on a speculative trading there were 83,000,000 bushels long against 40,000,000 bushels short.

I was rather surprised and somewhat gratified to see that the speculators were widely diversified, and that with 33 percent of the speculative interest believing in lower prices, it confirms the opinion that I have had that the prices of a futures market, represent the combined opinion of the people generally as to its proper value.

There are some reported speculators in Mr. Mehl's list that are surprising.

But, nevertheless, I believe the proper operation of the futures market is the diversified interest in them.

Senator O'MAHONEY. Would I be justified in drawing the conclusion from your testimony, it is your opinion if there be excessive speculation in a commodity exchange, it ought to be prevented, either by the Government or by the trade itself?

Mr. CREEKMORE. I believe that would be almost the unanimous opinion of the trade.

Certainly you are justified in the statement insofar as I am concerned, other than I think the exchanges can, if they are given the responsibility, after they have had their lesson in the last year, at least, they would prefer making an attempt, but I would like to reiterate that it is our position that the Commodity Exchange Authority under the existing Commodity Exchange Act has the right now to limit or practically eliminate all speculation.

But I don't believe the Commodity Exchange officials, or the Secretary of Agriculture, want to take that position because, in effect, their testimony as to speculators is very much in line with my statement and particularly with the statements of the Federal Trade Commission which I read to you.

Senator O'MAHONEY. Your testimony is to the effect that in the case of a drastic decline of cotton prices in the fall of 1946, this action against excessive speculation was justifiable.

What would you say in the case of a drastic increase of prices?

Would action against excessive speculation be also justifiable?

Mr. CREEKMORE. Yes; I think so, especially if conditions did not warrant the excessively high prices.

As an illustration, in October of 1946, we experienced this drastic decline in prices. I think it is generally admitted that the speculators will accelerate either a decline or an advance.

This is evidenced by the fact that while the market in October reached the 39-cent level for cotton, it declines to 28 cents in November, yet during the following spring months it reacted from its low and reached a higher level before the season was over than it had reached during October, and that higher level was based on the law of supply and demand.

Speculators at times will accelerate either an advance or a decline, but I, for one, feel eventually the law of supply and demand will rule.

Senator O'MAHONEY. I am interested in your testimony because the general tenor of the testimony of those who are brought here by the operators in the grain industry was that speculation does not affect the price at all, either up or down.

Mr. CREEKMORE. Senator, if I may be permitted to state, I am sure, or at least I hope you understand my views. I have heard none of the testimony prior to this morning. I am inclined to think, while I know very little about the wheat market, that if such statements were expressed, they perhaps were not expressed as I have tried to present my views, and the views of the cotton trade generally this morning, that the action of the speculator will not eventually nullify the law of supply and demand, but, I believe, if you should put any witness, any wheat operator on the stand here now, he would say and agree that the action of the speculator at times will accelerate either an advance or a decline.

Senator O'MAHONEY. Thank you very much.

The CHAIRMAN. As a matter of fact, they testified just the opposite, Mr. Creekmore, but it is a question of difference of opinion.

They testified they would retard an advance. In other words, it would eliminate the ups and downs.

I rather agree with you that in an emergency situation such as you had in 1946—I mean a drastic change—it probably accelerates that change.

Their testimony all was the day to day fluctuations tended to be straightened out and the extremes removed by the presence of speculation and speculators in the market.

Mr. CREEKMORE. I would like to say that in speaking of the speculator accelerating advance or decline, I am speaking of a big swing in the market.

Of the reasons we are interested, the principal reason is that we believe with the practical elimination of the speculator by large margins, it will keep us from having that steady market where the speculator comes in at the beginning of the season. The crop is moving. He decides cotton is a good investment.

The hedges he buys softens or cushions the movement.

As I buy cotton, I must find a buyer, I must find one in the futures market willing to buy my hedges or I cannot handle one-half of the volume that I now handle.

Senator O'MAHONEY. In self defense, Mr. Creekmore, I want to read into the record the testimony of H. G. L. Strange, a Canadian exporter who appeared before us yesterday:

> Speculation has no real effect on the price of wheat either up or down.

That was the tenor of his whole testimony. In fact, he concluded by saying that speculators as a group lose money and that the losses are beneficial to the other traders, consumers, and the producers.

The CHAIRMAN. Mr. Creekmore, one thing that I do not quite understand, and perhaps you had better state it clearly.

You have no objection to the exercise by the Commodity Exchange Authority of the power to limit the number of bushels that a speculator may have, may trade at one time, but you do object to the Government having power to fix margins.

I do not quite see the reason for that distinction.

Mr. CREEKMORE. I do object to any governmental authority regulating from time to time either margins or limitations.

I have a very high regard for Mr. Mehl but I don't believe he, I don't believe any group of men in Washington, are close enough to the situation to take that authority—and I mentioned that under the act they had the authority—because, frankly, there might be at times, during times of excessive speculation when the authority might be used.

But, as I say, they have the right to use it if they assume the full and grave responsibility in doing it.

The regulation of margins would be something new. I don't think it is necessary because I think if the Commodity Exchange or Mr. Anderson wants to limit speculation, they can do it under the existing law.

The CHAIRMAN. Their statement is they cannot limit the number of small traders, that they cannot put a limit on that has any effect on small traders.

The question I am asking: Why, if they can destroy speculation in one way already, what difference does it make if they have the power to destroy it some other way.

What is the distinction?

Mr. CREEKMORE. We have got a 50–50 gamble with one way against no out the other way.

The CHAIRMAN. Does it come down to the fact that you know their general policy of reducing it by a 33⅓ percent margin and you do not approve that way of doing it?

Is that the difference?

Mr. CREEKMORE. No. I think the President of the United States or other responsible officials who might be interested and see the situation in a certain way and ask for an increase in margins; and I think most of the exchanges would give serious consideration to it. But the position I take is regardless of the increased margins, wheat went up 40 cents a bushel.

In other words, and I think this gets to the point of the difference between my testimony and the testimony of the man concerned in wheat, I think what we both mean is that speculation will not ultimately affect the price, that the law of supply and demand is going to be the prime factor.

The CHAIRMAN. I rather agree with that, but I am only wondering why if they have power to regulate it one way and thin the market out by reducing the number of bushels that any one man can buy, how much greater damage there is by having the power to regulate the margins for everybody. It is the distinction I do not quite understand.

Mr. CREEKMORE. Senator, if I may, one of the reactions I have had to the statements made by the Secretary and Mr. Mehl—I am sure that it wasn't intended—but I have been asking myself: Is it proper to talk about limiting the small operator and not being so much interested in limiting the large operator?

Our experience has been that it is the large operator who usually causes trouble.

The CHAIRMAN. Are there any other questions of Mr. Creekmore?

(No response.)

The CHAIRMAN. If not, we will hear Mr. Slaughter.

STATEMENT OF CHARLES SLAUGHTER, NEW YORK COTTON EXCHANGE, NEW YORK CITY

Mr. SLAUGHTER. My name is Charles Slaughter.

I am here to represent the New York Cotton Exchange, of which I am a director.

I am senior partner of the firm of Charles Slaughter & Co. Our business is that of brokers and merchants in the commodities traded in on the various New York futures exchanges.

The President has asked the Congress, as a contrainflationary measure, to authorize the regulation of speculative trading on the commodity exchanges.

If this authority is granted, the Commodity Exchange Administration will be empowered to dictate minimum margins for speculative transactions on the various exchanges, including the New York Cotton Exchange.

In his letter of March 26, 1947, addressed to the President pro tem of the Senate and the Speaker of the House, the Secretary of Agriculture's mention of cotton is of the severe price decline which occurred in October 1946 and which he attributes to earlier overspeculation.

We submit that the New York Cotton Exchange should not be made the victim of legislation looking simultaneously in opposite directions.

The President asks for the legislation to prevent higher prices.

The Secretary asks for it to prevent a break in prices.

However, Mr. Mehl, the CEA Administrator has testified that he does not believe that speculation is a basic factor in price levels in the long run. Probably because of his longer and more intimate experience with futures markets he was careful to avoid the expression of the belief that the proposed legislation would accomplish the President's objective of preventing a rise or the Secretary's objective of preventing a break.

He rests his advocacy of giving the CEA power to fix margins on his belief that an undue amount of speculation tends toward more erratic fluctuations.

Our answer is that, so far as the New York Cotton Exchange is concerned, our present margin requirements plus the present limitation of 30,000 bales permitted to be carried on our exchange by any speculative account already renders any unbridled speculation extremely unlikely.

Our present speculative margins requirements are $1,000 per 100 bales at a price below 25 cents; $1,500 between 25 cents and 30 cents; and at a price above 33 cents the speculator is required to furnish 100 percent of the part of the purchase price above 33 cents, so that at 40 cents, say, the margins required would be 7 cents per pound more than at 33 cents.

Translating this into terms of stocks, the speculator can, in effect, borrow only 28 cents per pound, or $14,000 on 100 bales whether the 100 bales be worth $17,000 at 34 cents, or $20,000 at 40 cents.

With the parity price at 30 cents and the loan price at 27.94 cents, we feel that we have already completely regulated ourselves.

The CHAIRMAN. At 40 cents, what is the percentage of margin?

Mr. SLAUGHTER. At 40 cents it would be——

The CHAIRMAN. Twelve cents?

Mr. SLAUGHTER. Yes, sir, 12 cents.

The CHAIRMAN. Twelve cents on 40, or 30 percent. You get up to a 30 percent margin at 40-cent cotton, then at lower figures it is a lower margin; is that right?

Mr. SLAUGHTER. That is right.

This is a point to which I ask this committee's particular attention, that is, that under our own present margin rules we do not allow anyone to speculate on the long side of cotton without furnishing as margin 100 percent of the full value of the cotton contracted for in excess of what the Government will loan the farmer on a like quantity of spot cotton.

This is, we believe, a new and different concept of margins and is sounder than any "percentage of selling price."

At 35 cents per pound cotton is only 25 percent above its loan value and a speculator must furnish as margin that full 25 percent of the loan value. At 42 cents it would be 50 percent above its loan value and the speculator would have to furnish as margin 50 percent of the loan value. Should it advance to a price 100 percent over its loan value, 100 percent of loan value would be required as margin.

Now as to whether the transferring from the exchange to the Commodity Exchange Administration of the authority to fix minimum speculative cotton margins will effect the price control presumably desired by the President, there are two very pertinent questions:

First, Would the exercise of such authority by the CEA result in prices lower than they would have been had the exchange retained this function?

Second, Could such authority be exercised without greater damage than benefit to the public welfare, such damage resulting from the injury to the whole fabric of the cotton industry as now organized, of which the cotton futures mechanism is a vital element.

If margin fixing authority be conferred upon the CEA and if they exercise it by raising the minimum requirement to 50 percent of the value of the cotton, the purpose can only be to reduce the number of speculative contracts coming into the market.

If the purpose is successful, a logical result will be lower prices for cotton during the four fall harvesting months.

Since August 1, the beginning of the cotton harvesting season, the speculative long interest on the New York Cotton Exchange has increased by some 290,000 bales.

In the aggregate, these speculators have bought the hedges that merchants sold as they bought the cotton from the farmer.

The price paid to the farmer during the season has undoubtedly been higher than it would have been in the absence of these net speculative purchases of 290,000 bales.

If the usual pattern is followed, however, these speculatively held contracts will be sold from now on through next summer, providing a brake upon prices and a lower level than would result if merchants needing to cover hedges in order simultaneously to sell spot cotton to mills had not this source of supply of future contracts.

It is my conviction, shared universally by the cotton trade and, I think it may be said, inferentially, at least, by Mr. Mehl, that a hobbling of speculation in futures would result in lower prices in the fall and higher prices in the following spring and summer, but no calculable difference in the year's average.

This is our position as to lower prices under CEA regulation of margins.

As to the damage which we fear would result, it is in the probability of effects precisely opposite to a stabilized and orderly market. The intention to lessen speculation in cotton futures contracts is in the direction of the elimination of such speculation.

The New York Cotton Exchange can, has, and will speedily alter its margin requirements, making them more or less stringent as the situation requires in the judgment of its board of directors.

No Government agency can or will take action with equal promptness. If power over margins be vested in the CEA and it be used to the point of the virtual elimination of the futures market, we have only to recall what happened when the cotton exchanges were closed in 1914.

Cotton farmers sold their cotton at 6 cents and even lower that fall.

The next spring, it sold at 12 cents and higher.

It should never be forgotten that in the season of the cotton movement, somebody has got to be long of millions of bales of cotton.

If the merchant buys it without hedging, he is speculating.

If the mill buys far beyond its forward orders for goods, it is speculating.

If the farmer sits on it and doesn't sell it, hoping for a price rise, he is speculating.

In the cotton trade as now organized, the cotton merchant can and will buy an unlimited amount of the farmer's cotton during the fall, so long as he can sell future contracts as hedges; and the merchant figures upon only a very narrow profit because his hedges insure that profit to him.

Competition among speculative buyers of the merchants contracts now provides a market where as much as 150,000 bales of hedges have been absorbed in a single day without depressing the price.

If these speculative buyers are eliminated in whole or in major part, the farmer will be forced to carry a larger part of his crop himself, either through the Government loan or otherwise, and the merchant will buy less than formerly, but still, as much as his finances warrant and his judgment dictates; but he will figure upon a much wider margin of profit to compensate him for his risk and will pay the farmer a correspondingly lower price.

These conditions would leave the market of the following spring and summer without the brake which exists in the present cycle of the cotton marketing year, when speculators have habitually liquidated the futures bought the previous fall.

The result would be prices at that season higher than the economic situation warranted, to the extent that they would have been lower the previous fall.

We forget that speculation is an activity in which all property owners engage, whether they use the futures markets or not.

Speculation takes place in commodities which have no futures markets, just as in the case of those traded in such markets.

Only a small number of our basic commodities lend themselves to futures trading. Yet all of our commodities have participated in the price rise of the last year and a half.

No difference in the extent of that rise can be traced to the factor of futures trading. As a matter of fact, the price of cotton has been relatively stable for more than a year and has advanced considerably less percentagewise than most of our other basic commodities.

I do not claim that this is due to the fact that cotton is the subject of futures trading. I merely point out that speculation in cotton futures has not resulted in any aggravated price rise.

I do not want, like the proponents of this legislation, to argue both that speculation has no long range effect on price, and, at the same time, that the throttling of speculation would cause lower cotton prices, but suppose this thesis is faulty; suppose the reasoning is specious. Perhaps a drastic increase in cotton futures margins will reduce speculation.

Perhaps it will thereby lower the price of cotton.

I question the value of such a result to the country as a whole. The South would be badly hurt and without justification.

The price of cotton is not so high that such corrective measures are called for. On the contrary, we need more cotton, not less.

And the way to get more cotton is to induce larger plantings. This cannot be brought about by lower prices.

In conclusion, may I respectfully offer one word of caution:

We are too prone to seek easy remedies.

In analyzing a problem such as this committee is considering, we are apt to seize upon a cure which is worse than the disease.

There is only one cure for the kind of inflation which the world faces now: We need greater production to rebuild the world and to feed and clothe its people.

We cannot secure that production by hobbling those who should be stimulated to greater effort.

I respectfully urge this committee not to destroy or impair those free-marketing institutions which have served us well in good and bad times in the thought that the immediate problem of inflation can thus be solved.

The CHAIRMAN. Thank you, Mr. Slaughter.

The statement is very logically presented.

I think we understand the general principle.

Any questions?

Senator BALDWIN. No questions.

The CHAIRMAN. Mr. Bright?

STATEMENT OF EDGAR A. G. BRIGHT, NEW ORLEANS COTTON EXCHANGE, NEW ORLEANS, LA.

Mr. BRIGHT. I am Edgar A. G. Bright, vice president of the New Orleans Cotton Exchange, and am appearing before you in their behalf.

We are appreciative of this opportunity of appearing before you to discuss a proposal of great importance to the millions of people engaged in the cotton industry.

The proposal before you is that Congress should give authority to some governmental agency to fix margins on commodity exchanges, for the purpose of checking price advances on commodity markets as a part of the administration's anti-inflationary program.

The cotton futures market is in the nature of a continuous daily auction during market hours. In its operation, the lowest offer meets the highest bid at which price transactions occur.

These prices are established by world opinion of the value of cotton based on the existing prospective supply and demand equation.

Each transaction represents a specific obligation to deliver or receive a certain quantity of cotton at a specified time in the future. The purpose of making these transactions is usually for price insurance and the mechanism permits those unwilling or unable to carry the price risk to transfer that risk to those either having need of the opposite price protection or to speculators who may be willing to assume the risk in the hope of making a profit.

This speculator performs a vital function and the market could not operate efficiently without his participation.

Margins are required for the purpose of protecting the validity of the transaction and margins of an adequate amount are dictated by the rules of the exchanges.

The exchange itself has, and should have, no hand in the making of prices, and has no right to attempt to influence the course of prices in either direction by the imposition of margins; it merely provides a convenient and economical mechanism for the registering of such prices and the dissemination of information relative to the cotton supply and demand situation.

Through this mechanism everyone is kept constantly advised of the current value of cotton and cotton at all times has an immediate cash value.

In this way operations of merchants and mills are conducted at a minimum of risk and the producer is assured not only of a readily ascertainable value for his cotton but also of a ready market.

The price risk is inherent in the total supply of cotton and this risk at all times must be borne by someone.

The market simply permits the transfer of this risk in a convenient and economical form.

At present the supply of American cotton is about 10,250,000 bales and the total of outstanding futures contracts at this time is approximately 3,250.

Thus it will be seen that the price risk on about 7,000,000 bales is carried outside of the futures market.

In making use of the futures market for speculative purposes, the commitment is carried in futures contracts and this does not impede the movement of the commodity into consumption.

If this speculative activity were carried in the cash commodity, it would have the unfortunate effect of checking the movement into consumption of needed supplies. The imposition of excessive margins unquestionably would have this effect.

The futures market has a stabilizing effect on values and tends to prevent abrupt and wide changes that would occur in the value of cotton if this facility were not available.

It is our conviction that any governmental authority vested with the power of fixing margins would be inflexible and would impair the liquidity and usefulness of the market, thus having a harmful effect on producers, merchandisers, manufacturers, and consumers of cotton.

The fixing of excessive margins would tend to drive speculation from the futures market into the spot or cash commodity. When this occurs, and speculators buy spot or cash cotton instead of futures, the available supply of desirable cotton for domestic and export uses would be decreased.

It would tend to distort the relative values between the price of futures and the price of the spot commodity.

When such cotton held for speculative purposes came on the market, it would depress the price of actual cotton to the detriment of the farmer because a speculator would not be interested in the relative values but only in a fixed price that would result in a profit to him.

In carrying out such operations for speculative purposes in the cash commodity, no facilities would be available to the short seller but the bullishly inclined speculator would be in a position to readily make such purchases of spot or cash cotton, as large amounts of money are available through banks or loans on cotton on a basis closely approximating margins now in effect on futures.

We further express our sincere conviction that the fixing of excessive margins would not effectuate the desired purpose of checking price rises or have an anti-inflationary effect.

We refer briefly to recent occurrences in the grain markets when margins were increased to 33⅓ percent at the request of the Government and to the subsequent price advance of 46 cents per bushel over a period of 7 weeks.

This situation has been brought fully before you by the grain exchanges and we therefore will refrain from detailed statements.

The cotton exchanges at present have in effect a scale of margins which appears adequate as a safety factor and you may be assured that should market conditions warrant an increase of margins for the purpose of insuring the validity and safety of transactions this would immediately be put into effect by the exchanges.

Such changes in margins as a safety factor are based not only on the prevailing price but on market conditions with which members of the exchanges are in daily contact. Similar flexibility would be impossible on the part of a governmental agency, which would not have intimate contact with the changing conditions.

It must be realized that those engaged in the operations on the futures exchanges have their entire financial resources at stake. This fact applies not only to the conduct of each individual's business but also is extended to cover the operations of every member of the clearing house through an unlimited liability on the part of each member, to protect all commitments carried through the clearinghouse..

It is unreasonable to assume that every member of this clearinghouse corporation will not exercise the greatest possible care in taking every reasonable precaution to insure the safety of the entire business.

The imposition of excessive margins unquestionably would cause thin and erratic markets. These conditions would force a merchant to lower his purchase price to the farmer in order to insure himself against the increased risk.

The mill interest, too, would be compelled to increase the price to the consumer to insure itself against the increased risk of doing business under those conditions.

The imposition of excessive margins will impair the usefulness of the market and in all probability would eventually destroy the present marketing system.

Excessive margins would tend to accelerate both declines and advances.

Unwarranted movements in both directions are checked, first, by the increased movement of actual cotton into the markets or by the increased purchases of actual cotton by mills and, secondly, by the buying and selling of futures by speculators.

If margins are set at such a high level that speculation is discouraged, then one of the two brakes which halt large unwarranted movements in either direction is removed.

It is our firm conviction that the power of calling margins commensurate with the risk involved should be left in the hands of those men who have been in this business for many years and who are fully conversant with changing safety factors at all times.

These men have their own money at risk to an extent only limited by their total financial worth and surely conservative protective policies on their part may be confidently anticipated.

In considering the proposal to give a governmental agency the authority to set marginal requirements for the purpose of, or in an effort to, check price advances, the question of whether or not it can be used for that purpose without injuring the cotton futures markets, is of great importance.

It is our studied conviction that such authority could not be used in a constructive manner and that it would not accomplish the desired purposes. It must be readily understood that such measures could easily result in destroying those facilities which have been built up through the years but it also must be borne in mind that no Government edict could call back into play the constructive forces that have been impaired or destroyed.

At times in the past the futures markets have been closed for a period, as in 1914 at the beginning of the First World War.

Cotton sold at 6 cents and less during the marketing period in the fall and in the following spring sold at more than double that price.

During a period when the futures markets were closed, the real value of cotton could not be ascertained and sales varying in value at least 1 cent per pound, took place simultaneously in the same neighborhoods.

This deprivation of speculative access to the use of futures markets resulted in great harm to the millions of people engaged in the business of producing, processing, and merchandising of cotton and to a lesser extent to the entire economy.

We would not presume to advise you on the general policies of the United States Government in the handling of our domestic and foreign affairs.

We do, however, most strenuously protest against the granting to Federal agencies of the powers that have been described as those of a police state.

It is said that these powers will be used in a moderate way and only for the purposes of regulating transactions in certain scarce or vitally needed commodities.

In this connection, may we quote a statement made in a turbulent time in our history by President Lincoln:

> I believe this Government cannot endure permanently half slave and half free.

We submit that this same great truth applies to an economy and a free economy cannot efficiently function when partly controlled by the Government.

The CHAIRMAN. Mr. Bright, is your marginal requirements the same as the New York Cotton Exchange?

Mr. BRIGHT. No; they are a little different.

They are the same up to 33 cents, and above that not as high.

The CHAIRMAN. At 33 cents, what is the percentage?

Mr. BRIGHT. At 33 cents we are both $25 a bale; at 34 cents, they jump to $30, and we stay the same.

At 35 cents, they jump to $35, and we stay the same.

At 36 cents we both jump $5 additional.

The CHAIRMAN. At 33 cents, what is your margin?

Mr. BRIGHT. $25.

The CHAIRMAN. How would you interpret that in pounds?

Mr. BRIGHT. That is 5 cents a pound.

The CHAIRMAN. Five cents on 33, which is about 15 percent?

Mr. BRIGHT. Yes, sir.

You see the Government has a loan this year of about 28 cents. So we figure the market cannot go very much under 28 cents because of the fact the Government is there to take the farmers' cotton at that price.

The CHAIRMAN. Were margins changed after the cotton market break in 1946?

Mr. BRIGHT. Yes; increased quite a lot. I think at that time New Orleans was about $15 and it is now $25.

The CHAIRMAN. Were there losses involved at that time?

Mr. BRIGHT. I think there were losses by the people in the market, but I am quite sure the New Orleans cotton brokers—I don't know about New York—lost practically no money because we called what we considered sufficient margins.

These are minimum margins. Lots of the brokers call more than that. These are the minimums. You have to call these minimums under exchange rules, but there is nothing to prevent a brokerage house from calling more.

We do it with some people if we are a little worried about their financial background. We are forced to call 30, and we can call 30, or 35 or 40 from the customer if we feel it is needed.

The CHAIRMAN. Why did you increase the margins after the break in '46?

Mr. BRIGHT. The CEA decided, and the exchanges felt they didn't want to have the same thing happen again, and we made changes that we considered adequate so it would not occur again.

We limited the amount of cotton that any one speculator can hold to 30,000 bales, and we increased our margin.

The CHAIRMAN. That is what I wondered.

I do not quite understand. Even today the commodity exchange has power to indefinitely decrease the amount one speculator can own?

Mr. BRIGHT. Yes, sir.

The CHAIRMAN. What is the difference between that and increasing the margin from the point of view of danger to the business?

Mr. BRIGHT. Because of the amount of cotton any one person can hold—we are trying to cushion, and as I understand it, curb the excessive speculation, and we feel when one speculator has over 30,000 bales, he is speculating to excess.

The CHAIRMAN. If he has 30,000, or 30 have 1,000 apiece, what is the difference?

Mr. BRIGHT. Several men have different ideas and are all not getting in at the same time and out at the same time, where one man may suddenly decide to sell his whole line and it comes on the market all at one time.

The CHAIRMAN. People are a little bit like sheep, though?

Mr. BRIGHT. Some people are, some are not.

The CHAIRMAN. It seems to me we have the same danger both ways. Any questions?

Senator BALDWIN. Could he buy a certain number of bales as "expert," and could he buy a certain number of bales as a housewife?

Mr. BRIGHT. No, sir; because you have a letter from each customer telling you what his business is, and all about him, and you have to have that on file.

The CEA comes around to each broker, I think twice a year, and checks through your books and sees that you have a letter from each one of those persons, and that is not only under the CEA rules but also under the exchange rules.

You have to know the identity of every customer, and it is pretty hard to trade under an assumed name.

Senator BALDWIN. It is enforced pretty strictly so that you know the identity of every speculator?

Mr. BRIGHT. Yes, we do.

The CHAIRMAN. Thank you very much, Mr. Bright.

Mr. BRIGHT. Thank you.

The CHAIRMAN. We will hear Mr. Hunt.

STATEMENT OF KARL G. HUNT, DALLAS COTTON EXCHANGE, DALLAS, TEX.

Mr. HUNT. My name is Karl G. Hunt.

I am secretary-treasurer of the Dallas Cotton Exchange, which is, if not the largest and most important, one of the largest and most important organizations of its kind in the world.

Our members handle annually 1½ million bales of cotton, or approximately 10 percent of the entire crop of the United States.

You gentlemen are trying to determine the relation between futures exchanges and spot commodity exchanges as they affect the producers of commodities and the cost of living.

You have long sought grass-root political opinions and trends.

I believe that by virtue of my 40 years' experience in all phases of the cotton business, I can give you cotton-root facts, since my entire business life has been spent in the heart of the cotton-producing section of the South.

While the futures exchanges look to the spot cotton exchanges for business, our members look to the futures exchanges and their members for price insurance.

Price insurance or hedges, as these transactions are frequently called, are of vital importance to cotton merchants who are, after all, the appointed agents of the producers of cotton and/or other commodities.

Mr. J. M. Mehl, Commodity Exchange Administrator, stated in this city on September 20, as follows:

Exchanges are an integral part of the present system of marketing and a distinctive part of American free enterprise and have come nearer to providing public participation and democracy in price making than any other system.

By using price insurance or hedges and due to the liquidity of cotton, which enjoys from 90 to 95 percent loan value with all banks of this country, merchants are able to buy, concentrate, sell, and distribute the South's greatest money crop for less than 1 percent, which I am sure compares most favorably with any other type of business.

Three times in my experience I have seen cotton sell without benefit of price insurance since the future markets were closed.

Once in World War I the futures markets were closed for months; cotton continued to sell but at less than 5 cents per pound.

During the bank holidays of 1933 the exchanges were closed and spot cotton continued to sell but at less than 7 cents per pound, both of which figures are ruinous to the producers.

Again in October 1946 the exchanges were closed for a few days and while cotton continued to sell, it was at a staggering discount.

Reference is frequently made to speculators in cotton and other commodity futures. I choose to call a trader in cotton futures an investor because I believe there is as much dignity to the purchase of a hundred bales of cotton as there is to the purchase of a hundred shares of steel. The price paid for cotton and other commodities through the futures exchanges is the composite opinion of value of the investing public, not only of these United States but of the entire world.

The Honorable Secretary of Agriculture, Mr. Clinton P. Anderson, whom we have had the extreme pleasure of entertaining in Dallas, stated last week through the press that he saw no reason for an advance in margins on commodities at this time.

I heartily agree with Secretary Anderson's views and would like to cite concrete reasons:

Fifteen years ago the margin on wheat contracts was approximately 8 cents per bushel and the price of wheat was around 75 cents per bushel.

Throughout the years and for various reasons the margins required on wheat have been raised until on October 7 of this year the margin was raised from 50 cents a bushel to 33⅓ percent of the value of the contract.

On October 7 the spot month on wheat was $2.70. Yesterday it was $3.15.

And you see a direct reflection of a higher price against a higher margin, and it has been for many years in wheat, cotton, and other commodities.

The higher the margin required, the higher the price of the commodity. There is a reason for this parallel.

Each time the margin is raised for any reason on a commodity, a certain percent of the investing public is eliminated.

While under the old system the average investor might have been able to put up $500 or $1,000 for the purchase of 100 bales of cotton, under the plan suggested by some now, it would require from $8,000 to $16,000 to buy the same 100 bales of cotton, and it is quite obvious that each time the margin requirements are raised, fewer people are financially able to engage in the business, until when you get commodities to 100 percent margin requirements, you will have only a few with the financial ability to buy and/or sell.

Some reference has been made to the effectiveness of the 100 percent margin on the stock exchange, but I feel sure there is no basis for comparison.

It has been said in song and poem that only God can make a tree, and may I add a stalk of cotton, a sheaf of wheat, or an ear of corn—the very essentials of life.

But any lawyer and two financiers can increase the capital stock a million dollars, the debentures $5,000,000 and the outstanding bonds $10,000,000 depending on the size and the credit of the corporation involved.

Gentlemen, you are dealing with a delicately balanced machine when you deal with the markets, for they are not made of gears and shafts but of psychological impusles, and while the psychiatrist might say that it is out of adjustment, he can do no more to repair it than he can with the diseased mind.

In the last few years we have seen the English Parliament strangle—yes, even murder—one of its greatest institutions. The Liverpool Cotton Exchange through legislation has gone the way of many other private enterprises and today England stands at our doorstep with hands outstretched for sustenance.

I am sure that every member of my exchange is anxious for you gentlemen to find a way to halt the ever rising cost of living, but I feel sure that you must look elsewhere for the trouble and a panacea.

While I am not sure that all of my sponsors would agree with me, I want to make a statement purely of my own and that is:

> I believe that if all marginal requirements were eliminated and the business reverted to the old-fashioned credit basis, a truer expression of values would prevail.

I thank you.

I want to also add that from 1929 to the outbreak of World War II, speculators were charged with depressing prices the same as they are now charged with raising prices.

Speculation has no known result in the value of the commodity.

The CHAIRMAN. Thank you.

Mr. WHITE. Mr. Chairman, may we present one letter from Mr. Lamar Fleming, Jr., of Anderson, Clayton & Co.?

The CHAIRMAN. We will be glad to have that, and it will be made a part of the record.

(The letter referred to is as follows:)

ANDERSON, CLAYTON & CO., INC.,
Houston 1, Tex., November 27, 1947.

Mr. JOHN C. WHITE,
Fulbright, Crooker, Freeman & White,
Washington 6, D. C.

DEAR JOHN: I promised by phone to give you my views in the matter of governmental regulation of the margin requirements for speculative transactions on the cotton futures exchanges.

Originally there were no uniform requirements. Each member house that carried futures contracts for clients set its requirements for this and that client according to its appraisal of the individual client's credit worthiness and in general according to its own financial capacity and willingness to employ its own funds. The exchanges did not concern themselves about the financial relations between carrying house and client; their concern was directed to maintenance by the carrying house of adequate margins with the exchange clearing association, with which all carrying houses carried the net of the market positions resulting from combination of their positions for all their clients.

Within the last 15 or 20 years, the exchanges, and then the CEA, have concerned themselves also with the financial relations between the carrying houses and their clients. One fruit of this is the present requirement that the carrying houses segregate and maintain separately intact the funds they hold for account of each client. Another is that the exchanges now set up uniform minimum requirements for initial margins on speculative accounts and uniform maximum limits of the amount of market fluctuation difference which a carrying house may finance for a client before calling him for remittance. The latter requirement is applicable to all accounts, trade and speculative alike.

The motivating purpose of all these measures was to protect and assure the financial stability of the cotton futures institution by assuring (*a*) adequate margining of the carrying houses' accounts with the clearing association and (*b*) adequate margining of the clients' accounts with the carrying houses. The concern was strictly a concern with credit and financial stability. The exchanges did not concern themselves with price, except insofar as they regarded extremes of fluctuations or extremes of price to be factors affecting the credit risks and hence affecting the extent of the margins adequate to secure the credit risks.

I understand that the question under consideration is whether the authority and responsibility to set the minimum initial margin requirements upon speculative accounts is to remain with the exchanges themselves or to be transferred to the Government. I understand that the purpose back of the proposal is to make that authority an implement of price control, insofar as it is susceptible of effective use for that purpose. So it seems to me that the questions to which we must seek the answers are:

(1) Is the authority to set margin requirements an effective implement for purposes of price control?

(2) Can it be exercised for that purpose without injury to the usefulness of the general cotton-futures mechanism?

(3) Will the benefits of such use of this authority be sufficient to compensate the loss to the general community through the injury to the usefulness of the cotton futures mechanism?

Let us assume that Congress gives this authority to the Government and that the Government raises the margin requirement on speculative futures transactions to 50 percent of the value of the cotton. Unquestionably this would greatly reduce the volume of new speculation reaching the cotton futures markets, both on the long side and on the short side. The measure of its effect is in the reduction of the net of new speculation, not in the reduction of the new gross long speculation, since it also would reduce the new gross short speculation. A part of the reduction in the new gross long speculation through the futures exchanges would be diverted to purchasing of actual cotton by the same persons who otherwise would have purchased futures contracts. They would be able to buy and carry actual cotton with less employment of their own funds; because any bank will lend 75 percent of the value of cotton, the more so since 75 percent of it is less than the Government loan rate. Then, if the net effect were that the combined buying power in futures and actual cotton would be reduced, at a given price level for cotton, a decline in price would result until the price attracted new buyers, who would buy both futures and actual cotton, and cause growers and old speculative longs to salt their cotton and contracts away and refuse to sell them until prices went up again.

I have no doubt that the increase of speculative margin requirements to 50 percent would cause cotton to sell cheaper in the fall, during the period of about 4 months when growers are harvesting a crop which it takes mills 12 months to spin. I doubt that the effect would be as substantial as the proponents of governmental regulation believe. (*a*) Because I believe they overlook that it would affect short speculation in futures in the same degree that it would affect long speculation in futures; (*b*) because much of the long speculation would merely be diverted from futures into actual cotton; (*c*) because the short speculation, kept out of the futures markets, would have no place else to go (since the typical speculator has no facilities for selling actual cotton short); and (*d*) because growers and dealers in the actual, with the floor of the Government loan beneath the market, would be able to carry a larger portion of the crop at their own market risk than they have had the incentive to carry under the favorable merchandising conditions which a relatively free cotton futures market afforded them. But anyhow, the effect would be somewhat lower prices in the fall than under present conditions.

On the other hand, the conditions which we have visualized would eliminate a factor which has been a very effective brake upon the seasonal strength of prices in the spring and summer. This brake has been the liquidation in the spring and summer by the speculators who had bought futures during the fall. To be sure, the growers and other owners of the actual cotton also would have to liquidate at some juncture; but there is this important difference—the man who is long of March or May futures has the urge to liquidate before a given day, on which he has contracted to receive and pay for the cotton if notices of delivery are tendered to him, whereas the man who owns the actual cotton already has it financed and can take his own time about his liquidation.

Year in and year out, I believe the average price of cotton in a 12-month period will be the same in either case. If we have 50 percent margin requirements, I believe the prices will be lower during the fall and will be higher during the spring. This would not give the desired improvement in stability of prices, but quite the reverse. It would not lessen the margin between the price received by the grower and the prices paid by the manufacturer and by the consumer of the finished article, but quite the reverse.

We have some very good illustrations. The effect of lessening free speculative access through a futures market must be in the direction of the effect of having no futures market at all. Those of us who have been employed in cotton that long remember when the futures markets were closed following the outbreak of war in 1914. We bought cotton at 6 cents and less in the fall; and my recollection is that cotton sold for 13 cents and more in the spring. The margins of dealer's profit between simultaneous purchases and sales were multiplied tremendously, in keeping with the multiplied risks of dealers who were deprived of hedging facilities.

Before the free flow of international commerce was disrupted by the break-down of foreign exchanges and the other interferences which immediately proceeded and accompanied and followed this last war, cottons bought in most of the foreign producing countries could be hedged in the Liverpool futures market, the American futures markets, and futures markets elsewhere in the world, with confidence of reasonable protection against fluctuations in price. The unfortunate developments just alluded to put a stop to this. With the exception of periods when prices in this or that country were set by governmental buying, lending, or price-fixing programs, we have seen extreme fluctuations in these foreign cottons, and we have seen much wider dealers' margins, in keeping with the increased dealers' risks, than we saw when the dealers had the use of adequate futures facilities. Another thing that we have seen is that the business of cotton merchandising under those conditions gravitated into fewer hands. This was inevitable; because whenever you increase the price risks of commodity merchandising, you increase the capital requirements of those who engage in it.

I think it is unquestioned that to set the margin requirements on speculative futures transactions at 50 percent of the price of cotton or at any drastic increased figure will inevitably reduce the volume of new speculative transactions on the cotton futures exchanges, by keeping some of it out of cotton entirely and by converting some of it into actual cotton. I think it is also unquestioned that the usefulness of the exchanges depends in large measure upon the speculative interest in them and the constant presence and attention of persons who are willing to buy whenever they think the price undervalues the cotton and to sell whenever they think the price overvalues it. It is the degree of competition between such speculators that permits the market to absorb daily ginnings of as much as 150,000 bales without appreciable change in price, and sometimes with no change at all, and to furnish the cover for mill sales of goods in similar volume in the part of the year when there are no ginnings. Anything that reduces the number and interest and incentive of these speculative operators is bound to impair the futures markets' capacity to absorb the growers' marketings and to furnish the cover to mills without enhancement of price fluctuations. All of us in the business have seen what we call thin markets, when speculative interest is at a low ebb. In such times, a hedging order to sell 1,000 bales might knock the market 10 points whereas, in times of active speculative interest, orders to sell 10,000 bales have been placed without even one point variation. So, drastic increase in speculative margin requirements undoubtedly would increase the toll between grower and consumer for price risk, and diminish the capacity of the futures markets, and thus generally impair their usefulness.

A less tangible question is the effect upon speculative interest of the placing of such wide discretionary power within governmental hands. It is widely advertised that the purpose of the step would be hostile to price. There is no likelihood that administrators of this power could be found who could administer it with infallible foresight and wisdom, because the human race does not produce such men. Your potential speculator would feel like the batter if the opposing manager were calling the balls and strikes. I believe a very great decline in speculative interest would be an inevitable result.

This leads up to the question of the permanency of the cotton futures exchanges. If their speculative clientele is dispersed, if the amount of cotton to be hedged is reduced by speculators turning from futures to the actual, and if the usefulness of the exchanges as hedging media are impaired, they simply will get less business. If they lose too much business, the carrying houses will reach a point where they cannot meet their overhead, and that will either close the exchanges or reduce them to shells of what they now are, probably not worth perpetuating.

I have already referred to the wider spreads between prices in the harvest season and prices in the off season and the wider dealers' margins and the concentration of the merchandising function which characterizes times, conditions, and countries where the merchandising of cotton has had to be conducted without the benefit of hedging through cotton futures contracts. The effect of drastic action against cotton futures speculation is in that direction. I also have expressed my sincere opinion that action to discourage speculation in cotton futures will not lower the average price during a 12-month period, but merely will accentuate the fluctuations during the period. It seems to me therefore that the benefits to be hoped for are imaginary. I believe that the injury to the general community through destruction of the cotton futures exchanges or impairment of their price-protection usefulness is certain and inescapable.

I would like to add that it is very questionable in my mind whether the public interest will be served by effort of any character whatever to prevent a high price for cotton in the period just ahead of us. The world's cotton economy has been operating for several years now on a basis of deficit between production and consumption. It is desirable that the consumption should increase rather than decline; because inadequate supplies of textiles in many countries of the world constitute one of the most important contributing factors to the lack of consumer goods which makes inflation. Therefore it will be an absolute tragedy if the Northern Hemisphere countries fail to plant substantially larger acreages to cotton next spring and if the Southern Hemisphere countries fail to do likewise next fall. There is nothing that will bring this about except for the price of cotton to be attractive compared to the rewards for other uses of the land and sufficient to draw additional labor to the land, since cotton is a crop which requires a very high labor factor.

Yours sincerely,

LAMAR FLEMING, Jr.

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow at which time Mr. Oscar Chapman of the Department of the Interior will testify.

I might say that the only hearings contemplated further are Tuesday when Mr. Edward E. Brown of the First National Bank of Chicago and Chairman of the Advisory Committee of the Federal Reserve System will testify, and Wednesday we have asked Mr. Eccles to return tentatively.

(Thereupon, at 1 p. m., an adjournment was taken until Friday, December 5, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

FRIDAY, DECEMBER 5, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10 a. m., pursuant to adjournment, in Room 318, Senate Office Building, Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Watkins, Ecton, and O'Mahoney, and Representatives Horan and Poulson.

Also present: Charles O. Hardy, staff director, Fred E. Berquist, assistant staff director, John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Mr. Chapman, will you take the stand?

Mr. Chapman, you are testifying on behalf of the President's program. What particular features or sections are you testifying on?

Mr. CHAPMAN. I am particularly speaking, Senator, to the question of fuels, oil, and gasoline, and coal.

The CHAIRMAN. You mean as to Nos. 1 and 2 ——

Mr. CHAPMAN. Allocation and controls generally.

The CHAIRMAN (continuing). 3, 4, 5 and 6 do not seem to have much to do with fuel.

No. 7: To authorize allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production.

I suppose that is the chief one?

Mr. CHAPMAN. Yes.

The CHAIRMAN. And then consumer rationing on 9, and price ceilings, are you covering those too?

Mr. CHAPMAN. Yes, insofar as they affect these three commodities.

The CHAIRMAN. You may proceed.

STATEMENTS OF OSCAR L. CHAPMAN, ACTING SECRETARY OF THE INTERIOR; JAMES BOYD, DIRECTOR, BUREAU OF MINES; MAX W. BALL, DIRECTOR, OIL AND GAS DIVISION; DAN H. WHEELER, ASSISTANT DIRECTOR, PROGRAM DIVISION; ROBERT E. FRIEDMAN, OIL AND GAS DIVISION, DEPARTMENT OF THE INTERIOR, WASHINGTON, D. C.

Mr. CHAPMAN. I have a prepared statement, Senator, and if you permit, I would like to read that.

The CHAIRMAN. Yes.

Mr. CHAPMAN. I also have with me this morning the Director of the Bureau of Mines, Mr. Boyd, who can discuss in more detail some of the problems on coal; and the Director of the Oil and Gas Division, Max Ball, will be here.

Also, Mr. Dan Wheeler, who has worked previously in the handling of solid fuels, who may answer some questions for us if you care to have him.

The emergency program proposed by the President to secure our national economy bears upon the activities of the Department of the Interior in two especially significant ways:

First, because of its responsibility for the conservation and development of the Nation's natural resources; and

Second, because of its particular responsibility for coal and oil—two commodities which are in scarce supply and which basically affect industrial production and the cost of living.

The completely unexpected rate at which our economy has expanded since the war, and is continuing to expand, has created some short-term emergency problems, and certain long-term problems.

For the short term, the problems are essentially those of shortages—shortages of items which are basic to our economy and to any program of foreign aid.

These shortages have created an unbalance in our economy which is charged with dangers, the most imminent being the danger of run-away inflation.

The result is an exceedingly taut economic condition.

In so explosive a situation, controls, I feel, must be applied at the most critical points in our economy. These points will change with changes in supply and demand, and the controls needed will necessarily vary in kind and duration and from commodity to commodity.

Controls must be such as to provide the most even possible flow of basic goods in short supply. This is essential to the continued stability and strength of our economy.

Controls are also needed in order that we may be prepared to protect our economy against major disturbances—such as a serious break-down of production or transportation, which in the present inflationary atmosphere could result in a national economic catastrophe.

As essential as these emergency measures are, however, they are merely stop-gap measures.

For the long term, it is necessary to assure a sound natural resource base for ever-increasing production.

The Krug Report on National Resources and Foreign Aid demonstrated that, with our present high level of production, and entirely apart from a foreign aid program, there is a pressing urgency for intensifying the development, utilization and conservation of our land, mineral, water and other natural resources, and for supplementing inadequate domestic supplies by importing raw materials.

The Krug Report also demonstrated that in certain key areas we shall require an expansion of industrial capacity and equipment.

We believe that it is necessary to prepare now for an increase in the productive capacity of the country and for an expansion of the natural resource base which supports our economy.

At a later date, the Department of the Interior will report to the Congress on proposed long-range projects for the further development of our natural resources.

Today, I will address myself only to the short term, emergency measures which we believe to be needed to maintain and increase domestic supplies of coal and oil.

For coal, we believe that transportation and export controls are necessary as a minimum and may provide protection against acute shortages and increasing coal prices, but that coal allocation and price controls should be available in reserve in the event that less stringent measures prove to be inadequate or that a serious stringency in coal supplies may suddenly develop.

For oil, we believe that voluntary measures on the part of the industry, the public and the Government should go far toward alleviating the problems of shortage and rising prices but, again, that allocation, price and rationing controls should be readily available for oil in the event that voluntary measures fail.

The coal and oil situations are serious in the present inflationary atmosphere, because supply and demand for coal are just barely in balance and because the demand for oil is in excess of available supplies.

A disturbance in either field could create acute supply and price problems. The Government is not equipped, as it should be, to deal with such possible eventualities.

As a very first prerequisite, for both coal and oil, immediate provision should be made for the gathering and analysis of statistical data. Complete data on which changing conditions can be predicted is essential to the full success of voluntary measures and would go far toward minimizing the necessity for mandatory measures, if not obviating their use altogether.

But, in any event, such information is essential to the speedy institution and effectiveness of any regulatory measures that may be needed.

The Department's present authority and appropriation for statistical and economic work on coal and oil are inadequate. They are totally inadequate in the present emergency situation.

I refer to data on production, distribution, stockpiles, and consumption, and the need for authority to compel the recalcitrant few to submit such data.

An additional $750,000 annually is estimated to be required for such statistical work.

Coal: The coal problem is essentially a transportation problem. The shortage of coal cars has created shortages of certain kinds of coal in certain parts of the country, has contributed to the maintenance of prices at their present high level, and has created some special price problems.

The availability of railroad cars for the transportation of coal is the limiting factor in coal production. Facilities do not exist for the storage of coal at the mines; it must be transported as it is produced. Railroad cars, in fact, are the principal warehouse facilities for coal.

About the middle of the year coal production dropped from the high level of production reached during the first 6 months of 1947.

Since September coal production has been increasing, however, and before the end of the year may approach the early 1947 rate of production.

At the same time, since October, exports have been reduced by about 1,000,000 tons less than the exports for the third quarter of this year.

At recent rates of production, total hard- and soft-coal production for 1947 will be upward of 660,000,000 net tons—more than 603,000,000 net tons of soft coal and about 57,000,000 net tons of hard coal.

At these rates, and with United States and Canadian consumption—Canada being considered as part of the domestic market—estimated at 627,000,000 net tons for 1947, there will remain for export about 33,000,000 net tons.

Actual exports will total about 36½ million net tons, the difference of 3½ million net tons coming from stocks.

Europe—exclusive of USSR—is believed to need approximately 110,000,000 net tons this year and next to supplement her lagging coal output.

Senator WATKINS. Is that supposed to come from us?

Mr. CHAPMAN. Well, I asume it would all probably come from us.

If it were not for the coal-car shortage, it is believed that sufficient coal could be produced in the United States to meet domestic demands as well as Europe's most pressing needs.

The coal-car shortage has curtailed production of the better grade coals of coking and by-product quality at the deep-shaft mines in the upper Appalachian area.

It has also curtailed production of the better quality household coals in West Virginia, and to some extent the production of anthracite, causing temporary shortage of these coals in certain midwestern, southeastern and New England areas.

Contributing to this shortage of household heating coals is the fact that household consumers delayed their coal purchases longer than usual this year in resistance to high coal prices. However, with the close of the Great Lakes shipping season at the end of November, more adequate supplies of the West Virginia coals should be available and this shortage problem should then be substantially improved.

From time to time, and in certain localities, there are expected to be temporary shortages of these better-quality heating coals, but, on the other hand, heating coals of lesser quality should be available in adequate quantities in all markets. Supplies of anthracite have been increasing with the recent improvement in coal-car supplies.

The shortage of better-quality coking coals is a more serious, and essentially a long-term problem. It is intimately related to the problems of steel supplies and steel capacity.

Coking coals are needed in increasing quantities for our own expanded industrial use. They are also needed abroad for the revival of Europe's steel production and European buyers have sometimes paid premium prices to get them, with the result that American buyers have found their procurement difficult and expensive.

Yet, it is essential that coking coals be supplied to Europe so as to lessen as quickly as possible Europe's demand upon us for steel and other commodities.

Export-control legislation should therefore be extended and strengthened to prevent the payment of excessive prices for coal purchased for export and the exporting of high-grade coal for heating and steam purposes that could be served by lower-grade coals, and to broaden the use of priorities for exports.

As the result of recent action by the ODT, the coal car situation has been improving during recent weeks. It is expected to continue to improve, but its continued improvement will depend upon an extension of the authority of ODT which expires in February 1948, including its authority to allocate transportation facilities.

Pooling arrangements at the ports would also increase the supply of coal cars considerably by reducing turn-around time.

More basically, however, steel is needed for coal car repair and rehabilitation and for increased railroad car production.

Coal supply and demand appear to be coming more nearly into balance, but any serious interruption in coal production or the failure of coal prices to respond to other remedial action would create a national problem for which we are not now prepared.

In the absence of a serious deficiency in the supply of coal, it is believed that the coal problem can be dealt with through the measures mentioned—an extension of transportation controls and an extension and strengthening of export controls.

The CHAIRMAN. That bill is now being considered by the Judiciary Committee, as you know.

The hearings started yesterday and both of those matters are covered.

Mr. CHAPMAN. I understand that is right, Senator.

If a serious deficiency should occur, authority should be available to apply allocation controls to any or all types and kinds of coal and at any or all levels and areas of distribution.

Only in the most acute crisis situation caused either by a serious deficiency in coal supplies or an aggravation of the general inflationary situation would over-all price control be required for coal, but, even in the absence of such a crisis, price controls might be needed either for particular areas or for particular sizes and kinds of coal.

Oil: The problem of oil is quite different than the problem of coal. It is essentially a problem of immensely increased demand and inadequate industry facilities.

Actually, there are three aspects of the problem:

First, and most pressing, is the shortage of transportation facilities—tankers, pipe lines, and tank cars—with which to move available crude oil to refineries and refined products to market.

This shortage is world-wide.

Second is the scarcity of crude oil. Although known domestic reserves have increased, they have not increased in proportion to rising demand, and imports of crude oil cannot be increased until there is an increase in the supply of tankers.

Third, is the lack of equipment needed for increased exploratory and developmental work.

These shortages all stem from the shortage of steel.

The estimated 1947 rate of production of petroleum in the United States exceeds 2,000,000,000 barrels. This is an all-time high. It is far more than the entire world consumed in 1938. It is two-thirds, or 800,000,000 barrels, more than this country consumed during the same year.

More significantly, we are producing this year one-half million barrels a day more than we produced last year.

The domestic petroleum shortage results from a number of causes: Wartime limitation in the use of steel and subsequent shortages of steel have interrupted the normal expansion of the petroleum industry's basic facilities; the demand for gasoline for agricultural operations is almost double the prewar demand; the demand for gasoline for motor cars and trucks is considerably higher than in prewar years; the consumption of Diesel oil by the railroads has been increasing at the rate of 40 percent a year; the demand for oil for home heating will be more than 50 percent higher this winter than before the war—in fact, shipments of oil furnaces were 17 percent higher in August of this year than in any preceding month in the Nation's history, and the demand for oil by utilities and other heavy industries has increased appreciably because of the periodic shortages of other fuels.

Moreover, the end of this upward trend in demand is not in sight. There remains an enormous unfilled demand for automobiles, for homes—many of which will be heated with oil—for Diesel locomotives, and for various other oil-consuming facilities.

As a result of this unprecedented domestic demand, we are this year, for the first time in 25 years, importing practically as much oil as we are exporting.

We are also exporting less petroleum than we exported prewar.

The amount of petroleum being shipped to Europe amounts to only 3 percent of our total production. The total amount expected to be supplied under the interim aid program will represent less than a half day's consumption in this country.

Small as this quantity is, it is critically essential to Europe's basic needs.

Localized petroleum shortages are expected to occur in the United States during the coming year or more. This year, the shortages will occur east of the Rockies.

These shortages will exist principally because of the inability of the petroleum industry to obtain materials, especially steel, at a sufficiently rapid rate to enable it to expand its basic plant so as to keep pace with demand.

Several steps are under way which will help to alleviate the situation.

Government surplus tankers are, I am informed, being restored to the operational fleet as rapidly as possible.

Pipe-line and tank-car construction programs now under way will contribute some measure of relief.

Oil-well drilling operations are proceeding at high levels and refineries are being built and expanded.

Yet, unless steel is made available to the petroleum industry in substantially larger quantities, new demand threatens to continue to offset expansions in productive capacity.

It is vital, therefore, that more steel be channeled into the oil industry's basic facilities programs.

It is hoped that the measures now under way to increase supplies, plus voluntary conservation and allocation measures on the part of the consuming public, the industry, and the Government, will generally suffice to achieve equitable distribution of available petroleum supplies, to minimize such local shortages as occur, and to meet basic demands.

The availability of increased supplies of steel would go far toward assuring the success of voluntary measures. A program for the voluntary conservation of petroleum is being worked out in consultation with the petroleum industry and will be announced shortly.

Moreover, many units of the industry already are allocating available supplies to assure equitable distribution among areas and classes of trade, and this program is expected to be enlarged.

To be effective, however, these voluntary programs must be designed to meet the needs for oil in the order of their urgency.

The proper order seems to us to be as follows:

1. The armed forces and those Government needs which are essential to orderly functioning of government and maintenance of law and order.
2. Public utilities which serve the great mass of the people and maintain our going economy.
3. Homes which cannot use other fuel.
4. Adequate farm fuel for maintenance of highest level crop production for ourselves and the world.
5. Oil-burning and gasoline-consuming industries and transportation equipment.
6. Insofar as possible, the pleasure gasoline which is an essential part of the American recreational pattern.

The amount of oil being exported is so negligible that it will not impinge upon our essential needs and, if available supplies are equitably distributed, should impinge only very slightly upon our nonessential needs.

The CHAIRMAN. The original Marshall plan calls for the export from this country, as I remember, of $500,000,000 a year of oil and oil products.

Is that what you refer to here?

Mr. CHAPMAN. In part that is.

The CHAIRMAN. Is that only 3 percent?

Mr. CHAPMAN. I don't know whether as proposed in the Marshall plan, that that would be 3 percent.

The 3 percent I refer to is the amount we are now exporting. I did not intend for that to relate to the Marshall plan.

The CHAIRMAN. My recollection is that it called for the export in four successive years of $500,000,000 of petroleum products.

Senator WATKINS. A year.

The CHAIRMAN. Each year.

Mr. CHAPMAN. That is from all sources, I think.

The CHAIRMAN. That was from the United States.

Mr. CHAPMAN. Altogether?

The CHAIRMAN. Yes; from the United States, as I remember it.

I may be wrong. You might look it up.

I am sorry but I have to attend another meeting and will ask Senator Watkins to preside while I am away.

Mr. CHAPMAN. Thank you very much, Senator. I have just another half a page.

While it is not believed that the over-all petroleum situation need become so acute as to require the exercise of drastic Government controls, should voluntary measures prove to be inadequate, Government controls will be necessary.

Therefore, as a safeguard in case of such an eventuality, we believe that the President should have the residual authority to impose price controls on petroleum and petroleum products and to direct their allocation and rationing.

Senator WATKINS (presiding). Mr. Chapman, may I inquire what you mean by the residual authority?

Mr. CHAPMAN. I am thinking, Senator, of having the authority available.

We call it residual, having it available for use if you need it in the terms of imposing prices.

As I stated in the first part of my statement, it may not be necessary to use it at all in the oil industry, and most likely not be necessary in coal.

But we feel it would give some decided advantage and help in the total control of the problem if those powers were available.

That is all we mean by residual, having them available.

Senator WATKINS. This word "residual" seemed to me to mean something left over.

Mr. CHAPMAN. I may not have used it in the best meaning of the term.

Senator WATKINS. I thought maybe it was used designedly so that there would be power left over after you got through using it, more power in other directions.

Mr. CHAPMAN. I think the law itself would restrict where you could use it. I would want the law available to cover it.

Senator WATKINS. It is all the power, not just something left over as I get it?

Mr. CHAPMAN. All the powers.

Senator WATKINS. There was a discussion here the other day about "limited" power, and I wondered if this had any reference to the so-called "limited" power under a different name.

Mr. CHAPMAN. I am not thinking of it in those terms. I don't know exactly what they had in mind in discussing limited powers.

If I were thinking of that, I would think of limited areas to which it would be used, but we want the full power of rationing and allocation controls.

Senator WATKINS. You mentioned just before the hearing began something about the development of natural resources on a long-range basis.

Mr. CHAPMAN. Yes.

Senator WATKINS. What do you have in mind that might help the country on a long-range basis, and also in the event that this so-called emergency runs 4 or 5 years that might help in the short period?

Mr. CHAPMAN. It could help us in the short period, and eventually it should help in the continued industrial development of the country, the general economy, in trying to expand.

What I am thinking of is trying to expand our natural resources.

Senator WATKINS. Be specific.

Just what did you have in mind?

Mr. CHAPMAN. Particularly the things we are doing in one or two of the Western States at the moment, like the development of synthetic fuel plants to try to find more use for our oil shale.

Senator WATKINS. Which plant have you reference to?

Mr. CHAPMAN. These synthetic fuel plants we are developing on oil shale at the moment.

There is one out in western Colorado, Rifle, Colo., trying to develop shale oil.

Senator WATKINS. Is that plant in operation now?

Mr. CHAPMAN. That plant is in operation.

Senator WATKINS. How is it working out?

Mr. CHAPMAN. I think very well. Of course I may be too optimistic as a layman about that, and I would rather have a technical man tell you how he thinks it is coming.

Technical people do not like to express themselves too much upon a purely investigatory program, but Mr. James Boyd, Director of the Bureau of Mines, is here, and I should like for him to tell you about that plant, Senator.

I think it is a good example of what I am thinking of in terms of expanding our development of natural resources.

Senator WATKINS. I would like to say that this committee has not only the obligation of investigating the emergency, but of making recommendations on the long-time economic program, and as we go along we would like to get what information we can on a long-range program, as well as the other.

So if you will submit anything you wish to on that.

Mr. CHAPMAN. As I stated in here, we are preparing to come to Congress a little later with a fuller statement on a long-range basis, and I am not prepared to discuss that program today.

Senator WATKINS. Will it have any effect on the present shortage?

Mr. CHAPMAN. If we could get it into operation soon enough and if this short-term emergency lasted too long, it would.

Senator WATKINS. What do you mean by "too long"—4 or 5 years?

Mr. CHAPMAN. I am not thinking in those terms, but how fast we can speed up the development of this program.

Senator WATKINS. As I understand it, from what you have said, the increased demands, et cetera, the prospect for shortages is going to be here for a long time.

Mr. CHAPMAN. In these two fields.

Senator WATKINS. It is not only a matter of immediate emergency, but will run on for years.

Mr. CHAPMAN. In oil it will. I expect it to be for some time in oil.

Senator WATKINS. Do we have a considerable supply of shales in the country?

Mr. CHAPMAN. We do, Senator.

I might have Mr. Boyd come up here. Mr. Boyd is Director of the Bureau of Mines, and I would like for him to discuss the shale development with you.

Senator WATKINS. All right.

Senator O'MAHONEY. Mr. Chairman, I would like to interrupt at this moment to call attention to the fact that there are three members of the Senate Committee on Public Lands present. There is pending before that committee a bill which I introduced to increase the authorization of expenditure for the development of a synthetic-fuel program by the Department of the Interior.

Several years ago, Senator Watkins, I introduced in the Senate a bill to begin this synthetic-fuel program because the researches of the Public Lands Committee had demonstrated that in the three States of Wyoming, Utah, and Colorado there are oil shale deposits which the experts estimate contain about 60,000,000,000 barrels of oil.

That is a larger supply of oil than is now estimated to exist in Saudi Arabia. If properly developed, it would provide an ample supply of petroleum for all presently foreseen needs in the United States.

The bill I originally introduced and which became law authorized an expenditure, I think, of $30,000,000 to provide for the construction of demonstration plants, to test the commercial possibilities of making oil from oil shale, from coal, and from agricultural products.

But the appropriations have always lagged behind the program, and instead of concentrating the program within a few years, it has been dragged out. As a result only at the plant at Rifle, Colo., has substantial progress been made with respect to oil.

The latest reports that I have had from the Bureau of Mines—and I think perhaps Mr. Boyd ought to testify with respect to this—are to the effect that the cost of making oil from shale seems to be, according to the work of the Bureau of Mines, lower than was at first estimated.

Is that right, Mr. Boyd?

Mr. BOYD. Yes.

Senator WATKINS. Even under the increased costs as of today?

Mr. BOYD. Yes, sir.

The costs now foreseen from the experimental work being done at Rifle would indicate that it is coming very close now to the cost of production of liquid petroleum from natural sources.

Senator WATKINS. You mean by "pretty close" just what?

Mr. BOYD. It is not down yet to the point where it competes economically.

Senator WATKINS. Not yet?

Mr. BOYD. Not yet.

Senator WATKINS. Of course, you are doing it on a very small scale.

Mr. BOYD. Yes; a relatively small scale. However, you get some indication of what the bigger scale problem would be.

Senator WATKINS. Go ahead and tell us something about that development.

Mr. BOYD. The work at Rifle, Colo., was intended first to develop the mining methods for the economical production of the oil shale from the ground, and then to determine the most effective methods for getting the oil out of the oil shale, and at Laramie, Wyo., the oil so produced in that way is being studied for the best methods of making usable fuels from it.

That work has been going on now for about 4 or 5 years.

The plant at Rifle went into production last spring, in more or less full-scale production for its own size, and the work will be continuing for a few years under the present appropriation, and if Senator O'Mahoney's proposal goes through, we will be able to carry that to a pretty good conclusion within 3 or 4 years.

Senator WATKINS. Are you actually producing oil now from the shale?

Mr. BOYD. Yes, sir, at the rate of 200 barrels a day.

Senator WATKINS. Two hundred barrels a day?

Mr. BOYD. Yes, sir.

Senator WATKINS. How long has that been going on?

Mr. BOYD. Since last spring.

Senator WATKINS. Where do you get the shale?

Mr. BOYD. From the mines at the location of the retort plants at Rifle, Colo.

Senator WATKINS. Have you tested any of the Utah shales?

Mr. BOYD. The Utah shales have been tested. There are those that can be utilized.

We are now working on Government land, the naval reserve.

Senator WATKINS. As a matter of fact, you have large fields of it in both eastern Utah and western Colorado?

Mr. BOYD. That is right.

Senator O'MAHONEY. And Wyoming.

Mr. BOYD. And Wyoming.

Senator WATKINS. I cannot understand why the Senator did not have the plant located in Wyoming.

Mr. CHAPMAN. We had a naval reserve in Colorado of oil shale.

Senator WATKINS. The Government went where it owned the land. You may proceed, Mr. Boyd.

Mr. BOYD. I do not have anything further unless you have some questions.

Senator WATKINS. I would like to ask you about what is being done now to develop or to bring about the production of oil from coals.

Mr. BOYD. We have two plants under construction for the testing of two different distinct processes for production of synthetic liquid fuels from coal.

One we hope to have in operation by early next summer, and the second in operation by the end of next year.

Senator WATKINS. When were they authorized?

Mr. BOYD. The appropriations were made this year, and the first time we have had a chance to get at them and go to work on them.

Senator O'MAHONEY. What progress is being made at that private plant in Pennsylvania?

Mr. BOYD. They are now constructing a pilot plant in Pennsylvania, the Pittsburgh Consolidated Coal Co., in cooperation with the Standard Oil Development Corp.

Senator O'MAHONEY. The Standard Oil Development Corp. has the German patents, does it not?

Mr. BOYD. Yes, sir, the German patents are available too.

Senator O'MAHONEY. And, of course, Germany produced most of its liquid fuel from coal by the synthetic process in preparation for the war and during the ensuing struggle?

Mr. BOYD. Yes; a very large proportion of it. I would not be sure about most of it. They still had a production of a million tons of oil a year from foreign fields in Germany up until the end of the war.

Senator WATKINS. There is not any doubt in your mind, is there, that the production of oil from coal will be a success here and will be able to compete with the natural production of oil?

Mr. BOYD. As the price of natural oil increases, the economic conditions will result eventually in the possibility for the production of synthetic fuel from coal to compete with it.

That point has not yet been reached.

Senator WATKINS. And the supply of coal in the United States is sufficient to not only take care of the use of coal as coal but also for a large production of oil through coal?

Mr. BOYD. Yes, sir.

Our estimates on that are somewhat old and they need revision.

But even with incomplete knowledge, we know we have many hundreds of years supply of solid fuels to care for not only the demands on coal itself but for the production of synthetic fuel beyond that.

Senator WATKINS. Even though we are not able to import any?

Mr. BOYD. That is right.

Senator WATKINS. As a matter of fact, we have the natural resources in the United States to take care of our supply for a long time to come.

Mr. BOYD. That is correct.

Senator WATKINS. Given the facilities to produce or to manufacture it from the coal.

Mr. BOYD. That is right, sir.

Senator WATKINS. And from shales?

Mr. BOYD. You understand, of course, that means the creation of a large new industry to do that.

The plants to produce synthetic fuels from solids require an enormous quantity of steel and a new industry to be developed.

Senator WATKINS. Can you give us any light on the production costs of the gas and oil that the Germans produced from coal during the war?

Mr. BOYD. I do not have that here with me, Senator, but could get the information on it.

Senator WATKINS. Were they able to get costs down so that it would compare favorably with natural production?

Mr. BOYD. I don't believe so. I was there at the end of the war in Germany. I don't think they were down to a point where they could compete with natural liquid importation.

Senator WATKINS. Even though shipped a long distance?

Mr. BOYD. That is right.

Senator WATKINS. But in an emergency——

Mr. BOYD. It was built for an emergency period, knowing they would be cut off from imports.

Senator WATKINS. Was that a war development?

Mr. BOYD. It started to develop some time before the war.

We found when we got to Germany the preparation for a war started as early as 1932 when they started to put power plants, et cetera, underground.

So they were considering conditions of security as early as 1932 or earlier.

Senator WATKINS. And the oil development had been going apace with the other at that time?

Mr. BOYD. I think somewhat ahead of the other.

Senator WATKINS. A number of questions have been submitted here.

It is reported that the newspapers are carrying stories that the armed forces are using gasoline at a rate equal to wartime peak usage.

Do you know anything about that?

Mr. BOYD. I think that is out of my field.

Senator WATKINS. You have to have in mind what is being used; do you not?

Maybe Mr. Chapman ought to answer that, but you have to have it in mind before you can tell whether we ought to ration.

Mr. CHAPMAN. I do not have that information as to whether they are using it at this moment at a higher rate than at the peak of the war.

Our over-all consumption at the present time is higher at this moment than at the peak of the war.

Senator WATKINS. Do you know what their consumption is now?

Mr. CHAPMAN. Total American demand is running at some two billion barrels a year.

Senator WATKINS. For the War Department?

Mr. CHAPMAN. Mr. Friedman, do we have that information?

Mr. FRIEDMAN. I can give you a rough idea and get the exact figures later.

(The figures referred to are as follows:)

The grand total of gasoline requirements for all the services in the fiscal year 1948 is 36,123,000 barrels divided as follows: aviation gasoline, all grades, 22,073,000 barrels and motor gasoline 14,050,000 barrels. This is approximately 100,000 barrels per day for the Army, Navy, and Air Forces combined. Although consumption varied during the war, over 500,000 barrels per day of aviation gasoline alone was consumed during the latter days and many more hundreds of thousands of barrels of motor gasoline for the ground forces and transport services. Roughly, present use of gasoline is probably only about one-tenth that of wartime.

Mr. FRIEDMAN. During the war the direct military use of petroleum was about a third of available supplies. Today it is less than 5 percent, although in 1948 it will be 5 percent or possibly slightly more.

Senator WATKINS. Only 5 percent?

Mr. FRIEDMAN. That is right.

Senator WATKINS. Do you think that is an accurate statement?

Mr. CHAPMAN. I think it is very close. We would not know without checking with the National Defense Department.

Senator WATKINS. Another question which has been submitted:

To what extent will increased use of oil relieve the strain on coal supplies?

Senator O'MAHONEY. Would it not be better to ask the question just in the reverse?

Senator WATKINS. Either way you want to. But let's get a discussion of what is happening now when we use oil as we are for heating our homes, and you say the demand has increased.

How is it going to affect the coal supply?

You would still have to have coal for overseas shipment?

Mr. CHAPMAN. You would.

Mr. BOYD. We have an adequate production capacity for coal, limited only by cars. The mines can produce, as far as we can determine, all the coal needed if they were given the necessary freight cars to move it as we have mentioned here before.

In the case of oil, you have a different story. There you have a limitation of supply.

So that certainly the use of oil reduces consumption of coal. On the other hand, we could utilize more coal and therefore relieve the pressure on the oil supply.

Senator WATKINS. Use more coal in the United States?

Mr. BOYD. That is right. The conversions are in the direction of oil.

Senator WATKINS. I noticed in Mr. Chapman's statement he indicated we are not shipping as much abroad as we should ship to relieve the shortage overseas of coal.

Mr. CHAPMAN. We are not shippping as much coal as we had planned to ship.

Senator WATKINS. And that is because of the car shortage?

Mr. CHAPMAN. Car shortages and the transportation situation generally.

Senator WATKINS. And they do not get the coal they need because of that.

I am interested very much in finding out what has been done to take care of that car shortage. I have asked the question of some other witnesses here from the Administration, and to my own mind, at least, their answers have not made it entirely clear.

Mr. CHAPMAN. Has the Director of the Office of Defense Transportation been before you yet?

Senator WATKINS. Not yet.

We seem to get it in installments.

Mr. CHAPMAN. Let me ask Mr. Wheeler to answer the question on the coal-car situation.

Senator WATKINS. It seems to be the crux of the whole trouble.

Mr. CHAPMAN. There is an important problem on that, Senator.

Mr. Wheeler, will you answer the Senator's question?

Mr. WHEELER. Senator Watkins, basically, of course, the thing which is necessary to relieve the coal-car shortage is the availability of steel to manufacture cars and to repair bad-order cars.

I am not prepared to say what the percentage of bad-order cars is right now.

Senator WATKINS. Is it a question of allocation at the present moment or actual shortage?

Mr. WHEELER. Actual shortage of open topped cars for all uses, and the coal-car shortage has been running in recent months anywhere from the present shortage of about 18,000 or 20,000 a week to as high as 37,000 a week.

Now 37,000 cars will carry in the neighborhood of eight and three-quarter million tons of coal.

I do not say that if the reported shortage were supplied the demands for coal would be sufficient to fill them. But the mines are ordering cars on their daily mine ratings at a rate right now of about 20,000 a week more than they are being supplied by the railroads.

Senator WATKINS. Some mines are not operating anywhere near full time.

Mr. WHEELER. That is right. They are down as low as 2 days a week in some cases.

Those shortages are not common to all railroads. Some roads are much more short than others.

Senator WATKINS. How about the western railroads in the Colorado areas?

Mr. WHEELER. There are some shortages in the West.

Senator WATKINS. I had a report from Utah the other day they are only operating 3 or 4 days a week in the important coal fields in Utah because of the lack of cars.

Mr. WHEELER. That is right; there is some reported shortage in the West as well as in the East, but the big production is in the East and you have the big shortages in the East.

Senator WATKINS. Still you have full power through the Office of Defense Transportation to allot cars, do you not?

Mr. WHEELER. Yes; there is full power now to allot cars. That will expire at the end of February.

Senator WATKINS. To what extent is the movement of sugar beets interfering with the use of open-topped cars for coal?

Mr. WHEELER. The sugar beet season always puts a large demand on the open-top cars and to the extent of that demand it deprives other users of the short supply.

I cannot tell you, Senator, the number of cars. I can probably get it for you. I don't know offhand what the number of cars is that is demanded by the sugar beet industry in season.

Senator WATKINS. To what extent does the shipment of wheat to ports for export interfere with the use of cars?

Mr. WHEELER. That is in a different category of cars, Senator.

Senator WATKINS. They do not use any open tops for wheat?

Mr. WHEELER. I don't think so. I think they use boxcars.

Senator WATKINS. Entirely?

Mr. WHEELER. I think so.

Senator ECTON. If they can get them.

Senator WATKINS. That is right.

Mr. WHEELER. If they can get them. I don't think, for example, Senator Ecton, there has been any use of boxcars for use of coal haulage other than special shipments of smithing coal.

Senator ECTON. Most of our coal comes into these towns for home uses shipped in boxcars, not open tops.

Mr. WHEELER. Is that a usual practice?

Senator ECTON. Yes.

Mr. WHEELER. I knew there was some small use of boxcars. I have thought it was pretty largely confined to special coals like smithing coal, but I am perfectly glad to have that information from you. I did not know they used boxcars for household coal.

Senator ECTON. I presume mainly because they have not been able to get the open-top cras.

Mr. WHEELER. But I think the shortage of boxcars is proportionate to the shortage of coal cars, but that is just a guess.

Senator WATKINS. In other words, we are short in all kinds of freight cars?

Mr. WHEELER. Yes, sir.

Mr. CHAPMAN. We are short in transportation all across the board.

Senator WATKINS. Will nothing we can give to you in the way of powers help in allocation except extension of what is now in effect?

Mr. WHEELER. Not in allocation. Allocation of materials for construction and repair of bad-order cars would be helpful.

Senator WATKINS. And that goes back again to steel?

Mr. WHEELER. That is right.

Senator WATKINS. Would you favor a policy, for instance, of giving the American market, the American shippers, first call on freight cars, until we do get into position to take care of these actual shortages, over foreign shipments?

Mr. CHAPMAN. Senator, I think we would want to think in terms of what we are trying to do with our problem in the way of trying to help those people in Europe.

Senator WATKINS. I realize that, but would you favor at the moment, because of shortages here, the keeping of cars at home rather than sending them overseas?

Mr. CHAPMAN. The cars or the use of cars for the shipments overseas?

Senator WATKINS. I mean the cars. We have been doing that: have we not?

Mr. CHAPMAN. I do not have that information, Senator; I don't know.

Senator WATKINS. Let me call attention to a report of the President's Economic Committee, the so-called Nourse committee, where in table 23 they indicate that 41 percent of the manufacture of freight cars, of the dollar value of freight cars, has been shipped for export.

In other words, we manufactured $331,972,000 worth of freight cars. We kept $195,834,000 worth of them here, and we shipped $136,158,000 worth of cars overseas, of the freight cars.

Mr. WHEELER. Of course, the supply of cars overseas would be a factor in the attack on the basic problem of recovery.

Senator WATKINS. Let me ask you this: We have already indicated we cannot send as much coal over there as we need because we do not have the freight cars here.

If we had these cars here, which you say we are shipping because they need them, they would get this coal you say we cannot send them.

Mr. WHEELER. Without advocating one view or the other, Senator Watkins, to the extent you ship freight cars abroad for their own transportation of their own indigenous product, you attack the fundamental problem and make it one of recovery rather than one of relief.

Of course, somebody in his wisdom must determine to what extent we can spare those cars for that purpose.

Senator WATKINS. I am trying to find out what the proposed policy is with respect to the needs here and the needs overseas.

Mr. CHAPMAN. On that one question I must say I would not be qualified to testify, on coal car shipments, because that is completely in the control of the Office of Defense Transportation.

Senator WATKINS. Well, the Office of Defense Transportation does not determine how many cars are going to be sent to Europe; do they?

Mr. CHAPMAN. The Interior Department wouldn't. We have no authority on that.

Senator WATKINS. When we ask these questions of some of the others, they say the Interior is going to discuss coal.

Mr. CHAPMAN. We discussed coal.

Senator WATKINS. It all affects coal and goes back to steel.

No one fellow seems to give all the answers.

Mr. CHAPMAN. I do not suppose any one fellow could give all the answers.

Senator WATKINS. Maybe not, but we want the administration point of view on what we need now and what is happening now.

Mr. CHAPMAN. I tried to point out the best I could the needs and problems of coal and oil.

Senator WATKINS. Let's stick to coal for a minute.

Mr. CHAPMAN. All right.

Senator WATKINS. The crux of the matter, you say, on coal, is the lack of freight cars in which to ship the coal around the country?

Mr. CHAPMAN. That is right.

Senator WATKINS. Because of that we may have to have shortages and may have to have a rationing and you want the power to allocate?

Mr. CHAPMAN. That is right.

Senator WATKINS. I am pointing out there seems to be a policy of draining off the freight cars and sending them overseas, which, if we had them here, would relieve the shortage.

Now I ask you which you think we ought to do, and which the administration is going to do in the future: still keep shipping them at that rate, or keep them home?

Mr. CHAPMAN. Let me answer that in this way even though it is out of my field:

I am informed that the shortage of coal in the Ruhr is almost—not entirely, but considerably—based on shortage of cars, and if they had some cars for shipment over there, that relieves our own domestic situation.

Now, somebody, as Mr. Wheeler said, has to make a decision as to which is more important to us and which will help us the most, whether shipping a few cars over there and relieving them of transportation problems there on coal or retaining them all here.

That is a decision which we ourselves could not make.

Senator WATKINS. Those are already shipped. The decision has already been made.

But I am trying to find out now what is going to be the policy. What do you propose to do under this increased grant of powers and extension of powers?

Do you think they intend to carry on sending 41 percent of the freight cars overseas when we are still having shortages all over the United States traced back directly to lack of freight cars here?

Mr. CHAPMAN. That could be answered by the Office of Defense Transportation or the Commerce Department who are dealing with that.

We do not deal with that problem.

Senator WATKINS. I asked the Commerce Department and, frankly, I did not get the answer, and I thought maybe we were going to get it from the Interior Department when it came to matters of coal.

Mr. CHAPMAN. That is something we have nothing whatever to do with.

Senator WATKINS. Of course, the Commerce Department said one reason why they did not hold exports down was because they did not have enough employees to take care of them.

I wonder if you can answer this, which I do not think I thought to ask Mr. Harriman:

Do you have export control on freight cars, or do you know?

Mr. CHAPMAN. I do not know whether they do or not.

Senator WATKINS. You do not know whether we are controlling the export of cars or not?

Mr. CHAPMAN. I assume so, but I do not know because Commerce handles that business.

Senator WATKINS. I took it for granted when you have such a shortage in a field you are interested in, you would probably check through to see what is happening.

This is not news to you, is it, that 41 percent of the cars are exported?

Mr. CHAPMAN. I knew there were some; I didn't know what the percentage was.

Senator WATKINS. Most of them went to France, I think. The report indicates it was on some accumulated orders.

Mr. CHAPMAN. I knew some were shipped, but I did not know how many or what percentage.

Senator WATKINS. You can readily understand that the Congress will be somewhat governed by just how you use the powers you already have as to how we extend them or grant more powers, and naturally we are interested in seeing that the United States remains strong and carries on as it ought to.

That is the only way we can help these people.

If we get ourselves to a point where we are all tied up in a knot, we cannot help them over there very much.

Maybe that is a question of judgment but it is something we ought to take into consideration.

Mr. CHAPMAN. I think so too.

Senator WATKINS. Coming to the matter of oil, let me ask you, that all comes back to steel?

Mr. CHAPMAN. Yes.

Senator WATKINS. As I get the picture from you, we cannot do new exploration because we do not have steel for plants for development and that sort of thing.

Mr. CHAPMAN. That is right.

Senator WATKINS. And we cannot build tank cars which are badly needed and transportation lines and the numerous matters that enter into the distribution of oil and gasoline in this country?

Mr. CHAPMAN. That is right.

Senator WATKINS. We have the resources in the country, as I understand, at the present time, if we can get around to developing them.

Mr. CHAPMAN. That is right.

Senator WATKINS. Do you know that we are at the present time exporting steel over into foreign countries to develop oil fields there?

Mr. CHAPMAN. I do not know how much, Senator.

Senator WATKINS. Would you not think your Department would be interested in finding where the steel is and be right on the trail of somebody to find out where it is going in trying to get it there?

Mr. CHAPMAN. I think the Oil and Gas Division in the Department has been putting considerable—I would not say pressure, but has been holding conversations with officials to keep up with the amount of steel turned into those channels. When I said in my remarks we ought to turn more steel into the channels of the oil industry, that is only a following up of what we have been attempting to do—divert it to the oil industry.

Senator WATKINS. I got the impression from Mr. Harriman that steel pipe probably is not under control. We are shipping a lot to Saudi Arabia.

Mr. CHAPMAN. Yes; I am sure we are.

Senator WATKINS. And other steel to South American countries either in the fabricated or in the manufactured state, such as implements of various kinds, and automobiles, and numerous other things.

Mr. CHAPMAN. Yes.

Senator WATKINS. We are shipping a lot out, and yet we have this shortage here, and we have export control now in operation and it is supposed to be available to the Administration to check, at least, the exporting.

Mr. CHAPMAN. I do not know what percentage or what amount is being shipped, Senator, of those different items.

They, of course, have been shipping to South America. Venezuela is shipping out oil to help meet the European needs and our own.

Senator WATKINS. If we give the additional powers, is there going to be any change in the policy of keeping oil at home and keeping our own economy going good?

Mr. CHAPMAN. I cannot answer that on steel or coal cars or anything like that.

Senator WATKINS. You know something has got to be done to get more steel and to get more oil.

Mr. CHAPMAN. That is right.

Senator WATKINS. And more freight cars, which means more steel, if you get more coal.

Mr. CHAPMAN. That is right.

Senator WATKINS. At least we are getting down to where the problem is, in finding out just what the causes are of the present shortage.

Mr. CHAPMAN. I think I pointed out in connection with the oil situation, Senator, you have got two or three special phases in which steel is the essential bottleneck for the industry. They are not getting enough steel to get their exploration equipment.

Senator WATKINS. How would you get more steel?

Mr. CHAPMAN. You would have to allocate it by some authority.

Senator WATKINS. How would you get more steel? You have got to manufacture it?

Mr. CHAPMAN. Oh, yes.

Senator WATKINS. How would we get more steel, by getting more coal?

Mr. CHAPMAN. Probably more coking coal, but can they afford to stop and use steel for expansion and development? I do not know.

Senator WATKINS. Do you think they ought to?

Mr. CHAPMAN. I do not know.

Senator WATKINS. It takes two to two and a half years to build a steel plant.

Mr. CHAPMAN. I would not make an estimate that requires experts on steelwork development, as to whether they ought to expand at this particular moment or not.

Senator WATKINS. You know how long it took to build the Geneva steel plant under the highest pressures?

Mr. CHAPMAN. Yes; and it takes two and a half years to build oil refineries after we get the steel.

So the development of oil refineries, even under present construction, if it were all finished tomorrow, would barely meet the present demands.

And the increased demand is worrying us, to get increased steel to meet that. So we are having to keep running to stand still.

Senator WATKINS. I am wondering, for instance, about the allocation powers.

You want the power to allocate coal, do you not?

Mr. CHAPMAN. Yes.

Senator WATKINS. Do you think you would do a better job—did I say coal?

Mr. CHAPMAN. Yes.

Senator WATKINS. Do you think you can do a better job than the coal companies themselves in the selling of coal when they know they have got to have more freight cars and in order to get freight cars they they have to have more steel?

Mr. CHAPMAN. I do not think it is a question of doing a better job than the coal industry is doing. They are working hard and doing a swell job with what they have to deal with.

Let me ask you as an example how you would handle this: Suppose a shipment of coal was being sent to some place in northern New York and an emergency developed in some other place which was more serious, and that shipment of coal was en route and you could divert it to more serious use in some other locality.

It takes some allocation authority to divert that coal to somewhere else.

Senator WATKINS. Personally, I am on record as being in favor of the allocating and having the power to allocate coal and steel, but I am wondering what you are going to do and whether I am proper in that.

Mr. CHAPMAN. Somebody has to have the over-all picture.

Senator WATKINS. I want support for my position.

Mr. CHAPMAN. I think the facts support your position.

Senator WATKINS. Either support or somebody to shoot it full of holes so that it is not tenable any longer.

Mr. CHAPMAN. I think it is a good requirement. I think it is needed.

Senator WATKINS. You say controls? They must be such as to provide the most even possible flow of basic goods in short supply.

Do you think it is possible for a human being, as we have today, to bring that about?

Mr. CHAPMAN. We will just have to work for it.

Senator WATKINS. They didn't do it under the war, did they?

Mr. CHAPMAN. I think they did a wonderful job during the war, the coal people and oil people.

Senator WATKINS. We did some kind of a job.

Mr. CHAPMAN. You have to speak comparatively, I think, in talking of these things, and I think the oil industry is entitled to real credit for fine cooperation on the job.

Senator WATKINS. We got much better cooperation during the war than we are getting now, did we not?

Mr. CHAPMAN. It depends on what you are speaking about particularly.

I think the oil industry is making a supreme effort to try to meet this emergency, making a real honest effort to try to meet it.

Senator WATKINS. I am interested in your statement, on page 3, that you believe that voluntary measures on the part of the industry, the public, and the Government should go far toward alleviating the problems of shortage and rising prices.

Just what does the administration have in mind with respect to oil and coal and voluntary measures?

Mr. CHAPMAN. Well, at this moment there has been some consultation with committees of the oil industry, discussing some methods of allocation and other problems they might be able to work out jointly.

I would like to have Mr. Ball or Mr. Friedman discuss that. They have had some conferences and been working on that.

Mr. Friedman is Assistant Director of the Oil and Gas Division, and I would like for him to discuss it with you.

Senator ECTON. I would like to ask Mr. Chapman right there: The minute that the Government is given powers to do these things which are now being done by industry voluntarily, would not that be the go sign for industry to lay down on the job and let the Government take over?

Mr. CHAPMAN. I do not agree with you, Senator, at all. I do not think so.

Senator ECTON. Who is going to determine whether it is necessary for the Government to take over then?

Mr. CHAPMAN. I think the circumstances will be so well known to the public and the country that there would not be any question about that.

If you run into a more serious shortage of oil or coal such as will cause suffering, it is going to be so well known there would not be any question about imposing them.

Senator WATKINS. It is too late then; is it not?

Mr. CHAPMAN. No.

Representative POULSON. Should they not know that some of this coal and oil we have been talking about has been shipped abroad, too?

Is that not something else to let them know about it, too?

Mr. CHAPMAN. They will know about it because they shipped it.

Representative POULSON. Mr. Chairman, I did not want to interrupt Senator Ecton.

Senator ECTON. Go ahead.

Senator WATKINS. I had not quite finished over here.

Representative POULSON. I would like to ask this before the other man comes on.

Senator WATKINS. We will let you ask your question first.

Representative POULSON. Inasmuch as you stated that you wanted the right to control coal, and transportation affects the price of coal, and you stated that you could not determine whether we should send those cars over to Europe, that it would be someone above you, why do you want this power?

Would they not really be running it above? Why not have an OPA like we had before?

In effect what you have stated is that we will have one like that, because you stated you want the right to control it but yet you would not determine whether or not in the allocation of cars, which are necessary for transportation, whether they are going to Europe or whether they are going to be used here.

You said that will be determined by someone above this Department.

Mr. CHAPMAN. Congressman, what I said was that would be determined by another agency of the Government. That administrative function is not within the Department of Interior and would not be.

Representative POULSON. Is that not a great conflict there then? Who is going to be at the top of this, and determine all of it?

There has to be some over-all controlling body, does there not, to handle such a problem?

Senator O'MAHONEY. Mr. Secretary, I suggest that you tell the members of the committee something that is perfectly obvious but which they do not seem to know, which is that the determination of the amount and character of the exports to Europe will be made by Congress.

The Marshall plan has not been developed. Secretary Marshall made the suggestion in a speech at Harvard University that if the European countries would indicate to the United States what they needed to put their economies on a sound basis, the Government of the United States would consider cooperating with them and helping them to recover so as to take them off relief.

Now the formulation of the Marshall plan is merely in progress. There is no definite Marshall plan as yet. Sixteen nations of Europe gathered at Paris and submitted a report. The Soviet Government stayed away from the Paris Conference because it wanted to wreck the Marshall plan, and for that reason also it induced Czechoslovakia also to stay away from Paris. There are people in the United States and in the Congress who also want to do what Soviet Russia wants to do, wreck the Marshall plan so as to prevent the recovery of Europe.

Now, then, with respect to these export controls, I suggest that you call attention to the fact that the Eightieth Congress last extended the power of export controls did so in an act which is called the Decontrol Act.

The House of Representatives passed that bill extending the powers to the 29th of January 1948. The Senate passed the bill extending the powers to the 30th of June 1948. But the Senate in conference was unable to induce the House to go as far as the 30th of June. The conferees granted an extension only to the 29th of February 1948.

In other words, the mandate of the Congress to the Government, to the Secretary of Commerce, was to lift the controls, to shorten the controls, to allow the exportation of materials from the United States to go freely as soon as possible. Not content with calling the export control law a Decontrol Act, the Congress of the United States in its appropriation bill cut down the appropriation available to the Department of Commerce for the administration of the act and compelled the Department to cut off its employees, so that at this moment there are more than 50,000 applications from American business houses and firms for the right to export which are not being acted upon.

And yet the administration is being condemned because it has carried out the mandate of Congress under the Decontrol Act.

Representative POULSON. Will Senator O'Mahoney yield at that point?

Senator O'MAHONEY. Certainly I will yield.

Representative POULSON. You have stated the over-all policy and the general plan. The Secretary here has come with plans for one room. Do you not think when we build a house we should have the plans for an entire house, so we know how one room fits into that entire house?

You mentioned yourself that there is an over-all plan, and that has not been submitted. Why should we start to build one room now when we do not know what the entire house is going to be?

Senator O'MAHONEY. I will be very glad to tell the Congressman why we should.

Representative POULSON. Mr. Secretary Chapman stated that he is wanting powers to handle a certain problem, but he admits that he will not be able to control that problem because the over-all plan will come from above which will determine whether or not he can use the boxcars in this country.

Senator O'MAHONEY. The Congressman has asked me a question. May I answer it?

Senator WATKINS. Unless you want to take the witness stand. I thought probably you did.

Senator O'MAHONEY. I should like to answer the question of the Congressman. I think it is my right.

Senator WATKINS. We have had enough speeches.

Senator O'MAHONEY. The Senator has been making speeches by way of questions ever since he took over the chair, and I have been sitting here like a bump on a log, and I do not propose to do so.

Senator WATKINS. The questions do not seem to please you.

Senator O'MAHONEY. The questions are argumentative and they have been made without any consciousness, apparently, of the facts that confront the people fo the United States and of the world.

Senator WATKINS. The record speaks for itself, Senator.

Senator O'MAHONEY. I want to answer the question of the Congressman.

Senator WATKINS. You may proceed.

Senator O'MAHONEY. I thank the chairman.

The testimony of this witness has to do with two things. It has to do with a domestic problem and to a lesser extent with a foreign problem.

The Congress of the United States, acting through its committees, and by the vote of the Senate, has authorized an interim recovery plan. The House is now engaged upon final debate on that plan, but there seems to be no doubt that before the end of the next week this special session will have authorized the appropriation of over $500,000,000 to send materials from the United States for the recovery of Europe. That, apparently, is a congressional policy. No action has yet been taken upon the long-term Marshall plan policy, but in the meantime—and this, I take it, is the problem to which the witness has been directing his testimony—there is a shortage in the United States; there is a shortage of oil.

The people in New England are wondering now where they are going to get oil fuel for their home furnaces this winter. The Army and Navy of the United States are wondering where they are going to get their oil. Nobody is responsible for this. It is not a political question. There is nothing partisan about it. We are confronted with a shortage of oil simply because we have just come through a tremendous war and as a result of that war and in the reconversion we have a greater demand now to use oil in the United States than we ever had before.

By reason of the shortage of steel, the oil industry has not been able to build up and add to its facilities. That is why we have a shortage of oil.

The problem here is whether Congress is willing to do something about it. We are going to gain nothing by a lot of shadow boxing and sharpshooting between the members of this party or that party, trying to put the responsibility upon the other. This is more than a Presidential campaign.

Senator WATKINS. Will the Senator yield?

Senator O'MAHONEY. Yes, I will be glad to yield.

Senator WATKINS. If he will yield, we will go on with the witness.

Senator ECTON. Mr. Chairman, I do not want to butt in here, but I frankly have to admit I am becoming more confused every minute, and I would like to direct one question to Mr. Chapman.

If it is true that the prices of exports and allocations will be left to the Congress, why is it necessary for your Department or the Government to have additional powers in this respect?

Mr. CHAPMAN. Somebody has to administer the problem, so we are asking for authority to administer it.

Senator ECTON. According to Senator O'Mahoney, the Congress will determine how much goes out, where it goes, and at what price. Is that not true?

Senator O'MAHONEY. I said the Congress will determine what the scope of the Marshall plan will be, but in the meantime, we have this domestic shortage. What are we going to do about that? What are we going to do about supplying the needs of our own people, and at the same time endeavoring to restore the peace of the world?

Senator WATKINS. The thing we are concerned about now is the requests for emergency power ahead of the submission of the Marshall plan, and that is what we are asking about. The witness is here ready to tell us in response to what I think was a perfectly legitimate question, and all of the questions I submit have been legitimate, going at the point that we want to get to. The Chair rules that the witness may go ahead.

Mr. CHAPMAN. I will be glad for Mr. Friedman, the Assistant Director for the Oil and Gas Division, to take that up, Mr. Chairman. He is going to give you a brief explanation of some of the cooperative program that is being worked on at the moment.

Senator WATKINS. As a part of the program? Let us have that, then.

Mr. FRIEDMAN. The petroleum industry is doing a remarkable job of trying to handle an almost insoluble problem by itself. It is doing it, to a certain extent, in cooperation with the Government. Basically, the industry has the task of trying to bring about a fair and equitable distribution of available supplies among the various areas of the country and among the various classes of trade and consumers. The industry is attempting to allocate the products available on a historical basis to all persons who bought from them last year.

That will mean, or should mean, that even though the supplies available for consumption this winter will be slightly less than the consumers would like to have, they will be evenly distributed, we hope, among the areas of the country and among consumers.

That is the basic thing that the industry is doing, in addition to its primary job of increasing supplies. It has done a remarkable job of that. We have had, as Mr. Chapman said, half a million barrels more per day this year for domestic consumption than we had last year. It isn't enough, but it an extraordinary accomplishment.

Senator WATKINS. Let us get these voluntary measures on the part of the industry.

Mr. FRIEDMAN. That includes maximum production, the equitable allocation of available supplies, and an attempt to take care voluntarily of the requirements of the armed services, which we, and they, have put as the first requirement on a priority basis. We have requested their top priority.

Senator WATKINS. Are they responding to that?

Mr. FRIEDMAN. They have responded very well. The requirements of the military have not been met in full. We hope they will be, but we cannot say, flatly, that they will.

The industry has said they will be met, and the industry has performed on its promises in the past and I think it will do so this time. It is a difficult problem.

Senator WATKINS. Are there any measures which you are requiring of them to have them do that?

Mr. FRIEDMAN. No, sir. We have not asked them to do anything that I can think of that they have refused to do. There are some things that the Government is doing which will also alleviate the situation, we hope.

Senator WATKINS. What is that?

Mr. FRIEDMAN. One is to get all idle tankers that the Government owns into operation at the earliest possible moment.

Senator WATKINS. May I ask before you leave that, how many of those idle tankers are there now in the United States?

Mr. FRIEDMAN. My understanding from the Maritime Commission is that there is something in the neighborhood of 100.

Senator WATKINS. What is the capacity of each?

Mr. FRIEDMAN. Roughly, they are 16-knot, 10,000-ton tankers. They can deliver an average from Gulf to east coast of about 10,000 barrels a day.

Senator WATKINS. That is, of course, tank cars on railroads.

Mr. FRIEDMAN. No, this is tankers—ships. I am sorry, possibly we are talking about different things. There are no idle tank cars at all that I know of. We are extremely short of tank cars.

Senator WATKINS. These are ships?

Mr. FRIEDMAN. These are ships. The ships are extremely important because we need them to move available supplies from the Gulf coast to the east coast and from the Caribbean to the east coast. Ultimately we will need them to move more oil into the United States, as more oil beomes available for movement, unless we are very fortunate and begin to find oil at home at a higher rate than we have in the past few years.

Senator WATKINS. Where are these tankers now?

Mr. FRIEDMAN. The tankers are practically all, except for a very few, in shipyards for repair. This summer, as you recall, there was a 3-month shipyard strike which prevented any possibility of getting idle tankers out into the active fleets.

Senator WATKINS. How much of the shortage do you think the use of these tankers will relieve?

Mr. FRIEDMAN. It will not solve the problem, Senator. It will help. The problem has now become a problem of a basic shortage of supply. There isn't enough oil in the country to meet all demands at the moment.

Senator WATKINS. Even though we get it transported to where it should be.

Mr. FRIEDMAN. That is correct; sir.

Senator WATKINS. There is not enough in the United States at the present time?

Mr. FRIEDMAN. No. That doesn't mean that there couldn't have been enough had the oil industry not had a war and 2 years of insufficient materials, but it has had those two unfortunate experiences and as a result the oil industry today is at practically peak capacity. There isn't any margin left in crude oil, and only a very scant margin of refinery capacity and even less in transportation capacity.

Senator O'MAHONEY. Discoveries have been increasing in the public-land States, have they not?

Mr. FRIEDMAN. Discoveries have been increasing and I may say, Senator, that some of the most important discoveries in the United States in the past months have been in Wyoming. There has been very encouraging development there.

Senator O'MAHONEY. It is a great State.

Mr. FRIEDMAN. There have also been developments elsewhere. Even so, we are not at the moment, according to the best opinion of the industry, finding oil quite as fast as we are using it. I would like to point out here that we are maintaining a campaign of wildcat, or exploratory, drilling, higher than we have ever maintained in history. It isn't possibly, enough to catch back the ground we lost during the war, but the rate of new drilling, both developmental and exploratory, has now reached an all-time high, and even so we are now up to the very maximum of our efficient rate of crude-oil productive capacity.

Senator WATKINS. May I get back to the voluntary measures?

Mr. FRIEDMAN. Yes, sir.

Senator WATKINS. I want to get the picture, one step after another, that you propose to take.

Mr. FRIEDMAN. The voluntary measures are, first, the efforts of the industry to increase the availability of supplies. The industry is operating at practically capacity. The second is the voluntary allocation of supplies by the industry among the various areas of the country and among the various consumers, meeting the essential uses, and then dividing the rest.

The second series is Government, and that includes getting into commission all facilities that can contribute to the solution of the problem that the Government owns, such as tankers. That is under way, and such measures as keeping the Illinois River ice-free this winter, which has never been done, but which is being done this year at Government expense because that means additional barge transportation will be available for coal, and oil, into Chicago.

Another thing that the Government has done has been to modify the load-line limitation on tankers.

Senator WATKINS. What was that?

Mr. FRIEDMAN. Modification of the load-line limitation. There is a certain depth beyond which, by Government regulation, you cannot load a ship, in the interest of safety. During the war that was modified in order to permit deeper loading, which was still within reasonable safety, but possibly not quite so safe. We have gone back to that now. The Coast Guard has relaxed its regulations in the interest of getting more oil from the Caribbean and from the Gulf to the east coast. These are the types of measures that the Government is taking. They are not compulsory; they are voluntary measures.

Then, the third area where we hope voluntary measures will have great effect is in the consuming area. We must be successful here, because demand has now outstripped, at least temporarily, our productive capacity. Some restraint in the use of petroleum products by the public this winter, and next summer is essential.

Senator WATKINS. You are supposed to conduct a campaign of conservation.

Mr. FRIEDMAN. Conservation and education in saving of fuels of all kinds, not just oil, but all fuels.

Senator WATKINS. Has that progress already gotten under way?

Mr. FRIEDMAN. It has gotten under way in part. The major part of it will not be under way until the latter part of next week. A number of the States already are alarmed and have come out with their own campaigns. We hope to get them all under one tent and under a central direction so the public will get a coherent story.

Those are the three types of voluntary measures which we hope will accomplish enough in the way of new supply and curtailment of demand to avoid the need for the imposition of any drastic Government measures unless unforeseen emergencies ruin the situation and confront us with the necessity for drastic action in order to keep essential services operating.

Senator WATKINS. Does that cover pretty well what you have?

Mr. FRIEDMAN. I think possibly I have covered it too well, Mr. Chairman.

Representative HORAN. Mr. Chairman, may I ask a question?

Senator WATKINS. Will you confine it to that particular phase?

Representative HORAN. He has covered an awfully big field. I might say he has done it very well. I was quite impressed with his testimony. To what extent are military needs being supplied from abroad by foreign oil fields?

Mr. FRIEDMAN. We are getting—I don't have in my mind the exact number of barrels, but we are getting an enormous number of barrels in volume from the Middle East, from the American-owned companies there, and we are getting a considerable amount of oil from the Aruba refinery of the Standard Oil Co. of New Jersey. That oil comes from Venezuela. The two together add up to a very sizable proportion of the military requirements. They are not by any means half, I should think, but they are a good percentage of the total requirements—possibly as much as 30 percent.

Representative HORAN. Is there a way that you can increase the acquisition of oil supplies abroad?

Mr. FRIEDMAN. At the moment there does not seem to be. The Caribbean area, as is the case in the United States, is producing all the oil it can produce efficiently, at the moment. That can undoubtedly be expanded with an additional supply of steel. There I would like to point out that most of the steel exports for the oil industry are going to American companies operating in that area, and that is where we get all of our imports of petroleum, and we are importing almost half a million barrels a day.

Representative HORAN. Is that the excuse, then, for the building of a pipe line in the eastern Mediterranean?

Mr. FRIEDMAN. I would not like to say that is the excuse. That is one of the reasons for building that line. The Middle East is the only known area at the moment that has a surplus productive capacity, practically without limit, that can be drawn on by just drilling a few wells.

We know there is oil there that can be made available. If that oil is made available for use in Europe or here, if it is in Europe it will back up Caribbean oil for our own use; if it comes here, it augments our supply directly.

Representative HORAN. You have touched upon something that is very interesting to me. I feel that we all agree that you can lead a horse to water, but you cannot make him drink. We find that to be one of the things that people do not think about when they talk about controls. We find, where controls are being put on, that production can only be increased by the whiplash. You have indicated that you have done something that I think is commendable. That is, you have called in the industries and you have gotten real cooperation out of them. You have so stated.

Mr. FRIEDMAN. Yes, sir; I would like to say here that that was largely the result of wartime experience. We found that the job could be done in oil on a cooperative basis far better than with the whip. The Government had the whip, however, if it had been necessary. The powers were in existence, but the oil industry cooperated magnificently.

Representative HORAN. Probably the extent of your success has been the extent of your restraint in not using the whip.

Mr. FRIEDMAN. I think that has been largely true.

Representative HORAN. You have indicated, also, that the Government is to recondition and put into operation approximately 100 tankers.

Mr. FRIEDMAN. Yes, sir.

Representative HORAN. That will supply how much of our total needs, domestically?

Mr. FRIEDMAN. One hundred tankers, if used only in the shortest haul, which is Gulf to the east coast, would lay down about a million barrels a day of products—if it were available on the short haul. Unfortunately, however, that much additional is not available on the Gulf. That much isn't available in the Caribbean. So these tankers will be used to pick up oil and deliver oil wherever it is available.

Representative HORAN. You see, I come from a part of the United States that is different from that of Senator O'Mahoney. I come from a part of the country that has a wheat-based economy which has made the hearings on the commodity exchanges very interesting to me. I also come from a part of the country that has an overload, if we developed it, of white coal. We have no oil, and we have no coal, and we have no natural gas. What oil we do use, we use too much. It has to be shipped in.

How many tankers does it take to supply the Pacific Northwest?

Mr. FRIEDMAN. Sir, I can't answer that offhand. I don't know.

Representative HORAN. In that connection, what have you got to say? You certainly must be familiar with the fact that the Maritime Commission sold a hundred tankers to foreign buyers.

Mr. FRIEDMAN. Yes, sir.

Representative HORAN. Why?

Mr. FRIEDMAN. At the time that the sales—I should say quickly I am speaking from second-hand information, but I think I know a little bit about it. At the time the Maritime Commission agreed to sell the tankers foreign, they had been informed that industry had bought all the tankers it could use of the particular type that were available. Now, however, demand, since that period in early summer, has increased domestically, according to the Bureau of Mines' forecast, by some 400,000 barrels a day, and that is true not only here but world-wide. So the industry has a bigger volume to deal with now than it had at that time.

Be that as it may, at the time nobody would buy those tankers here in the United States. There were no applications.

Representative HORAN. I understand there were 150 domestic applications.

Mr. FRIEDMAN. Not at that time, sir.

Representative HORAN. When were those applications made?

Mr. FRIEDMAN. They have all been quite recent—this fall, certainly.

Representative HORAN. Would you give the dates?

Mr. FRIEDMAN. I can't, because that is something that only the Maritime Commission would know. Of course, I am in the Interior Department, but at the time the tankers were sold, or arrangements were entered into to sell them, we were informed that there were no applications for the hundred tankers, according to the statement of the Maritime Commission.

Representative HORAN. You also encouraged wildcatting. That is a new adventure for the Interior Department, is it not?

Mr. FRIEDMAN. I didn't say we had encouraged it, although we would like to, because it is about the most important activity that the industry can engage in at the moment. The industry itself has conducted wildcatting at an all-time peak for the last year and a half.

Representative HORAN. How did you encourage them to do that?

Mr. FRIEDMAN. That has been an industry development. We would encourage them, and we have said we think it is a fine idea, but we have neither steel, money, nor anything else to give to them.

Senator O'MAHONEY. May I say that the Congress encouraged wildcatting by passing a bill which I introduced a little over a year ago, to provide a flat royalty for the discovery of new wells. Congress has done its best to encourage the search for oil upon the public domain.

Mr. FRIEDMAN. It has certainly made the public domain a more attractive place to look for oil.

Representative HORAN. Was that in the Eightieth Congress, Senator?

Senator O'MAHONEY. That was the Seventy-ninth Congress, I am sorry to say.

Representative HORAN. Who controls the price of gasoline?

Mr. FRIEDMAN. I think the price of gasoline, sir, is controlled by the law of the market place. I don't think any one or any group of companies could control the prices in the petroleum industry. There are too many interests in it.

Representative HORAN. There is no Federal legislation, direct or indirect?

Mr. FRIEDMAN. There is no price control whatever with respect to petroleum products.

Representative HORAN. The consumption of gasoline presumably would have the effect of forcing the price up, if it has increased as you say it has.

Mr. FRIEDMAN. I think the law of supply and demand will work that way when you are in a short market position, as we definitely are now. Demand has increased beyond all expectation.

Representative HORAN. What unnecessary consumption of gasoline do you estimate today exists?

Mr. FRIEDMAN. It is difficult to say that anything is actually unnecessary. As Mr. Chapman pointed out, even pleasure driving is a definite part of the American scheme of things.

However, when you have a limited amount to go around and you have varying degrees of need, I think you have to cut where it hurts least. We think there can be some diminution, and we hope quite a bit, in unnecessary driving.

We hope people will keep their houses a bit cooler than they would like to. That is going back to wartime measures, really, of course.

Representative HORAN. Has the administration inaugurated any program to achieve that?

Mr. FRIEDMAN. The Bureau of Mines has had under way for several weeks such a program, and a further program will be announced within a very few days. It is under discussion now in the Government and within the industry.

Representative HORAN. You are almost as good as a visit from a good doctor. You encourage me. What does discourage me is that in the light of the achievements of what might be termed the proper approach to this matter, that of industry cooperation, the increase of Government encouragements for more production, and only production as we all know, will solve this, either now or in the long range.

I do not agree with those who say it is only a long-range problem. You are not standing in the road of wildcatting. You are trying to buy military supplies of oil abroad. You have confessed that were you to reconsider the sale of tankers at this time to foreign countries, owned by us and usable by us, it probably would not be done, or at least, over the dead body of the Interior Department.

What more can the paralysis of controls achieve?

Mr. FRIEDMAN. I agree, to a certain extent, in your statements, and I think that—so far as I have heard the testimony—practically everybody feels the same way, that is that controls should be avoided at all costs, if they can be. We are now, as I said earlier, at the peak of our productive capacity with respect to oil, and demand is still growing. I don't know and certainly hope, that we won't come into an emergency oil situation, but we very well may. It may be an emergency in which we have to act with speed, and it is for that reason, as I understand it, that the Interior Department is interested in having available power. If it has to be exercised, it will be exercised I assure you, as far as I know, with the utmost reluctance.

Representative HORAN. I am glad to hear that. I would just like to share with you something I think is quite precious. It is some good advice from a good neighbor from Canada, delivered to this committee yesterday. He says:

> Thousands of us in Canada look longingly to the United States where farmers are still enjoying the liberty of freemen, bought for and won by their ancestors against kings and governments.
>
> Many of us in Canada today believe fervently that the United States is an oasis of liberty in a gradually extending world desert of human servitude.

That grew out of his remarks to the gradual pattern of controls.

Mr. CHAPMAN. May I comment? I am interested to hear that, because he comes from a country where the price level is considerably lower than ours.

Representative HORAN. Subsidized by the servitude that cost the farmers of Canada some $400,000,000 last year in terms of purchasing power of the American farmer, which at least has something to contribute to what we used to pass for prosperity in America.

Senator WATKINS. Mr. Chapman, does the administration regard the price of gasoline as too high?

Mr. CHAPMAN. Senator, if we had the facilities in the Department of Interior that I think we ought to have in the way of analyzing statistics, gathering them and analyzing them, or if any other Department of the Government had adequate assistance in order to analyze those statistics and give you the basic facts about oil, we could more accurately say whether it is too high or too low.

Senator WATKINS. You have all the information, do you not, on the wartime experiences?

Mr. CHAPMAN. We have some. We have some of the information. We have a lot of past information, but we don't have the day-by-day information that is absolutely necessary to try to judge what is a proper price for gas at any particular day. We ought to have it.

Senator WATKINS. I thought it was the general conclusion that prices were too high. I wondered if you concurred in that or if you do not think they are too high.

Mr. CHAPMAN. Would you want to select just one commodity? Are you speaking of all basic commodities?

Senator WATKINS. I would like to speak now about the ones that you are vitally concerned with—oil and gasoline and coal.

Mr. CHAPMAN. Yes. You have to speak relatively when you say "Is it too high?"

Senator WATKINS. In other words, we want to know if it is too high, do you intend to roll the price of gasoline and oil back?

Mr. CHAPMAN. We haven't given any thought to rolling it back at all.

Senator WATKINS. Have you made any plans in that direction?

Mr. CHAPMAN. None whatever.

Senator WATKINS. At this moment you do not know whether they are too high or not?

Mr. CHAPMAN. With the trend as we now see it going, Senator, with one company announcing a 20-percent increase in the last 10 days, we don't know what other companies may follow. We hope they won't.

Senator WATKINS. Do you think that increase is justified?

Mr. CHAPMAN. I don't think it will produce another barrel of oil, Senator.

Senator WATKINS. Do you think it is necessary for them to charge any more in order to make a proper and reasonable profit?

Mr. CHAPMAN. Without all the information that I think a man ought to have to make a statement about a private company's price, I wouldn't make a statement as to whether it is. I simply say that the trend is upward. The man in the street will soon begin to ask somebody the question, "What can we do to relieve this situation so I can buy gasoline and oil with my present income?"

Senator O'MAHONEY. Is it not a fact that the profits of the oil companies, generally speaking, are increasing, and that they are much greater, according to their own reports, in 1947 than they were in 1946?

Mr. CHAPMAN. That is right, very heavily.

Senator WATKINS. That is why I am wondering if the Department has not already made up its mind that prices are too high.

Mr. CHAPMAN. We haven't, on that, Senator, because it is difficult to say exactly. There probably would be a difference of opinion as to what the exact figure would be to say whether it is too high or too low.

Senator WATKINS. I am not asking you to say how much it is too high. I merely want you to say what you intend to do with the power we give you to prescribe for this sick patient. What kind of prescription are you going to write?

Mr. CHAPMAN. You have to take into consideration when you go to administer that prescription, all the circumstances at that time.

Senator WATKINS. Surely you expect to do that.

Mr. CHAPMAN. As of this moment we have no plans to try to roll back prices at all.

Senator WATKINS. Have you not made a diagnosis yet?

Mr. CHAPMAN. No. What do you mean by diagnosis?

Senator WATKINS. I mean, you are asking for power to go out and prescribe for the patient, using this figure of speech. Have you not up to this stage made a diagnosis of what the difficulty is?

Mr. CHAPMAN. I have also asked in this same statement for some appropriation and authority to gather information on this same subject.

Senator WATKINS. Do you not think under what you now have, the very able staff you do have, that you are already in a position to tell us something about that?

Mr. CHAPMAN. I think we can tell you what we feel about it, but I wouldn't want to make a conclusive statement about it without a study.

Senator WATKINS. I thought somebody down there would tell us whether they thought prices were too high, whether they intended to roll them back, and what they intended to do.

Mr. CHAPMAN. I don't think anyone would say that we are making any plans to roll them back, Senator.

Senator WATKINS. Do you think we can accomplish what is desired by holding them where they are now?

Mr. CHAPMAN. I don't know whether you stop inflation by holding them where they are, but certainly it will help to hold them where there are, rather than let them go higher.

Senator WATKINS. Just what do you intend to do with this authority once you get it?

Mr. CHAPMAN. We will try to do what we did during the war, Senator.

Senator WATKINS. You rolled them back, did you not?

Mr. CHAPMAN. We didn't have to roll prices back in that case, in oil.

Senator WATKINS. In other fields you did?

Mr. CHAPMAN. In other fields, surely. But not in oil. We have no plans to roll back prices. We would use it only in case we felt the prices were entirely out of line.

Senator WATKINS. Let me get down to specific prices again. What about coal? Are coal prices too high?

Mr. CHAPMAN. Again, I would have to give you the same answer on that.

Senator WATKINS. Do you think wages in the coal industry are too high?

Mr. CHAPMAN. No, I don't, but I wouldn't want to discuss wages. Secretary Schwellenbach is competent to discuss that.

Senator WATKINS. There we are again. Production of coal is one of the essential elements.

Mr. CHAPMAN. They are administered by different departments of the Government.

Senator WATKINS. If the authority is given, for instance, to control wages, which I understand is a part of the request, that would apply to the coal industry and the oil industry.

Mr. CHAPMAN. Surely.

Senator WATKINS. What is your idea about what would be done?

Mr. CHAPMAN. To learn what would go into the factors that make up the prices.

Senator WATKINS. What do you think the administration wants to do with that power with respect to these particular industries?

Mr. CHAPMAN. What we are going to do regarding oil and coal if this authority is granted, we are going to hold it in reserve so that if the emergency becomes more stringent, such as needs for allocation, we can make allocation properly, or if the price gets out of line we could then put it in effect.

Senator WATKINS. You will do what your judgment indicates you should do, and not have Congress say what you should do, but leave that to you?

Mr. CHAPMAN. If Congress gives us the authority, they can put in all the limitations they feel are necessary.

Senator WATKINS. That is exactly why I am asking these questions, to find what, if any, limitation you think should be placed on the power. It is difficult for me to understand without knowing what your program is, what your diagnosis is, so I can have some judgment on whether or not the prescription you are going to use is going to be the right one.

Mr. CHAPMAN. I understand there is legislation before some of the committees on part of this.

Senator WATKINS. Of course, it is a big program.

Mr. CHAPMAN. That is right.

Senator WATKINS. Unfortunately, it all ties in together and it is difficult for us to separate it, as you see here today. We are talking about coal and oil, and then you run into steel, the allocation of cars, and we run into wages and prices. We run into everything even though we are talking about these two commodities.

Mr. CHAPMAN. That is right. It extends out into the other basic commodities and affects them all. I don't see how I can give you an answer this morning as to whether oil is too high.

Senator WATKINS. I would like to get an answer, if you can give me an answer, as to what you think about what the administration will do about the future shipment of freight cars to Europe when we have a shortage such as we have now in this country.

Mr. CHAPMAN. Again, Senator, I wouldn't want to say, because that is not in my department. We don't deal with that at all. The authority for handling that is with the other departments, and they should answer that.

Senator WATKINS. Would you request the holding of cars here so that you can get coal and oil and gas to the people of this country?

Mr. CHAPMAN. Our department has already made that request, Senator.

Senator WATKINS. You have made that request?

Mr. CHAPMAN. Surely. But wait a minute, you have to consider your total problem.

Senator WATKINS. I understand that.

Mr. CHAPMAN. The top administrators who have the responsibility for this foreign program, their judgment on this thing in the final end, to my mind, has to prevail as to whether we ship these things.

Senator WATKINS. In other words, they will finally make the decision, but what I want to know is what the judgment of the people who are actually working at it is. We might not want to give you authority to make the final say. We may think you are right if you have asked for more cars over here and more steel and tighter control on exports until we catch up over here and get ourselves in condition to go as we should go. We may think you are right.

The only way we can find out is to get your views and not pass it on and say you have to ask other people about that.

Representative HORAN. How much coal has been lost through inability to find it or because the systems have become blocked because of the shortage of cars?

Mr. CHAPMAN. I didn't understand you.

Representative HORAN. How much coal production has been lost because of the blocking of the system? In other words, the filling up of the local pipe lines, due to the inability to ship out, in turn due to the shortage of cars.

Mr. CHAPMAN. In other words, how much tonnage have we lost in production?

There have been some shut-downs because of that. Mr. Boyd, do you have that figure?

Mr. BOYD. I think that would be a very difficult question to answer because that relates to what the demand for coal is. We don't know what the demand is until the orders appear and the delivery is made. But when you consider that the shortage of coal cars has run on the order of about 36,000 cars per week——

Representative HORAN. That is the shortage?

Mr. BOYD. That is the shortage; yes, sir. That is the number of cars that the companies demand on railroads to move their coal, against what they are delivering. The difference between those two is the shortage.

Representative HORAN. The men who have the responsibility of moving those cars around so that our shortage of cars, which is considerable—it is at least two-thirds of what it ought to be right now, in all categories, I understand—complain to me that a car arriving at a warehouse or a colliery or at a place of unloading on Friday afternoon, does not get back to the lines until the following Tuesday because of the 40-hour week.

Have you discussed that, or have they mentioned it to you?

Mr. BOYD. It has been discussed, Congressman, but I understand also that the railroad companies through the direction of the ODT increased the demurrage rates on cars.

Representative HORAN. Not very much. Not nearly as much as they should. I have investigated that. Not enough, I should say, to be effective. In the light of that fact, it has a tremendous bearing on the making available of a known shortage of cars, what has the

Interior Department done to increase the transportation and the distribution of coal and to expedite it?

Mr. BOYD. The first thing we did was to call in representatives of the industry to see what the situation was about a month ago, and asked them for their recommendations of what should be done in this regard. They recommended, number one, that the coal cars on the railroad be distributed more equitably among the various railroads. That has now been done. They have recommended that the Illinois River be kept open this winter, the same as the petroleum industry did. That has now been done. Money has been available for it, so those cars will move.

They have recommended that the reduction of the bank of cars on the Lakes be reduced so as few cars as possible are held in the area there. The ODT did that.

Now the cars are moving out of that trade because the Great Lakes are closing up. They have made the changes between the railroads. They have done something about moving coal to export trade for shorter hauls. They have taken the production away from areas where there is a domestic shortage. The shortage in the last few weeks has materially decreased in coal. As you know, we get complaints from the country when we are not doing very well. We got hordes of letters. We don't often get commendations when it is being done. We are beginning now to get letters of commendation to the effect that the retailers are able to get their coal and coal is moving to them. They are getting more cars. So the situation for this winter, assuming that no catastrophic development or extremely serious conditions or work stoppages occurs, would indicate that we will be in pretty good shape for coal.

Representative HORAN. Why are you including Mr. Chapman, the Under Secretary, in an embarrassing position of coming to us and asking for controls when you can argue that way?

Mr. BOYD. In the same position, sir, as we did in the oil industry. If we have a catastrophic development or extreme shortage of coal, some people would go cold this winter—remember, it is very closely in balance—then you would need some authority to be able to shift controls from less essential uses for more essential uses by advice to ODT or direction and having the information on which to do it.

Representative HORAN. The responsibility residing with you in the initial matter of handling of this fuel, have you discussed with the ODT, who has jurisdiction over that matter, I suppose, the possibilities of putting some sort of penalty on the holding of boxcars on sidetracks too long?

Mr. BOYD. We have brought to their attention, of course, the condition in the coal distribution.

Representative HORAN. In what way?

Mr. BOYD. By constantly telling them what the shortage of coal is from the reports we get. And asking them to take all measures they can to correct it.

Representative HORAN. Have you suggested any possible directives to them?

Mr. BOYD. The thing we have suggested to date was the transfer of cars from one railroad to another and for the reduction in the bank at the Lakes, and for a pooling of cars at the ports, and so forth.

Representative HORAN. Are you able to supply this committee with the turn-around time of the average railroad car handling its coal or oil?

Mr. BOYD. I couldn't offhand. I could ask Mr. Wheeler.

Mr. WHEELER. That is a question that is within the jurisdiction of the ODT as well. We might incidentally know what the turn-around time is on coal cars.

Representative HORAN. Not incidentally?

Mr. WHEELER. Yes; we might incidentally know. It is not a field for which we primarily are responsible. It seems to me it is perfectly obvious, or should be, that the interior Department has a certain limited number of functions to perform and in the performance of those functions it becomes cognizant of a good many things that are done by other agencies of the Government. But that does not authorize us to go into their field and take over their functions.

I don't believe that the Congress would approve our doing that. We don't even know as much as we did a year ago about some of the questions we have been asked by this committee this morning, because we don't have the facilities with which to get the information that we did get a year ago. We knew something about turnaround time a year ago. We know much less about it today because for the last 9 months we have had something like 15 percent as much money to get the information with as we had a year ago.

Representative HORAN. If you are going to go into that, you understand the men who are speaking to you at this table, that you are talking about, are very good friends of the Interior Department. It is almost a meeting of the western subcommittee of this Committee on the Economic Report.

Mr. CHAPMAN. We appreciate that, Congressman.

Representative HORAN. However, the difficulty is that you fellows present your case. I think we are helping you to do that now. One of the things that can help you to get this information is for you to know how long this takes to turn a car around that is handling something. That is your direct responsibility.

Mr. WHEELER. Our responsibility for the distribution of fuels expired last March 31. The organization which had that in charge was disbanded, totally disbanded. There is no remnant of it remaining. The only function that was performed prior to last April 1 is the gathering of statistics, and that was curtailed to the extent that I have described. I am simply saying, not in criticism of the question put to me by the committee, but in explanation of the true facts of the case that we just don't have the information that some of the questions would imply we should have.

Representative HORAN. I think we have gotten some very good answers. I disagree with you. We have gotten answers that I think are quite illuminating. We would like to follow those questions. We would like to know in detail things that I think you know. I do not agree with you on that. I think we have gotten some very fine answers, and I have commended a couple of the witnesses here. I think they are entitled to it. All I want to know is something that is very fundamental, that you should know. That is how the turn around time on cars handling stuff that you have to follow, which is fuels.

Senator WATKINS. If the witness does not know, Congressman, how can he answer the question? He says he does not know. He does not have that information. If he does not have it, he cannot answer.

Mr. WHEELER. When it was our function to distribute coal, we did know those answers.

Representative HORAN. How about oil?

Mr. WHEELER. I don't have anything to do with oil, sir.

Representative HORAN. Who does?

Mr. CHAPMAN. We wouldn't have any more information on that than we would on coal.

Representative HORAN. It seems to me that is something we will have to get information on.

Mr. CHAPMAN. We should.

Senator WATKINS. Could anyone in your Department give it or would we have to go to some other department?

Mr. WHEELER. I would be glad to undertake to get from the ODT the information that the Congressman asked for.

Representative HORAN. Will you do that?

Mr. WHEELER. I would be glad to and put it in the record.

Representative HORAN. That is fine.

(The information referred to is as follows:)

The turn-around time of open-top cars used for transporting all commodities, including coal (and the information is not available separately for open-tops used only for coal) is shown in the table below under the headings "Hoppers" and "Gondolas" for the months from January to October of 1947 (excluding February for which the figures are not available). Similar information for tank cars used in transporting all commodities, including oil, appears in the table below in the column headed "Tank." The figures in this table are reported by the Association of American Railroads.

	Hoppers	Gondolas [1]	Tank
January	15.58	15.88	15.66
February			
March	14.91	14.93	15.07
April	15.56	15.28	15.82
May	11.40	13.62	15.55
June	11.43	13.75	15.31
July	13.44	15.30	15.20
August	11.34	13.58	14.30
September	11.69	13.86	15.07
October	11.31	13.05	14.40

[1] Turn-around time on gondolas is somewhat longer on a national basis (as here reported) than for coal cars only because of relatively long hauls of certain commodities using gondolas.

Mr. CHAPMAN. I think Mr. Friedman would know as much about the questions asked on oil as far as the information goes that we have available.

Representative HORAN. Mr. Chairman, now that they have agreed to do that, I would like to have them review my question which is how much time has been lost through the inability to ship in the production of coal, and I want this verified or denied, that there have been shut-downs due to the inability to move coal.

I also want the same information regarding shut-downs or the cessation of operations in the productive fields due to the inability to ship or to move oil, either because of pipe-line frictions or inability to get cars. I would also like to know in detail what has been done to speed up the turn-around time of cars and tankers handling this fuel and also any recommendations that have been made or discussed to speed up the handling of oil through pipe lines.

Mr. CHAPMAN. Congressman, we will get that information for you. I think it is pertinent and we ought to get it, and we will try to get it.

(The requested statement is as follows:)

The following figures on ownership by all railroads of open-top cars (the type of car used in the transportation of coal) have been obtained from the Office of Defense Transportation:

Open-top car ownership (all railroads) (for all purposes, not exclusively for coal)

	Owned Oct. 1, 1947	Installed in October	Retired in October	Owned Nov. 1, 1947	On order Nov. 1, 1947
Gondolas	317, 901	223	5, 285	312, 839	10, 789
Hoppers	523, 810	3, 123	1, 044	525, 889	40, 491

I am unable to state "how much time has been lost through the inability to ship" as requested above. Certainly, the aggregate is very considerable, many mines reporting loss of running time because of lack of cars, some reporting working as little as 2 and 3 days per week. The only available measure of loss of production that I am able to furnish, however, is in terms of reported car shortages.

The following table shows, on a weekly basis, the reported difference between the number of cars ordered from the railroads by coal mine operators and the number supplied the mines by the railroads:

Report of coal car shortages in relation to orders placed for empty cars by mine operators, by principal railroads reporting, for weeks ending Jan. 5, 1946, through Nov. 29, 1947

Week ending	BITUMINOUS								All other bituminous	All anthracite	Total coal cars short
	B. & O.	Monongahela	P.R.R.	N.Y.C.	I. C.	L. & N.	Southern	D. & R. G. W.			
1946											
Jan. 5	155										155
12	500										500
19	2, 250	200									2, 450
26	4, 256	2, 100				470			156		6, 982
Feb. 2	3, 000	1, 600				556			150		5, 306
11	3, 200	800			48	400			175		4, 623
16	2, 800	1, 600				200					4, 600
23	3, 226	1, 000			149						4, 375
Mar. 2	3, 800	700			40	900			288		5, 728
9	1, 975	500			300		100		43		2, 918
16	3, 475	900			71	400			295		5, 141
23	3, 050	1, 300			122	300			180		4, 952
[1] 30	3, 325	1, 000			13	300			333		4, 971
June 8	2, 475				512		53				3, 040
15	8, 065	1, 250			1, 650				527		11, 942
22	9, 329	1, 500			1, 300	1, 656	180	130	1, 492	2, 349	17, 936
29	9, 559	1, 320			1, 900	2, 820	255	435	1, 845	2, 726	20, 860
July 6	2, 929	400			300			65	1, 126	965	5, 785
13	6, 060	700							383		7, 143
20	7, 975	1, 950			1, 050	1, 500	482		2, 244	2, 949	18, 150
27	7, 330	2, 300			1, 945	2, 050	1, 210		2, 281	4, 163	21, 279
Aug. 3	7, 191	2, 050		449	1, 645	2, 300	1, 120		2, 643	4, 582	21, 980
10	8, 442	1, 600		225	1, 500	700	1, 350	30	4, 040	1, 478	19, 365
17	7, 890	2, 700		995	1, 900	2, 700	1, 245	300	1, 917	1, 016	20, 663
24	7, 979	1, 050			1, 677	1, 271	1, 625	215	1, 318	1, 048	16, 183
31	8, 020	2, 200		1, 325	1, 080	2, 250	1, 100	550	2, 606	1, 487	20, 618
Sept. 7	3, 985	700		3, 151	696		350		403	392	9, 677
14	7, 949	1, 630		5, 166	1, 236	150	865	155	3, 276	2, 055	22, 482
21	9, 110	1, 740		4, 115	1, 955	1, 175	980		2, 828	2, 453	24, 356
28	7, 295	870		3, 715	1, 567	1, 700	1, 100	190	2, 400	2, 296	21, 133
Oct. 5	8, 780	1, 470		1, 815	1, 460	2, 050	800	287	2, 377	1, 571	20, 610
12	8, 938	1, 655		628	1, 735	1, 990	560		1, 899	1, 193	18, 598
19	8, 490	1, 520		1, 053	2, 513	2, 387	1, 360		2, 244	1, 612	21, 179
26	10, 828	2, 400		545	2, 840	3, 100	1, 180		5, 455	1, 887	28, 235
Nov. 2	9, 610	1, 900		1, 134	2, 106	2, 824	1, 080		5, 563		24, 217
9	6, 485	1, 000		1, 625	1, 410	230	850		2, 167	826	14, 593
16	7, 620	780		787	788	2, 100	620	100	1, 005	1, 591	15, 391
[1] 23	4, 225	250				600	300		100	581	6, 056
Dec. 14	2, 675				108		100		139	390	3, 412
21	10, 977	1, 850	400	2, 939	2, 227	5, 200	820	182	1, 854	1, 617	28, 066
28	4, 100	2, 850							440	94	7, 699

See footnote at end of table, p. 553.

Report of coal car shortages in relation to orders placed for empty cars by mine operators, by principal railroads reporting, for weeks ending Jan. 5, 1946, through Nov. 29, 1947—Continued

Week ending	BITUMINOUS								All other bituminous	All anthracite	Total coal cars short
	B. & O.	Monongahela	P.R.R.	N.Y.C.	I. C.	L. & N.	Southern	D. & R. G. W.			
1947											
Jan. 4	4,535	1,105	--------	--------	374	400	--------	--------	132	--------	6,546
11	8,225	1,080	--------	1,231	2,245	2,400	50	--------	930	736	16,897
18	9,715	1,870	--------	2,537	1,423	3,950	500	--------	3,877	480	24,352
25	8,500	3,300	--------	1,580	1,370	2,100	80	--------	2,447	--------	19,377
Feb. 1	8,073	1,860	--------	2,056	1,157	2,800	200	--------	893	809	17,848
8	8,005	2,850	--------	3,735	3,466	4,200	365	--------	4,626	30	27,277
15	8,140	3,670	--------	4,961	3,529	2,900	--------	--------	5,214	--------	28,414
22	6,045	2,690	--------	2,942	2,820	2,800	270	--------	3,996	--------	21,563
Mar. 1	8,235	2,440	2,500	4,887	2,205	2,500	160	--------	3,592	532	27,051
8	5,800	2,820	3,400	3,062	1,569	2,100	75	--------	3,161	474	22,461
15	7,190	2,625	2,000	3,147	1,935	2,100	240	--------	4,570	1,253	25,060
22	8,455	1,400	2,600	2,295	2,054	2,000	230	--------	2,908	559	22,501
[1] 29	8,195	1,000	3,200	2,988	1,759	1,700	475	--------	3,031	--------	22,348
Apr. 19	3,145	--------	--------	717	--------	--------	100	--------	--------	400	4,362
26	8,765	2,600	4,200	2,228	2,012	1,600	150	--------	1,371	600	23,526
May 3	8,950	1,300	3,000	3,466	3,784	5,300	350	70	3,003	1,726	30,949
10	8,655	700	2,500	1,963	2,400	2,800	200	40	1,983	988	22,229
17	8,390	930	2,500	2,957	2,551	4,000	350	150	1,886	565	24,279
24	8,766	580	2,000	2,440	1,988	3,100	430	150	4,508	--------	23,962
31	5,160	520	1,000	1,979	1,335	2,600	415	278	3,371	--------	16,658
June 7	6,985	900	1,500	3,655	2,550	3,000	425	42	1,524	301	20,882
14	7,995	850	2,500	2,606	2,541	4,000	675	330	3,888	1,208	26,593
21	9,863	1,400	2,200	5,287	3,100	3,500	390	273	3,053	2,072	31,138
28	4,440	--------	--------	275	670	--------	--------	--------	--------	1,136	6,521
July 5	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
12	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
19	5,095	--------	--------	--------	--------	--------	--------	--------	290	1,500	6,885
26	11,155	900	2,950	2,875	1,100	1,900	550	--------	1,692	107	23,229
Aug. 2	9,370	2,450	5,000	3,820	400	3,300	640	385	529	1,014	26,908
9	11,130	2,675	4,700	3,580	1,360	2,200	920	580	2,721	1,966	31,832
16	10,755	3,500	5,200	4,835	2,600	4,200	485	580	3,207	--------	35,362
23	10,105	3,700	4,400	4,770	1,200	3,600	2,880	674	4,585	822	36,736
30	9,626	2,180	4,700	5,059	2,350	3,200	4,000	480	2,746	3,427	37,768
Sept. 7	8,075	1,250	1,500	1,958	1,390	1,770	2,500	360	394	2,093	21,290
13	8,180	1,800	4,500	4,384	3,200	3,300	4,200	543	1,550	3,070	34,727
20	9,695	2,850	4,500	5,151	2,936	4,000	4,700	1,030	2,076	2,064	39,002
27	9,000	1,500	4,500	4,745	3,047	3,000	3,642	900	1,872	1,026	33,232
Oct. 4	8,000	2,800	5,500	4,104	3,000	4,000	2,500	865	1,665	764	34,078
11	8,000	3,475	4,200	3,756	3,000	3,800	2,480	880	2,492	1,468	33,551
18	8,580	2,500	4,400	3,500	2,600	4,600	2,000	795	5,579	2,646	37,200
25	9,000	3,150	5,500	4,150	2,700	5,200	2,000	657	6,197	2,290	40,844
Nov. 1	8,685	2,200	5,500	4,000	3,600	5,050	1,900	800	5,553	697	37,288
8	8,208	900	5,500	4,200	3,400	3,150	1,938	550	2,127	500	30,473
15	6,430	1,350	2,000	1,120	2,160	4,750	1,177	695	2,467	600	22,749
22	7,350	1,900	3,700	2,574	2,300	4,250	1,504	790	3,028	835	28,231
29	4,879	1,300	--------	949	350	1,200	629	285	591	873	11,056

[1] Suspension of mining during following periods: Week ending Apr. 6 to June 1, 1946; week ending Nov. 30 to Dec. 7, 1946; week ending Apr. 5 to Apr. 12, 1947.

Source: Office of Defense Transportation.

If all cars ordered by the mines had been supplied by the railroads and all had been loaded by the mines there would have been produced, e. g. in 1947, 61,337,925 additional tons of coal (calculated by multiplying 1,115,235, the total number of cars reported as not supplied in 1947, by the typical 55-tons capacity per car.)

It is believed by some that the mine ratings for cars (i. e., the number of cars that a mine may order each day from its supplying railroad) are too high. It should be pointed out that in order to supply the number of cars necessary to avoid a shortage, it would be necessary (because the average turn around time is about 2 weeks and the reported shortages are shown on a weekly basis) to supply about twice the number of cars represented by the shortage. That is to say—the weekly average shortage of coal cars in 1947 has been 25,346 cars. On this average basis it would be necessary to supply something about twice this number to eliminate the shortage.

If there were furnished enough cars to overcome the reported shortages, it may well be doubted whether there would be sufficient demand, domestic and foreign, to use them all. In other words, given a sufficient number of cars to meet the demand, there is sufficient production capacity to outstrip the demand.

As to oil: During the past 6 months oil in accessible areas has been moved at the full rate of its availability. In west Texas, which is an isolated area, during the summer months pipe line capacity and rail capacity were insufficient to move all of the oil that could have been produced. As of today, however, with the drastically increased use of tank cars which have been put into the service of moving crude oil, west Texas is now producing and shipping, according to statements of the Texas Railroad Commission, all of the oil that is available in that area. This means that, except for possible isolated and minor difficulties, as of today the overland transportation problem, at least insofar as it restricts primary production has been solved. A note of warning, however, should be sounded since to solve this problem required all transportation to be operated at capacity and there is no margin for expansion at the moment. Additional tank cars and pipe lines are being constructed and as they are brought into service they will add additional transportation capacity.

The most critical transportation problem for the past 6 months has been the shortage of ocean-going tankers. There are a number of reasons for this shortage. However, the industry and the Government have had under way for a number of weeks emergency steps to bring into operation all idle tankers and the success of this program is already becoming apparent. There is little question that had sufficient tankers been available during these past 6 months the petroleum situation would be better. This does not mean that no problems would have arisen, since the present shortage lies deeper than a mere shortage of tankers for coastwise movements—there remains the underlying scarcity of crude oil and inadequacy of products to meet all demands. We are informed by the Maritime Commission that it is their belief that as of January sufficient tankers will be in operation to move all of the oil that is available for movement in the western hemisphere. We do not believe, however, that this will mean the end of our difficulties because, unfortunately, regardless of the number of tankers, at the moment there is not quite sufficient supply of crude oil and products to meet the estimated demands of the coming months. The meeting of these demands will require an expansion of the productive facilities of the industry.

Representative HORAN. You see, I share the same feeling as my colleague from Wyoming, that this is a job for all Americans. If we are going to preserve something that the Canadians lack, we had better be careful what we do here now in the next couple of weeks.

Senator WATKINS. Without making a speech, I fully agree with the Congressman and the Senator from Wyoming. I thought that was taken for granted. I did not know I had to renew it every little while.

Mr. CHAPMAN. Mr. Wheeler wants to make a clarification of one point.

Mr. WHEELER. On the matter of coal production loss because of inability to unload these cars. Was that your question?

Representative HORAN. Inability to move them because of their not being unloaded.

Mr. WHEELER. I can tell you what the inability to move is, as I suggested sometime ago, and that is each mine has a rating each day, of so many cars. Let's suppose it is a hundred. Every mine on the railroad serving this mine with a hundred-car rating, is entitled to its equitable share of the cars available. Mine A orders 100 cars, and the railroad taking the sum of those orders determines what percentage of the total claim that day can be supplied of the available empties. If it is 70 percent, then that mine gets 70 cars. A 10-car mine gets 7 cars.

One operator told me this week out of a need of 35 cars he got one, one day; three another day; and so on. The percentage is governed by the availability of empties, and the total deficit has ranged, as we have described, from about 20,000 cars a week to a high, as I remember it, in the last few months, of 37,000 cars. Twenty thousand cars, each one rated at a load of 50 tons, would carry a million tons of coal. Thirty-seven thousand cars would carry in the neighborhood of a million and three-quarters tons. That is the only measure of loss, Congressman, that I think you have now.

Whether that deficit can be measurably reduced by imposing larger demurrage rates and by allowing less-free time for unloading and that sort of thing, is a function of the ODT.

Representative HORAN. I appreciate that. What I wanted to get was the substantiating evidence from you fellows, because what we are trying to do here is to help you.

Mr. WHEELER. I appreciate that. What I can give you, Congressman, and I can give it to you when this record is available, is the number of claimed cars which were not supplied week by week, since January 1946. I can get that because I have it on my desk. I think that will supply the information which you have requested.

Representative HORAN. The question is rather simple. You said last week some mine operator told you he got 1 car and he had a rating of 35.

Mr. WHEELER. Yes, but that was an actual condition.

Representative HORAN. That would not coincide with the other testimony that conditions were improving, because if it is that bad, of course, we might have to do something drastic.

Mr. WHEELER. I just wanted to show the variation. The over-all condition is improving, but local conditions vary widely. If the answer I have given you isn't responsive to your question, I am afraid I didn't get the question.

Representative HORAN. Your answer was exactly responsive to my question. I simply wanted the answer amplified if you could.

Mr. WHEELER. I will put these figures in the record when they become available, as you requested.

Senator O'MAHONEY. Mr. Secretary, what steps have been taken by the petroleum industry to provide voluntary cooperation to meet this shortage that you have described?

Mr. CHAPMAN. Senator, one thing they have done, as I indicated in a brief reference in the early part of my remarks, is that they have formed an advisory committee that is working on, and trying to work out, any plans that they can go forward with, such as Mr. Friedman referred to. That committee is working with the Department discussing plans and anything that can be done to alleviate these distressed areas.

Senator O'MAHONEY. What authority would the industry have or the Department of the Interior, or any other branch of the Government have now to make such plans effective?

Mr. CHAPMAN. Senator, we have no authority whatever. This has to be an entirely voluntary program. For instance, some industries, I presume, would be running into problems of contracts that they may hold, that it would be difficult for them, themselves, voluntarily to relinquish one of those contracts or violate the contract to make shipments to some other place. It is things of that nature that require some authority for the industry to do even the voluntary things they would like to do in some respects.

Senator O'MAHONEY. To what extent have the oil companies themselves established rationing plans?

Mr. CHAPMAN. I don't know how widespread, but generally, I am sure, they themselves have made allocations to their last year's customers, we will say, based upon their consumption or use last year.

If I remember the figure—Mr. Friedman may have it in more detail than I—some of them have cut to 70 percent of what they used last year to the local dealers. They have cut it voluntarily, themselves. Otherwise, they have rationed their local dealers as to how much they can get.

Senator O'MAHONEY. Is there any uniformity in these plans?

Mr. CHAPMAN. At this moment I would say that there is some fairly general uniformity, but as the thing gets tighter you begin to get more serious complaints from different areas.

Senator O'MAHONEY. Is this not a fact, that many complaints have been filed with the Small Business Committee of the Senate by small distributors that they are not receiving oil supplies from the companies?

Mr. CHAPMAN. That is right. We are getting complaints, Senator, in our office. I didn't bring it up with me but I had before the other committee a telegram from a local dealer who said, "Such and such a company has cut me off completely. I have no oil for sale."

You are getting that kind of complaint. You are going to get them.

Senator O'MAHONEY. What is the fact with respect to the supply of crude oil to independent refiners?

Mr. CHAPMAN. You are getting, also, some complaints that they are not getting crude oil for the independent refineries. Fortunately, in respect to crude oil, we have one little ray of hope that helps us. Under the law that was passed 3 years ago, we can sell royalty oil.

Senator O'MAHONEY. Whose law was that, sir?

Mr. CHAPMAN. That was the O'Mahoney Act, that gave the Department the right to make restricted sales to small refiners in order to try to keep the small refiners in operation. I will say despite the fact it is a difficult law to administer, it has proven a God-send to a lot of the little refineries.

Senator WATKINS. I thought you were going to say to the lawyers.

Mr. CHAPMAN. No; fortunately there has been no legal involvement whatever.

Senator WATKINS. Not a legal problem?

Mr. CHAPMAN. Of what small company to sell to. We have tried to work out standards to meet this requirement for these independent refineries to meet, and within those limits we have to sell it to the highest bidder. That, of course, is meeting with some serious complaints from the refiners, because we have no other standards which we feel adequate to go by other than the highest bidder. That makes the little fellow pay a heavy premium in order to keep enough oil to keep in operation. He is doing that, and he is willing to do it.

Senator O'MAHONEY. I might suggest to you, Mr. Secretary, that if any bidder should put in a high bid and it should appear from the circumstances that the purpose of that bid was to foreclose an independent from obtaining the preference authorized by that act, there might be some legal ground for rejecting such a bid on the ground that it is not made in good faith.

Mr. CHAPMAN. On the basis of your statement he would be rejected prima facie, because if he is not an operator of an independent small refinery, we wouldn't accept his bid even though it was a high bid.

Senator O'MAHONEY. We have a complication in this petroleum business, as in other industries, arising from the fact that in the industry there are a number of highly integrated companies and a number of smaller companies which are not integrated. The integrated company owns the producing aspects of the business and is engaged as well in refining and transportation and distribution. So, without adequate law there is little that actually can be done.

Mr. CHAPMAN. That is right, very little in that field.

Senator O'MAHONEY. The problem, however, that confronts us now is to try to judge to what extent voluntary action will actually be adequate. The President, in his message, has indicated that he prefers voluntary action, and you in presentation here speak of voluntary plans.

The question, however, arises whether if complete power to control is granted, it would not eventually be used.

Mr. CHAPMAN. Not necessarily.

Senator O'MAHONEY. Also the question arises whether or not the situation is so critical that we can afford to depend upon voluntary controls for which there is no present sanction. The Interior Department cannot enforce any such controls.

Mr. CHAPMAN. Not at all; we have no authority.

Senator O'MAHONEY. You attended a recent meeting in Chicago, of the American Petroleum Institute?

Mr. CHAPMAN. That is right.

Senator O'MAHONEY. The industry council was represented at this meeting, too. Were any constructive results obtained at that session?

Mr. CHAPMAN. Senator, I think some very constructive results were obtained. The committees worked tirelessly there, and that was one of the opportunities we had in Government, our Department, to work with the industry there and work with their committees on trying to develop the discussions on some of these voluntary possibilities. I may make one further comment on that Chicago meeting. I spoke to that group and in my speech I stated that I didn't like controls, that they are not practical in every way. I don't like them, but I also stated as a warning that there may become a condition whereby you cannot brush aside controls very easily. We may have to consider them. We don't like controls per se. People don't. But here is a situation that faces us in this country, and it may get progressively worse, as it has since the day I made that speech. You have to look to some other remedy, some other way to handle it.

Senator O'MAHONEY. I read in the press the other day that the Sun Oil Co. had increased the price of crude oil by 50 cents a barrel.

Mr. CHAPMAN. That is right.

Senator O'MAHONEY. Have there been any other increases since then?

Mr. CHAPMAN. Only one that has come to my attention, in California. I have forgotten the name of the company there. One company there has increased its price. I have noticed, of course, that the officials of the Standard Oil Co. of New Jersey have indicated that they didn't think it was necessary to raise the price and deplored the fact that this company raised its price. As I said, I don't think any raising of the price would produce any more oil. It may produce some difficulties and more profits but not any more oil.

Senator O'MAHONEY. What discussion has taken place with respect to the exemption from the antitrust laws so as to permit companies to confer and agree upon a policy?

Mr. CHAPMAN. Industry, of course, has to be very careful in going into conferences and talking about allocations, which might run counter to the antitrust law. In some respects that retards them considerably, even in their voluntary efforts, or desire to follow voluntary efforts.

Senator O'MAHONEY. We have this situation, then, that in one aspect of the shortage of supplies, the oil companies are themselves establishing a private system of rationing.

Mr. CHAPMAN. Yes; that is right.

Senator O'MAHONEY. And in the second place, if they were to attempt to agree among themselves with respect to the allocation of supplies or to pool their supplies or to fix a price upon their supplies, they would be running the risk of violating the antitrust law.

Mr. CHAPMAN. I think they would definitely be violating the antitrust laws.

Senator O'MAHONEY. Does it seem possible, with those two facts in mind, that a voluntary system can succeed?

Mr. CHAPMAN. Senator, it would seem possible that it could succeed up to this extent: If our hopes that the situation won't get any worse materialize, I feel the voluntary efforts, limited though they may be, might meet this situation without having to use controls.

Senator O'MAHONEY. What hope is there that the situation will not continue to get worse in view of the fact that the demands are current every day for increased wages, increased profits, increased credit, and every other increase that adds to the inflationary pressure? What possibility is there that things will not get worse unless we act?

Mr. CHAPMAN. Senator, I refer to the residual authority that the Senator referred to in the beginning, and we are asking to have this authority available so we can act immediately as the necessity comes about.

Senator O'MAHONEY. Have you considered the possibility of establishing in any law that will give this authority a conference between the Executive and the Congress and the industry, for example, based upon the recognition that we are dealing with an emergency, and that we desire to diminish the inflationary effects of shortages without impairing the basic freedom of industry to operate itself? Have you given any thought to such a suggestion?

Mr. CHAPMAN. Senator, I don't know of any consultation on that point as to proposals for legislation, if that is what you have reference to. I don't know of any legislation we have requested.

Senator O'MAHONEY. I have in mind the fact that the law which established this committee was drafted and passed with the thought in mind than an over-all economic policy was necessary to be adopted by the Government in order to prevent disaster such as we are now confronting. This law required the President of the United States to submit an economic report. It equipped him with a Board of Economic Advisers whose duty it was to examine the economic situation and to make a report, and it directed this committee to study that report and to advise the other standing committees of the Congress with respect to the situation.

In other words, this law itself was an effort to bring the Executive and the legislative branches into reasonable cooperation in working out and over-all economic plan work which would not destroy the fundamental basis of a free economy.

Mr. CHAPMAN. That is right, Senator.

Senator O'MAHONEY. On the basis of such a law, would it not be possible to work out similar cooperation?

Mr. CHAPMAN. Senator, I think it would. I think it would be very desirable to work out similar cooperation with this committee or the proper committee of the Congress on the development of this program as it goes along.

Senator O'MAHONEY. Did we not have such an organization during the war, when the petroleum council was operating?

Mr. CHAPMAN. That is right, we did.

Senator O'MAHONEY. What authority does the present industry committee have?

Mr. CHAPMAN. We have no authority at the present time so far as the industry committee is concerned. It is purely a voluntary effort.

Senator O'MAHONEY. Has that committee made any specific suggestions to the Department?

Mr. CHAPMAN. Yes; they have made some suggestions, Senator.

Senator O'MAHONEY. Can you give us a list of them?

Mr. CHAPMAN. I don't happen to have them available.

Senator O'MAHONEY. I did not expect you would have them with you.

Mr. CHAPMAN. I will be glad to give it to you.

Senator O'MAHONEY. I think it would be well to make that a part of the record, so that we may know precisely what the industry is suggesting.

Mr. CHAPMAN. We will do that.

(The information referred to is as follows:)

The following are the recommendations of the National Petroleum Council's committee on petroleum products supplies and availability:

1. The return of surplus Government-owned tankers to service as early as possible.
2. Limitation of exports of petroleum to the extent possible without disrupting relations with other nations.
3. The Government should encourage and bring about the conservation of petroleum in its own operation.
4. The Government, through its various agencies, particularly the Oil and Gas Division, should fully publicize all efforts which have for their purpose the conservation of fuel.
5. The industry should accomplish all possible improvement in the employment and use of all types of transportation facilities.
6. Crude-oil production in all fields should be held at maximum efficient rates; and refining, transportation, and other bottlenecks should be removed to enable this maximum output.
7. The domestic supply of crude oil and products should be, as far as practicable, increased by imports in such amounts as are necessary to balance supply and demand.
8. The industry itself should limit its exports of crude oil and products to the extent practicable.
9. The industry should continue to modify refining procedures to take into account the fact that demand for kerosene and heating oils has risen more rapidly than the demand for gasoline.
10. Any further increase in the octane quality of gasoline will adversely affect the total supply of gasoline and other liquid petroleum products to the extent that it requires any diversion of crude running equipment to cracking or reforming and to the extent that additional reforming destroys some liquid petroleum.
11. The industry should continue its distribution of booklets encouraging the economical utilization of petroleum products.
12. The consumer should be advised that it is impossible to make available substantially increased supplies of any one petroleum product except by making less of another.

13. The consumer should adopt economical practices in the utilization of petroleum products, of both gasoline and heating oils.

14. Domestic consumers of fuel oils should provide additional tankage capacity.

15. Competitive fuels must accept and recognize their responsibility and carry their full portion of the heating load.

Senator O'Mahoney. Mr. Chairman, I desire to make the additional observation that when Congress passed the surplus-property law, it provided in that law that with respect to disposal of certain categories of Government surplus, the Surplus Property Administration should make a report to Congress before taking any action, so that Congress should be kept informed at all times with respect to the proposed disposal of certain types of plants. The purpose there was to make certain so far as possible that these Government plants would not become instruments of promoting monopoly.

The purpose of the surplus-property law was to stimulate, so far as possible, free competitive enterprise. I think that provision of the law which required such reports to Congress before action by the Executive was taken, proved to be most beneficial. Hearings were held by the committee on each of these reports so that there was a full exposition to the public of the purpose, the plan, and the impact of the proposed disposal. I think that that is a precedent which might very well be taken into consideration in preparing the legislation which this Congress will have to act upon in connection with the allocation of short commodities, the rationing of distribution, and the imposition of price controls.

Such a precedent might offer the opportunity of avoiding any possibility of violation of the antitrust law and make it possible for industry to cooperate with the Government in carrying out a program which the progress of inflation seems to make absolutely essential. For my own part, from my own observation of industry during the war, particularly in the petroleum industry, I am satisfied that the great majority of the leaders in industry are desirous of cooperating. The unfortunate fact is that none but Congress can provide the universal rule upon which this cooperation can be carried out.

I thank you, sir.

Senator Watkins (presiding). I think that is all, Mr. Chapman. Thank you very much, gentlemen.

The western subcommittee will meet next Monday morning at 10 o'clock, and the main committee will meet next Tuesday morning at 10 o'clock, both meetings being in this room, unless otherwise corrected.

(Thereupon, at 12:30 p. m., the committee adjourned, to reconvene Monday, December 8, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

TUESDAY, DECEMBER 9, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10:15 a. m., pursuant to adjournment, in room 318, Senate Office Building, Senator Robert A. Taft, the chairman, presiding.

Present: Senators Taft (chairman), Watkins, O'Mahoney, Sparkman, Flanders, and Representative Rich.

Senator Kem.

Also present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Good morning, Mr. Brown.

Mr. BROWN. Good morning, Senator Taft.

The CHAIRMAN. You may proceed, and, as you requested, we will permit you to finish your prepared statement before we ask questions, if that is what you wish.

STATEMENT OF EDWARD E. BROWN, CHAIRMAN OF BOARD, FIRST NATIONAL BANK, CHICAGO, ILL., AND PRESIDENT, FEDERAL ADVISORY COUNCIL

Mr. BROWN. Thank you, Senator.

I assume I am summoned here because I am the president of the Federal Advisory Council. I also assume that all the Senators and Congressmen here know what it is. It is a body of 12 men, a statutory body, created by the Federal Reserve Act, composed of 12 bankers, 1 elected by each of the 12 Federal Reserve banks.

It is required to meet four times a year, at least four times a year, with the Federal Reserve Board, and the Federal Reserve Board is required to discuss with it various matters affecting the Federal Reserve System.

I am addressing my testimony to the special reserve plan, the so-called Eccles plan. Unless the committee desires me to do so, I shall not discuss the restoration of controls over installment credit.

The special reserve plan, as outlined by Governor Eccles, is that all commercial banks, whether or not members of the Federal Reserve System, may be required by the Federal Reserve Board to carry a special reserve up to 25 percent of their demand deposits, and 10 percent of their time or savings deposits in United States Government bills, certificates of indebtedness, or notes, or cash, cash items, interbank balances, or balances with Federal Reserve banks.

This special reserve would be in addition to cash reserves now required of member banks, or to cash reserves now required of nonmember banks by State law.

Within the 25 percent maximum against demand deposits and the 10 percent maximum against time deposits, the Federal Reserve Board could set from time to time the percentage of special reserve which all banks should carry.

The Federal Advisory Council, of which I am president, is unanimously opposed to such a plan.

In response to a request of the Federal Reserve Board which read:

> The Board is very concerned about the rapid expansion of bank credit. The Board, therefore, desires to have the views of the Council as to the further steps that might be taken to correct this serious situation through monetary or fiscal means—

the Council submitted a memorandum on November 18 to the Board. Mr. Eccles filed a copy of it with your committee.

It is short, and with your permission, I would like to read it. This is the statement [reading]:

> The Council has reviewed the question of the volume of bank credit both in the aggregate and as shown in the banks with which they are familiar.
>
> We do not know what "serious situation" in bank credit the Board has in mind. For the past year the total volume of bank credit (i. e. the available amount of bank money) as measured by adjusted demand deposits has shown only a moderate increase. As bank loans have increased, the banks have decreased their investments.
>
> We find nothing in bank loans themselves to suggest that growth of loans has been an active inflationary factor. It rather appears to have been a reflection of the very high level of business activity and high prices.
>
> To a large extent growth of loans is a direct result of Government policies. For example, an increase of nearly $4,000,000,000 in the real estate loans by insured banks since the end of the war reflects directly the purchase of FHA and GI mortgages in the housing program.
>
> The Reconstruction Finance Corporation is encouraging bank lending by guaranteeing risky loans.
>
> Commercial loans are influenced by high prices and active movement of agricultural and manufactured products for the foreign aid program.
>
> High wages and high costs of materials have meant that business needed more money to take care of its customers.
>
> There is nothing in the figures or our experience to suggest that there exists any substantial lending for speculation or for unnecessary uses. Loans for carrying securities are much reduced.
>
> In this period the Government, through various agencies, has been making loans that the banks refrained from making because of their speculative nature. The Reserve System itself is asking for more power to guarantee loans on the presumption that bank lending is too cautious.
>
> The causes of our present inflation are not in current banking policies but are found in the great wartime expansion of buying power together with unusual events and public policies since that time. Among recent inflationary causes may be listed the following:
>
> The foreign aid program.
>
> A cycle of wage increases in excess of increases in either the cost of living or productivity.
>
> A shorter working week.
>
> A short corn crop.
>
> Veterans' bonuses and relief payments.
>
> Agricultural price subsidies.

The CHAIRMAN. Agricultural what? I did not hear that.

Mr. BROWN (reading):

Agricultural price subsidies.

United States Government spending of $36,000,000,000 a year.

Housing subsidies.

In the face of these developments a substantial increase in bank loans was inevitable and the banks have shown restraint. The dangers in the present situation are understood by bankers and there is hardly a bank in the country which has not been warning its customers against overexpansion. The loans being made are mostly for direct production.

The first thing to do is to reconsider Government policies which are inflationary and especially excessive Government spending and subsidies.

We recognize that even though the causes of inflation are largely outside the sphere of monetary policy, the Reserve System has a special responsibility for bank credit, and in this situation should take all reaonable care to assure conservative credit policies.

In this special area we suggest that the System and the Treasury already have large powers, without new legislation, to place credit under broad restraints.

One of these powers is the discount rate which is a recognized instrument for serving notice on the public of the need for restraint in the use of credit.

Similarly by open market operations the System can control the reserves of the member banks and limit their lending power.

The Board also still has the power to raise reserve requirements in central reserve cities and so tighten money.

The Treasury by the pricing of new issues and the handling of its balances has great influence on the rate and volume of money.

In the past year the System and the Treasury have used these powers effectively.

The money markets and the policies of businessmen are today so sensitive to action of these sorts which the Reserve System and the Treasury take that present powers are ample to place all restraints on credit expansion which the System and the Treasury may consider necessary.

The Council wishes it clearly understood that it shares the apprehension of the Board of Governors with respect to inflation dangers. It does, however, most strenuously object to the singling out of the increase in bank loans as a principal contributing factor; and it has attempted to point out above, the vastly more important elements of inflation, of which bank loans are a barometer.

This is not to say that there have not been unwise bank loans in some cases. After all, banking is a form of human endeavor, operated by human beings. It would be amazing if there were not some errors in judgment. But we submit that, on the record, there is no evidence of bank credit expansion beyond that which could be expected under all the circumstances. There is every evidence that loans are today doing a wholesome and constructive work in their intended place in the economy.

The Council has studied the increase in consumer credit in relation to the termination of regulation W. While consumer credit has increased substantially, much of this reflects the availability of automobiles and household appliances. There is so far too little experience on which to judge the effect of the termination of regulation W. The American Bankers Association is undertaking with considerable success to insure maintenance by banks of sound lending standards. This effort toward voluntary cooperation seems to the Council the sensible and the democratic method of dealing with this problem, both with respect to the banks and other lenders. The Council is opposed to legislation giving the Board new regulatory powers in this matter.

Suggestions in the President's message to Congress with respect to credit control indicate the possibility that the Federal Reserve Board may present to Congress the proposal in its 1945 annual report for a required bank reserve of short-term Government securities. The Council therefore wishes to state its views on this proposal.

The proposal as we understand it is that banks should be required by law to maintain in addition to cash reserves, reserves of short-term Government securities in a percentage relationship to deposits, to be fixed from time to time by the Federal Reserve Board.

The Council is unanimously opposed to this scheme for the following reasons:

1. It is impractical. The operations of banks are so different, reflecting as they do adaptation to the varying needs of their communities and customers, that no percentage of short-term Government security holdings can be applied fairly or practically to all banks. Any percentage high enough to offer any measure of

restraint on a substantial number of banks will have disastrous effects on many other banks, compelling them to liquidate sound and necessary loans and thus actually check production. The very banks which have served the business in their communities most aggressively and helpfully would be hardest hit.

2. Such a plan would substitute the edicts of a board in Washington for the judgments of the boards of directors of 15,000 banks throughout the country as to the employment of a substantial part of the funds of their banks. This is a step toward socialization of banking.

3. As indicated earlier, the Federal Reserve System and the Treasury already possess large powers of credit control not now being fully used. Such new powers as those proposed are not necessary.

That is the end of the council's statement.

The expansion of bank lending has not been a material factor in the rise of the price level. The special reserve plan proposed by Governor Eccles would not have any material effect in reducing inflation. It might well cause a great deal of difficulty to the economy of the country, and bring about a restriction of production and distribution.

We have in this country, in addition to currency and bank deposits, large amounts of savings deposits, both in commercial banks and in mutual savings banks.

We have outstanding over $50,000,000,000 of savings bonds and notes which are cashable on demand, and some of which are continually being cashed.

We have a large amount of short-term debt. We have an even larger amount of long-term bonds whose holders can sell them at any time, as they are now supported by the Tresaury and Federal Reserve when necessary to keep them above par, and, in my opinion, they must and will continue to be so supported.

This tremendous aggregate mass of purchasing power in cash, or else convertible into cash in a very few days, exists against a supply of goods which, in many cases, is short of prseent demand.

Forcing the banks to carry a special reserve in Government bills, certificates, or notes will not affect the ability of people who have money in a bank to take it out and buy goods if they can get them. It will not affect the pressure which the owners of savings accounts, or of Government bonds, are in a position to put on the demand for goods, should they decide to cash their savings accounts or bonds.

All the special reserve proposal could do would be to restrict bank credit. The adoption of this proposal might not only restrict an increase in bank credit which would be desirable to enable a further increase in production and distribution, but it might very well have the effect of cutting down existing bank credit which now serves to maintain present production and distribution.

Bank loans which increase production or which increase and facilitate distribution are anti-inflationary. Loans to a farmer to buy fertilizer for his crops or to raise and finish cattle, increase production.

Loans to a meat packer to buy and process livestock into meat, or to a miller to buy grain and make it into flour, are necessary if the farmer's products are to be efficiently used for food.

Similarly, loans to an oil producer to drill oil wells increase production. So does a loan to a steel company to build some item, such as a battery of coke ovens, which are necessary to balance the capacity of the rest of its plant.

The members of the Federal Advisory Council, of which I am president, come from all the 12 Federal Reserve districts. They know pretty well the type of loans which the banks in their respective districts are making.

They believe that the great bulk of the existing loans in the banking system and the great bulk of the loans being made serve to maintain and increase production and distribution.

There are very few speculative loans on securities and almost none on commodities. The only considerable segment of bank loans being made, which the Advisory Council feel have an inflationary effect on prices, are housing real estate loans guaranteed by the FHA or under the GI bill of rights.

Many banks are making such loans in reliance on the guarantee, and without much regard to the value of the property behind the loans.

It is difficult, if not impossible, to persuade banks not to make loans guaranteed by the Federal Government.

Many of these guaranteed loans are in excess of either the cost of the property mortgaged to secure them, or of its reasonable value.

They can only result in loss to the buyer, and to the Government on its guarantees.

In the meantime, while they may temporarily stimulate the building of housing, they are pushing up the cost of building very rapidly and out of all reason. Governor Eccles has testified before you on this subject.

While the Advisory Council fully appreciates the desirability of providing more housing rapidly, it fully concurs in Governor Eccles' recommendation made in his testimony before your committee that—

> Congress should reconsider in the longer term interest of the country the present policy and program of the Federal Government in the field of housing credit.

The proponents of the special reserve plan say that it will not reduce bank loans which serve a productive purpose, or even prevent an increase in bank loans which will result in increased production. They argue that if more bank credit is necessary to carry on or increase production, the Federal Reserve Board will either not require a special reserve, or reduce the percentage of the special reserve required.

The weakness of this argument lies in the fact that any banker who is worth his salt, so arranges his loans and investments that he can, without dislocating his bank's business, meet in a very short time the maximum reserves that could be required of his bank under the law.

If the proposed special reserve plan should become law, the banks of the country would, in general, immediately begin to put their affairs in such shape that they could meet the maximum 25 percent special reserve in a few months. This would be the case even if the Federal Reserve Board took no action to impose it or any part of it.

With very little stock exchange loans out and with the paucity of commercial paper, the banks could do this only by building up their holdings of short Government obligations.

To get the money, they would either sell their longer-term Governments or contract their loans by collecting on old ones, and making fewer new ones, or by a combination of both means.

If the banks sold longer bonds no one, practically, would buy them except the Federal Reserve banks. True, the Federal Reserve banks would sell short-term Government obligations to the commercial banks as they bought the longer bonds from them.

But the very fact that the Federal Reserve banks were buying the longer bonds in large amounts would almost certainly cause many holders of such bonds outside the banking system to sell out of fear that the Federal Reserve banks would not or could not support them at par. The situation might easily become panicky.

To the extent that the banks sought to put themselves in a position to meet possible special reserve requirements by collecting old loans or by restricting new extensions of credit, they would almost certainly reduce the amount of loans which would sustain or increase production.

The average banker seeking to reduce or even to hold down his loans, would give preference in renewals or new extensions of credit to those of his borrowers whose credit was strongest and whose balances were large, without much regard to the effect of his action on the over-all production of needed goods.

It would be the little fellow, and the one with small capital, that would have difficulty in getting credit, no matter how much their production would suffer from lack of credit, and no matter how desirable their production might be to help bring the supply of goods into relation with demand.

The special reserve plan is impractical and highly inequitable. There are about 15,000 banks in this country serving communities and customers with widely different needs, and with varying seasonal demands for credit.

A bank in a vegetable-growing section of Florida or Texas, for instance, will have a heavy demand for credit during the winter growing season, and large deposits with very little demand for loans during the balance of the year.

At other seasons of the year, similar situations will occur in banks serving areas in Kansas or the Northwest, that are predominantly wheat-growing sections, or in banks in the south that serve growers of cotton.

Even in the larger centers different banks cater to different classes of customers. One bank may have its customers chiefly in the metal trades, another among contractors and builders and their suppliers, and still another in the needle trades.

Each bank will have varying seasonal demands for loans. One bank may draw its deposits almost exclusively from nonborrowers. Another may get most of its deposits from active businesses, most of which will want loans from time to time.

No percentage as high as 25 percent in a "special reserve" on top of required existing reserves could be applied to all banks without penalizing different sections of the country and different banks in the same section.

It would force many banks to refuse loans necessary to maintain existing production. As the Federal Advisory Council said in its memorandum to the Board of Governors, the very banks which have served the business in their communities most aggressively and helpfully would be hardest hit.

The proposed plan would tend toward the socialization of banking and Government control over credit in various ways. As the Advisory Council, in its memorandum says, it would substitute the edicts of a board in Washington for the judgments of the boards of directors of the 15,000 banks throughout the country as to the employment of a substantial part of the funds of their banks.

It would put into the hands of the Treasury and the Federal Reserve Board the power to control bank earnings even to the point of rendering banking unprofitable.

The Treasury could, if the plan ever became law, practically fix any rate of interest it saw fit on the special types of government securities the banks would be required to keep in their special reserve. Even if the rate was as low as one-eighth of 1 percent, the banks would have no option but to buy such securities, or hold cash.

While the rate on certificates or notes that would be eligible for the special reserve is now 1⅛ percent, there would be no assurance that a future Secretary of the Treasury might not greatly reduce the rate.

With a rate of, say, one-eighth of 1 percent on their securities in a special reserve of 25 percent, and with present maximum cash reserves, banks could not, in my opinion, earn anything.

The possibility that such a condition might ensue would make it very difficult to get investors to put their capital into bank stocks. Banks need increased capital and it is hard enough for banks to get it today, with most of the bank stocks selling under their liquidating value.

The restriction on the granting of necessary desirable credit which the adoption of the special reserve plan would force on the banks, would lead to a demand that either existing Government agencies under present or enlarged powers, such as the RFC, or new Government agencies created for that purpose, supply such credit.

I doubt if the demand could successfully be resisted. If granted, it would mean that much credit to industry now given by banks would be given by Government agencies instead. This would be a long step toward the socialization of credit.

The Federal Advisory Council disagrees with the Chairman of the Board of Governors when he says that the Federal Reserve Board is without powers to do anything under the existing law.

The Board can raise the rediscount rate; it can increase reserve requirements in the two central Reserve cities, New York and Chicago; it can tighten up its open-market operations; it can use its influence with the Treasury to still further reduce the war loan accounts which the Treasury still carries.

I am not advocating that it use all these present powers to the limit, or that it use them all at once.

To do so might easily upset public confidence. Businessmen, bankers, and the investing public are today all apprehensive about the future, and justly so. They fear a possible early recession, and they do not know how severe it might be.

In my opinion, even a slight change in the rediscount rate, say, a quarter or a half of 1 percent, would have a profound psychological effect, and would cause many businesses to abandon or postpone present plans for expansion, and get their affairs in better order.

It would also cause bankers to look more closely at requests for loans for capital expansion. Any rise in the reserve required in the two central Reserve cities would have a similar psychological effect.

The Treasury and the Federal Reserve Board are to be commended for what they have already done. By doing away with the preferential discount rate, by the unpegging of bills, by slightly raising the certificate rate, by using excess cash balances and budgetary surpluses to reduce bank-held debt, and by transferring part of the Government debt from banks to private investors they have greatly improved the credit situation. They have brought the lone-term 2½ percent Governments down close to par, a highly desirable result.

Parenthetically and personally, I believe that the national interest requires that the long-term two and one-half's be supported, if necessary, and not allowed to go under par, for a good many years to come.

The beneficial effect on the attitude of bankers and businessmen of these policies of the Board and the Treasury has been greater than, I think, Mr. Eccles realizes. The Advisory Council believes that the powers which the Treasury and the Federal Reserve Board still have, even though they may be largely psychological, make the adoption of any such plan as the special reserve plan, with all its dangers, unnecessary.

The remedy for the present inflationary situation lies outside the field of monetary policy. It is more production, strict economy by government, national, state and local, a budgetary surplus which will be applied to the reduction of the debt, and thrift and savings by the people of this country which will provide for the capital plant expansion the country needs, and make possible the gradual transfer of a large part of the national debt out of the banking system and into the hands of investors.

The CHAIRMAN. I would like to ask you this. Mr. Brown, I do not remember the exact figures, but I think bank credit has increased approximately from 10 to 12 billion in 2 years, something of that kind and at about that rate, and it seems to be increasing very recently, at least, to around 5 billion a year, is that your recollection of it?

Mr. BROWN. I would say that while the total amount of bank loans may have increased 10 or 12 billion dollars——

The CHAIRMAN. No, 10 or 12 billion in 2 years.

Mr. BROWN. Two years. The banks have reduced their holdings of Government securities substantially in the same time. I think the total amount of demand bank deposits other than Government deposits have increased only about $2,000,000,000 in the last 2 years. If you speak about the expansion of bank credit it includes both their holdings of Government securities and their loans.

The CHAIRMAN. Yes. They have sold Governments and made loans.

Mr. BROWN. And made loans.

The CHAIRMAN. My recollection is that they have not substantially decreased their holdings of Governments, however. I may be wrong about that.

Mr. BROWN. I am quite sure you are, Senator. There has been a total slight increase, but the increase in loans has been largely offset by sales of Government securities.

The CHAIRMAN. You say of that total increase in loans, about 4 billion is housing loans.

Mr. BROWN. Yes, sir.

The CHAIRMAN. I have not seen those figures. Is that reported somewhere?

Mr. BROWN. That is reported. I mean, the figures were taken out of Federal Reserve statistics as to the increase in mortgage loans held by banks.

The CHAIRMAN. I think the testimony was that the housing credit had increased at the rate of about 5 billion a year. This, I take it, is at the rate of 2 billion a year.

Mr. BROWN. This refers only to the housing credit in banks.

The CHAIRMAN. That is what I understand, but I assume that this 2 billion a year in the banks is part of a 5 billion a year total increase in housing credit.

Mr. BROWN. Correct.

The CHAIRMAN. Is that correct?

Mr. BROWN. Yes.

The CHAIRMAN. You suggested that the RFC is still guaranteeing loans. Is that of any substantial volume?

Mr. BROWN. It is of lesser volume than it was some years ago, but some large loans, such as those to Glen Martin have recently been guaranteed by the RFC.

The CHAIRMAN. So that the Government is still pursuing a policy of increasing loans.

Mr. BROWN. Still making some guaranties.

The CHAIRMAN. Is there any Government lending in connection with foreign shipments or just the support by the Government in the buying of goods for foreign shipment? You referred to that as another Government policy which was increasing credit.

Mr. BROWN. Well, the Commodity Credit Corporation is carrying large bank loans on wool, and probably on other commodities.

The CHAIRMAN. It is making loans under the general agricultural policy on many agricultural commodities, is that correct?

Mr. BROWN. Well, it is making them certainly on wool and on some others. The loans on grains are not very large at the present time because grains are in such great demand, and at a high price that there are very few loans on grain being made. There are loans being continuously made on wool.

The CHAIRMAN. If bank credit increases $5,000,000,000, while it may be necessary, I do not quite see that it is not inflationary to that extent. I mean, they make those loans, and that is an increase, so to say, in the total amount of outstanding bank credit, and does provide purchasing power for people to go out and pay for and buy goods of all sorts that they would not otherwise have, does it not?

Mr. BROWN. On the other hand, the making of those loans may increase the supply of goods, and offset the inflationary effect, or more than offset the inflationary effect of the loans.

The CHAIRMAN. That is rather an ultimate effect; that is not likely to be an immediate effect, I should think. I am not suggesting that loans, these loans, are not necessary to do it in the long run, and that it is not wise policy, but I do not see how we can dispute the fact that the increase in bank loans is an inflationary element by creating more purchasing power against a limited supply of goods.

You say you are ultimately going to increase the supply of goods that way, but that is only an ultimate effect. It may take a year to do that.

Mr. BROWN. It may take 6 months in the case of a loan to a farmer to buy fertilizer and grow crops.

The CHAIRMAN. That is right.

Mr. BROWN. It may take a year for a loan to an independent oil operator to drill some wells and get sufficient oil out of the ground to repay the loan.

The CHAIRMAN. It may take a long time before he actually gets the oil, too.

Mr. BROWN. No; if he drills in a proven field he gets the oil.

The CHAIRMAN. He will get the oil.

Mr. BROWN. And he gets it pretty quickly, and if we loan a million dollars toan in dependent oil operator who produces a million dollars' worth of oil for the first year, and another million the second year, and another million the third, which is probably what the ratio would be, you get three times as much oil, three million dollars' worth of oil coming on the market as against an additional inflationary power of a million dollars.

The CHAIRMAN. But it seems to me that as far as our immediate effect is concerned for the next 6 months in the way we are looking at it now because the whole thing may turn before then, that the increase in bank loans must have an inflationary effect. I do not say that it is an inflationary effect that is not necessary, just as the inflationary effect of shipments to Europe may be necessary, but I cannot see why it is not inflationary on the immediate market for goods. That is the only point that I would like to make.

Mr. BROWN. I can only answer it by saying that I believe that it increases production and supplies more goods than the increase in the monetary supply.

The CHAIRMAN. That may be true of some loans. But in the case of other loans it may not be. Is there any way to distinguish between loans; is there any possibility of the Board's undertaking to say what kind of loans and to distinguish between loans which increase production and those which do not? Is there any such possibility? That was suggested to me yesterday by a man of some understanding.

Mr. BROWN. I do not believe it is possible. A large steel company, for instance, recently came to us, and talked about borrowing $5,000,000 to build an additional battery of coke ovens which they said would balance out their plant, and would be in production in a year or a year and a half.

Now, steel is something which is generally expected to be in short supply for several years. Unless such a loan is made you would not get an increase in the steel supply, and I think the anti-inflationary effect of the additional steel supply will be much greater than the temporary inflationary effect of the loan while it is being made.

The CHAIRMAN. That may be true; but temporarily you have got a big demand, and an additional demand for more bricks, more steel to make these coke ovens, and on goods which are today in short supply. So that it is a balance of desirable results, I suppose, is it not?

Mr. BROWN. I think so.

The CHAIRMAN. You do not think, in any event, that it is possible for us to try to say or have the Federal Reserve Board or anybody else say that there should be a line drawn between loans which result in more production and those which do not, do you? I mean, is that possible?

Mr. BROWN. I do not think so. I think that an educational campaign among banks might have some effect, but I think very few loans are being made by banks for the purpose of building things like movie theaters or skating arenas or something of that sort. There may be a few here or there, but I do not see how they could be prohibited.

The CHAIRMAN. Mr. Eccles rather took the position as being opposed to raising the reserves in central reserve cities, which can still be raised, I think, 6 percent, under the existing law. What is the argument or what are the arguments for or against raising those reserves before we give additional powers?

Mr. BROWN. Well, the raising of bank reserves by 6 percent in New York and Chicago, which are the two largest banking centers of the country would probably increase the required bank reserves by a billion or a billion and a half dollars; I have not the exact figures, but somewhere in that range.

The CHAIRMAN. Why should that not be done if there is a threat of excessive bank lending?

Mr. BROWN. I think it should be done before any additional powers are granted to the Federal Reserve Board. I do not want to say that it should be done, or done all at one time, because I think it might restrict credit to such an extent that it might cut down production, or it might upset the Government bond market. It is a matter on which the open market committee or the Board has got to use its own judgment, but I should think that before any additional powers are given the Board, that power or part of it should certainly be used, and the effect of such action tested out.

The CHAIRMAN. You have suggested here, and I forgot the term you used, with regard to the open market policy as being a possible tightening up of the open market policy, or some such term. Do you think that bonds could be sold on the open market to a greater degree than they have been without reducing government bonds below par, to which you are opposed?

Mr. BROWN. I think that they could buy short-term Government securities and certificates at slightly lower prices than now exist, and that the long-term Government bonds could still be maintained at par.

I do not think that the open market committee could drastically tighten up to the extent of refusing to buy Government bonds that were tendered or buying them only at heavy discounts; it is a question of degree.

I think they can exercise a slightly tighter policy without forcing the long-term governments below par, and if the long-term governments stay at par, why, all the shorter ones will either stay at par or very close to it.

The CHAIRMAN. Do you not think that if they did that, and then raised the rediscount rate, it might have the effect of completely stopping the increase in price?

Mr. BROWN. No; I do not think that monetary policy, by itself, would have any such effect.

The CHAIRMAN. Even if it is overdone?

Mr. BROWN. I think if they did all these thing tomorrow that they would produce a panic in this country which would certainly result in dropping prices, but which would be highly undesirable because it would cause unemployment and cause lack of production.

The CHAIRMAN. Well, is not any stopping of these prices going to bring a reverse of the price trend, bring a recession which will cause some unemployment?

Mr. BROWN. It may be. Personally, I think we have got a condition today of overemployment. I think through large segments of the industry people are not working up to their capacity simply because even if they do not do a full day's work or an honest day's job, they can go out and get a job somewhere else.

I think it would be a lot better if there were, perhaps, 1 or 2 percent of the bricklayers of the country who were unemployed.

At the present time, bricklayers, at least out our way, are laying three, four hundred bricks a day when they could lay a thousand or more. As long as they can get a job somewhere else, they are taking things pretty easily.

If there were sufficient competition in employment so that they would really try to work on the job you might have some unemployment but you would have much more production.

The CHAIRMAN. You suggest that by the use of the monetary powers you could bring about a panic. That would stop this boom and throw it into reverse.

Is there not a proper intermediate step by which you can use just enough to stop the whole process? You think that you cannot possibly do it by fiscal or monetary means alone; is that correct?

Mr. BROWN. I do not think you can change the price level by fiscal or monetary means alone. I think that you can have a profound effect on the expansion of bank credit by using the powers which already exist, and are in the Federal Reserve Board.

The CHAIRMAN. That would have some effect on prices, then, if you discourage lending, which would lead banks to confine it to absolutely necessary loans; it would have some effect on the price level.

Mr. BROWN. I doubt if it would. If there is an overexpansion of credit, which I dispute, it might have some effect on the price level.

The CHAIRMAN. I am not suggesting overexpansion of credit. I am suggesting that any credit increases purchasing power which affects the price level to some extent. I do not say you do not have to do it, but I cannot understand the argument that the increase in bank loans has no effect on price levels. I think it is bound to have an effect on price level.

Mr. BROWN. Well, again, unless the expansion of bank loans causes an increase in production which more than offsets——

The CHAIRMAN. Ultimately it may balance it down, and ultimately it may be desirable, but I cannot see why it does not have any effect on price levels one way or the other.

Mr. BROWN. I think it has an effect, but it has an effect on both sides, and one may balance off the other. The increasing production may counterbalance the effect of the increased purchasing power.

The CHAIRMAN. You might go out with a 5-year plan here and lend a hundred billion dollars to people to go out and build plants, but that would have a tremendously inflationary effect, I mean, on ultimate production. In fact, you are ultimately going to get more than ample production, which would not balance that temporary effect.

Mr. BROWN. No; it is a question of timing and of degree.

The CHAIRMAN. How are we going to stop the price increase? You suggest a number of other things, the buying power of the people is there. I suppose the saving bond campaign, which has been recommended, might accomplish something. Foreign aid, reduction in exports, I assume, would have something to do with it, but it also has certain advantages to balance against it. What sort of a price reduction policy and what kind of legislation do you think will move in that direction?

Mr. BROWN. I cannot see anything, except a continued high level of taxation and strictest economy in Government, so as to produce budgetary surpluses which can be applied in the reduction of the debt.

The CHAIRMAN. How much of the Government expense can be reduced? How much can you reduce Government expenses? I mean that is another question.

Mr. BROWN. You have studied that much more than I have. I think something can be done, but how much can be done, I do not know.

The CHAIRMAN. But strong policy reasons are urged for continuing every Government expenditure, just as you are urging a strong reason for creating more production by not limiting banks. There is a policy reason, as I see it, for stopping every one of these inflationary elements of some sort. We have agricultural price subsidies, but we have a promise out to the farmers to support 90 percent of parity level. It involves a moral obligation, at least, I should think.

Mr. BROWN. I do not see that you can change it, but you can change its administration, and you can change the laws so that after a year or two, it is cut down.

The CHAIRMAN. Of course, it expires at the end of 1948, and, of course, we have the question of renewal before us. This is an immediate problem. We are searching to stop the spiral now going on up during the next 6 months, with wage increases and price increases.

Mr. BROWN. Unless you can find some way to reduce the cost of food, Senator, I do not believe that you can stop prices going up because if food prices go up, I think that the demand for increased wages cannot be successfully resisted. I have not studied the problem of how to reduce food prices, but I think they are the key to the present inflationary spiral.

Senator O'MAHONEY. Mr. Brown, I was very much interested in your statement that in your opinion there is a condition of overemployment. Of course, you made the statement which is customarily made by bankers and managers that the bricklayers do not lay enough bricks, although the explanation of that has been given to this committee on many occasions by representatives of labor, which is to the effect that frequently these bricklayers do not have the material with which to work, and they have to stand around on the building projects, financed either by Government loans or by bank credit. So that the responsibility is not primarily theirs. But that, of course, is only a side issue. You were not testifying as an expert on labor, I take it?

Mr. BROWN. No, but I can say that customers of our banks and a great many lines, machine shops and so forth, say that they cannot get the maximum efficiency out of their labor because if they try to discipline a man or if they fire him, the shortage of labor is so great that he goes and gets another job somewhere else, and that the productivity of labor is not at its greatest. I am not blaming the unions for it.

It is true, even in nonunion establishments. It is human nature that if a man can continue to keep his job and get his salary and exert himself less, he is apt to do it.

Senator O'MAHONEY. That is the point that I wanted to emphasize. You stated it in another way now, namely, that there is a shortage of labor. I want to do that without going into these collateral arguments about whether or not productivity is as great as it ought to be. I merely wanted to remark in passing that all of the statistics which I have seen indicate that productivity of labor has been increasing steadily over the past 25 or 30 years. Productivity may be down or may have gone down since the war. But there are additional explanations for that.

One, for example, is the difficulty that industry has in obtaining supervisory authority, competent supervisory authority. The turnover, the difficulties involved in reconversion in the training of men who have come back from the war and who, after having done a marvelous job on the fighting fronts, are now trying to adjust themselves to the industrial front only to be accused of soldiering on the civilian job, when they did a very competent job of soldiering on the fighting front. But that is neither here nor there; that is argument.

Representative RICH. Will the Senator let me ask him a question here?

Senator O'MAHONEY. I am not testifying, Congressman, and you and I can testify to one another long after this witness is gone. May I ask him just one or two questions?

Representative RICH. Yes, surely.

Senator O'MAHONEY. Thank you. Now, you say there is overemployment and there is a shortage of labor, and the question that I desire to ask you is, If bank credit continues, will that not contribute to emphasizing this overemployment and the shortage of labor?

Mr. BROWN. I do not think so. I think that if there was a large expansion of bank credit for the purpose of capital plant expansion which could not be brought into use for several years, that it would contribute.

Senator O'MAHONEY. Well, take this loan of which you spoke a moment ago; some steel company applied to your bank for a large loan to build a battery of coke ovens. If that loan had been granted if it has been granted, did not the granting of the loan itself and the initiation of the work set up a demand for more labor to build those coke ovens?

Mr. BROWN. Undoubtedly. But within a short time, I mean a short time as steel production goes, there will be a hundred or two hundred or three hundred thousand additional tons of ingots coming out of that additional plant.

Senator O'MAHONEY. Certainly, there is no doubt about that. To me, it seems that we are confronted now with a choice of unpleasant tasks to meet an inflationary condition. You grant that the inflationary condition exists, do you not?

Mr. BROWN. Certainly.

Senator O'MAHONEY. You grant that it is getting worse?

Mr. BROWN. I do.

Senator O'MAHONEY. Now, there are certain recommendations that you make. You believe, and I believe, too, that we should maintain a high level of taxes. Now, that is unpleasant, Mr. Brown, for everybody who has to pay taxes, but you believe that we ought to maintain a high level of taxes.

There are those who would like to turn loose from three to five billion dollars of tax money into the flow of the purchasing power of the people. But I think and you think that it would be inflationary to do that, do you not?

Mr. BROWN. I stated before another committee that while I think the tax laws need revision, I think the total tax take of the Federal Government should not be reduced in the present inflationary period.

Senator O'MAHONEY. Now then, everybody seems to agree that we ought to promote savings; that is one of your recommendations and one of your remedies, is it not?

Mr. BROWN. Yes.

Senator O'MAHONEY. And the object of promoting savings is to take money out of the flow of purchasing power, is it not?

Mr. BROWN. Well, it is; it would still reduce the pressure against the demand for consumer durable or perishable goods. The demand for expensive types of food, the demand for automobiles or washing machines or what will you. Of course, the money that is saved, except as it is used to take Government bonds out of the banking system, to the extent that it is used in capital expansion is spent, but even if it is spent—if it is saved, it takes the pressure off consumer goods.

Senator O'MAHONEY. Right. So that here we have two items to reduce inflationary pressure: Keep the tax rate, the taxes up; promote savings, both of which are designed to reduce inflationary pressure by reducing purchasing power to the extent that they operate.

Now, you also advocate the reduction of the debt, because the national debt contributes to the money supply, because it can be promoted sixfold, can it not?

Mr. BROWN. You say promoted sixfold. If everybody cashed 260 billion dollars of government debt, tried to buy goods with it, you would not have to have any sixfold expansion.

Senator O'MAHONEY. That is right. That would finish it, would it not?

Mr. BROWN. That would finish it.

Senator O'MAHONEY. I suppose that is one of the reasons why you believe and have advocated before this committee and elsewhere that the fiscal policy of the Federal Reserve Board should be to support the long-term Government bonds.

Mr. BROWN. I think it is better to have some inflationary effects than to fail to support them, Senator O'Mahoney.

Senator O'MAHONEY. I quite agree. Do you want also to reduce Government expenditures, an objective which, in spite of what the chairman says, I think everybody in Government agrees to accept occasionally? When some of us want to engage in Taft-Wagner-Ellender housing, or some of us want to build reclamation projects, it does not make much difference then. They are willing to spend Government money.

Mr. BROWN. Even if the reclamation projects can't possibly result in increased food short of 10 years.

Senator O'MAHONEY. Of course, that is true, but the fact I wanted to make clear on the record, Mr. Brown, is that the budget which was submitted to the Congress last year was a substantial reduction of Government spending, and the Government spending which we are forced to make and which really causes whatever inflationary effect there is, and I grant that it is substantial, is the spending that we cannot avoid for the Army and the Navy and the Air Force, and the spending that we cannot avoid to meet our international commitments, the spending that we cannot avoid to promote world recovery.

Recognizing those expenditures, we now find ourselves brought down to this final conclusion, that we should take every possible action to restrain the inflationary pressures, keeping down the purchasing power, except effectively to restrain bank credit.

Mr. BROWN. No. I have stated in my statement, in answer to Senator Taft's question, that bank credit can be restrained today under existing powers of the Federal Reserve Board.

Senator O'MAHONEY. I would like to pursue that a little bit with you. Do you not agree that if the rediscount rate is raised, it will tend to increase the sale of Government bonds on the market?

Mr. BROWN. I don't think raising it a quarter or one-half would have that effect, Senator, and I do think it would have a tremendous psychological effect in causing businessmen to abandon expansion plans and particularly long-range expansion plans. I think it would be a warning signal.

Senator O'MAHONEY. Let me use your own argument. A moment ago in testifying about the Eccles plan, you criticized it as a grant of excessive power to the Federal Government to rule by edict, or the Federal Reserve System to rule by edict, the banking system of the Government, and you said we would be placing in the hands of the Federal Reserve Board the power to fix these interest rates on the short-term obligations, which would be into the secondary reserve, so-called, at figures which would be disastrous to the banks.

On the other hand, your argument just now is just the reverse of that. You say, we will not raise it to an extraordinary level. Is there any reason to believe that the Federal Reserve System would be any less thoughtful and careful in exercising the powers that Mr. Eccles asks for than the banks are in exercising their powers?

Mr. BROWN. I don't know that I quite get your question. The banks can't raise the rediscount rate. The rediscount rate is raised by the Federal Reserve Board.

Senator O'MAHONEY. But you said that the rediscount rate, if it were raised just a little bit, would not do any harm, but the power is there nevertheless, to raise it substantially, is it not?

Mr. BROWN. The power is there to raise it substantially, but if it is raised very substantially, it would cause such a cataclysmic sale of Government bonds that it would defeat the ability of the Federal Reserve Board to support them.

Furthermore, in my opinion, the adoption of the Eccles plan would cause such a selling of Government bonds that even the Federal Reserve System couldn't support them.

Senator O'MAHONEY. Now we come precisely to the nub of the whole argument, as I see it. The raising of the rediscount rate excessively would bring collapse. You agree to that?

Mr. BROWN. In the Government bond market, yes.

Senator O'MAHONEY. That is right. Is there any reason to believe that additional reserve methods suggested by Mr. Eccles cannot be carried out in a conservative and constructive manner protected by sufficient safeguards not to bring about all these terrible results which you fear?

Mr. BROWN. I can only say that as to a plan to give the Federal Reserve Board the authority to put on a special reserve of 25 percent above existing reserves, that if you gave it any such authority I can't see how any responsible banker could fail to get his bank ready to meet that situation.

I think the adoption of the plan would, as I said in my statement, result in a disastrous wholesale selling of Governments, not only by banks. The plan is designed to promote the sale of long-term Governments by the banks to the Federal Reserve System, but such selling couldn't go on by the banks without causing holders of long-term Governments outside the system also to sell.

Senator O'MAHONEY. Would not the raising of the discount rate tend to promote the cashing in of the E, F, and G bonds?

Mr. BROWN. I don't think so, not if it was a quarter or a half of a percent. I don't think it would have any effect on it.

Senator O'MAHONEY. If it were a quarter or a half of 1 percent. But suppose it were greater than that; suppose it were 10 percent.

Mr. BROWN. I would say that it would cause the cashing of all the E, F, and G bonds, it would effect a contraction of bank credit, but it also would affect production even greater.

Senator O'MAHONEY. The fact is, Mr. Brown, that this system which is advocated by the banks was tried after World War I, and the rediscount rate was raised. It resulted in the sale of Government securities and in driving their price down substantially below par, which is an end that you do not want to see repeated now. The debt after World War I was scarcely more than $24,000,000,000 or $25,000,000,000. Yet, those who had put their money into those bonds, because of the operation of this system now advocated by the bankers, were forced to take losses. Even the little people who bought the $25 bonds and the $50 bonds and the $100 bonds suffered tremendously.

In this war Congress has endeavored to provide a savings bond, the E, F, and G bonds, for small purchasers and others, which would be safe from market collapse, and I take it you agree that they should be protected from market collapse. Therefore, we are driven to a choice between a system of increasing rediscount rates with the bad effect that you have testified to, which experience has shown what happens, and a new system suggested by Mr. Eccles which he designs not to injure the banks but to restrain the issuance of additional credit.

May I ask you this: You spoke of the 15,000 banks in the country. If they are not required to put up some additional credit and thereby, if they are not restrained in granting more credit, is there any possibility of their doing this thing by voluntary action?

Mr. BROWN. In the first place, Senator, you attributed to me some statements which I don't think I made.

Senator O'MAHONEY. I did not intend to, sir.

Mr. BROWN. I understand it. I am not in favor of raising the rediscount rate to high levels. I think that the great majority of the banks would restrain unnecessary credit, that is, credit which doesn't either carry, or directly and quickly produce production without the imposition of any such special reserves.

The situation after World War I was quite different. The banks were discouraged at that time and during the war from buying long-term governments. They were encouraged to loan on them. The small holder who held them, by 1922 or 1923 had a premium on them, and the great majority of holders didn't sell them until after they had come back and they got above par for them.

Senator O'MAHONEY. Is it possible to follow this traditional method of raising discount rates and allowing bonds to reach their level in the market? Is it possible to follow that and at the same time support the bonds in the market? Are they not contradictory objectives?

Mr. BROWN. I think that you cannot follow the traditional policy of raising the rediscount rate to 5, 6, or 7 years and support a 2½-percent bond at par. I think the situation in the Government market and in the whole credit market, as I tried to indicate, is so delicate that no such restraints are necessary.

Senator O'MAHONEY. If you do not raise the discount rate to such a figure as to discourage borrowing, then you do not exercise any restraint upon bank credit, do you?

If you are going to hold bank credit down by the discount method, you have got to raise the discount to a figure that will discourage loans.

Mr. BROWN. The banks are not borrowing from the Federal Reserve banks and with the amount of deposits that they have got and are likely to get, they are unlikely to borrow.

You talk about the rediscount rate. Do you mean the rediscount rate of the Federal Reserve banks?

Senator O'MAHONEY. That is right, I am talking about it.

Mr. BROWN. Or do you mean the rate which banks charge their own customers?

Senator O'MAHONEY. I am talking about the traditional power of the Federal Reserve System to raise the discount rate. I say to you, is it not the object of raising that rate to bring about a condition that will make borrowing expensive and thereby retard borrowing from the banks?

Mr. BROWN. It is to bring about a condition to make borrowing by the banks from the Federal Reserve expensive, but there is not any such borrowing now.

Senator O'MAHONEY. But you are advocating or the council is, the raising of the Federal discount rate as an alternative to the Eccles plan.

Mr. BROWN. No.

Senator O'MAHONEY. I was just trying to find out whether the two plans are offered to obtain the same result.

Mr. BROWN. The Federal Reserve stated that the Board has still unused powers, such as raising the rediscount rate, such as open market operations, and that small changes in them could produce very great practical results, because of the psychology of the businessmen and the bankers of the country in the present situation.

Senator O'MAHONEY. That is, it would produce the result of restraining bank credit?

Mr. BROWN. By doing it to a very small extent.

Senator O'MAHONEY. If the rate is raised only to a small extent, how can that possibly restrain credit? And if it is raised to a large extent, how can you avoid the evil effects to which you have testified?

Mr. BROWN. May I separate your two questions?

Senator O'MAHONEY. Surely.

Mr. BROWN. By raising it to a small extent when a great many heads of businesses are wondering whether they ought not to contract their operations to the minimum and cut down on inventories and abandon expansion programs and so forth, any slight warning sign from the Government under conditions as they exist today has a very great effect. Similarly, bankers are so apprehensive, having lost a lot of money after World War I, having lost even more money after 1929 on their loans, that any warning sign from the Government has a great psychological effect on them.

The CHAIRMAN. What was the matter with President Truman's speech?

Mr. BROWN. I think the mere introduction of such a scheme as the Eccles plan has had a great restraint on credit. They think it would produce a catastrophe if it were adopted and therefore they get ready for trouble. I think it has had a beneficial effect in restraining credit by its being introduced.

Senator O'MAHONEY. The suggestion of restraining bank credit has had a very salutary effect. If Congress says we are not going to restrain bank credit, then that salutary effect would be removed.

Mr. BROWN. I doubt it.

Senator O'MAHONEY. I do not want to engage in a running argument, Mr. Brown. I am merely trying to develop some information for my own enlightenment, but may I ask you whether it does not finally boil down to this, that the position of the bankers as presented in the statement that you read, but to which I take it from your own statement you do not give complete agreement—I do not want to misinterpret you on that. I think the bankers were not alarmed, as you seem to have been alarmed, about the possibility of removing Government support of bonds.

Mr. BROWN. I think the members of the Council were, and I defy anybody to find anything in that statement to the contrary.

Senator O'MAHONEY. I am glad to hear that. Of course, it is quite possible sometimes to mix up these statements you get from the National Association of Manufacturers and the Council, and Members of Congress cannot always separate them one from the other. But it seems to me—and I was going to ask you if you do not agree with it—that the alternative now seems to be the fear on the part of the bankers that an additional bank credit proposal such as Eccles made would give the Federal Reserve Board so much power as to arouse in the minds of the bankers the fear that the banking system was to be socialized. That is what you expressed a while ago.

Mr. BROWN. That was one of the three points that we expressed. The most important point was that the scheme wouldn't work. The second was that it would be unfair and inequitable. And the third, it wouldn't work because it would cut off credit that would inevitably be required and that if the banks couldn't give it under such a proposal, the Government would create loan agencies that would give it.

Senator O'MAHONEY. If the mere suggestion of the plan worked, why would not the granting of the power work?

However, the other alternative is that if we do not do something to restrain credit and keep these inflationary pressures down, we are headed for a continuing boom which will be followed with the inevitable crash. Is that not the alternative that confronts the Congress?

Mr. BROWN. I would say I don't think so. Mr. Eccles testified that there is no monetary policy or control that can prevent inflation. He has testified that the remedy has got to be found mainly in other fields, and Mr. Eccles has said repeatedly in his testimony that monetary and fiscal policy can play only a very small part, and he has emphasized time and time again that the fiscal policy of the treasury in reducing the debt by maintaining the budget surplus is much more important than any amount of bank control.

Senator O'MAHONEY. Of course, that is true. There are many causes of inflation, but observe, here are remedies: Keep the level of taxation high. That has been done. You say, promote savings. That has been done. You say, reduce the national debt. That has been done, first by buying up the bonds with the excess receipts from the sales and at the end of the last fiscal year, by applying the small surplus of $750,000,000, or whatever it was, on the reduction of the national debt. You say keep Government expenditures down. That has been done. Yet, in the face of all these accomplished facts, the inflationary rise continues. Now, do you wish to say that Congress should not consider the adoption of the Eccles plan which seems to be the only additional plan that can possibly work to restrain bank credit?

Mr. BROWN. You left out the first of my suggestions.

Senator O'MAHONEY. I did not mean to.

Mr. BROWN. Which was to increase production.

Senator O'MAHONEY. We have, you say, over-employment. I will say to you, sir, that the Federal Reserve production index is now up to 188, which would indicate that there is a great deal of production in the country. All the records before this committee and the record before the country is that production in every field is up. We are producing more food in this country than ever before. We are producing industrial products at a great rate. One hundred eighty-eight is the Federal Reserve index. Our difficulty is that we have a relative shortage because the demand is so great, and it seems to me that it is undeniable that if in this situation we continue to expand bank credit we are bound to create additional demands and additional difficulty and therefore continue to drive prices up.

I thank you very much, sir, for your great patience. I do not want to worry the committee with argumentative questions.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. I understood in your discussion that you think there is not too much bank credit at the present time.

Mr. BROWN. I think that there is no excess of bank credit or no substantial excess in use.

Senator WATKINS. Then how could the statement by Mr. Eccles be beneficial if you have no excess at the present time? I understood you to say that the statement that he made had already had a beneficial effect in restricting bank credit.

Mr. BROWN. Did I say beneficial effect? I said that it already had an effect in restricting bank credit. I think it may have been beneficial because I think bankers should be much more cautious about making loans repayable over 5 or 10 years, or some such period, which go into capital expansion where increased production cannot come for some time.

Senator WATKINS. I want to make sure about that because I thought your thesis was that the bank credit extended at the present time was necessary.

Mr. BROWN. It is.

Senator WATKINS. And if what he has said now has had the effect of decreasing it, it should remain static.

Mr. BROWN. I said it has checked its tendency toward expansion, or I meant to say so, Senator.

Senator WATKINS. In other words, it probably will not increase, but should be held where it is.

Mr. Brown. I think it probably will increase some. If the production index of the country goes up, it will almost inevitably increase.

Senator Watkins. With respect to the general problem that is before the committee, I have before me this morning an interesting comment by one of our leading writers, which came out in the Washington Post this morning. I would like to get your comment on it. This is what he says:

> Those who have followed the argument about our inflation and what to do about it could now, it seems to me, come to one useful and definite conclusion. They could, without too much difficulty, name the key man whose views must be reconciled if the inflationary boom is to be checked and controlled.
>
> These key men are, first, the leading figures in Government finance, second, the leading figures in the Federal Reserve Board, third, the leading figures in the banking community.

I think that refers to you.

> If they can agree on a policy and on measures, then the prospects of regulating the boom are good enough. If they disagree, go in opposite directions instead of in the same direction, then it is certain as anything can be that the boom will run its course toward a bust.

Do you agree with the analysis made by this writer?

Mr. Brown. I think that is an impossible and an unfair question, Senator. I know you don't intend it as such. I might remark that it is very difficult to get Mr. Eccles into a compromise when he once takes a position.

Senator Watkins. May I say that I merely wanted to find out if you agree that that is probably the difficulty, and not the question of whether you can get him to agree or not.

Mr. Brown. I don't think agreement among all the three groups on monetary policy would necessarily be of any help in stopping inflation or stopping rising prices.

Personally, I think it is necessary to ship large quantities of food to Europe, but how you can ship it and not have an inflationary effect, I don't know. It may be necessary to rehabilitate Europe under the Marshall plan. How you can do it and not have an inflationary effect, I don't know, but I disagree with the columnist entirely that the whole inflation could be stopped if private bankers, the Treasury, and the Federal Reserve Board could only agree on a plan. I think the three groups might agree on a plan, and inflation would still go on, if the other forces persisted. I think it would make the job of you Senators and Congressmen much easier if everybody was agreed on desirable legislation.

Senator Watkins. That is what I wanted to find out, if you thought it would help. What efforts have been made to bring the three groups this columnist mentions into agreement?

Mr. Brown. I don't know, except to say that I have heard Marriner Eccles 3 hours at one time, and various other times. He has tried to bring me into agreement with his views. I can't answer that question.

Senator Watkins. I wondered if there was any effort being made between the council representing the commercial bankers of the country and Mr. Eccles and the Treasury to get to an agreement. If the doctors disagree it is going to be difficult to have the prescription written for our monetary policies.

The CHAIRMAN. Of course, you force Senator Watkins and myself to become monetary experts and we may not turn out to be good ones.

Senator WATKINS. I am in extreme difficulty, when the doctors disagree, as to what course to follow. I read one day where someone says so and so. And next day someone says something else. I come in here and hear Mr. Eccles disagree with you and you disagree with him, and Mr. Snyder disagrees with both of you.

Mr. BROWN. Does Mr. Snyder disagree with me? I didn't know it.

Senator WATKINS. In some particulars I think that is true. I have not analyzed it all, but at least I wanted to find out what the possibility is of getting the three groups into agreement.

May I quote one more statement from this columnist.

> The main issue which has to be reconciled between Mr. Eccles and the Federal Reserve System on the one hand and commercial bankers on the other is how the overexpansion of bank credit is to be checked.

Do you think that is the issue at all?

Mr. BROWN. I don't agree that there is an overexpansion of bank credit, and Mr. Eccles, as far as I know, hasn't said there is an overexpansion of bank credit. He says a further increase should be checked, which is something that the columnist doesn't say. Who is this monetary expert?

Senator WATKINS. I do not want to get you prejudiced to start out with. I want to get your ideas first. He goes on to say this:

> No one really denies that the overexpansion needs to be checked.

I take it for granted now he should rewrite that because you have denied that this morning. The columnist is Mr. Walter Lippmann, who is writing on these problems and it seems to be his idea that the matter is entirely monetary, that it is within the control of the three agencies that I have just mentioned.

I take it from what you have said that you do not agree with him at all.

I come to the matter of housing. I note that you say there are very few speculative loans on securities and almost none on commodities.

What about loans that are made in the commodity markets, in the wheat exchange, the grain exchange, cotton and sugar exchanges? Are those speculative loans?

Mr. BROWN. I don't regard them so, if the holders are moving the goods steadily into consumption. Obviously the wheat crop is gathered in the Southwest in the course of a 2-month period or so, and it takes a year to be eaten, and somebody has to carry it during that period. You take a thing like soybeans, which are produced in our part of the country, and which it is difficult for the farmer to keep. The processor has generally within a month or two to buy a year's supply of oil beans for crushing. I think speculative loans on commodities, are loans on commodities where the purpose is to keep them off the market because of a desire for a higher price. I do not know of any such, unless loans to the Commodity Credit Corporation on wool, for instance, which are made for the very purpose of holding the wool off the market, are speculative loans on commodities. They are the only type of speculative loans on commodities of which I have heard or known.

Senator WATKINS. What I had reference to was the type of speculation at present, those Attorney General Clark referred to as speculators who enter the grain exchange, for instance, and who are gambling in the miseries of people. You come from a section of the country in Chicago where the large grain exchange is maintained, where you have many loans. Is there a great lending of money to people who go into markets to speculate?

Mr. BROWN. No. We only loan to cash grain houses or flour millers or other people who have the actual commodities. People don't borrow money from banks to gamble or speculate on the grain exchange. Since you brought up the subject, I would like to express myself on it. If you are dealing in a commodity like grain, such as wheat or corn, the future prices of which will depend on weather conditions and varying conditions, somebody has got to take a speculative risk if he is in a business which uses those commodities, whether it is a cash grain house, whether it is a flour miller or whether it is a vegetable oil processor, unless somebody else is willing to take that speculative risk off his shoulders.

The real function of the grain exchange is that it enables people who want to conduct businesses without speculation to transfer the speculative risk, call it the gambling risk if you wish, to somebody else who is willing to take the speculative risk for the chance of a profit. If somebody has to take the risk or gamble, it is much better to let the man who wants to take the risk or gamble do it than to force somebody to gamble who doesn't want to. The futures market and the exchanges have operated to protect the safety of flour milling and the operations of cash grain houses, the operations of vegetable oil crushers, the operations of bakers, and so forth. They have operated, in my opinion, very beneficially over the years.

Senator WATKINS. I was not referring to whether it was right or wrong. I was trying to find out whether or not there was any lending for that purpose on any extent.

Mr. BROWN. No. The people who borrow the money are the people who put up as collateral, and continue to hold the actual wheat, corn, or soybeans.

Senator WATKINS. In other words, they are the hedgers.

Mr. BROWN. They are the hedgers on the board of trade.

Senator WATKINS. It is the hedgers who borrow mostly?

Mr. BROWN. It is only the hedgers who borrow.

Senator WATKINS. And those who go in to speculate are not borrowing from the banks for that purpose?

Mr. BROWN. No.

Senator WATKINS. I note you also say that there are few loans on speculative securities. By that do you mean stock-market securities?

Mr. BROWN. There are very few loans on either the listed stocks or on the nonlisted stocks in the whole banking system.

Senator WATKINS. So that is not taking any part in the present inflation.

Mr. BROWN. No. It played a great part in the inflation of 1929, but it is negligible now.

Senator WATKINS. I wanted to see if we could eliminate that type of speculation from the present situation. It would help us to know what is going on.

You also say:

> The only considerable segment of bank loans being made which the Advisory Council feel have an inflationary effect on prices, are housing real-estate loans guaranteed by the FHA. * * *

I understand probably the reasons why you take that stand, but what, if anything, can we do about having housing built and encouraging the building of housing if we do not adopt that? What is your recommendation for a remedy?

Mr. Brown. My remedy for one would be not to extend title 6, not to appropriate more money to carry it out. That is, the 90-percent-guarantee section; it is generally more than 100 percent guarantee in effect, to get the agencies charged with FHA and GI loans to use tighter standards of appraisal in making their loans. I think it probably would slow down the immediate production of housing, as I said in my statement, but it would reduce the price of housing and the upward pressure on building materials and building labor very greatly. That is one place which Governor Eccles and the Council fully agree.

Senator Watkins. How would you get housing if we do not have this type of loan? That is one of the big needs, is it not? That is needed as much as the need to control inflation, to have housing for people.

Mr. Brown. I would reduce the 90 percent to 80 percent.

The Chairman. The elimination of title 6 that you are proposing would mean a return to title 2.

Mr. Brown. Which is 80 percent.

The Chairman. Eighty-percent loans would be made instead of 90-percent loans. That is the restraint you are suggesting?

Mr. Brown. Yes. I think also there ought to be a tightening of the appraisal situation, but that is another matter.

Senator Watkins. You realize that even under the liberal provisions of title 6 we are not getting enough housing for the country, do you not?

Mr. Brown. You simply can't have a depression in which very few houses were built, and that was practically the situation up to the war, and then have a war with no housing built except for war housing purposes, and then try and build and make up for the lack of 6 or 7 years with 1 or 2 years of building. It is too bad, but you just have to face the fact that it is a slower process to build the necessary houses than to do it in a year or two.

Senator Watkins. Would it be any more inflationary to have the program as it now is, that liberal guaranty of 90 percent, than it would be for the Government to appropriate vast sums for housing, such as the Taft-Ellender-Wagner bill and have housing built that way, in your opinion?

Mr. Brown. I think one would be as inflationary as the other.

Senator Watkins. In other words, then, you think we ought to slow down in the building of houses, if I get the net effect of what you say.

Mr. Brown. No. I think the extension of Government credit for housing should be slowed down, and I think it would slow down the rate of housing construction, and I think it would take pressure off the section of the economy in which prices are going up most rapidly.

Senator Watkins. They are going up there, but they are going up in one of those places where probably inflation would be jumped. I cannot think of a better excuse for having inflation than in the building of homes that are so badly needed, can you?

Mr. BROWN. When I see a veteran buying a $5,000 house for $11,000, I think he probably would be better off to live in a tarpaper shack for a year or two.

The CHAIRMAN. Or live with his mother-in-law.

Mr. BROWN. Live with his mother-in-law another year or two, yes.

Senator WATKINS. I might agree with you in that, but at the same time, keep this in mind: Congress is confronted with this problem of housing. It is one of the most urgent problems we have before the Congress to find housing for people. I am out among the people, and I have heard this statement time and time again, which comes up in connection with rent control. So, all I get from your statement is that that is one of the inflationary pressures we have now, this matter of homes, and you think probably we ought to curtail it. I would like to find out from men who have experience, such as you have had, if you have a program that will help us other than doubling up and living with the mother-in-law and living with other relatives.

Mr. BROWN. I think keeping the margin of loans down to 80 instead of 90 percent and avoiding fictitiously higher appraisals in applying the 80 percent would help a lot in preventing unsound and excessive mortgages being made merely because they have a Government guaranty on them. If it would have the effect of slowing up the present pressure on building labor and material, that it might slightly decrease the volume of new housing being built, but I think it would be more than worth while.

Senator WATKINS. If we stopped building entirely, of course, housing materials would become very cheap, but then we would not have the housing we need.

Mr. BROWN. If you decreased the amount of building 10 or 12 percent, the cost of building would go down very greatly.

Senator WATKINS. In order to have it go down, we would have to increase the supply of materials that are now going into buildings, which would mean less buildings, when we need more buildings, as a matter of fact. I do not care to argue the matter, but it is just one of those things that it seems to me the bankers of the United States could help us a great deal in if they would give us some means of increasing housing and not increase at the same time inflationary pressures.

That is all, Mr. Chairman.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. Mr. Brown, one of the interesting pieces of recent history that to my recollection has not been discussed much in the hearings, was what happened to us in 1937. We then had a boom, apparently, and a process of development. On the face of it, it looks as though it had been knocked in the head by fiscal and monetary means. As a result of that experience, I have been inclined to believe that you could end the boom by fiscal and monetary means, which may be a different thing from controlling it.

Would you agree that the boom of 1937 was ended by fiscal and monetary means?

Mr. BROWN. I think not, Senator Flanders. I was on the Federal Advisory Council at that time. You had a situation exactly contrary to that which you have got today. We were having more production than there was demand to absorb, and inventory accumulation was going on. The Federal Advisory Council at that time urged increases in reserve requirements. I don't know but that it also urged increases in rediscount rates.

The Federal Reserve Board finally took action, but it took action when it was pretty late. We had already gotten to a situation contrary to this one, where there had been a good deal of overaccumulation of inventory in various types of manufactured goods. They did raise the reserve requirements, and they may have increased the rediscount rate. At any rate, the boom came to an abrupt end, and we had a recession. I do not believe that the action of the Federal Reserve Board at that time had any effect in bringing about the result. I am certain that after the recession came, that if you read Mr. Eccles' statements and speeches at that time, he proved conclusively, at least to his own satisfaction, that the Federal Reserve action had no effect whatsoever in causing the recession, which everybody deplored. He was charged with it, and I think if you want to get his opinion on that subject, you might ask him to testify and ask him to bring the speeches he made at that time.

Senator FLANDERS. It has seemed to me, Mr. Brown, for a long time that that situation was worthy of some study, but so far as I have been able to observe, that has not taken place. Was there any possibility of having that increase in activity continued on a healthy basis, or with the unhealthy elements in it so large that it had to come to a crisis? That was our first honest and earnest endeavor to prevent an inflation from getting out of hand, and we solved the problem very neatly by knocking it on the head. Is there any other way to do it?

Mr. BROWN. I thought at that time that the inflation would have been checked if the steps which the Federal Reserve Board finally took had been taken perhaps 6 months or a year earlier. That is a private opinion that nobody can prove, if something had been done which wasn't done, that a different result would have come about.

Senator FLANDERS. I have no other questions.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. Mr. Brown, I want to ask you just a few questions. I am a little confused about some of the things that you have said that seem to me contradictory. I do not say they are. They just have me confused in that way, and I would like for you to straighten them out for me.

For instance, on page 6 and at the top of page 7 of your statement, you tell of the bad effect on the economy of the country and on the banks that would result from the invoking of some of these credit controls, and yet in discussing the rediscount rate with Senator O'Mahoney you point out the fact that the banks have such deposits on hand, that they are not having to borrow from the Federal Reserve, and therefore, that the increase or the change in the rediscount rate would not have any effect on them.

Mr. BROWN. I said it would have a psychological effect, Senator Sparkman, and I think it would have a very profound and great psychological effect both on the bankers and on the business community as a whole.

Senator SPARKMAN. Would it be good or bad?

Mr. BROWN. That is a hard question for me to answer. I think I am not revealing any state secrets when I say that some of the members of the open-market committee favor raising the rediscount rate slightly, and others favor leaving it where it is. If they disagree——

Senator SPARKMAN. You cannot blame us for disagreeing.

Mr. BROWN. If you want my own opinion, I think it would be beneficial to raise it a quarter at the present time, but that is because I think that the rediscount rate should also be a penalty rate and I think that with the rate on Government certificates 1⅛ percent, I think the Federal Reserve discount rate ought to be higher and not lower.

I was just going to say that Senator Flanders was president of a Federal Reserve bank. Perhaps he could say whether he thinks the rediscound rate should be raised or not; whether it would be helpful to raise it or drop it.

The CHAIRMAN. Do you mind, for the record, stating what the rediscount rate is now?

Mr. BROWN. One percent.

Senator SPARKMAN. I was going to suggest perhaps we could let Senator Flanders solve this dilemma for us.

Senator WATKINS. We have had him working on it.

Senator O'MAHONEY. I will volunteer to be his counsel and advise him to refuse to testify.

Senator SPARKMAN. In fear of self-incrimination. If I gather correctly, then, your thought is that the controls that are available today can be used in such a way as to balance this thing as it may be desired.

Mr. BROWN. I think so. I think that Governor Eccles filed a statement with the House Banking and Currency Committee, which I read, and in which he indicated that for the next 6 months or so things could be balanced with present controls because we were sure to have a budgetary surplus which could be applied to the reduction of the debt in the meantime.

Senator SPARKMAN. By the way, this thought occurred to me. If powers were given to increase the reserve requirements, instead of putting them into effect all at once, why could not adequate notice be given of any increase so as to give the banks ample time in which to trim its sails?

Mr. BROWN. The details of Mr. Eccles' plan in the last edition which were contained, I think, in the document he filed with the House Banking and Currency Committee yesterday, provided that the initial increase could not be more than 10 percent and that increases thereafter could be made only in jumps of 5 percent with some interval between the times. I think that the plan as he submitted it, provided that it would have to proceed gradually. I don't think that he contemplates, as nearly as I can make out from his plan, that he can bring about the full 25 percent within a period of, say, 6 or 9 months.

Senator SPARKMAN. It does not necessarily mean that he would ever approach the whole 25 percent, does it?

Mr. BROWN. No; but as I argued here, I think every bank in Chicago and every bank in New York, having the possibility of its reserve requirements being raised from 20 percent to 26 percent, keeps its affairs in such shape that within 2 or 3 months it could adjust its position.

I think, as I said in my statement, that the effect on all the well-run banks of the country would be that they would immediately begin changing the make-up of their assets so that they could meet the maximum requirements which could be imposed on them by law, if the plan became law.

Senator SPARKMAN. If I understood correctly, you said that the very suggestion of this legislation had probably had some such effect.

Mr. BROWN. I think it has caused banks to sell long-term governments in favor of shorter ones, and I think it has caused them to decline making longer term loans, trying to keep their situation more liquid.

Senator SPARKMAN. Have both of those been anti-inflationary?

Mr. BROWN. I don't know that they have been anti-inflationary. They certainly have had the effect of dampening down the extension of bank credit. If that is desirable, they have done it.

Senator SPARKMAN. Just as a general proposition, would the cutting down of bank credit be anti-inflationary?

Mr. BROWN. In my opinion, you couldn't reduce the present volume of bank credit and not decrease production. I think anything that decreases production would be inflationary rather than anti-inflationary.

Senator SPARKMAN. Do you think it would be anti-inflationary if some scheme could be worked out whereby we would be assured against further increase of bank credit?

Mr. BROWN. I think if production increased that you probably ought to have it, and that you would need some increase in bank credit, if you are going to have an increase in production.

Senator SPARKMAN. Of course, any plan that should be put into effect could very well include in it, and I suppose would include in it sufficient flexibility to allow that; do you not think so?

Mr. BROWN. Again I go back to the argument in my statement that it doesn't work that way because the banks will get ready for the maximum reserves that can be imposed on them.

Senator SPARKMAN. I never did get your answer to this proposition. Let us assume that legislation should be passed giving the right to impose this additional 25-percent reserve requirement on an escalator plan such as you say Mr. Eccles has suggested. Was there any time element in his plan?

In other words, I believe you said the maximum first jump would be 10 percent. Over what period of time?

Mr. BROWN. All at once.

Senator SPARKMAN. You mean that would be put in immediately?

Mr. BROWN. He could put that in immediately.

Senator SPARKMAN. Immediately upon the enactment.

Mr. BROWN. Immediately upon enactment.

Senator SPARKMAN. Without any prior notice to the banks except that it is under consideration; is that correct?

Mr. BROWN. I am sorry I don't have a copy of his statement before the House Banking and Currency Committee, which he filed yesterday, which gave the plan in more detail than it had been outlined, but as I understand it, he could put 10 percent in at once, but would have to have an interval of 60 days or 90 days before he could make another increase and then any one increase couldn't be more than 5 percent at a time.

So. assuming a 60-day period it would take 180 days before you could get the full 25 percent in.

Senator SPARKMAN. Would it be desirable for there to be a time elapse between the enactment of the legislation and the imposition of the first 10-percent increase? In other words, would the banks need time in which to get ready for it?

Mr. BROWN. I don't know. Unless you extended the period in which the 25-percent requirement would be required over some years, which would defeat the very purpose of the act. Mr. Eccles proposes a special reserve law lasting only for a period of 3 years, and not to be a permanent thing.

Senator SPARKMAN. You seem to be assuming that the full 25 percent would be imposed.

Mr. BROWN. No; I say that the fact that the law authorized the full 25 percent to be imposed would cause a restriction in bank operations and the extension of bank credit immediately, almost as severe as if it had been imposed.

Senator O'MAHONEY. May I ask a question? Does the authority now vested in the Board to raise the reserve to 26 percent compel all the banks to take these excessive precautions that you predict would follow from the additional power?

Mr. BROWN. I would say every bank I know of in New York or Chicago could adjust its position for a full increase from 20 to 26 percent in 30 days without borrowing, and have so maintained their position. But the only banks where the rate can be raised, as you understand, are the Central Reserve Banks in New York and Chicago.

Senator O'MAHONEY. Yes; that is right. The banks of the country have a tremendous volume of demand deposits. The reserve authority of a bank does not compel them to take excessive precautions because the power resides there, and I fail to see the logic of the argument that this additional authority would immediately require the banks to go out to the full 25 percent proposed by Mr. Eccles.

Mr. BROWN. The country banks and the Reserve banks now have the requirements of the maximum legal reserve. Unless the law is changed, they can't be compelled to carry any larger reserves. Consequently, they feel that they don't have to adjust their affairs to provide for possible larger reserves.

Senator SPARKMAN. Suppose that in the increase of any reserve requirements a period of time would have to elapse after the notice was given, would that be helpful to the banks or would it be necessary?

Mr. BROWN. Assuming you were going to enact legislation, if you made the time long enough it would make the adjustment of the banks easier, but by the same token, if you make the period between rises long enough, it would defeat the whole purpose which Mr. Eccles has in the legislation.

Senator SPARKMAN. I realize it would if you made those periods long enough, but it seems to me that probably some of your objections could be removed by giving the banks time in which to readjust their position as these increases are imposed.

But aside from that and going on to another point, you say that one of the best moves against inflation is to increase production, and of course everybody tells us that. Just how is production in this country going to be increased, if the reports that we read are true, that we are now producing at an all-time high? I remember looking at a steel chart just a short time ago, and we are almost to the very top in the production of steel, and I think the same thing is true of so many other lines of activity. How are we going to increase our production?

Mr. BROWN. Increase labor efficiency, working longer hours, better plant management, more labor-saving machinery.

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Senator SPARKMAN. Let us take the steel-producing capacity of this country. There is a certain measure of capacity. The chart I saw showed up to about 98 percent, I believe. That was sometime ago. I do not know what it may be now. How is the increase of hours worked, or individual production or any of those things going to step that up when you are up to the capacity of the plant to produce?

In textiles if you have so many spindles and those spindles run so many hours a day, what difference does it make if they keep running during that time, how many people you are working or how many you are not working, if you are running at plant capacity?

Mr. BROWN. If you are running the spindles 24 hours a day——

Senator SPARKMAN. You cannot quite do that. You have to have some time for cleaning up.

Mr. BROWN. Or as many hours a day as are not necessary for cleaning up, I would say the only answer is to get more spindles.

Senator SPARKAMN. And of course that is true of steel and that is true of so many other things, is it not, in the expansion of plant capacity?

Mr. BROWN. I don't know that steel operates in the same way as does the cotton mill.

Senator SPARKMAN. A furnace can carry so many tons. You charge it and it takes so many hours to finish it. You drain it and charge it again.

Mr. BROWN. Yes; but if you have more blast-furnace capacity than you have coke-oven capacity, by building more coke ovens you can use your existing blast furnaces to full capacity. If you have more ingot capacity than you have capacity to roll, strip, or sheet, by spending some money in bringing the thing into balance, you get increased production. The process is going on continuously in almost every steel mill I know of. It isn't like going out and building a steel mill from the ground up the way Gary was built years ago, or Geneva in Utah, built more recently. Steel mills are always somewhat out of balance and they build something else to bring them into balance and it gradually works up to an increase in over-all production.

Senator SPARKMAN. I am certainly in agreement with you as to the desire to increase production, but so many times we hear that just as a generalized statement and I have wondered how practically it could be done.

I want to ask you about just one other thing, and not much about that, because others have asked you rather extensively, and that is about housing. You say, and we all say, that money that is spent for productivity is not inflationary. Generally, that is true, is it not?

Mr. BROWN. Yes.

The CHAIRMAN. I want to dissent for a moment. I do not agree to that at all. It all depends on how far off that productivity is. It has an immediate inflationary effect in any case.

Senator SPARKMAN. For production of goods that we need, yes.

Mr. BROWN. Within a short time.

Senator SPARKMAN. Why, then, does money spent for the production of houses, which we need and which certainly are in short supply, have an inflationary effect?

Mr. BROWN. As far as I know, building a new house doesn't increase production.

Senator SPARKMAN. It is producing something that we need.

The CHAIRMAN. May I suggest it decreases rents. I mean that that is just as important as grain.

Mr. BROWN. It may be.

Senator SPARKMAN. It cuts down on the tremendous demands for housing, existing housing units.

Mr. BROWN. I am not saying that it isn't desirable to build houses. I am merely saying that you can't build them faster than there is building labor and materials available to build them.

Senator SPARKMAN. Again it is a matter of bringing it into balance; is that it?

Mr. BROWN. And that by creating an excessive pressure through overguaranteed loan policies of the Federal Government you undoubtedly stimulate slightly the building of houses, but only at the cost of forcing the price of the housing up and of all housing up quite rapidly.

Senator SPARKMAN. Mr. Brown, I do not know what the exact figures are, but I understand that pretty close to a third of the housing units that are being built are being built under title 6 of FHA. If we discontinued that, do you not believe that would be a tremendous shock to the housing program that might have some harmful effects on the general economy?

Mr. BROWN. I don't think so. I think that houses would still be built, but if you continue section 6 the only difference between section 6 and section 2 is the 90-percent guaranty, isn't it, instead of 80?

The CHAIRMAN. There is another very important difference.

Mr. BROWN. Under section 6 you can build rental housing and under section 2 it has to be owner housing.

The CHAIRMAN. If the Senator will yield for a moment, the chief thing that I think is open to criticism about section 6 is the fact that it proposes open-end mortgage. That means that a builder may go out and build a hundred houses and borrow 90 percent. The original FHA title 2 authorized only loans to a man who was going to live in the house. The result of title 6 is to loan 90 percent, which means that any builder may go out and build a hundred houses entirely with Government money, because the 10 percent, even assuming correct pricing, will be taken care of by overhead and profit. Consequently, he can build a hundred houses without any demand and they can sit on the houses until he can sell them at a profit.

That seems to me the inflationary element that permits people to build houses without putting in a cent of their own capital. That feature certainly should be considered.

Senator SPARKMAN. Of course, I am sure, Mr. Chairman, you know that in the bill that the Banking and Currency Committee reported, to extend the authorization of the amount to be insured under title 6, we did include an amendment limiting the amount to be loaned.

The CHAIRMAN. Yes.

Senator SPARKMAN. Not to exceed the cost of construction, which partially meets the criticism that you point out, and one that you pointed out in your statement, too, Mr. Brown.

Thank you very much, Mr. Brown.

The CHAIRMAN. Senator Kem?

Senator KEM. Mr Brown, I seem to recollect that Mr. Eccles some time ago proposed a hundred-percent reserve plan. Do you recall that proposal?

Mr. BROWN. I don't think that Mr. Eccles ever proposed a hundred-percent plan.

The CHAIRMAN. Mr. Irving Fisher did.

Mr. BROWN. Irving Fisher has, who was a man——

Senator KEM. Did not Mr. Eccles favor that plan?

Mr. BROWN. Never, to my knowledge.

Senator KEM. That plan would result in the control of the lending activities of the banks completely by the Federal Reserve Board, would it not?

Mr. BROWN. As nearly as I can understand, the banks couldn't loan any money except their own capital. The 100-percent plan also would have permitted them to loan their savings deposits, if they had any. At the time the 100-percent plan was advocated, it was back in the depression, and the theory behind it partly was that there was sufficient capital in the banks and sufficient in the savings banks and sufficient in the insurance companies to carry all the credit needs of the country, and demand deposits did not have to be used for such a purpose.

I am very certain that Mr. Eccles never advocated any 100-percent reserve plan.

Senator KEM. The net result would be complete control of the lending activities of the banks, would it not?

Mr. BROWN. Yes. The banks could only loan their own capital. I suppose they would be allowed to loan that freely.

Senator KEM. Mr. Brown, has the Federal Reserve Board all of its existing powers with reference to reserves?

Mr. BROWN. With reference to reserves the only power it still has is the right to raise the reserve requirements in New York and Chicago from 20 to 26 percent. Otherwise, as far as reserves, it has used all its powers.

Senator KEM. That particular power has not been used?

Mr. BROWN. No.

Senator KEM. I believe you said that in your judgment there was no excessive speculative loans and no excessive loans on stocks and other securities. If the reserves were increased, the net result would be tor curb loans to legitimate business activities, would it not? I mean in the sense of productive business enterprises.

Mr. BROWN. Reserves in New York and Chicago?

Senator KEM. No; I mean generally, referring to the proposed 25-percent reserve plan.

Mr. BROWN. I think it would. The only way, as I tried to point out in my statement, that a bank could meet such a requirement would either be by selling its long-term Governments or by collecting or restricting loans. It would probably do some of both. It might get the 25-percent reserve exclusively by selling Government bonds or exclusively by contracting its loans. It would have to get it one way or the other, assuming it didn't already have the funds.

Senator KEM. To that extent it would handicap business.

Mr. BROWN. In my opinion, yes.

Senator KEM. I believe that is all, Mr. Chairman.

The CHAIRMAN. Mr. Brown, what would be the effect of a straight increase of reserves, empowering an increase in reserves by 10 percent more without this Government bond feature in it, which seems to have another purpose in the way of making a market in short-term

Governments. What would be the effect in giving the Board authority to increase reserve requirements in al banks 10 percent more?

Mr. BROWN. I think all banks, by holding short-term securities of one kind or another, would get themselves in a position where they would be able to meet it whether the authority was used or not, and it would undoubtedly tend to restrict credit.

The CHAIRMAN. Do you think it would have as complete an effect as you attribute to the Eccles 25-percent plan?

Mr. BROWN. No; personally, while I wouldn't argue for it and would think it undesirable, I should think it would be much better than the Eccles plan. If there is to be any increase in reserve requirements, I think the degree of difference between the reserve requirements of central reserve city and country banks should be narrowed.

The CHAIRMAN. You think it is too great. That is one of the reasons they have not used the extra reserve in the central reserve cities.

Mr. BROWN. At the present time the country banks, so-called, the reserve is 14 percent, and is up to the maximum. In the reserve cities it is up to 20 percent, and that is the maximum. In the central reserve it is at 20, but it can be raised to 26. I think the six point differential between the three classes of banks is not justified.

The CHAIRMAN. It should be reduced if we undertook to give increased authority.

Mr. BROWN. If we are going to increase reserves, I think the degree of differential between the three classes of cities should be reduced, and not a flat increase made to all banks.

The CHAIRMAN. One of the inflationary elements referred to by Mr. Eccles was the importation of gold, which is, I think, said to be coming at the rate of 2 billion a year. I noticed a proposal that we restore the original gold reserve on Federal Reserve bank notes and deposits. Have you any comment to make on that proposal and what do you think its effect would be?

Mr. BROWN. I don't see how it would have any effect on bringing about the result which is desired in the present situation. All I know about it was reading it in the papers this morning.

The CHAIRMAN. We reduced the reserves here in 1940 to 25 on notice at a time when, partly because there was an alleged shortage of gold, gold was tending to go out of the country instead of coming in. It seems to me, as I understand it, the gold reserve now in is excess of the 40.

Mr. BROWN. I so understand, yes.

The CHAIRMAN. There would be no immediate affect?

Mr. BROWN. No.

The CHAIRMAN. Mr. Eccles referred to the existence of this free gold as supporting possible extension of credit. I wondered if we ought to tie it up in some way.

Mr. BROWN. I don't think it would be tied up by increasing the reserve requirements, the gold reserve requirements, of the Federal Reserve banks.

The CHAIRMAN. Just that much to be tied up. The Federal Reserve would have to hold that gold, and it would be restricted in the amount of money, therefore, that it could borrow, or the amount of notes it could issue at some sooner point than today.

Mr. BROWN. If the economy turned downward, but as long as it has today an excess of gold over the proposed amount, the new gold coming in would be just as inflationary with or without the proposal.

The CHAIRMAN. What effect does that gold have? How does it increase bank reserves today?

Mr. BROWN. The Treasury buys it and gives a check to the country which sends it over here, or to the importer, on the Federal Reserve Bank of New York. The owner of the gold deposits that check on the Federal Reserve in a commercial bank because he wants to buy goods with it. The Federal Reserve credit represented by the gold is then transferred to the bank.

Senator O'MAHONEY. Does the Government not issue a gold certificate which goes to the Federal Reserve System and the gold itself goes to Fort Knox?

Mr. BROWN. Yes; but in effect a check on the Federal Reserve is deposited in a private bank, and that is a transfer of Federal Reserve funds and an increase of reserve funds of a private bank. As that reserve is drawn out, it is redistributed through other banks of the country, but it is still in the System.

The CHAIRMAN. I do not quite understand. Of course, it does seem to me if you sell goods abroad and take gold for them, it is just as inflationary as taking credit for them, but I do not see any particular difference. That creates a certain amount of purchasing power against which no goods are being shipped into this country to buy.

That is all, I think. We thank you very much, Mr. Brown.

This committee will recess until 10 o'clock tomorrow morning, at which time Mr. Eccles will return for some additional questions by the committee.

(Thereupon, at 12:40 p. m., the committee recessed, to reconvene Wednesday, December 10, 1947, at 10 a. m.)

ANTI-INFLATION PROGRAM AS RECOMMENDED IN THE PRESIDENT'S MESSAGE OF NOVEMBER 17, 1947

WEDNESDAY, DECEMBER 10, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met at 10:15 a. m., pursuant to adjournment, in room 318, Senate Office Building, Senator Arthur V. Watkins, presiding.

Present: Senators Taft (chairman), Watkins, O'Mahoney, and Flanders.

Also present: Senators Ecton and Kem, and Representatives Horan and Poulson.

Aso present: Charles O. Hardy, staff director; Fred E. Berquist, assistant staff director; and John W. Lehman, clerk.

Senator WATKINS. The committee will resume its session.

I am informed that Senator Taft is unable to be here at the beginning of this session, and asked Senator Flanders to preside. Senator Flanders found that he had to attend another committee, and he asked me to take over for the time being. The members of the committee will come in, and I think, Senator Taft will be here in a few minutes.

Mr. Eccles, I understand, has to leave about 12, so I think we had better start now so that at least the formal matters will be presented.

Mr. Eccles, do you have a statement which you wish to be incorporated in the record?

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, WASHINGTON, D. C.

Mr. ECCLES. I have a statement I would like to incorporate in the record. I will read the statement. It is a statement covering a conversation that I had last evening with Secretary Snyder.

In view of the fact that some of the press has emphasized a difference in viewpoint between Secretary Snyder and myself in regard to the Board's so-called special reserve proposal, I would like to take this opportunity to clarify the record.

I have discussed the matter with the Secretary. The fact is that the area of agreement between us is much more complete than has been represented.

Such difference as exists is in evaluating the degree of restraint on inflationary expansion of bank credit that would be exerted by the special reserve requirement. He has expressed to this committee some doubt as to its effectiveness. I am more sanguine about it.

We both feel that whether the special reserve is needed at all depends on factors which cannot be determined in advance with certainty at this time. We are in full agreement:

One, that the most effective anti-inflationary measure has been and should continue to be a vigorous fiscal program to insure the largest possible budgetary surplus consistent with the Government's obligations at home and abroad.

Second, that coupled with an intensified savings-bond campaign, the program accomplishes two vital purposes. To the extent that savings of the public are invested in savings bonds, spendable funds are taken out of the market place at this time of excessive demand and insufficient supply, and can be used to pay off maturing debt held by the banking system. Likewise, a budgetary surplus can be used to reduce bank-held debt. Both measures reverse the process by which the money supply was increased during the war and are effective anti-inflationary influences.

Third, that the program which the Treasury and the Open Market Committee have been pursuing during the year has been effective and will continue to exert restraint during the next few months, when the Treasury will continue to have a substantial cash balance that can be used to reduce bank-held public debt.

Fourth, that some additional restraint may be expected as a result of the joint statement of Federal and State bank supervisory authorities cautioning banks against overextension and inflationary lending.

Fifth, that the problem will present a different phase when current debt-payment operations are no longer available. If it appears that other restrictive steps are needed, increased reserve requirements or possibly some stronger measure may be necessary.

Sixth, that this will depend on the course of events and, in part, upon self-imposed restraint by the banking community, which has gained a broader understanding of the problem as a result of discussions before Congress and in the press.

Seventh, that the Board's proposal is not in any sense a substitute for, but a supplement to, the fiscal program and direct action on other fronts where inflationary forces are generated but cannot be corrected by monetary and fiscal policy alone.

Eighth, that under present and prospective conditions it is essential to maintain the established 2½-percent rate on long-term marketable Government securities.

Ninth, that restraints should be reinstated or reimposed on installment credit.

The area of disagreement, therefore, narrows down to whether the special reserve would be appropriate if additional measures prove necessary to limit the now unrestricted access of the banking system to reserves upon which a multiple expansion of bank credit can be built.

I am putting that in the record with the knowledge of the Secretary.

Senator WATKINS. In other words, these nine points are the areas in which you do agree.

Mr. ECCLES. That is right.

Since I have appeared before this committee—I think it was on the 25th of November—I have appeared before the Banking and Currency Committees of the House and Senate, and others have appeared before this committee, and before the Banking and Currency Committees of the House and Senate in opposition to the reserve proposal that was part of the statement that I made before this committee, and I would like to put into the record a statement which has been hurriedly prepared, but which I believe answers considerable of the opposition that has been raised, if I may read that statement.

There will be mimeographed copies of it available in a short time. It was only finished this morning, and so I am sorry that I do not have mimeographed copies to distribute at this time.

May I read this, Senator?

Senator WATKINS. I understand that it is in answer to the criticisms about the special reserve.

Mr. ECCLES. Yes. I would say it tends to answer the criticisms in general terms, and it possibly further explains some of the aspects of the problem that has been developed as a result of the criticism.

Senator WATKINS. Do you have in mind the testimony given this committee by Mr. Brown yesterday?

Mr. ECCLES. Mr. Brown has been before this committee, and also the Banking and Currency Committee of the Senate. His testimony was a good deal the same on both days. That is one of the criticisms, and there has been considerable in the press also.

Senator WATKINS. The committee will appreciate having your statement, Mr. Eccles.

Mr. ECCLES. I appreciate the opportunity to discuss further the problem of what might be done in a monetary credit field to deal with inflationary forces.

Since my previous appearance before this committee, there has been considerable discussion of the Reserve Board's proposal for a temporary special reserve requirement. There is a good deal of misapprehension and misunderstanding about it.

I should like, as briefly as possible, to put it in what appears to me to be the correct perspective.

In my initial testimony before this committee, I explicitly stated, and I want to reemphasize, that the proposed special reserve is only a part, though a necessary part, of any effective anti-inflation program, and that the need for this authority would be less to the extent that appropriate action is taken on other fronts.

By far the most important action is a continuing vigorous fiscal policy. Because of that policy, there is likely to be little need for the special reserve requirement during the next 4 months. In that period Treasury surplus funds taken from the market through taxes will be available to retire a substantial amount of bank-held debt.

In other words, it looks as though there will be at least seven billion of funds taken out through taxes in excess of what the Government will expend during the next 3 to 4 months; so that, in order to meet those tax withdrawals, the banks will have to sell, be under pressure continually to meet those withdrawals, and will have to sell their Government securities, some of them, or borrow from the Federal or collect loans. But with the large amount of governments they hold, they would naturally sell some of the governments.

Senator WATKINS. It would be short-term governments?

Mr. ECCLES. Not necessarily. I mean, they may choose to sell the longer term. In any case, the Federal Reserve will be the major buyer of those securities. The Federal Reserve is the residual market for them, and so, with the Federal Reserve owning the securities, the funds collected in taxes would then be used to retire an equal amount or a like amount of Government debt. That is about the process of it, and, as I say, it will put pressure during the period in the market—that is the point I make here.

However, after this period, we may be exposed to an unbridled expansion of bank credit because the Reserve System's existing powers in the face of its newly acquired responsibilities for the government security market, and in the face of a continued inflow of gold, are insufficient to restrain further bank credit expansion. Considered in this light, our proposal is a precautionary measure to guard against possible disaster later.

Bankers, and certainly the Federal Reserve people, are agreed that the government bond market must be supported and stabilized. Certainly, the Treasury likewise agrees to that.

There is also agreement that the present program of the Federal Open Market Committee and the Treasury should be vigorously prosecuted.

There is agreement that the supervisory policy and moral suasion on the bankers to avoid loans for nonproductive purposes should be agressively pursued.

There is agreement on fiscal policy and the need for maintaining large surpluses in the Treasury cash budget, as much as possible in order to pay off bank-held debt.

There is agreement as to the need of strengthening the savings bonds program.

These are important areas of agreement, and they ought to be kept in the foreground of any further discussions of the use of monetary and credit policy as a brake upon further inflation. At the same time we should not fail to keep in mind the fundamental issue: bank credit is still expanding mainly because of loans. Gold is flowing into the country; the money supply is still growing; inflation is continuing. The question is, What is the next step, if any is required, in doing something about it?

Banking leaders who have already had some opportunity to study the proposed special reserve plan, and have arrived at opinions adverse to its adoption, voice this opposition along two lines of argument: On the one hand, they contend that the plan is impractical, socialistic, and unnecessarily drastic. On the other, they assert that the plan is not strong enough to accomplish its expressed objective. The contrast between these two lines of argument is striking. Both cannot be correct.

First, does the proposal mean regimentation of the banks? Will it unduly interfere with the operation of their business? Will it be a step toward socialization?

In the Board's judgment, the type of authority proposed is neither novel nor revolutionary. The authority provided by the Banking Act of 1935 to raise reserve requirements of member banks to twice the then prevailing statutory level was similar; except for a small margin applicable to New York and Chicago banks, this authority to increase member-bank required reserves has already been exhausted.

In late December 1940, the Reserve Board, the 12 presidents of the Federal Reserve banks, and the 12 members of the Federal Advisory Council unanimously joined in a special report to the Congress pointing out the inflationary dangers for the national economy inherent in the defense effort.

The special report, recognizing that the authority of the Federal Reserve System was wholly inadequate to deal with the potential excess reserve problem of the banks, recommended that Congress, and I quote:

(*a*) Increase the statutory reserve requirements for demand deposits in banks in central Reserve cities to 26 percent; demand deposits in banks in Reserve cities to 20 percent; for demand deposits in country banks to 14 percent; and for time deposits in all banks to 6 percent.

That is statutory. Today it is half that, and we have the right to double the statutory. Now, the recommendation was to increase the statutory to 26 percent.

For demand deposits in banks in Reserve cities to 20 percent; for demand deposits in country banks to 14 percent; and for time deposits in all banks to 6 percent.

(*b*) Empower the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (*a*).

That would mean 52 percent New York, 40 percent in the Reserve cities, and 28 percent in the country banks.

(*c*) Authorize the Federal Open Market Committee to change Reserve requirements for central Reserve city banks, or for Reserve city banks, or for country banks, or for any combination of these three classes.

(*d*) Make Reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.

In addition to these major recommendations, the special report urged that the defense program be financed as far as possible from existing deposits and from tax revenues rather than from inflationary borrowing from the banks.

I submit for the record a copy of this special report, because it called for far more onerous and drastic powers than the special Reserve plan, we submit, now calls for.

Senator WATKINS. What year was that?

Mr. ECCLES. 1940.

Senator WATKINS. The report will be made a part of the record.

(The report referred to follows:)

SPECIAL REPORT TO THE CONGRESS BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THE PRESIDENTS OF THE FEDERAL RESERVE BANKS, AND THE FEDERAL ADVISORY COUNCIL

(Reprinted from Federal Reserve Bulletin for January 1941. Issued by the Board of Governors of the Federal Reserve System at Washington)

(Submitted to the President of the Senate and the Speaker of the House of Representatives, December 31, 1940)

For the first time since the creation of the Federal Reserve System, the Board of Governors, the Presidents of the twelve Federal Reserve Banks, and the members of the Federal Advisory Council representing the twelve Federal Reserve Districts present a joint report to the Congress.

This step is taken in order to draw attention to the need of proper preparedness in our monetary organization at a time when the country is engaged in a great defense program that requires the coordinated effort of the entire Nation. Defense is not exclusively a military undertaking, but involves economic and financial effectiveness, as well. The volume of physical production is now greater than ever before and under the stimulus of the defense program is certain to rise to still higher levels. Vast expenditures of the military program and their financing create additional problems in the monetary field which make it necessary to review our existing monetary machinery and to place ourselves in a position to take measures, when necessary, to forestall the development of inflationary tendencies attributable to defects in the machinery of credit control. These tendencies, if unchecked, would produce a rise of prices, would retard the national effort for defense and greatly increase its cost, and would aggravate the situation which may result when the needs of defense, now a stimulus, later absorb less of our economic productivity. While inflation cannot be controlled by monetary measures alone, the present extraordinary situation demands that adequate means be provided to combat the dangers of overexpansion of bank credit due to monetary causes.

The volume of demand deposits and currency is fifty percent greater than in any other period in our history. Excess reserves are huge and are increasing. They provide a base for more than doubling the existing supply of bank credit. Since the early part of 1934 fourteen billion dollars of gold, the principal cause of excess reserves, has flowed into the country, and the stream of incoming gold is continuing. The necessarily large defense program of the Government will have still further expansive effects. Government securities have become the chief asset of the banking system, and purchases by banks have created additional deposits. Because of the excess reserves, interest rates have fallen to unprecedently low levels. Some of them are well below the reasonable requirements of an easy money policy, and are raising serious, long-term problems for the future well-being of our charitable and educational institutions, for the holders of insurance policies and savings bank accounts, and for the national economy as a whole.

The Federal Reserve System finds itself in the position of being unable effectively to discharge all of its responsibilities. While the Congress has not deprived the System of responsibilities or of powers, but in fact has granted it new powers nevertheless, due to extraordinary world conditions, its authority is now inadequate to cope with the present and potential excess reserve problem. The Federal Reserve System, therefore, submits for the consideration of the Congress the following five-point program:

1. Congress should provide means for absorbing a large part of existing excess reserves, which amount to seven billion dollars, as well as such additions to these reserves as may occur. Specifically, it is recommended that Congress—

(a) Increase the statutory reserve requirements for demand deposits in banks in central reserve cities to 26%; for demand deposits in banks in reserve cities to 20%; for demand deposits in country banks to 14%; and for time deposits in all banks to 6%.

(b) Empower the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (a).

(The power to change reserve requirements, now vested in the Board of Governors, and the control of open-market operations, now vested in the Federal Open Market Committee, should be placed in the same body.)

(c) Authorize the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for country banks, or for any combination of these three classes.

(d) Make reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.

(e) Exempt reserves required under paragraphs (a), (b), and (d) from the assessments of the Federal Deposit Insurance Corporation.

2. Various sources of potential increases in excess reserves should be removed. These include the power to issue three billions of greenbacks; further monetization of foreign silver; the power to issue silver certificates against the seigniorage, now amounting to one and a half billion dollars on previous purchases of silver. In view of the completely changed international situation during the past year, the power further to devalue the dollar in terms of gold is no longer necessary or desirable and should be permitted to lapse. If it should be necessary to use the stabilization fund in any manner which would affect excess reserves of banks of this country, it would be advisable if it were done only after consultation with the Federal Open Market Committee, whose responsibility it would be to fix reserve requirements.

3. Without interfering with any assistance that this Government may wish to extend to friendly nations, means should be found to prevent further growth in excess reserves and in deposits arising from future gold acquisitions. Such acquisitions should be insulated from the credit system and, once insulated, it

would be advisable if they were not restored to the credit system except after consultation with the Federal Open Market Committee.

4. The financing of both the ordinary requirements of Government and the extraordinary needs of the defense program should be accomplished by drawing upon the existing large volume of deposits rather than by creating additional deposits through bank purchases of Government securities. We are in accord with the view that the general debt limit should be raised; that the special limitations on defense financing should be removed; and that the Treasury should be authorized to issue any type of securities (including fully taxable securities) which would be especially suitable for investors other than commercial banks. This is clearly desirable for monetary as well as fiscal reasons.

5. As the national income increases a larger and larger portion of the defense expenses should be met by tax revenues rather than by borrowing. Whatever the point may be at which the budget should be balanced, there cannot be any question that whenever the country approaches a condition of full utilization of its economic capacity, with appropriate consideration of both employment and production, the budget should be balanced. This will be essential if monetary responsibility is to be discharged effectively.

In making these five recommendations, the Federal Reserve System has addressed itself primarily to the monetary aspects of the situation. These monetary measures are necessary, but there are protective steps, equally or more important, that should be taken in other fields, such as prevention of industrial and labor bottlenecks, and pursuance of a tax policy appropriate to the defense program and to our monetary and fiscal needs.

It is vital to the success of these measures that there be unity of policy and full coordination of action by the various governmental bodies. A monetary system divided against itself cannot stand securely. In the period that lies ahead a secure monetary system is essential to the success of the defense program and constitutes an indispensable bulwark of the Nation.

Mr. ECCLES. When you do not have immediate use for powers it is very often the situation that there is no hesitancy in giving them to you. It is like the authority given to the Board to impose margin requirements on listed credit extended on listed stocks.

At the bottom of the depression, when there was no market, and remembering the 1929 credit expansion and the crash, there was a great demand that that not happen again, and authority was given to the Federal Reserve Board to impose margin requirements on loans for purchasing or carrying listed securities. For years they were used only moderately. But it is fortunate that they did exist, because they have been in effect now from 75 to 100 percent margin for a considerable time, and as a result, there has been no expansion of credit in that particular field. It is the one field where there has been no credit inflation. Had we gone before the Congress at this time or a year ago or 2 years ago to get that authority, I am perfectly sure there would have been no more chance of getting them than there now appears to get any power to deal with this reserve situation.

Senator WATKINS. You are not very optimistic, I take it?

Mr. ECCLES. No; I was not very optimistic when it was proposed. I have been over here in Washington too long.

Senator WATKINS. What would you do if they were given to you very much to your surprise?

Mr. ECCLES. What is that?

Senator WATKINS. What would you do with those powers if they were given to you?

Mr. ECCLES. If it were unnecessary, as I have indicated that it may well be, that by persuasion the banks might not expand further, by the next few months the budgetary program may be strong enough to hold it in line; but if public expenses are still maintained, and taxes are reduced, and the budgetary surplus is greatly decreased or should disappear, you have eliminated one of the most important anti-inflationary restraints that there is, and some of the additional authority may be very much more needed than it is at the moment.

Senator WATKINS. I thought maybe you had in mind Theodore Roosevelt's policy of "speak softly but carry a big stick."

Mr. ECCLES. Well, I think events have indicated that a special authority, or what some people have described as a shotgun back of the door, often serves a useful purpose, although it is often not necessary to use it.

I agree with Mr. Brown, however, that if the authority existed, the effect of its being on the statute books would be to restrain banks, even without putting it into effect; and banks, as they came into possession of excess reserves, would use those funds to buy short-term governments or to hold their funds idle so as to be prepared to meet an increase in a special reserve, should one be imposed. That seems to be one of the virtues of the special reserve plan. The banks likewise would be more careful in shifting from short-term to intermediate and longer bonds. They would, no doubt, have a tendency to reverse that process, and they would also, I think, be likely to be more careful and restrictive in holding down their total loans and in making investments than in non-Government securities. In short, I think the special reserve plan would have some effect, even without its actual use.

The special reserve plan is identical in purpose with an outright increase in regular reserve requirements. The plan, in fact, is no more than an adaptation of this familiar method of dealing with the volume of bank credit. The plan now proposed by the Board would enable the banks to retain the same volume of earning assets they now have, in place of making them reduce earning assets, as would an increase in regular reserve requirements, with adverse effects upon bank earnings.

Is the Board's proposal unnecessarily drastic? In pointing out the inflationary dangers that exist when the supply of money in the hands of people who seek to spend it greatly exceeds the volume of goods and services available, the Board, in its annual report for 1945, indicated that there were three alternative methods for dealing with the monetary aspect of the postwar inflationary problem: First, a limitation on the Government bond holdings of banks. Second, an increase in their regular reserve requirements; and third, the holding of short-term Government securities or cash under a special reserve requirement. Our study of the problem led us to select the special reserve method as the least onerous, the most equitable, and the most practical method.

These specifications for the proposal call for the immobilization, even at a maximum of only a part of the existing large holdings of commercial banks of Government securities. About one-third or more of the $70,000,000,000 of the Government securities held by the bank could be immobilized, if the entire authority were used. The special reserve would be imposed only gradually, and if inflationary bank credit expansion could be otherwise brought under check, the requirement would not be imposed at all.

Under the plan suggested, the individual banker would be left in the same competitive position he is in today. Contrary to what has been stated by a recent national city bank letter, among others, banks would not be under legal or any other compulsion to buy Government bonds. The holding of Government securities in lieu of cash or balances with other banks to meet the special reserve requirement would be entirely optional with the individual banks.

The special reserve plan is a middle-of-the-road proposal for helping to deal with the credit and monetary aspects of a difficult and complex inflationary situation. The Board feels, however, that the purpose of restraining further inflationary expansion of bank credit can be adequately accomplished by the specifications it has drawn for the plan, if its use is accompanied by appropriate fiscal and other policies. It would seem that bankers would prefer this proposal to an increase in regular reserve requirements which they recommended in 1940, in anticipation of inflationary developments.

Are existing powers adequate? The argument that the Board's proposal is unnecessarily drastic implies that the suggested special reserve requirement is not needed because the System's existing powers are adequate to restrain credit expansion if the System would use them.

Existing powers are being, and will continue to be, used to the fullest extent, consistent with maintaining the market for Government securities. Under present conditions, however, any further absorption of bank reserves is entirely dependent upon a continued surplus in the Federal budget that can be used to retire public debt held by the banks. There will be little or no surplus in 1948, after March.

You see, even though there is a substantial budgetary surplus for the year as a whole, it comes very largely in the first part of the year, because at that time the tax collections are far greater than any other quarter. Any subsequent surplus will depend upon appropriations and tax legislation yet to be adopted.

Sales of the large volume, of some of the large volume, of Government securities held by the Federal Reserve System would, of course, absorb bank reserves; but such sales, particularly when banks are selling securities to us to expand their credit and to meet withdrawals for taxation, would demoralize the market and cause a sharp break in Government security prices.

The discount rate should be kept high enough to discourage borrowing from the Federal Reserve banks.

Senator WATKINS. Is that not high enough now?

Mr. ECCLES. What is that?

Senator WATKINS. Is that not high enough now to do that?

Mr. ECCLES. It has no effect; and what I wanted to say is the discount rate should be kept high enough to discourage borrowing from Federal Reserve banks, but its effectiveness is limited as long as banks can obtain reserves by selling short-term Government securities. In other words, it might be expressed better than it is.

I should say the discount rate under the present situation is ineffective. The banks, holding the large amount of securities they do, are not going to hold a one-percent certificate or a one-and-an-eighth-percent certificate and a Treasury bill that yields slightly less than one percent and borrow from a Reserve bank if the discount rate is substantially more than that.

Senator WATKINS. The rate is now 1 percent, as I recall it.

Mr. ECCLES. That is right.

Senator WATKINS. You still have power to increase it how much?

Mr. ECCLES. We can increase it to any amount we want. I mean there is no limit, but it would be completely meaningless; it would be academic, except psychologically; it would be academic because the banks would just not borrow. It would restrict them because they have access to Federal Reserve credit to us in the same manner they would if they borrowed from us through selling governments, and they do not want to show borrowing anyway. They are not going to borrow at a higher rate than the Government securities yield.

Senator WATKINS. I think, as Mr. Brown told us yesterday, they still have plenty of money in reserves of their own.

Mr. ECCLES. The banks have no excess reserves.

Senator WATKINS. None?

Mr. ECCLES. Practically none; they have not kept them for years. If banks get reserves, they immediately press to make loans or to buy governments. I mean, the banks have had no excess reserves for years, because with the coming of the war, and the large amount of Government financing, they invested in governments, and in loans, what otherwise would have been excess reserves, so that there is no prospect that the banks have any excess reserves.

Senator WATKINS. He must have had in mind these governments that they held.

Mr. ECCLES. The governments are the equivalent of excess reserves. I mean, they are equivalent in the sense that what would have been the excess reserves prior to the war have been used to purchase Government securities in the market. That is really what has happened to the reserves.

The only remaining power we have is to raise regular reserve requirements in New York and Chicago, as I have indicated. This would be restrictive to a small degree but would be met by sales of short-term securities by those banks to the Reserve System. These banks, moreover, have shown relatively much less credit expansion than other banks.

For some months the Reserve System and the Treasury have been carrying out a program combining monetary, fiscal, and debt-management restraint on current inflationary bank credit expansion. Some moderate corrective rise has been permitted in wartime levels of interest rates on short-term Government securities, together with some adjustment in yields on long-term issues from low levels.

The certificate rate has gone up from seven-eighths to approximately one and an eighth. It has gone up a quarter of one percent, and the long-term rate, which was around two and a quarter, has gone up to close to two and a half. So that you are getting to the support point on the long-term securities.

The discount rates still remain at 1 percent, but there is no doubt that the discount rate will be increased at some time in the not too distant future in line with the short-term security price or rate. In other words, there is no point or use of maintaining what you call a preferential discount rate, a discount rate at less than the certificate rate.

The discount rate has been for a considerable period of time slightly above the certificate rate. It has been at 1 percent, and the certificate rate at seven-eighths; so, if that same slight differential was maintained in the future, the discount rate would be—that would make the discount rate one and a quarter, making it slightly above the one and an eighth certificate rate.

In addition, excess funds in the Treasury balances arising from current budgetary surpluses have been applied to the retirement of the maturing bank-held Government securities.

The System has also urged all banks to maintain conservative standards in extension of consumer credit and has joined with other Federal and State supervisory agencies in recommending that all banks pursue conservative lending policies and enumerating here what we have done up to the present time.

They say that we have all of these powers and we should use them, and I am indicating here that this modest program has already been in effect. We are using existing powers, and there is a little more that might be done, such as the slight raising of the discount rate and increasing reserve requirements moderately in central Reserve cities, and such as the retirement of the public debt out of the budgetary surplus over the next 3 or 4 months, and such persuasion as we can exercise on the banks. That is about the program.

Representative HORAN. Along that line, Mr. Eccles, our subcommittee appeared in Seattle, and one of the witnesses to testify on this subject was Dean Howard H. Preston of the College of Economics and Business at the University of Washington.

After you testified here on November 25, I sent a copy of your statement to him, and despite the fact that he now has nearly 3,000 in his college, a part of the University of Washington, he took the time to write a 4-page letter immediately in reply, very much interested, and in that letter he stated when the 1945 report came out he turned thumbs down on it at that time.

He commented further to endorse your mildly deflationary activity, as he put it, and as he called it, and as you have just testified to now.

But in this paragraph, he says:

> As I stated above, I turned a cold shoulder on these proposals a year ago. Today conditions appear to me to be more critical. Drastic action undoubtedly is called for. . .

Now, this came from a man who has been a specialist in his lectures on the expansion of credit. He said he had preached it for 30 years, and it was a very important element.

Now, what I would like to have is a response from you of several suggestions that he makes here. One is from a competent economist, he says, who offers this suggestion:

> The Government should offer a refunding issue of various maturities and at various rates, but rates adequate to attract investors' money. The purpose of this should be partly to get the debt safely funded, and partly to get the debt out of the hands of the banks and the Federal Reserve banks, with a corresponding reduction of the swollen volume of bank deposits, swollen Federal Reserve deposits and money in circulation.
>
> To protect those banks which now hold an excessive volume of long-term Governments from ruinous losses in this process, banks should be allowed to subscribe to the new issues with their old ones, the old ones being received at the discount of 2 percent from par in making the exchange. The banks should be required in this process to take issues of shorter maturity in exchange for their long-term bonds. The FDIC should be treated in the same way.

Mr. ECCLES. In the first place, it is a fine theory, but every effort has been made to refund the debt, and the whole sales program of the Government to sell E, F, and G bonds is certainly for the purpose of getting in the hands of savers and investors as much of the public debt as you can possibly get in their hands, and any surplus coming from that source is used to pay off bank-held debt.

But when investors' savings have fallen as rapidly as they have this year due to the increased cost of living, the amount of funds to invest has been very greatly diminished.

Further than that, the inflation itself has called for an increased use of capital funds, mortgage money and otherwise. It takes twice as much or more to build a house as it did, and, therefore, what used to be a $5,000 mortgage would today be a $10,000 mortgage, and your inflation is using up the existing savings.

Representative HORAN. We recognize that. Could not this be an attempt to find a usable substitute for the deficiency in savings moneys at that time?

Mr. ECCLES. There is deficiency in current cash savings, not in the opportunity to invest. The opportunity to invest is greater than the supply of money in the hands of savers, and so what he is talking about is to get the public to buy Government securities and pay off the bank-held debt.

I am saying that is what is being done, and has been done continuously. The question is whether you are going to be able to do any more than you are doing. I question that very much because of the opportunity for other investments.

Now, he makes another point with which I do not agree.

Representative HORAN. This is not Dean Preston. He just threw this in as a suggestion that came from somebody whom he considered competent.

Mr. ECCLES. I would not agree at all with the idea of these different rates of interest on these issues, because so long as you are supporting the longest-term rate on the market issue, then it seems to me that other market issues—if you put them out at a higher rate, then the issues you have at two and a half are going to go below par. You cannot put out a 3-percent bond or a three and a half, without automatically causing a flood of sales of the market securities that are now out.

Representative HORAN. Here is another suggestion that he includes, Mr. Eccles. I will not name the man; he does; he calls him a sound monetary economist, and he proposes a freezing of the Government bond holdings of banks, insurance companies, and other financial corporations.

Mr. ECCLES. Well, this is mild compared to that.

Representative HORAN. This is very drastic.

Mr. ECCLES. It is an attempt to hold half of their Government securities, and you do not freeze them. You merely require that they maintain a reserve and the option to hold about one-third of their Government security holdings in this reserve.

The effect would be to freeze these holdings because it would be in their interest to freeze this much of their holdings in short-term securities, rather than, of course, hold idle cash. But to require the banks to freeze a hundred percent of everything they have got, as this person proposes, is very drastic.

Representative HORAN. I raise these points for information. I would like to ask you a few more questions here.

Mr. ECCLES. I wonder if I could finish this statement, if I may, for the record.

Representative HORAN. I have got to get back to another committee meeting.

Mr. ECCLES. Very well.

Senator WATKINS. How much longer is your statement, Mr. Eccles?

Mr. ECCLES. It is about two-thirds through.

Representative HORAN. This should not take too long, if we speed up the answers. I just wanted to say this is indicative to me of the tremendous interest in this field.

In your statement to us November 25, you stated that the power of the Federal Reserve Board to raise the reserve requirement of the banks in New York and Chicago from 20 to 26 percent would be of little value since—

any action taken would have an effect on banking conditions only in two cities in which the credit expansion, as well as deposit growth, has been relatively less than for the rest of the country.

I wonder if you would explain to the committee a little more fully this variation in credit expansion by areas and cities.

MR. ECCLES. Well, it is difficult for me to say briefly why that is. The New York and the Chicago banks, particularly the New York banks, are strictly commercial banks. The banks outside, most of the country banks, are commercial as well as savings. The banks outside New York and Chicago have been making a very large volume of mortgage loans. They have also been making a very substantial volume of consumer credit loans, as well as some farm loans. These have been in addition to a very rapid expansion in their commercial and industrial loan. Thus, the banks outside have been making a variety of loans, whereas the loans, particularly in New York, and less so in Chicago, have been making almost entirely commercial loans.

Representative HORAN. Would any treatment of that field have to be flexible for that reason?

Mr. ECCLES. No.

Representative HORAN. It would not?

Mr. ECCLES. No.

Representative HORAN. In your testimony you spoke at length about bank money being as purely inflationary as though it were fiat money turned out by the Government printing press. It has been estimated at the end of 1945 there were $95,000,000,000 flying around in the amount of excess purchasing power, for which there were no corresponding goods to buy. Somebody suggested that those were the flying saucers that appeared out in our area. What is that amount today?

Mr. ECCLES. I could not possibly say.

Representative HORAN. Is it greater or less?

Mr. ECCLES. The amount of money is greater, of course, as I have indicated; that is, the volume of deposits and currency. We have some charts here that we use to show what that growth has been since before the war, and it is about three times what it was before the war; whereas the total physical volume of goods is twice, possibly one and three-quarters of what it was before the war. So money supply already has grown far more than our capacity for furnishing goods and services.

Representative HORAN. Would any restriction on credit have a depressing effect upon production?

Mr. ECCLES. Well, it would first have an effect upon demand. You restrict credit and where the demand exceeds the supply, the effect of the credit restriction is, of course, on the demand. If you got a credit restriction tight enough to force an actual substantial contraction of credit, when the supply caught up with the demand, then it would affect production. But its effect on production under these conditions would come secondarily.

Representative HORAN. It is not a danger at that time?

Mr. ECCLES. No; I do not think it is a danger at all. You need, first, to reduce the demand, and the demand is far in excess of the supply so that the supply would still be supplied so long as the demand was there.

Representative HORAN. On page 4 of your statement, in the second half of section 2, you state that business profits after taxes are more than double what they were any prewar year, and almost double the profits in any war year and, therefore, business should hold down prices or should reduce them.

Are not business profits derived from risk venture unlike fixed income from investments, such as bonds or, in other words, should not a definite distinction be made between profits from risk venture which should follow the purchasing power of the dollar in the same manner as is ascribed to demand for wage increases by labor? That was the tough one in your testimony.

Mr. ECCLES. Well, it is like the question of which is first the hen or the egg. You get, as I indicated, increased wages, increased prices, increased profits, increased credit. Certainly profits are a part of prices, and just as wages are, and I indicated in that statement that I gave that wages should be held down, that there should be no further increases, especially in the organized labor groups; but likewise, profits, which are also a part of prices, should be held down, and prices should be held down rather than add to profits through increasing prices.

In other words, labor would never certainly expect to hold wages if business profits continue to grow or even are maintained at their present high level.

Representative HORAN. What proportion of the increase of bank loans may be ascribed to increased cost of carrying inventories necessary in manufacturing operations?

Mr. ECCLES. I do not think there is any way of measuring that. Some companies have had to borrow to carry inventories; others have had balances that have been lying idle, and they merely put them into circulation.

Representative HORAN. That is all, thank you, Mr. Chairman.

Senator ECTON. Mr. Chairman, may I ask Mr. Eccles a question? You mentioned a while ago that it took twice as much money now to do the job as it did originally, or as it did over the past few years before we had this inflationary period.

Now, if we wish to maintain production, how do we dare restrict bank credit any further? Is it not dangerous, Mr. Eccles?

Mr. ECCLES. Well, I think it is more dangerous not to. It seems to me that when you get a growing inflationary situation, that you have got to choose the lesser of evils. You can either try to hold it by harnessing controls, such as we had during the war, so that the effects of the supply of money do not become fully effective, or you have got to try to keep the volume and the supply of money through credit from continuing to grow, because if it grows, after you have reached your capacity production, it cannot help but put pressure on prices. As I said, a restriction of credit does not stop bank lending operations. There is certainly nothing in the plan that we have proposed here, which is mild enough, that would prevent banks from making loans.

There would be some restraint on them; they would be more selective. The banks have been out beating the bushes to make loans; they have been spending a great deal of money on advertising, and trying to induce and get people to come in and borrow money. They have been inviting people to use their money in this consumer credit field, which is almost a new field for banks.

They are doing everything that they possibly can to get people to use money. They are not sitting there just waiting to take care of the necessitous loans for production, and it is because the source of credit reserves through the Federal Reserve is so easily accessible merely by selling a few short-term Government securities, and making loans at higher rates.

Senator ECTON. Did they not lose a lot of that business when they got too tough before and drove borrowers to other agencies, Government agencies and private lending agencies?

Mr. ECCLES. No. The bank's outstanding credits today are far in excess of anything they have ever been. The total amount of loans and investments of the banking system today as compared with prewar is almost double.

The CHAIRMAN. I noted, Mr. Eccles, that Mr. Brown's statement yesterday was not correct, and I questioned it at the time, that there had been no increase in deposits, but they had sold as many Government bonds as they had increased loans.

As a matter of fact, the chart seems to show in 4 months the loans and discounts have increased by $3,300,000,000, and there has been no reduction in Government obligations, and there has been an increase in deposits of $4,000,000,000. That makes the increase of bank credit distinctly an inflationary element; does it not?

Mr. ECCLES. It does; and I want to show you this chart here.

The CHAIRMAN. Is there any reason since October 29 that you expect the slowing-up in this process?

Mr. ECCLES. There has been no reason to expect it. We expect the opposite.

November was still the same. It has not changed at all. That is the month of November. We have the figures on that now.

The CHAIRMAN. Can you bring that chart over nearer to the committee?

Mr. ECCLES. This will give you a vivid picture of really what has happened in this development of money in relation to production.

I think we better have the loans and then show you how that shows up in the deposit structure because that is the opposite side of the ledger.

You will notice here that mid-1945 was about your low point in bank loans [indicating] and they were somewhere here about $15,000,000,000. You notice what happened here. They hit up here in 1941, after the war started to about $20,000,000,000.

Then as the Government credit started going up here, the Government began to put a lot of money into deficit financing.

The CHAIRMAN. Banks began to loan to the Government instead of to other people?

Mr. ECCLES. Yes; loans went down. Then they began to do both. But since 1943, starting right here, there has been your trend, and it has not changed a particle. You will notice that.

Now in the case of Government securities you see what has happened there. This is a decline in the holdings of governments but that decline is largely out of the proceeds from the Eighth War Loan drive which was unnecessary.

They raised twenty-some-odd billion dollars and kept it in the war loan deposit account and later turned around and paid off the debt of banks and that is where the big change came.

Now you notice the holdings of governments by banks is leveled right off here since that has been applied.

Even other securites you notice tended up. There has been an increase of other securities, mostly municipals, I suppose, of a billion and a half dollars during the last 2 years.

Here is the reflection of it in the supply of money.

Here is what has happened to your currency situation.

You notice currency is pretty steady. In 1931 to 1933, it went up from around $4,000,000,000 to $5,000,000,000 due to hoarding, not due to increased circulation but hoarding because the banks were closed and you did not have availability of bank checks.

That continued, and you notice up here, to the end of the war and it leveled off.

Here is what has happened to adjusted demand deposits. That is a reflection of this bank-loan picture. That is the demand deposits with government's and the interbank taken out.

Here is savings deposits. They are leveling right off. Current saving is going down very rapidly throughout the country.

Senator O'MAHONEY. Mr. Eccles, will you turn back to the other chart, please?

Mr. ECCLES. Just before doing that, I would like to say; this is the total of deposits and currency. That gives you some idea. You notice that has gone up from here, a total from around $40,000,000,000 of currency demand deposits and time deposits. You will notice it has gone up here from around $40,000,000,000 to more than $160,000,000,000.

That gives you some idea of the supply of the means of payment. Without any further bank-credit expansion at all, if that gets a normal velocity, it still could create substantial inflation without adding to the supply because the supply of goods and services today have not caught up, even at the inflated prices and the increased production with the supply of money.

Senator O'MAHONEY. If you will turn to the other chart, I have a question or two.

Mr. ECCLES. Yes, sir.

Senator O'MAHONEY. It would appear from this chart that from 1942 to 1945 the bank loans were rising at the same time that Government securities were rising. That is to say the banks were loaning to the Government at a very heavy rate because we were in the war and to business at a more or less moderate rate.

But the rise of the loan line on your chart from 1945 to 1947 is much more rapid. The line representing Government securities held by the banks dropped very sharply at the beginning of 1945 when this $20,000,000,000 of the surplus sale of bonds took effect.

Mr. ECCLES. It was 1946 it dropped. The Treasury started to retire securities at the beginning of '46.

Senator O'MAHONEY. In 1946, that is right. And the bonds then were running from 1944 to 1946 and from 1946 on they have been rising much more rapidly.

My point, however, is that after the application of that \$20,000,000,000 of cash, the application of Government funds on the reduction of the debt was apparently restricted to the small surplus, about \$750,000,000 on June 30 last; but we have the situation, therefore, that while the Government debt has been reduced the bank credit, that is to say, the private debt, is increasing.

Now my question is, If this bank credit continues to rise at the present trend, and you have testified that the figures for November would indicate that the trend is still up?

Mr. ECCLES. That is right.

Senator O'MAHONEY. If it continues to rise while the Government debt remains stationary or is reduced only slightly, is not that proof positive that unless we control the bank credits, the inflationary situation will continue?

Mr. ECCLES. Well, it certainly will continue so far as the supply of money is contributing to it and, of course, without an excess supply of money in relation to goods and services you could not have inflation.

Senator O'MAHONEY. Let us talk about the trend.

Mr. ECCLES. Right.

Senator O'MAHONEY. The trend of bank credit is up on top of this huge public debt and that is a decided inflationary factor; is it not?

Mr. ECCLES. That is true.

Sanator O'MAHONEY. Let me ask one more question.

I understood Mr. Brown, when he testified here yesterday, to disagree with the statement that had been made by you in your original testimony here which, as I recall, was to the effect that the lifting of the discount rate would necessarily be accompanied by a decline in the market value of Government bonds.

Mr. Brown contended that you could raise the discount rate and still support the bonds.

Mr. ECCLES. Well, yes; but it would be purely meaningless. In other words you are maintaining a rate of 1⅛ on Government certificates and, say, 1 percent on Government bills and the banks have no reserve requirement to hold any amount of them, and you raise the discount rate to as much as say 2 percent, no bank is going to be holding a 1 percent or 1⅛ percent short-term Government security and come in and borrow and pay 2 percent.

Therefore, the discount rate is meaningless so long as the door is completely opened to Reserve Bank credit through selling to us securities they have got in such abundance.

The CHAIRMAN. The open market and the discount rate go right together.

Mr. ECCLES. Absolutely.

If you had special requirement where a certain percentage of the deposits would have to be held in cash or short security, then you could raise the discount rate which would be effective insofar as short-term credit is concerned.

I do not think you could raise the discount rate indefinitely. You could raise it to 2½ percent, but if you get beyond that rate, even with the reserve requirement, it would then effect the long-term market sufficiently seriously to nullify it by supporting the long-term market.

Senator O'MAHONEY. What I wanted to be sure of, was your not modifying the statement you made the other day.

Mr. ECCLES. Not at all.

The CHAIRMAN. Will you finish your prepared statement?

Mr. ECCLES. This program of restraint has helped to reverse the processes that contributed so strongly to the wartime expansion of bank credit, and will be carried on as the proposed special reserve plan is not a substitute for this program, but may be necessary to supplement and reinforce it.

Despite the pressures of fiscal policy during September and October, which drew upon bank deposits and permitted retirement of over $1,000,000,000 of Government securities held by the banking system, deposits of businesses and individuals at commercial banks increased by $2,500,000,000, reflecting largely extension of bank loans to businesses, consumers, and owners of real estate.

Current reports indicate that the expansion of credit to these groups of bank customers continues to be at an unduly rapid rate.

Will the special reserve plan unduly restrict bank loans for productive purposes, handicap production in catching up with demand and thereby defeat its anti-inflationary purpose?

The present situation, as the Board emphasized in its annual reports for 1945 and 1946 and has been reemphasized time and again in the Federal Reserve Bulletin, is one of effective demand in excess of available supplies of goods, and of effective demand being continuously fed by still further expansion of bank credit.

There can be considerable reduction in the volume of demand without bringing it below available supplies of goods and upsetting production. Such a contraction of demand is essential to avoid further price increases. When a situation is finally reached where supply exceeds demand, that will be the proper time to encourage credit expansion. The Board's proposal is not a one-way street.

It would not prevent banks from making essential loans. It is designed, rather, to encourage banks to make loans out of the existing supply of loanable funds, replacing one loan with another or selling securities which the public or other banks will purchase. It would accept the present volume of outstanding bank loans, amounting to nearly 37,000,000,000, as a huge revolving credit pool for the financing of necessary production and permit banks to sell off other assets to make loans if this pool proved inadequate.

What it would not do is to permit banks to go on expanding the total volume of their loans by selling securities which only the Federal Reserve will buy, thereby creating additional reserves, which can be expanded by the banking system into loans and investments amounting to six or more times their amount.

Some would argue that bank loans at this time which are accompanied by increased production are not inflationary or are even anti-inflationary. This argument is of dubious validity because the money once created by loans and spent by the borrower finds subsequent uses which are beyond the control of the banker or the borrower and are highly inflationary in character.

In describing the recent loan expansion, and its inflationary effects, the November issue of the Federal Reserve Bulletin states:

> * * * to the extent that the loans have not facilitated increased production, loan expansion has accelerated inflation. In addition, the deposit funds created in the first instance by loans, whether for production, consumption, or speculation purposes, have found many inflationary uses in subsequent transfers among holders.

What the plan cannot do is to reduce the existing volume of bank deposits. The only way this total can be reduced is by paying off in the aggregate the public and private debt held by the banks as assets against these deposits. This is inevitably a slow process at best.

Could the special reserve plan be applied without resulting in a violent upset in the Government securities market? There is no reason why the transition could not be accomplished in an entirely orderly manner. The introduction of the proposal would be gradual. Any bank that might not be able to meet the proposed special reserve requirement introduced in this gradual way on the basis of their present holdings of short-term Government securities should get into a more liquid position.

I should like to submit for the record a table showing for each major group of insured banks the relation of available special reserve assets on June 30, 1947, to selected levels for the proposed special reserve requirement.

The table also shows the percentage holdings of short-term Government bonds which these groups of banks held at mid-year, which were available for sale in the market to obtain eligible assets. This table makes clear the feasibility of the plan from an operating standpoint.

Of course, statistics for individual banks would show wider variations in holdings of eligible assets than are indicated for the table for groups of banks, inasmuch as aggregates conceal individual bank variations. However, the table should allay fears that the plan would have disruptive effects.

Would the imposition of the plan perhaps lead to deflation and depression? A fear expressed by some bankers who have discussed this Board's plan publicly—and they include those who are prepared to renounce the use of monetary and credit controls for anti-inflation purposes—is that the use of this plan might upset the present state of high production and overfull employment and induce severe deflation and depression. The object of the plan is not to bring on deflation, but to minimize the deflation that is inevitable if we follow a let-nature-take-its-course policy.

The Board recognizes that the proposal is no panacea and that there would be some risks in its use. But it would be an important restraint available to be used, and to be used only, in the event of continued inflationary banking developments.

Any anti-inflationary program involves some risk of precipitating a downturn and readjustment in business conditions. It would have been better to have had the power available for use earlier. Had the Reserve System been given the additional power that was recommended in the special report in 1940, it would no doubt have used it in view of developments during and since the war.

There is some feeling within the Reserve System that it will be held responsible for deflation if even the mildest use of this requirement should happen to coincide with a deflationary readjustment. It is because of this possibility that the Board is not eager to have the grave responsibility for using the authority.

Nevertheless, the Board feels that the System should not shrink from bearing its share of responsibility for restraint on further inflationary developments in the credit field.

Is the special-reserve plan strong enough to accomplish its expressed purposes?

We have been at pains to draw a plan that would be moderate and equitable and at the same time capable, when applied in conjunction with other monetary and fiscal policies, of accomplishing the purpose of restraining further inflationary expansion of bank credit. This is the sole objective of the plan. We think the authority would prove adequate for the purpose in view.

It would immobilize, at the maximum, less than one-half of the wartime growth in bank holdings of Government securities which in turn equals about one-half of the deposits of individuals and businesses at commercial banks. Since the immobilization of this volume of Government securities would greatly reduce the banks' available secondary reserves, which they now feel free to draw upon, the plan would certainly make many banks more cautious about seeking or making new loans. It would end aggressive solicitation of new loan business in which a great many banks are actively engaged.

Another source of pressure on the banks that would result from the plan is that most of the banks would have to sell higher-rate issues from their holdings of Government securities in order to expand loans and maintain reserve positions. This would be more effective, from the standpoint of restraining banks, than would a rise in the discount rate.

It would have this effect without causing a rise in interest rates on short-term Government securities. Thus, the proposed measure would be another step in a program of keeping the banks under constant pressure to restrain further credit expansion. It would not force liquidation or reduction in total bank credit outstanding. It would discourage expansion.

Can the plan be effective without permitting or encouraging a rise in interest rates?

Some bankers and others seem to believe that the only effective mechanism for the restraint of inflationary bank credit is a rise in the general level of interest rates. We doubt whether a reasonable rise in short-term interest rates under present conditions of business profitability would deter borrowers. We do not believe it would deter lenders. Our plan places the restraint primarily on the lender.

However, to the extent that the interest rate mechanism can have some effect, the Board's plan would not interfere with it. Any increased cost resulting from the plan would be borne by private borrowers who are increasing their indebtedness, and not by the Government which is reducing its indebtedness. This is the only reasonable solution to the interest rate problem.

A general rise in interest rates high enough to halt the current inflationary expansion of bank credit would not only entail large added costs to the Government but would have a disastrous effect upon the Government bond market.

(The charts referred to are as follows:)

Assets and liabilities of all commercial banks in United States, June 1947 to October 1947

[Amounts in millions of dollars]

Item	June 30, 1947	July 30, 1947 [1]	Aug. 27, 1947 [1]	Sept. 24, 1947 [1]	Oct. 29, 1947 [1]
ASSETS					
Loans and investments	112,756	113,370	113,970	115,280	116,440
Loans and discounts	33,679	34,010	34,880	35,560	36,940
U. S. Government obligations	70,539	70,650	70,330	70,800	70,540
Other securities	8,538	8,710	8,760	8,920	8,960
Reserves, cash, and bank balances	32,704	31,950	32,210	33,190	33,820
Reserve with Federal Reserve Bank	16,039	16,280	16,440	16,760	16,790
Cash in vault	1,847	1,990	2,040	2,100	2,150
Balances with banks in United States	8,947	8,790	8,930	9,270	9,380
Balances with banks in foreign countries	41	40	40	30	30
Cash items in process of collection	5,830	4,850	4,760	5,030	5,470
Other assets	1,514	1,610	1,670	1,560	1,690
Total assets	146,975	146,930	147,850	150,030	151,950
LIABILITIES AND CAPITAL					
Gross demand deposits	100,772	100,480	101,310	103,180	104,770
Deposits of banks	11,349	11,260	11,480	12,120	12,100
Other demand deposits	89,423	89,220	89,830	91,060	92,670
Time deposits	35,135	35,170	35,240	35,400	35,530
Total deposits	135,907	135,650	136,550	138,580	140,300
Borrowings	64	250	230	290	440
Other liabilities	1,125	1,170	1,170	1,220	1,200
Total capital accounts	9,879	9,860	9,900	9,940	10,010
Total liabilities and capital accounts	146,975	146,930	147,850	150,030	151,950
Demand deposits adjusted	82,276	83,260	83,450	84,260	85,530

[1] Partly estimated. Figures have been rounded to nearest 10 million.

Source: Board of Governors of the Federal Reserve System, Division of Bank Operations, Dec. 3, 1947

Assets and liabilities of all banks in the United States, Oct. 29, 1947

[Partly estimated. In millions of dollars]

Item	All banks [1]	All commercial banks [1]	Member banks: Total	Central reserve city banks: New York	Central reserve city banks: Chicago	Reserve city banks	Country banks
ASSETS							
Loans and investments	135,160	116,440	97,983	20,434	5,034	36,205	36,310
Loans and discounts	41,780	36,940	31,530	7,054	1,756	12,909	9,811
U. S. Government obligations	82,750	70,540	59,171	12,163	2,896	20,853	23,259
Other securities	10,630	8,960	7,282	1,217	382	2,443	3,240
Reserves, cash, and bank balances	34,490	33,820	29,596	6,101	1,610	11,656	10,229
Reserve with Federal Reserve bank	16,790	16,790	16,791	4,347	1,054	6,602	4,788
Cash in vault	2,220	2,150	1,635	143	26	548	918
Balances with banks in United States	9,970	9,380	5,794	58	144	1,836	3,756
Balances with banks in foreign countries	30	30	26	12	2	9	3
Cash items in process of collection	5,480	5,470	5,350	1,541	384	2,661	764
Other assets	1,930	1,690	1,443	325	41	580	497
Total assets	171,580	151,950	129,022	26,860	6,685	48,441	47,036

See footnotes at end of table, p. 616.

Assets and liabilities of all banks in the United States, Oct. 29, 1947—Con.

Item	All banks [1]	All commercial banks [1]	Member banks: Total	Member banks: Central reserve city banks: New York	Member banks: Central reserve city banks: Chicago	Member banks: Reserve city banks	Member banks: Country banks
LIABILITIES AND CAPITAL							
Gross demand deposits	104,780	104,770	90,737	22,486	5,279	33,701	29,271
Deposits of banks	12,100	12,100	11,824	4,175	1,150	5,455	1,044
Other demand deposits	92,680	92,670	78,913	18,311	4,129	28,246	28,227
Time deposits	53,190	35,530	28,385	1,478	885	11,370	14,652
Total deposits	157,970	140,300	119,122	23,964	6,164	45,071	43,923
Borrowings	440	440	417	171	60	136	50
Other liabilities	1,290	1,200	1,061	478	40	383	160
Total capital accounts	11,880	10,010	8,422	2,247	421	2,851	2,903
Total liabilities and capital accounts	171,580	151,950	129,022	26,860	6,685	48,441	47,036
Demand deposits adjusted	85,530	85,530	72,121	16,404	3,663	25,084	26,970

[1] Figures have been rounded to nearest 10 million.

Board of Governors of the Federal Reserve System. (For immediate release.) Dec. 1947.

Changes in assets and liabilities of all banks in the United States, June 30, 1947, to Oct. 29, 1947

[Partly estimated. In millions of dollars]

Item	All banks [1]	All commercial banks [1]	Member banks: Total	Member banks: Central reserve city banks: New York	Member banks: Central reserve city banks: Chicago	Member banks: Reserve city banks	Member banks: Country banks
ASSETS							
Loans and investments	+4,060	+3,680	+3,182	+102	+232	+1,594	+1,254
Loans and discounts	+3,410	+3,260	+2,875	+506	+192	+1,468	+709
U. S. Government obligations	+70	--------	−27	−408	+6	+8	+367
Other securities	+580	+420	+334	+4	+34	+118	+178
Reserves, cash, and bank balances	+950	+1,120	+902	−142	+89	+415	+540
Reserve with Federal Reserve Bank	+750	+750	+751	+181	+81	+328	+161
Cash in vault	+290	+310	+226	+20	−10	+78	+138
Balances with banks in United States	+290	+430	+273	+8	−18	−28	+311
Balances with banks in foreign countries	−10	−10	−8	−8	+1	−1	--------
Cash items in process of collection	−370	−360	−340	−343	+35	+38	−70
Other assets	+230	+170	+142	+10	+5	+64	+63
Total assets	+5,240	+4,970	+4,226	−30	+326	+2,073	+1,857
LIABILITIES AND CAPITAL							
Gross demand deposits	+3,990	+4,000	+3,376	−197	+242	+1,718	+1,613
Deposits of banks	+750	+750	+842	+49	+70	+572	+151
Other demand deposits	+3,240	+3,250	+2,534	−246	+172	+1,146	+1,462
Time deposits	+630	+390	+311	+19	+14	+101	+177
Total deposits	+4,620	+4,390	+3,687	−178	+256	+1,819	+1,790
Borrowings	+380	+380	+367	+170	+60	+125	+12
Other liabilities	+80	+70	+65	−35	+5	+74	+21
Total capital accounts	+160	+130	+107	+13	+5	+55	+34
Total liabilities and capital accounts	+5,240	+4,970	+4,226	−30	+326	+2,073	+1,857
Demand deposits adjusted	+3,250	+3,250	+2,526	−90	+236	+918	+1,462

[1] Figures have been rounded to nearest 10 million.

The CHAIRMAN. Mr. Eccles, I asked Mr. Brown yesterday whether there was the same opposition on his part to simply giving the Board the power to raise the reserve rate perhaps 10 percent. He said they ought not be so far apart.

Supposing you started with 10 at the bottom and raised the other a little less so that you came out with 20, 25, or 30 or something of that kind. How much effect do you think the use of that power would have?

Mr. ECCLES. It would have some, but I think you would find, if we proposed authority merely to increase reserve requirements, that immediately the opposition to the proposal I have here would be shifted, and they would be more willing to accept this proposal.

The CHAIRMAN. What you mean is, if you were going to raise it to 20, 25, or 30, the banks themselves might come in and say, "Let us put a proportion of that into short-term Governments."

Mr. ECCLES. There is not any question about it, because if you increase reserve requirements the banks immediately lose that much of an earning asset.

Our proposal is less onerous than any proposal we could suggest.

The CHAIRMAN. A certain part of the opposition seems to be that it would enable greater manipulation of the Government bond market. I got that impression.

Mr. ECCLES. By whom? Today you have 14,000 banks that have been manipulating the Government bonds' market.

The CHAIRMAN. The fact is you have guaranteed a market for a certain amount of Government bonds.

Mr. ECCLES. We have had that for some time.

The CHAIRMAN. As you yourself suggested, it enables you to maintain the rate at a different rate from what it would be if the thing were wide open.

Mr. ECCLES. That is right, but the question of manipulating markets; the people that have been manipulating the market, or, at least, have taken advantage of bond profits have been the banks.

Over the period of the last 5 or 6 years, if you look at the bank statements, the consolidated statements of the banks, you will see how much they have taken advantage of the speculative opportunity of making money in Government securities. They have made hundreds of millions of dollars by their manipulation of the market.

The CHAIRMAN. I would not say by their "manipulation" of the market. If the market goes up, they sell them and that tends to bring them down again.

Mr. ECCLES. I am not censoring them at all. All I do not want them to do is to censor us in saying this gives us a chance to manipulate the market.

What this does, it merely enables the Board to have a little better control over their available supply of Federal Reserve credit.

Today we have no control.

As long as we support the market, the short market and long market as we are doing, the banks just have access to Federal Reserve credit, and this would give us some restriction on that.

We would have to continue to support the market just as we are doing. The banks could buy and sell Governments in the market, taking such advantage of prices in the future as they have been able to do in the past, but I feel sure there would be a far greater stability in the market, and there would be less opportunity to do that.

I feel that the banks, if the authority existed, even without putting it into effect, that the banks coming into possession of reserves from gold imports or coming into possession of reserves that they may get as a result of us supporting the long-term market by purchasing securities held by insurance companies and nonbank investors, would take those funds and would buy the short-term securities instead of being under pressure to make loans with those reserves they get from those two sources.

The banks likewise would be likely to shift from their intermediate and longer bonds and get more of the securities that would be eligible to the special reserve requirement.

That would not necessarily upset the market at all, because the Federal Reserve would merely transfer the short-term securities that they have to the banks and the banks would transfer their intermediate or longer securities to the Federal Reserve. That is really what would happen where the banks do not have sufficient amount of excess cash or securities to meet the reserve requirement.

The banks have got themselves to blame to the extent that they have played what we term the pattern of rates by selling short-term securities, getting reserves which enabled them to go out and buy six times that many of the long-term securities.

That is what has been happening, and that is why they drove the rate on bank eligible securities down and the prices of the securities up.

Where the real opposition comes today, and particularly from New York and Chicago banks, is that those banks do not have anywhere near enough short-term securities. They have plenty of long, and they would have to reverse the process. I claim that the banking system should have at least half their Government securities in short-term securities, and if they do not have them they should undertake to get them.

The CHAIRMAN. Why should they have them? I do not quite see that. They are all marketable and the Government is maintaining the price of long-term Governments. Why should not banks invest in them?

Mr. ECCLES. Except you maintain the 2½.

The CHAIRMAN. They are marketable on your own theory. You have a policy which says they are absolutely marketable and liquid. Why should not they take the return?

Mr. ECCLES. Because there is a wide fluctuation in the intermediate securities. In other words, the 2-percent bond, for instance, eligible to the banks went down to about 1½ percent yield. It is back up to 1¾ percent yield and many of the banks that bought the securities to take high coupon shifted from the short securities and now find that the market has gone off two or three points, and we do not peg the market on intermediates.

We are not guaranteeing them that when they bid these prices up on those bank-eligible securities.

The CHAIRMAN. You are guaranteeing they are not going below par, are you not?

Mr. ECCLES. What we have done in the 2½-percent bonds and short-term certificates, we have protected the market at par. As a matter of fact, the ⅞-percent certificates, when we raised new certificate rates to 1 percent, were below par. When the 1⅛ certificates were issued the 1-percent certificates went below par.

But we felt it absolutely necessary to support the 2½ long-term Governments rates.

In-between rates have fluctuated much more widely. The banks have very large premium accounts in those intermediate securities, and I know of instances where they had a big book profit but their bonds have gone off very substantially in the last 2 or 3 weeks. However, I think most banks possibly still have some book profit. Where they had very large book profits and did not sell, their profits have to a considerable extent disappeared.

The CHAIRMAN. Mr. Eccles, going back to the statement of your conference with Secretary Snyder, that has been put in the record?

Mr. ECCLES. Yes; I put that in before you came.

The CHAIRMAN. Do I understand from this, you feel in the immediate future, the next month or two, the Government surplus applied to the running off of bonds, the payments of bonds, will more or less meet the need for drastic deflationary action to be taken for the next several months?

Mr. ECCLES. I stated that in my testimony on the 25th when I appeared before the committee.

The CHAIRMAN. How much is that?

How much is the bond debt likely to be reduced between now and the 1st of March?

Mr. ECCLES. We estimate it will be not less than about $7,000,000,000; that there will be pulled out from the market in taxes commencing now with December 15, and running over to the middle of March, that the surplus for the year will pretty largely come right in that quarter. Those funds, of course, will come out of the banks, and the banks in order to meet that withdrawal of funds will have to sell securities.

We estimate the banks will have to sell at least $7,000,000,000.

The CHAIRMAN. You think that will be a deflationary influence on the increased bank loans?

Mr. ECCLES. Yes. I think it will be a factor. Certainly the banks will not feel as easily as they would if they were losing no deposits and no Governments. Their deposits will be going off in tax payments, and they will have to sell Governments to meet the reserve requirements.

I know the psychological effect of such developments on the banks. I do not mean they do not make loans, but they will not be out beating the bushes to get them as they have been.

The whole attitude, as deposits go off and they lose Governments, which serve as secondary reserves, has a desirable effect.

The CHAIRMAN. You think it is reasonable for us to take the position that this is a temporary taking care of the matter. I think this thing is so complicated I do not want to try to get anything through before Christmas. It seems to me we are entitled to take the month of January to go into it further and make up our minds what the more permanent solution ought to be.

Do you think that is a reasonable position?

Mr. ECCLES. I think that is a reasonable position and a position I certainly expected the Congress to take when the statement was presented before this committee in the first instance.

I recognize it is a complex situation, and that there would be, of course, very violent opposition to it, but I did feel in proposing it that it would bring out the fact that Reserve System did not have the great powers that so many people said we had and we are not using; that the powers we had were powers that could only be used by practically ignoring our responsibility for maintaining an orderly market in supporting the Government structure.

The CHAIRMAN. I do not quite agree. I think there ought to be some point where that could be pushed a little further and you could see when the danger point was coming.

I do not quite agree it is all black and all white. If you use the powers beyond the proper point in government, that there is going to be a calamity.

Mr. ECCLES. We feel in the System, although Mr. Sproul and I do not agree on this reserve picture, we do agree very fully, and I think Mr. Brown agrees on this——

The CHAIRMAN. Mr. Brown agrees; yes.

Mr. ECCLES. The one thing you cannot do is to have confidence shaken in that 2½ percent rate. If you let that go below par, there is always a question, where does it go? Because people remember, a great many of them, what happened after the last war when they let those securities go below par.

I happen to have a statement of what really happened in that regard, and it is an amazing thing where, for instance, the 4¼ percent fully tax exempt securities, which were callable in 1933 and due in 1938, and which in 1920 had only 13 years to run before being called, went to in 1920. Those bonds went down to 82½ bid, to yield 5.78 percent to maturity. That yield was for maturity and not for the call date. The issue was a totally tax-free security.

That is what happened in 1920 when there was only $26,000,000,000 of total public debt. Now the public debt is two hundred and fifty-some-odd billion, or 60 percent of the total of public and private debt, whereas then the Government debt equaled only a fraction of the total debt.

The CHAIRMAN. My question is one of great degree. Do you have to keep 2½ percent money indefinitely, forever. Can you say that we are going to prevent inflation and yet pursue an easy money policy and absolutely maintain the 2½ percent rate?

In order to do that, you are trying to get all sorts of other controls in lieu of that.

Mr. ECCLES. Not all kinds, merely a simple reserve requirement here. It is not anything. The bankers have made it appear what it is not. They want to make it appear complex.

Senator O'MAHONEY. It is a question of whether we are going to manage the debt or let the debt manage us.

Mr. ECCLES. That is correct, and we have done a great deal of thinking of this management of the public debt, and I can assure you that job of managing $258,000,000,000 of public debt is a very difficult one. It is not simple, and it is not easy, and we start out from the premise that the public credit and the interest of the public in savings bonds must be maintained; that we must try to get the people to draw money off and get it into savings, and we want them to hold the savings bonds that they have.

Now it is true that if the inflationary situation continues, prices continue to go up, that that in itself would cause the sale of more market bonds held by nonbank investors in order to buy other securities with greater yields.

I mean that is the difficulty, and that, of course, would create reserves, and that is why this proposal would help to offset some of those reserves that were created.

Now, to the extent that the inflational spiral is broken here, the demand for investment funds would, of course, be diminished, because as prices go down money would go further.

The same amount of mortgage money with a decent construction situation would have built many more houses than is the case today.

If the price structure is stabilized or is brought down, that in itself helps to break the pressure of the long-term Government market, and that in itself would tend to increase savings.

People, with the high cost of living, find it difficult to save, and they are having to cash in some of their savings so that the inflation itself actually tends to defeat a savings program, and it tends to create such a demand for long-term capital at higher rates than 2½ that there may be some pressure on the sale of 2½'s. If, with that sale of 2½-percent bonds reserves that are created by our support of the market were covered by an increase in reserve requirements, it would help.

It is really not a special reserve, just an increase in reserve requirements. An inflow of gold might be offset by an increase in reserve requirements in the same way. Then, if the surplus from the public debt is actually used as an anti-inflationary measure in forcing banks to sell some of the securities they hold, the increased reserve requirement authority would give us an effective means of controlling changes in the over-all credit situation. But, as it is today, gold imports, and the purchase of bank-held or nonbank securities gives reserves to the banks, so that the effects of current budget surplus are being nullified.

For instance, if you have a budgetary surplus of $2,000,000,000 and $2,000,000,000 of gold in, then if the $2,000,000,000 of budgetary surplus is used to sterilize the gold, it is not available for anti-inflationary measures to bank-held debt.

If the Federal has to buy $2,000,000,000 of nonbank securities from insurance companies and others in the process of maintaining the market, that puts $2,000,000,000 of excess reserves into the banking system, and therefore another $2,000,000,000 of the budgetary surplus is necessary to sterilize that. If we could increase reserve requirements that would automatically sterilize the effect of the gold imports, and it likewise would sterilize the effective support of long-term 2½-percent market.

The CHAIRMAN. Let me ask something about the import of gold. That gold all gets to the Federal Reserve bank, does it not?

Mr. ECCLES. Yes. The process is the Treasury buys it and pays for it, and that money goes into the banks and becomes deposits in excess reserves.

The CHAIRMAN. One moment.

We will say the Russians ship gold in here; what do they actually do with it?

Mr. ECCLES. It is turned over to the Treasury.

The CHAIRMAN. They sell it to the Treasury?

Mr. ECCLES. That is right.

The CHAIRMAN. And the Treasury gives them dollars for it?

Mr. ECCLES. And then the Treasury turns around and gets money from the Federal Reserve and gives us a gold certificate. The gold is then sent to Kentucky.

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The CHAIRMAN. In effect, it is turned over to the Federal Reserve bank and you get notes for it or deposits?

Mr. ECCLES. What happens is the Treasury gets dollars to reimburse themselves for the dollars they pay to whoever buys the gold. They get a credit.

The CHAIRMAN. So the net result is the reserve gets a certificate crediting the gold, and against that they have again issued additional amount of notes equal to that gold. Is that correct?

Mr. ECCLES. Well, when the Treasury pays, we will say the Russians, or English, or whoever ships the gold, and actually pays for the gold, those dollars become deposits in American banks and are spent.

The CHAIRMAN. They become first deposits in the Federal Reserve?

Mr. ECCLES. If a central bank, the Bank of England for instance, yes.

The CHAIRMAN. I mean the Treasury gets the deposit, Mr. Eccles?

Mr. ECCLES. They are reimbursed periodically. Gold transactions are going on all the time and when the Treasury accumulates an amount and they want to be refunded they just issue certificates. They may have 50 million; they may have 500 million; and they can just reimburse their account by issuing certificates to the Federal Reserve and getting dollars whenever they want to.

In the meantime what has happened is the dollars they have paid for the gold have gone into our banking system and have become deposits and excess reserves in the hands of the banks.

The CHAIRMAN. And as far as creating purchasing power is concerned, it is just the same as if a bank made a new loan and created the deposit?

Mr. ECCLES. A lot worse than that. When they make a loan they reduce their ratio of reserves to deposits. When the gold comes in, it creates purchasing power, and the amount of reserves are increased by the amount of the deposit. That is the difference. That is the difficulty. The same thing is true when the Reserve System purchases bank or non-bank-held Government securities.

The CHAIRMAN. What do you estimate the gold imports of 1948? Have you any estimate at all?

Mr. ECCLES. Yes, we have. Of course, it is pretty difficult to say, but we think it will not be less than a billion and a half. We think that is a conservative estimate, and we think more likely it will be around two billion. That in itself is the basis of a lot of credit.

The CHAIRMAN. Thank you.

Any questions?

Senator ECTON. Mr. Chairman, this may be beside the point. If Mr. Eccles would care to comment on it, I would be glad to have him.

We refer to this period as "inflationary." You refer to it as that, I do, and everybody does. And in comparison with the 1939 period, of course, it is inflationary.

But is it not necessary that we move into a relatively higher price range?

Mr. ECCLES. We have so moved.

Senator ECTON. All down the line in order to take care of this 258 billion in national debt?

Mr. ECCLES. We have moved into a higher price range, and I do not think we are ever going to get back to a prewar price range.

It has been suggested that if we could stabilize the cost of living at something like 50 percent above the 1935–39 averages that that should be a good and a satisfactory job.

Nobody is trying to get back to the 1935–39 averages, figuring that at 100, but we would like to get back to around 50 percent above that, and at the present time we have exceeded the 50 percent and it is continuing to go up.

I do not think anybody expects that the prices are going back to prewar. That is impossible. The credit structure of the country could not be sustained, your employment could not be sustained on any prewar volume.

Mr. Chairman, I have a statement here that I would like to put in the record. It is the proposal for a special reserve requirement against demand deposits, and that explains it very completely.

It says, "the need for the special reserve requirement" and explains it, "a need for Federal Reserve supported Government securities market."

All of these questions that have been asked have been covered there.

This chart of loans and investments is here.

Then, limited effectiveness of the increase in the rates of Government securities; purpose of special reserve; the features of the special reserve plan.

It covers the whole thing.

Then we come over to the operations of the proposal, reduced availability of secondary reserve assets, lower multiple expansion ratio, influence of existence of power to impose requirements, reenforcement of other instruments of credit restrictions, and then bank lending for the essential needs not prevented.

Then we come to the advantages of the proposal.

I do not think there is a question that the committee could ask of me or others that that does not answer.

The Chairman. All right.

(The document referred to is as follows:)

Proposal for a Special Reserve Requirement Against the Demand and Time Deposits of Banks

(Board of Governors of the Federal Reserve System, Washington, D. C., December 5, 1947)

In order to provide a more effective means of restraining inflationary expansion of bank credit, the Board of Governors of the Federal Reserve System proposes that Congress pass legislation granting the System's Federal Open Market Committee temporary authority to impose gradually as conditions may warrant a requirement that all commercial banks hold a special reserve. This reserve should be in addition to reserve required under existing laws. It should be calculated, within limits fixed by law, as a percentage of demand and time deposits and should consist of Treasury bills, certificates, or notes, balances with Federal Reserve banks, cash or cash items, or interbank balances.

NEED FOR THE SPECIAL RESERVE REQUIREMENT

This special requirement would make it possible for the Federal Reserve System to immobilize a portion of these assets. This immobilization, however, would be only for the purpose of preventing their use for the purpose of obtaining additional reserves to support expansion of credit to private borrowers. Moreover, as gold acquisitions create bank reserves, they could be offset by an equivalent increase in the special requirement. The additional requirements would also reduce the possible multiple expansion of bank credit on the basis of any increase in reserves.

At present high levels of employment and output, further expansion of the total volume of bank credit is inflationary because it would increase the active demand for goods and services, which is already in excess of the productive capacity of this country's existing industrial structure and labor force.

So long as the public debt is as dominant a part of the country's financial structure as it is at present the Federal Reserve System has a responsibility for maintaining orderly conditions in the United States Government security market. In practice this means that the System stands ready to purchase Government securities offered for sale if they are not taken by other purchasers. Whenever the Federal Reserve buys Government securities, additional bank reserves are created and these in turn supply the basis for an expansion of bank credit of more than six times the amount of the reserves.

Ability of banks to increase reserves.—Commercial banks currently hold about $70,000,000,000 of Government securities. As is shown in the chart, this sum exceeds their prewar holdings by more than $50,000,000,000 and is about three-fifths of total loans and investments. In addition to this great expansion in holdings of Government securities, commercial banks also have increased their loans and holdings of other securities. Transfer of any part of these Government securities to the Federal Reserve banks creates reserves on which a sixfold expansion of credit can be built. The potential inflationary expansion of the money supply is thus enormous. Reserves arising from gold acquisitions or Federal Reserve purchases of securities from nonbank investors may add still more to this potential.

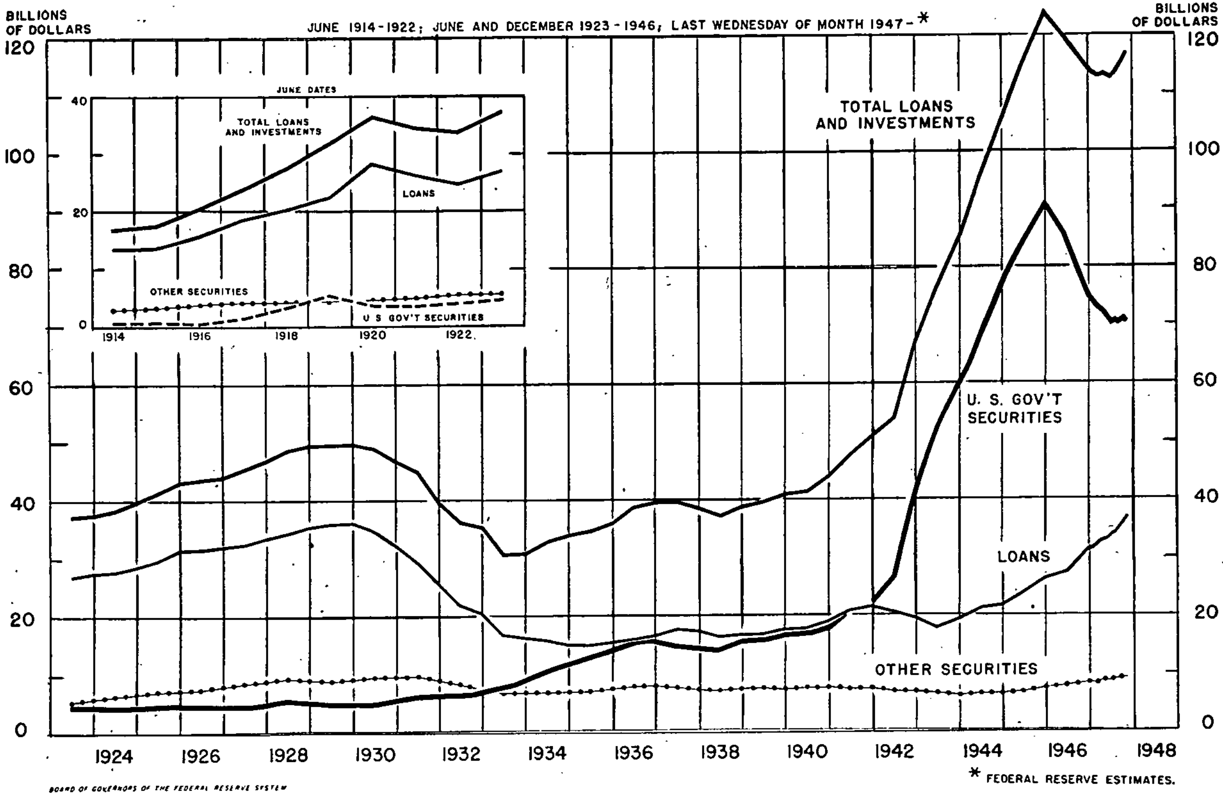
The opportunity which the banks now have to create new reserves on their own initiative by selling Government securities to the Federal Reserve System is not a long-established right, but is one of the heritages of war finance. In wartime the Federal Reserve System was under obligation to provide banks with sufficient funds to purchase Government securities in excess of those sold to nonbank investors. After the war, the necessity of providing a stable and orderly market for the vast public debt outstanding has in effect made the Federal Reserve System the ultimate or residual market for Government securities. So long as this situation continues and the banks are free to use their Government securities to obtain reserves at will there is no effective restraint on bank credit expansion.

Prior to the war, the ability of banks to expand credit was limited by the existing supply of bank reserves, which was largely subject to Federal Reserve control. Except during the period of large gold inflow which brought an excessive volume of reserves, the available supply of bank reserves was determined principally by the volume of member bank borrowing from the Reserve banks or by Federal Reserve purchases and sales of bills and securities in the open market. These open market operations were definitely regulated in amount so as to provide the supply of reserves required by the economy. Variations in prices and yields on Government securities were an incidental result of these policies.

Need for Federal Reserve support of Government securities market.—Under present conditions large-scale and continuous Federal Reserve open market operations are essential to the maintenance of an orderly and relatively stable market for Government securities and are a necessary adjunct of the Treasury's program for managing the economy's huge public debt of $260,000,000,000. The System often purchases and sells securities amounting to hundreds of millions of dollars in a week. On October and November, System purchases totaled 3.2 billion dollars, sales 1.2 billion, redemptions of maturing issues 2.1 billion, and exchanges of maturing for new issues 8.2 billion. Large-scale Federal Reserve transactions are at times essential for the maintenance of a market for Government securities. In view of the System's greatly enlarged responsibilities for the Government securities market and in view of the volume of such securities now held by banks, the System no longer has adequate power to influence the potential volume of bank credit in the way it could before the war.

It is illuminating to know the extent to which public debt has become a dominant factor in the country's financial structure. The United States Government debt, which was never more than a third of private and other debt before 1941, is now one and a half times the remaining debt. That part of the public debt which is marketable amounts to $167,000,000,000, compared with 69,000,000,000 of stocks and 15,000,000,000 of non-Government bonds listed on the New York Stock Exchange and an estimated 13,000,000,000 of marketable securities listed on other stock exchanges throughout the country.

LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS



Today, Government securities are widely held as liquid investments which can be readily sold and, therefore, transactions in them are likely to be frequent. This liquidity rests in considerable part on having the Federal Reserve System provide a residual, assured market for purchase and sale of Government securities.

In these circumstances, it would be entirely inadequate for the Federal Reserve System merely to revert to the prewar practice of purchasing and selling only definite amounts of securities, determined solely on the basis of the economy's need for bank credit or for the purpose of offsetting the effects of gold or currency movements on bank credit. The System needs to take into account, in addition to other factors, conditions affecting the Government security market. Traditional actions through discount-rate policy are largely irrelevant, because the banks have little or no occasion to borrow funds to maintain reserve positions so long as they can sell Government securities for this purpose.

Since the Reserve System has to engage in constant buying and selling of United States Government securities on a large scale, the prices or rates at which these transactions are effected are necessarily determined by the System. In fact, under present conditions, the structure and level of interest rates on Government securities which the System helps to maintain in the market have become the principal expression of Federal Reserve policy instead of the volume of purchases and sales.

Limited effectiveness of increase in rates on Government securities.—Control of interest rates on Government securities, however, is not an effective instrument for achieving monetary objectives. A moderate rise in yields on Government securities will not prevent, and will only slightly restrain, banks from selling securities in order to make loans. An increase in rates large enough to exercise real restraint on banks would generally be too great or too abrupt to be consistent with the maintenance of stable conditions in the market. Even an intimation that such a policy might be followed may lead to a flood of selling. The System might find itself under the necessity to support the market and in the process might create more reserves than it would have created through meeting the demands of banks in an orderly market. This is the postwar monetary paradox.

Purpose of special reserve.—The special reserve proposal is designed to place some restriction on the newly-acquired privilege of banks to obtain at will more reserves on which to make more and more loans. It is not, as has been asserted by some of its critics, a revolutionary device to compel banks to hold Government securities. The proposal contains no such compulsion. If any bank chooses to hold the special reserve in cash or on deposit with another bank or with a Reserve bank it would be free to do so. At the same time the proposed measure would not require banks to reduce their holdings of Government securities.

The proposal would give the Federal Reserve System no new power to interfere with bankers in running their own banks but it would restore to the System some of its previously held authority to exercise regulatory power over the available supply of bank reserves. There is nothing new or revolutionary in that.

Under the proposed authority it would be possible to insulate a part of the Government securities market from private credit and permit the Federal Reserve System to use open market operations and discount rates more freely to affect conditions in the private credit market. Thus, the authority would make it possible to limit the volume and raise the cost of private credit without necessarily increasing the interest cost to the Government on an important part of the large public debt outstanding.

FEATURES OF THE SPECIAL RESERVE PLAN

Special features of the proposed temporary authority may be briefly summarized as follows:

(1) Banks subject to the provisions would be required, in addition to their regular reserves, to hold a special reserve consisting of—

(*a*) Obligations of the United States in the form of Treasury bills, certificates and notes (with original maturities of 2 years or less); or

(*b*) Cash items, as defined in the next paragraph, to the extent that their total exceeds 20 percent of gross demand deposits plus 6 percent of time deposits.

(2) For this purpose cash items would include the following:

(*a*) Balances with Reserve banks, including statutory required reserves.

(*b*) Coin and currency.

(*c*) Cash items in process of collection.

(*d*) Balances due from in excess of balances due to banks in United States.

(3) The special reserve requirement would apply to both demand and time deposits and would be subject to a maximum limit fixed by statute. A maximum

of 25 percent of gross demand deposits and a maximum of 10 percent of time deposits will probably be adequate for the temporary period covered by the proposed statute.

(4) The requirement would apply to all banks receiving demand deposits, including member banks of the Federal Reserve System and nonmember banks—insured and noninsured. It would not apply, however, to banks that do exclusively a savings business.

(5) The power to impose and to vary the special reserve requirement would be vested in the Federal Open Market Committee and would be limited by law to a temporary period of 3 years.

(6) The requirement would be introduced gradually as credit conditions warrant. The authorizing statute could provide that, after a special reserve has been established of 10 percent against gross demand deposits and 4 percent against time deposits, further changes would not exceed 5 percent of gross demand deposits and 2 percent of time deposits at one time. Ample notice should be given before the effective date of the initial application of the requirement, or of subsequent changes, to allow banks adequate time to make adjustments.

(7) The following considerations should determine the timing of the introduction of, or changes in, the special reserve requirement:

(*a*) The volume and ownership of special reserve assets and of other assets readily convertible into eligible assets;

(*b*) Past and prospective gold movements, currency fluctuations, or other factors causing changes in the volume of bank reserves;

(*c*) Conditions in the Government securities market; and

(*d*) The general credit situation.

(8) Special reserves and requirements would be computed on a daily average basis for monthly periods, or for other periods by classes of banks as the Open Market Committee might prescribe. The penalty against average deficiencies in the requirement would be one-half percent per month, payable to the United States.

(9) The Federal Open Market Committee would be authorized to issue regulations governing the administration of the requirement, to require necessary reports, and to delegate administration with respect to nonmember banks to other appropriate Federal or State banking agencies.

OPERATION OF THE PROPOSAL

Establishment of the special reserve requirement would accomplish two principal purposes: (1) It would reduce the amount of Government securities that banks would be willing to sell to obtain additional reserves; and (2) it would decrease the ratio of multiple-credit expansion on the basis of a given amount of reserves. These results could be accomplished without reducing the volume of earning assets of banks.

Reduced availability of secondary reserve assets.—The special reserve requirement would not deprive banks of any earning assets but would reduce the available amount of highly liquid and readily salable assets which banks hold as secondary reserves to meet losses of deposits and new credit demands. Because of the reduction in these operating secondary reserves, banks would be less willing to sell Government securities held in excess of the requirement in order to acquire higher-yielding loan or investment assets. Thus, an effect of the special reserve requirement would be to reduce the creation of new reserves and expansion of bank credit through sale of Government securities to the Federal Reserve.

Lower multiple-expansion ratio.—Reduction in the ratio of multiple credit expansion on the basis of any addition to the supply of reserves would be an important effect of the special reserve requirement. How great a reduction from the present ratio of 6 or more to 1 would result from the proposal will depend on the percentage requirement established. It would also depend on the banks' holdings of assets eligible for the special reserve and their ability to acquire them from sources other than the Federal Reserve. It is not feasible to estimate the extent of the reduction in the ratio—but under present conditions—with the easiest source of the needed reserve material being the Federal Reserve banks—the ratio, at the maximum required rate of special reserve, may conceivably decline from the present figure of 6 to as low as 2½.

Influence of existence of power to impose requirement.—The existence of power to impose a special reserve requirement would itself exert a strong restraining influence on bank-credit expansion. Banks would need to guide their policies with an eye to the possible imposition of the requirement. The extent of use of the special reserve requirement would necessarily depend on developments in the general credit situation.

Reinforcement of other instruments of credit regulation.—Other instruments of Federal Reserve policy could be so used as to facilitate adjustment to the new requirement and subsequently would be employed to apply such additional restrictions or such easing as the general credit situation might require. From the monetary point of view the principal purpose of the proposed new requirement is to make possible the more effective use of the existing instruments in offsetting changes in bank reserves—particularly open-market operations and discount rates—without seriously upsetting the Government securities market and unduly raising the interest cost on the public debt.

The Federal Open Market Committee, which would have authority to apply and vary the requirement, is composed of all seven members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks. The Committee's present authority covers the System's Government security and other open-market operations. The use of the proposed special reserve requirement would be closely related to these operations.

Bank lending for essential needs not prevented.—Restraints on further bank-credit expansion by the proposed requirement, supplemented as the situation may warrant by other credit control measures, would not prevent the accommodation by banks of the economy's essential credit needs. The additional reserve requirement, however, would put the banks under pressure to attempt to meet essential credit demands out of existing loanable funds. To expand loans, banks would need to sell securities of types that might be bought by other investors, rather than short-term Government securities which under present conditions are purchased principally by the Reserve banks.

ADVANTAGES OF THE PROPOSAL

Rise in interest rates largely limited to private credit.—The proposed measure has many important advantages over alternative means of curbing credit expansion. It is frequently suggested that restraint on further bank credit expansion could be accomplished by allowing short-term interest rates, both on public and on private credit, to rise substantially, thus increasing the cost of borrowing and thereby seeking to deter borrowing. It is doubtful that such a policy would effectively deter borrowing, and, in any event, it would greatly increase the cost to the Government of carrying the public debt and might have disruptive effects on the Government securities market. Under the proposed authority, interest on private credit could be raised without increasing rates on Government securities. In other words, the higher rates would be paid by those who are currently engaged in inflationary borrowing and who might be deterred by them. These rates would not be paid by the Government, which is reducing its indebtedness.

Restraint on lender.—Restriction of inflationary expansion of total bank credit to private borrowers can be more effective if the restraint is placed primarily on the lender. Under present conditions, even such a substantial rise in short-term interest rates as one or two percentage points would not deter many borrowers, and might encourage further lending because of the additional profit inducement to the lender. Under the proposed measure, the restraint is placed primarily upon the lender, that is, the banking system. By limiting the ability of the banks to make credit available, the proposal would thus be a retarding influence on further bank credit expansion. As already stated, banks would not only charge more for loans they make to private borrowers but would be more cautious in extending such loans. The latter may be a more important restraint than the former. Higher rates are not an effective deterrent in boom conditions but difficulty in obtaining credit is a powerful restraining influence.

Preferable to increase in regular reserve requirements.—It has been suggested that the same result might be achieved by an increase in existing basic reserve requirements of banks. If this were done, however, banks would have to meet the increase by selling Government securities which the Federal Reserve System would have to buy in order to supply the needed reserves. This would decrease the banks' earning assets and their earnings, whereas the proposed special reserve measure would enable them to retain earning assets. The continued profitability of bank operations is essential if the banks are to meet their increasing costs and build up adequate reserves while serving their communities constructively.

To increase primary reserve requirements would also raise difficult jurisdictional, legal, and administrative problems with reference to nonmember banks, whereas the specific form of the proposed special reserve requirement, as more fully described in the next section, is designed to fit the sort of banking system that exists in this country without alterations in its structure or drastic changes in its customary methods of operation. Banks that are not members of the Federal Reserve System would have to be included. Limitation of the requirement to member banks only would seriously weaken the Federal Reserve System by giving a great advantage to nonmembership and therefore would make the measure ineffective, as well as inequitable. The new measure, as proposed, would assure equitable treatment of individual banks and groups of banks without requiring that all banks become subject to a single authority. The proposed requirement would also make use of the practice of interbank deposits without interfering with the system of correspondent relations.

In summary, the proposal would require banks to hold a large portion of the Government securities which they were encouraged and permitted to buy to aid in war finance and still allow them to meet all essential credit needs of the economy. It would assure the maintenance of a high degree of liquidity and safety in the banking system during a period of rapid and uncertain economic change. It would not necessitate changes in existing banking structure or procedures.

The Board believes that the proposed plan is the most effective and practical method of dealing with the present monetary and credit situation because it assures that the pressures will be exerted at the places where restraint on bank credit expansion is needed, namely, in the field of private loans. At the same time the plan will protect the interests of the Government, the general public, and the banking system.

FORMULA FOR COMPUTING THE SPECIAL RESERVE REQUIREMENT

As explained earlier, the special reserve requirement might be placed as high as 25 percent of demand deposits and 10 percent of time deposits or at some lower level. The assets that would be counted as special reserves include Treasury bills, certificates of indebtedness, and notes having original maturities not exceeding 2 years, as well as certain specified nonearning or cash assets in excess of 20 percent of demand deposits and 6 percent of time deposits. This deduction makes a uniform allowance for required regular reserves and other customary operating funds of banks. Computation of the formula is illustrated in table 1 attached.

Reasons for selection of Government securities to be included in special reserve.—Only Treasury bills, certificates, and short-term notes are proposed for inclusion in the special reserve and other Government securities are eliminated for a number of reasons. The volume of bills, certificates, and notes can be more easily limited to relatively stable amounts. Inclusion of Government bonds within 1 or 2 years of maturity or call dates would result in wider variability in the total outstanding amount of eligible reserve assets. To include all Government securities would make necessary a very high reserve requirement in order to be an effective restraint. Since banks holding deposits subject to withdrawal on demand or short notice should maintain a high degree of liquidity, securities which are short term at issuance are more appropriate assets for them to hold as reserves.

The inclusion of longer term, higher rate securities in the formula would make it possible for banks to continue to shift their lower rate issues to the Federal Reserve and to purchase higher rate bonds in the market. Unless requirements were very high most banks would have an excess of special reserve assets and could sell short-term securities to the Reserve System. Limitation of the requirement to bills, certificates, and notes with low coupon rates would make it necessary for banks to sell their higher rate issues in order to expand loans. This would be more of a discouragement to lending than sale of low-rate, short-term issues and also the higher rate issues would be bought more readily by others than the Federal Reserve. Finally, the limitation would improve the market demand for reserve-eligible issues and help to maintain a lower rate on short-term Government borrowing without lowering long-term interest rates, which are an important source of income for investors of savings.

Reasons for including cash assets.—The proposed eligible cash assets include balances with the Federal Reserve banks, coin and currency, cash items in process of collection, and balances due from, in excess of balances due to, other banks in the United States. However, only the excess of the sum of these items over an amount needed for required reserves and other customary operating funds customarily held by banks would be counted in the special reserve. A level of 20 percent of gross demand deposits, and 6 percent of time deposits, uniform for all banks, is proposed as an equitable statutory amount for these customary operating funds. What the banks hold above this amount will be eligible to count as special reserves. Banks of all classes typically hold these cash items in an aggregate amount equal to the sum of about 25 percent of gross demand deposits and 6 percent of time deposits.

Provision in the formula for some margin of cash assets, as well as the specified short-term Government securities, is desirable to accomplish the purposes of the special reserve authority. Confining the eligible special reserve assets to Government securities would cause difficulties to banks obtaining new funds and not holding adequate amounts of the required securities; they should be permitted to count their cash as reserves until they could acquire, or in case they could not acquire Treasury bills, certificates, or notes. Banks ought not to be compelled to buy such short-term securities in order to meet the proposed special reserve requirement, if for operating reasons they prefer to hold excess cash assets. Cash holdings, moreover, are even more effective in meeting the purposes of the requirement. From the standpoint of avoiding credit expansion; a formula limited to short-term Government securities would be less effective than one which includes cash in the special reserve.

Allowance for differences in banking laws and procedures.—An equitable formula should allow for the great variations that exist among groups of banks with respect to basic reserve requirements and with respect to holdings of different types of cash assets, without interfering unduly with these requirements and practices. If the requirement were limited to member banks, only excess reserve balances at Federal Reserve banks and the specified Government securities might be allowed to count as special reserves. Reserve requirements for nonmember banks, however, not only differ from those for member banks but also vary from State to State. For nonmember State banks, balances due from banks constitute the major part of reserves required by State law, and the excess of such balances over statutory requirements comprise other operating funds, or secondary reserves. Member banks hold their required reserves, and perhaps some excess, on balances with the Federal Reserve banks, but member banks also hold balances with correspondent banks as part of their operating or secondary reserve funds. Both nonmember and member banks would undoubtedly prefer to continue the practice of holding part of their operating funds as balances due from other banks.

Permitting banks to count all of their balances due from other banks in cash items eligible as special reserve assets would present an opportunity for building up fictitious reserves through the pyramiding of interbank balances by multiple exchange of deposits among banks. To prevent such a development, insofar as practicable, the special reserve plan would permit balances due from other banks to be counted as eligible assets only to the extent that they exceed balances due to other banks. Any other treatment of interbank deposits would invite evasion and jeopardize the objectives of the plan.

The proposed formula for the computation of cash assets eligible for satisfying the special reserve requirement treats member and nonmember banks alike, insofar as differences in practices and laws permit. It avoids interference with established correspondent relations, and, in fact, makes use of these relations. In the interests of administrative simplicity, the proposed formula is uniform for all banks.

AVAILABILITY OF SPECIAL RESERVE ASSETS

The formula and its application to certain broad groups of insured banks, using aggregate figures as of June 30, 1947, is illustrated in table 1 attached.

Differences by groups of banks.—The table shows that banks in each major group have an excess of cash assets over the minimum allowance and also have more than enough special reserve assets available to meet a requirement established at 10 percent against gross demand deposits and 4 percent against time deposits. At the statutory maximum suggested for the requirement—namely, 25 percent against demand deposits and 10 percent against time deposits—the different groups show deficiencies in holdings of eligible assets of varying percentage amounts. New York City banks held the smallest amounts of eligible assets relative to their deposits, while country member and nonmember banks held the largest amounts.

The variation in the percentages of deficiency or excess in special reserve assets at the selected levels is still wider, of course, when studied by groups of banks according to Federal Reserve districts. This point is illustrated in table 2 attached, which is also based on figures for June 30, 1947. Each group in each district would be able to meet the lower level of requirements used. Data for individual banks would show even greater differences than appear for the groups of banks in table 2, and some banks might have deficiencies in holdings of eligible assets even at the lower requirement level.

Adequate supply of special-reserve and other liquid assets.—In considering the deficiencies in eligible special reserve assets that banks might confront at certain requirement levels, it must be remembered that banks hold substantial amounts of short-term Government bonds that may eventually be refunded by the Treasury into eligible assets or that could be converted through the market into such assets. In general the Federal Reserve would purchase the bonds and sell banks reserve-eligible securities. Holdings of short-term bonds as percentages of gross demand deposits at mid-1947 are also shown in table 2.

According to figures relating to the ownership of the public debt on September 30, 1947, shown in table 3 attached, all commercial banks hold about $15,000,000,000 of Treasury bills, certificates, and notes,[1] and in addition $6,000,000,000 of bonds due or callable within 1 year and $30,000,000,000 of bonds within 1 to 5 years. These holdings were widely distributed among individual banks. As these bonds mature or are called they may be refunded by the Treasury through issuance of securities eligible to be held as special reserves. The amount of Treasury bills, certificates, and notes issued can be made to depend on the need of the banking system and the demand for such assets.

As table 3 indicates, moreover, the Federal Reserve System holds $22,000,000,000 of Treasury bills, certificates, and notes, which banks could acquire by selling to the System other Government securities. About $12,000,000,000 of eligible obligations are also held by nonbank investors, and these might be bought by banks. Thus the total of Treasury bills, certificates, and notes outstanding is nearly $50,000,000,000, compared with gross demand deposits at commercial banks of $100,000,000,000. The amount of such securities outstanding may be decreased through debt retirement or increased through refunding of bonds. It is estimated that, after allowing for probable reduction in total marketable debt and for refunding of all other retired issues into reserve-eligible securities, the total amount of such securities outstanding will continue fairly close to the present level for the next 3 years. The amounts held by banks may be increased by purchases from other holders.

Thus banks could readily obtain enough bills, certificates, and notes to meet a special reserve requirement of 25 percent. They could still hold substantial amounts of short-term securities as secondary reserves free for operating purposes, but the amount of such freely available funds could be materially reduced by the requirement.

TABLE 1.—*Illustrative computation of special reserve assets, June 30, 1947 (based on aggregate figures in millixns of dollars, by groups of banks)*

Assets	Member banks				Nonmember insured banks
	Central reserve city		Reserve city	Country	
	New York	Chicago			
1. Gross demand deposits	22,683	5,037	31,983	27,659	11,891
2. Time deposits	1,459	871	11,269	14,475	6,349
3. Coin and currency	123	36	470	780	395
4. Cash items in process of collection	1,884	349	2,623	834	124
5. Excess of demand balances due from over demand deposits due to other banks in United States [1]				2,546	2,765
6. Balances with Federal Reserve banks	4,166	973	6,274	4,628	
7. Net cash assets [1] (3+4+5+6)	6,173	1,357	9,367	8,787	3,284
8. Deduct 20 percent of gross demand deposits plus 6 percent of time deposits	4,624	1,060	7,073	6,400	2,759
9. Excess cash assets [1] (7−8)	1,549	298	2,294	2,387	525
10. Treasury bills, certificates, and notes	2,015	606	4,874	5,191	2,932
11. Total special reserve assets [1] (9+10)	3,564	904	7,168	7,578	3,457

See footnote at end of tablo, p. 632.

[1] For simplicity of computation these figures include some notes which had original maturities of over 2 years and therefore would not be eligible as special reserve assets under the proposal. These, however, mature shortly and in any event could be readily shifted into reserve-eligible securities.

TABLE 1.—*Illustrative computation of special reserve assets, June 30, 1947 (based on aggregate figures in millions of dollars, by groups of banks)*—Continued

Assets	Member banks: Central reserve city: New York	Member banks: Central reserve city: Chicago	Member banks: Reserve city	Member banks: Country	Nonmember insured banks
12. Special reserve required at given percentages:					
(*a*) 10 percent against demand and 4 percent against time deposits	2,327	539	3,649	3,345	1,443
(*b*) Maximum of 25 percent against demand and 10 percent against time deposits	5,817	1,346	9,123	8,362	3,608
13. Deficiency or excess of special reserve assets: [1]					
(*a*) With 10 percent against demand and 4 percent against time deposits	+1,237	+365	+3,519	+4,234	+2,014
(*b*) With 25 percent against demand and 10 percent against time deposits	−2,255	−443	−1,954	−784	−151
14. Percentage deficiency or excess of special reserve assets to demand deposits:					
(*a*) With 10 percent against demand and 4 percent against time deposits	+5.5	+7.2	+11.0	+15.3	+16.9
(*b*) With 25 percent against demand and 10 percent against time deposits	−9.9	−8.8	−6.1	−2.8	−1.3

[1] Figures shown for these items are computed on the basis of aggregates by groups of banks for the country as a whole; totals of figures computed separately for individual banks or from aggregates by districts would show somewhat different amounts of available cash assets for some of the groups.

TABLE 2.—*Ratios of available special reserve assets and short-term Treasury bonds to gross demand deposits, all insured commercial banks, June 30, 1947*

	Percentage of gross demand deposits						
	Treasury bills, certificates, and notes	Excess cash assets [1]	Total special reserve assets	Deficiency or excess of special reserve assets if requirements are—: 25 percent of demand and 10 percent of time deposits	Deficiency or excess of special reserve assets if requirements are—: 10 percent of demand and 4 percent of time deposits	Treasury bonds due or callable [2]: Within 1 year	Treasury bonds due or callable [2]: Within 1-5 years
Central reserve city member banks:							
New York	8.9	6.8	15.7	−9.9	+5.5	5.7	27.8
Chicago	12.0	5.9	17.9	−8.8	+7.2	4.2	23.4
Reserve city member banks:							
Boston	10.3	7.1	17.5	−8.6	+7.1	5.1	18.3
New York	9.3	9.4	18.7	−11.8	+6.5	3.5	31.7
Philadelphia	6.7	8.3	14.9	−11.3	+4.4	1.5	22.6
Cleveland	8.0	6.4	14.4	−14.2	+3.0	7.1	33.7
Richmond	12.9	7.4	20.3	−7.0	+9.4	2.5	32.5
Atlanta	14.4	8.7	23.2	−3.9	+12.3	3.5	20.0
Chicago	20.6	7.1	27.7	−2.7	+15.5	5.9	36.9
St. Louis	10.3	6.3	16.6	−10.2	+5.9	5.1	24.2
Minneapolis	8.8	7.3	16.1	−10.7	+5.4	3.7	28.0
Kansas City	16.8	6.0	22.7	−3.7	+12.2	4.8	19.1
Dallas	13.3	6.1	19.4	−7.1	+8.8	2.2	18.4
San Francisco	22.9	7.6	30.5	−.9	+17.9	6.1	31.3
Total	15.2	7.2	22.4	−6.1	+11.0	4.9	27.8
Country member banks:							
Boston	12.6	6.4	18.9	−11.1	+6.9	5.0	37.3
New York	12.7	9.3	21.9	−11.5	+8.6	4.3	45.7
Philadelphia	18.7	10.1	28.8	−4.4	+15.5	5.0	41.4
Cleveland	17.8	11.1	28.9	−3.5	+15.9	4.8	40.2
Richmond	17.0	8.5	25.5	−3.9	+13.8	4.3	31.8

See footnotes at end of table, p. 633.

TABLE 2.—*Ratios of available special reserve assets and short-term Treasury bonds to gross demand deposits, all insured commercial banks, June 30, 1947*—Con.

	Percentage of gross demand deposits						
	Treasury bills, certificates, and notes	Excess cash assets [1]	Total special reserve assets	Deficiency or excess of special reserve assets if requirements are— 25 percent of demand and 10 percent of time deposits	10 percent of demand and 4 percent of time deposits	Treasury bonds due or callable [2] Within 1 year	Within 1-5 years
Atlanta	19.7	5.1	24.8	−3.3	+13.6	3.9	25.0
Chicago	21.6	10.5	32.1	+.6	+19.5	5.9	41.8
St. Louis	21.7	3.8	25.5	−3.2	+14.0	4.0	28.7
Minneapolis	23.8	6.4	30.2	−.3	+18.0	7.3	39.8
Kansas City	26.1	9.6	35.8	+9.3	+25.2	3.2	18.8
Dallas	21.3	11.1	32.4	+6.6	+22.1	2.9	16.7
San Francisco	17.6	7.9	25.5	−4.9	+13.3	6.9	33.9
Total	18.8	8.6	27.4	−2.8	+15.3	4.7	34.3
Nonmember insured commercial banks:							
Boston	19.2	1.2	20.3	−15.8	+5.9	5.6	41.5
New York	15.1	1.7	16.8	−16.2	+3.6	4.5	39.9
Philadelphia	20.9	.3	21.2	−11.1	+8.3	3.8	35.6
Cleveland	22.0	4.8	26.8	−6.3	+13.5	4.6	37.6
Richmond	20.4	.2	20.6	−9.2	+8.7	5.8	29.5
Atlanta	25.2	6.8	32.0	+3.8	+20.7	3.0	22.9
Chicago	29.0	5.9	34.9	+3.1	+22.2	4.6	39.8
St. Louis	25.0	4.7	29.7	+2.7	+18.9	2.2	22.5
Minneapolis	39.6	3.9	43.5	+12.8	+31.2	6.4	32.5
Kansas City	28.0	7.3	35.3	+8.6	+24.6	2.9	20.5
Dallas	16.5	10.4	27.0	+.8	+16.5	.9	18.3
San Francisco	19.6	.6	20.1	−16.6	+5.5	7.7	39.3
Total	24.7	4.4	29.1	−1.3	+16.9	4.2	31.0

[1] Total of (1) balances with Federal Reserve banks, (2) excess of demand balances due from over demand deposits due to banks in United States, (3) coin and currency, and (4) cash items in process of collection, less (5) the sum of 20 percent of demand deposits and 6 percent of time deposits.
[2] These ratios are based on estimated holdings of such Treasury bonds.

TABLE 3.—*Ownership of marketable U. S. Government securities*

[In millions of dollars as of Sept. 30, 1947]

Investor group	Total [1]	Type of security: Bills, certificates, and notes	Treasury bonds maturing or callable— Within 1 year	Within 1 to 5 years	After 5 years
Commercial banks	68,892	14,966	5,583	30,300	18,043
Federal Reserve banks	22,329	21,610	177	403	140
U. S. Government agencies and trust funds	4,387	81	50	362	[2] 3,858
Other investors	72,338	11,801	1,502	7,258	[2] 51,647
Total	167,946	48,458	7,312	38,323	73,688

[1] Total includes postal savings and prewar bonds not shown in break-down by issues.
[2] Most of the bonds due or callable after 5 years held by Government agencies and about 45 billion dollars of those held by other investors are not eligible for purchase by banks. About 7 billion dollars of these bonds may be acquired by banks.

Source: Data estimated on the basis of the Treasury Survey of Ownership of Securities issued and guaranteed by the United States.

Senator FLANDERS. Mr. Chairman, there is one line of questions which I am not going to pursue today. I judge that Mr. Eccles is not considering this as emergency legislation to be finished at this session, but it seems to me we have had within only a few years' experience in the checking of an inflation, in 1937.

As you can see, on the curve of industrial production and wholesale prices——

Senator O'MAHONEY. What page is that?

Senator FLANDERS. Industrial production is page 63; wholesale prices, page 69.

And it seems to me we are not looking, or should not look at this thing without turning back to the experience of 1937. I suggest that we do that at some later time.

Mr. ECCLES. I shall be very glad to discuss that. That question was raised before and it was raised at the time I was before committees of Congress when that whole question came up, and the Board presented to the Banking and Currency Committees of Congress what they considered the reasons for that, which were primarily a budgetary situation due to, in 1936, the payment of the bonus, plus a large budgetary expenditure, and then a huge inventory expansion.

Inventories went up $5,000,000,000 in 8 months at that pirce level. Then we came along to 1937 and for a period of 8 months you had a balanced cash budget. You put social security in and you had no soldiers' bonus.

Senator FLANDERS. The interesting thing to me, Mr. Eccles, is that it is difficult to find any record of that inflation and deflation in the banking data. That is the interesting thing to me.

Mr. ECCLES. I do not think it was in the banking data because it reflected itself in a change in the velocity of money which is a very important factor.

It is not only the volume you have to consider.

At that time you had a lot of idle money. Today, as I pointed out, on these charts, you can have a very substantial increase in inflation without further bank-credit expansion because the supply of money is already of such proportion in relationship to your price level that given a velocity that we have had, for instance during the twenties, this volume of currency and deposits could carry a much larger national product than it is now carrying at this price level.

The CHAIRMAN. As I understand it, Mr. Eccles, we made the mistake of balancing the budget in 1938. Is not that the net result of the Board's views at that time?

Mr. ECCLES. I think so. I think the budget was not technically balanced. You took $2,000,000,000 out of the economy in social security in 1937.

In 1936 you paid $2,000,000,000 out to the soldiers, and you had in addition to that $4,000,000,000 public expenditure, so in 1937 you reversed the thing very quickly and added to that was the business reaction to the big expenditures, the bonus and all in 1936.

When they saw prices stabilizing and going up and they had small inventories, they started buying and the inventories of business increased $5,000,000,000 putting into circulation the money they had.

Then in 1937, you took $2,000,000,000 out to pay social security taxes and the Government did not spend as much for other purposes as they had in 1936 and business quit accumulating inventories and started to try to sell, and the net result is you got a prefectly natural reaction.

The Board has been accused of causing it by increasing reserve requirements. But at that time there was excess reserve. We did not have enough power to sterilize all of the gold that was here and even after we increased requirements to the full statutory limit, there still was large excess reserve and interest rates went up hardly at all.

The rate on commercial paper was still around 1 to 1½ percent. The rate on short-term Government securities, some of them bills, was about one-half of 1 percent, and the interest rate did not change at all during that period.

The CHAIRMAN. I have a third reason to suggest for that and that was such a rapid increase in wages was made that costs and prices could not keep up with them.

Mr. ECCLES. I think they may have been too rapid at that time. I think that is true in the building industry.

The CHAIRMAN. That is true in railroads. They were down so they could not spend money even on maintenance, much less capital investment, because wages had gone up so much. The automobile industry also.

Senator FLANDERS. I want to say, Mr. Eccles, this does raise in my mind the question whether there is such a direct relationship between the banking and monetary factors and the large sharp increases and decreases in prices and industrial volume.

The relationship is direct enough and sure enough so we can place dependence on them?

Mr. ECCLES. I agree with Mr. Sproul that you certainly should not rely solely, or to the greatest degree, on strictly monetary and credit action. But I think it is a factor you cannot ignore.

So far as the System is concerned, it certainly is an unpleasant and an unpopular position to be in, to apply any restraint because it will always affect a lot of people adversely no matter what is done, and I doubt very much in the Federal Reserve System at least, the personnel of it, could not survive the breaking of the boom if it created unemployment and deflation.

The CHAIRMAN. What about the administration, apart from the Federal Reserve System?

Mr. ECCLES. It depends which administration you are talking about, whether the administration in Congress or the administration downtown.

I am not in the political field. In our job we try to be perfectly detached and consider our job as being advisers on the financial and economic front. We just advise and Congress has got to make the decision.

The CHAIRMAN. Thank you, Mr. Eccles, and thank you for submitting these drafts.

(The drafts referred to are as follows:)

Hon. ROBERT A. TAFT,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington, D. C.

(Attention Mr. John Lehman, clerk.)

MY DEAR MR. CHAIRMAN: In accordance with the request contained in your letter of December 4, 1947, I am glad to enclose herewith a draft of a bill to carry out the proposal regarding special reserve requirements for banks, which I mentioned before your committee, together with a summary of the more important provisions of the proposed bill. I have furnished copies of this draft of bill to the chairman of the Banking and Currency Committees of the Senate and the House of Representatives.

I also enclose a draft of a proposed bill to reinstitute consumer credit controls, which is identical with a draft that I transmitted to the chairmen of the Banking and Currency Committees in June of this year, together with a memorandum stating the reasons why a bill of this kind is preferable to the enactment of a joint resolution. Even if it should be decided not to consider permanent legislation on consumer credit, this bill would still be appropriate with the addition of such time limitation as might be decided upon. If, however, it should be determined to use merely a joint resolution, I enclose a copy of a draft of such a resolution which could be used for this purpose.

I trust that the bill providing for special reserves and the bill to reinstitute consumer credit controls will receive the careful and favorable consideration of the Congress. I am sending you under separate cover for your convenience a number of the various documents mentioned above.

Sincerely yours,

M. S. ECCLES, *Chairman.*

SUMMARY OF PROPOSED BILL TO PROVIDE SPECIAL RESERVE REQUIREMENTS FOR BANKS

The attached bill proposes that, for a temporary period of 3 years, an authority be provided under which all commercial banks could be required, as an anti-inflationary measure, to hold a so-called special reserve in addition to existing requirements. This special reserve could be held in the form either of cash, cash items, interbank balances and deposits with Federal Reserve banks, or in short-term Government securities, that is, bills, certificates, and notes. It is proposed that the Federal Open Market Committee of the Federal Reserve System administer the authority within the limitation that the special reserve would not exceed 25 percent of demand deposits and 10 percent of time deposits.

Under existing conditions there are no effective limitations upon the ready availability of reserves, which the banking system obtains from three principal sources. First, when the banks sell some of their large holdings of Government securities in the open market and those securities are purchased by Federal Reserve banks, reserves are thereby created on which the lending power of the banking system is increased by a ratio of about 6 to 1. That is, for each dollar of reserves about six additional dollars of deposits can be created. Second, gold acquisitions automatically increase the reserves and deposits of the banking system. Third, when nonbank investors sell Government securities which are purchased by the Federal Reserve banks, this likewise creates additional bank reserves.

The broad purpose of this legislation is to provide under present and prospective conditions some restraint on the creation of bank credit beyond what is essential for the maintenance of full production. Proponents of this measure state that it should be closely integrated with Government fiscal policy and should be flexible in order to meet changing conditions.

The principal features of the proposed legislation are as follows:

Temporary period.—The law would be effective for a period of 3 years only.

Banks affected.—The requirement would apply to all banks receiving demand deposits, including member banks of the Federal Reserve System and nonmember banks—insured and noninsured. It would not apply, however, to banks that do exclusively a savings business.

Special reserve requirement.—A special reserve would be required against both demand and time deposits. The percentage of such special reserve could be varied from time to time by the Federal Open Market Committee (which consists of the members of the Board of Governors of the Federal Reserve System and presidents of five Federal Reserve banks) but would be subject to a maximum limit of 25 percent with respect to demand deposits and 10 percent with respect to time deposits.

Special reserve assets.—Special reserve assets which all banks may be required to maintain, in the percentage fixed by the Open Market Committee, would include (*a*) obligations of the United States in the form of Treasury bills, certificates, and notes with original maturities of 2 years or less, and (*b*) the excess of specified cash assets over an allowance for existing reserve requirements and for customary operating funds of the banks. This allowance would be fixed by statute at 20 percent of demand deposits and 6 percent of time deposits; and the specified cash assets which would be eligible for use in meeting the special reserve requirement would consist of the following assets to the extent that they exceed the amount of this allowance: Balances with Federal Reserve banks, the net amount of interbank deposits, coin and currency on hand, and cash items in process of collection.

Fixing of percentages.—In prescribing the percentages of special reserve assets required, the committee must consider certain economic factors specified in the bill. Percentages initially fixed could not be greater than 10 percent with respect to demand deposits or 4 percent with respect to time deposits and could not thereafter be increased at any one time by more than 5 points as to demand deposits or 2 points as to time deposits. Sixty days' notice would be required before any increase could become effective.

Computations and deficiencies.—The amount of its required special reserve would be computed by each bank over a monthly period (or such shorter period as might be fixed by the Open Market Committee) and any deficiency in the amount of its special reserve during any month would be subject to a penalty of one-half of 1 percent. The penalty would be payable to the United States and if not paid could be recovered in a suit brought by the United States district attorneys upon request of the committee. The committee could waive the payment of penalities where the deficiency results from excusable error made in good faith.

Reports.—Banks would be required to furnish to the Open Market Committee such reports as the committee deems necessary to obtain information as to compliance with the law and otherwise to enable it to carry out its functions. False reports would be subject to criminal penalties.

Regulations.—The Open Market Committee would be given power to prescribe regulations to effectuate the law and prevent evasions, as well as authority to define terms. Administrative functions could be performed by officers or representatives of the committee; and the Federal Reserve banks and other Federal or State agencies which are available could be used in the administration of the law.

A BILL To provide for special reserves to be held by banks and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is hereby amended by inserting therein immediately following section 19 thereof a new section reading as follows:

"SEC. 19A. (a) Effective date and time limit: This section shall become effective on the first day of the third calendar month following the month in which it is enacted (except that percentages and other regulations hereunder may be prescribed in advance of the effective date to take effect on or after such date) and shall expire at the end of three years after its effective date.

"(b) Purposes: As a result of necessary war financing, the banks of the country own large amounts of short-term Government securities. Substantial amounts of such securities have already been converted into bank reserves and large additional amounts can be converted into such reserves with resulting multiple increases in bank credit and in deposits that serve as money. Such monetary and credit expansion, at a time when total effective demand for goods and services is in excess of the supply which can be produced by the Nation's productive capacity and labor force, would further aggravate inflationary pressures on prices and thus produce burdens upon and dislocations in interstate and foreign commerce and the Nation's monetary, banking and credit structure. Efforts to avoid such consequences through the use of methods of credit control available under existing law are seriously handicapped because, with the present large volume of the public debt, they would tend to produce such declines in the prices of Government securities (and securities in general) as to cause disturbances to the Government credit, interstate and foreign commerce, and the Nation's monetary, banking, and credit structure.

"The purposes of this section, in the light of which its provisions shall be construed and applied, are to require banks to hold short-term Government securities or other specified liquid assets in such amounts as may be necessary to protect interstate and foreign commerce and the Nation's monetary, banking, and credit structure from the above-mentioned burdens, disturbances, and dislocations.

"(c) Holding of 'Special reserve assets': (1) Every bank shall own 'special reserve assets,' as described in subsection (d) hereof, in an amount equal to the sum of such percentage of its demand deposits and such percentage of its time deposits as the Federal Open Market Committee (created by section 12A of this

Act and hereinafter called the 'Committee') may by regulation prescribe from time to time as necessary to accomplish the purposes of this section, but in no event shall the percentage so prescribed with respect to demand deposits exceed 25 per centum or the percentage so prescribed with respect to time deposits exceed 10 per centum.

"(2) The Committee shall not initially prescribe a percentage in excess of 10 per centum with respect to demand deposits or in excess of 4 per centum with respect to time deposits and shall not thereafter at any one time increase such percentages by more than 5 percentage points in the case of demand deposits or by more than 2 percentage points in the case of time deposits. No initial percentage or subsequent increase thereof shall become effective until the expiration of a period of at least 60 days after notice thereof shall have been published in the Federal Register; but no other notice or procedure shall be required in connection with the prescribing or any percentage under this subsection notwithstanding any other provision of law.

"(3) In prescribing any percentages under this subsection, the Committee shall consider among other factors (A) the volume and ownership of securities and other assets eligible for holding as special reserve assets or readily convertible into such special reserve assets, (B) gold movements, currency fluctuations, and other factors affecting the available supply of bank reserves, (C) conditions in the Government securities market, and (D) the general credit situation of the country.

"(d) Description of 'special reserve assets': 'Special reserve assets' shall consist of any one or more of the following assets:

"(1) Obligations of the United States in the form of Treasury bills, certificates of indebtedness, and notes having a maturity not exceeding two years at the time of issue.

"(2) The aggregate amount of the following assets which a bank owns in excess of the sum of 20 per centum of its demand deposits and 6 per centum of its time deposits: (A) Coin and currency in its vault or on hand, (B) demand deposits due from other banks to the extent that they exceed demand deposits due to other banks, (C) deposits with a Federal Reserve bank (and the Reserve banks are authorized to receive such deposits from any bank), and (D) cash items received in the ordinary course of business which are in process of collection and are payable immediately upon presentation in the United States.

"(e) Computations: For the purpose of determining the amounts and percentages specified in subsections (c) and (d) of this section, each bank shall compute all such amounts on an average daily basis covering monthly computation periods or such other computation periods, not shorter than weekly periods, as the Committee may prescribe; and the Committee may prescribe different computation periods for different classes of banks, classified according to size or location or other reasonable basis. The amount by which the average daily amount of special reserve assets owned by a bank in any computation period falls below the amount required by this section or regulations pursuant thereto shall be considered a 'deficiency' for such computation period.

"(f) Penalty for deficiencies: Any bank having in any computation period a 'deficiency' as defined in subsection (e) of this section shall pay to the United States a penalty at the rate of one-half of 1 per centum per month upon the amount of such deficiency for such period. If such penalty is not paid to the Treasurer of the United States by the end of the month succeeding that in which such computation period ended, such penalty, together with interest thereon at the rate of 6 per centum per annum from the end of such succeeding month until paid, may be sued for and recovered by the United States in a suit to be brought by the United States district attorney in the district court of the United States of the judicial district in which the principal place of business of such bank in the United States is located, and the district courts of the United States shall have jurisdiction of such suits. If and when the Committee shall so request, it shall be the duty of the several district attorneys in their respective districts, under the supervision of the Attorney General, to institute proceedings to collect such penalties including interest. In unusual cases, when a bank has a deficiency which results from excusable error made in good faith, a certificate may be issued in the discretion of the Committee excusing such bank from payment of a penalty on account of such deficiency.

"(g) Reports: The Committee may require banks to furnish from time to time such reports and other information as it may prescribe, but no such reports or information shall be required except such as the Committee may find to be necessary to obtain information as to compliance with this section or otherwise to enable it to carry out its functions under this section. Any person who shall knowingly make any false statement or report or give any false information or willfully fail to furnish any report or information required under this subsection shall be guilty of a misdemeanor, and upon conviction shall be fined not more than $5,000, or imprisoned not more than 1 year or both; and the expiration of the provisions of this section shall not prevent prosecution for any such offense committed prior to such expiration.

"(h) Regulations and administration: The Committee may from time to time prescribe, amend, or revoke regulations to effectuate the provisions of this section or to prevent evasion or circumvention of its purposes either by abnormal accumulations of deposits due to or from other banks or by other devices; and such regulations may, among other things, include definitions of the terms used in this section not inconsistent with the definitions contained herein or with the purposes of this section. Any fuction of the Committee under this section other than the prescribing of regulations and the determination of matters of general policy may be performed by such member, officer, or representative of the Committee as it may designate for the purpose; and in the administration of the section, the Committee may utilize the services of the Federal Reserve banks and any other agencies, Federal or State, which are available and appropriate.

"(i) Definitions: When used in this section, unless otherwise required by the context—

"(1) 'Person' means any individual, partnership, corporation, business trust, association, or other similar organization.

"(2) 'Bank' means any person having a place of business in any State or in the District of Columbia which is (A) a national bank, or (B) a person engaged in the business of receiving demand deposits and subject to supervision or examination by the State authority having supervision over banks (or by the Comptroller of the Currency in the case of the District of Columbia); but the Committee may by regulation exclude from such term persons which it deems not to be substantially engaged in the performance of functions customarily performed by banking institutions receiving demand deposits and also not to be within the scope of the purposes of this section.

"(3) The amount of any obligation of the United States in the form of a Treasury bill, certificate of indebtedness, or note means the amount of the book value thereof as determined in accordance with regulations of the Committee.

"(4) 'Demand deposit' and 'time deposit' have the meanings given such terms by regulations prescribed from time to time by the Board of Governors of the Federal Reserve System pursuant to section 19 of this Act.

"(5) 'Month' and 'monthly' refer to calendar month."

A BILL To regulate consumer credit, to protect interstate and foreign commerce, to protect the monetary, banking and credit structure of the Nation, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is amended by adding the following new section 20A between sections 20 and 21 thereof:

"SECTION 20A. CONSUMER CREDIT

"(a) Purposes of section: For the reasons hereinafter enumerated and in the light of which this section shall be interpreted and applied, the use of installment credit is affected with a national public interest which makes it necessary to provide for appropriate regulation of such credit:

"Installment credit is an important factor in financing the purchase of large volumes of goods, particularly consumers' durable goods, that move through the channels of interstate commerce. The terms and conditions on which installment credit is available have a direct and important effect on changes in the amount of such credit and consequently on the volume and timing of demand for, and flow in interstate commerce of, not only consumers' durable goods and related components and manufacturing equipment but also goods in general.

"Because of the inherent nature of installment credit and the purposes for which it is largely used, (1) such credit has a dangerous tendency, if unregulated, to expand unduly in certain periods and, in consequence, to contract unduly at other periods, and (2) such overexpansion and overcontraction are of material importance in initiating and intensifying excessive fluctuations and dislocations in national levels of purchasing power, prices, credit, and interstate commerce.

"Both directly and through their impact on interstate commerce and the national economy, such excessive or untimely fluctuations in installment credit interfere with the maintenance of high and stable levels of production and employment, burden interstate and foreign commerce, interfere with the power of Congress to regulate the value of money, threaten the stability of the Nation's monetary, banking, and credit structure, hamper the Federal Reserve System in maintaining sound credit conditions, and are important contributing causes to emergencies which put the Federal Government to great expense and burden the national credit.

"The purposes of this section are to provide appropriate regulation of installment credit and thereby to prevent, so far as practicable by this means, excessive or untimely fluctuations of such credit and the resulting national dangers and burdens mentioned above.

"(b) Definitions: For the purposes of this section, unless the context otherwise requires, the following terms shall have the following meanings, but the Board of Governors of the Federal Reserve System (hereinafter called the Board) may in its regulations give such terms more restricted meanings, and may define technical, trade, and accounting terms insofar as such definitions are not inconsistent with the provisions of this section:

"(1) 'Installment credit' means credit which the obligor undertakes to repay in two or more payments, or as to which he undertakes to make two or more payments or deposits usable to liquidate the credit, or which has a similar purpose or effect: *Provided, however,* That it shall not include (i) any credit to finance or refinance the construction or purchase of an entire residential building or other entire structure, (ii) any credit extended to a business enterprise to finance the purchase of goods for resale, or (iii) any other credit extended to a business or agricultural enterprise for any business or agricultural purpose unless the credit is secured by or is for the purpose of purchasing or carrying consumers' durable goods.

"(2) 'Credit' means any loan, advance, or discount; any installment purchase or conditional sale contract; any sale of property or services or contract of such sale, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee has the option of becoming the owner thereof, obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof, or has the right to have all or part of the payments required by such contract applied to the purchase price of such property or similar property; any option, demand, lien, pledge or similar claim against, or for the delivery of, property or money; any purchase, discount, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

"(3) 'Person' means any individual, partnership, association, business trust, corporation, or unincorporated organization; and, except that the criminal penalties shall not be applicable thereto, it includes the United States, any State or subdivision thereof, and any agency of one or more such authorities.

"(c) Regulations: The Board of Governors of the Federal Reserve System is authorized from time to time by regulation to prescribe maximum maturities, minimum down payments, maximum loan values, and amounts and intervals of payments, for such kind or kinds of installment credit as it may in the judgment of the Board be necessary to regulate in order to prevent or reduce excessive or untimely use of or fluctuations in such credit. Such regulations may classify transactions and may apply different maximum maturities, minimum down payments, maximum loan values, or amounts and intervals of payments thereto. Such regulations may contain such administrative provisions as in the judgment of the Board are reasonably necessary in order to effectuate the purposes of this section or to prevent evasions thereof.

"In prescribing such regulations the Board shall consider, among other factors, (1) the level and trend of installment credit and the various kinds thereof, (2) the effect of fluctuations in such credit upon (i) the purchasing power of consumers and (ii) the demand for and the production of consumers' durable and other goods which move in interstate commerce, and (3) the need in the national economy for the maintenance of sound credit conditions.

"(d) Compliance: No person engaged in the business of extending or maintaining installment credit, or of refinancing, purchasing, selling, discounting, or lending on, any obligation arising out of any such credit, shall extend or maintain any credit, or renew, revise, consolidate, refinance, purchase, sell, discount, or lend on, any obligation, in contravention of any regulation prescribed by the Board pursuant to this section. Every person engaged in such business shall keep such records or documents in such form, and make such reports, as the Board may by regulation require.

"(e) Penalties: Any person who willfully violates any provision of this section or any regulation thereunder the observance of which is required under the terms of this section shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined not more than $5,000, or imprisoned not more than one year, or both; but no person shall be subject to imprisonment under this section for the violation of any regulation if he proves that he had no actual knowledge of such regulation.

"(f) Investigations, court orders: (1) The Board is authorized to make such investigations as it deems necessary in order to aid in the prescribing of regulations under this section or in order to determine whether any person has violated or is about to violate any provision of this section or any regulation thereunder, and may require or permit any person to file with it a statement in writing, under oath or otherwise as the Board shall determine, as to all the facts and circumstances concerning the matter to be investigated.

"(2) For the purpose of any investigation or other proceeding under this section, any member of the Board, or any representative thereof designated by it, is empowered to administer oaths and affirmations, subpena witnesses, compel their attendance, take evidence, and require the production of any books, records, or other papers which are relevant or material to the inquiry. Such attendance of witnesses and the production of any such papers may be required from any place in any State or in any Territory or other place subject to the jurisdiction of the United States at any designated place where such a hearing is being held or investigation is being made.

"(3) In case of refusal to obey a subpena issued to, or contumacy by, any person, the Board may invoke the aid of any court of the United States within the jurisdiction of which such investigation is carried on, or where such person resides or carries on business, in requiring the attendance and testimony of witnesses and the production of books, records, or other papers. And such court may issue an order requiring such person to appear before the Board or member or officer designated by the Board, there to produce records, if so ordered, or to give testimony touching the matter under investigation or in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof. All process in any such case may be served in the judicial district whereof such person is an inhabitant or wherever he may be found. No person shall be excused from attending and testifying or from producing books, records, or other papers in obedience to a subpena issued under the authority of this section on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him or subject him to a penalty or forefeiture; but no individual shall be prosecuted or subject to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled to testify or produce evidence, documentary or otherwise, after having claimed his privilege against self-incrimination, except that such individual so testifying shall not be exempt from prosecution and punishment for perjury committed in so testifying. Any person who without just cause shall fail or refuse to attend and testify or to answer any lawful inquiry or to produce books, records, or other papers in obedience to the subpena of the Board, if in his or its power so to do, shall be guilty of a misdemeanor and upon conviction shall be subject to a fine of not more than $1,000 or to imprisonment for a term of not more than one year, or both.

"(4) Whenever in the judgment of the Board any person has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of any provision of this section or of any regulation thereunder, the Board may make application to the proper district court of the United States, or the United States courts of any Territory or other place subject to the jurisdiction of the United States, for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, and upon a showing by the Board that such person has engaged or is about to engage in any such acts or practices a permanent or temporary injunction, restraining order, or other order shall be granted without bond.

"(5) The district courts of the United States and the United States courts of any Territory or other place subject to the jurisdiction of the United States shall have jurisdiction of offenses and violations under this section or the regulations thereunder, and of all actions to enjoin any violation of this section or the regulations thereunder or to enforce any duty created under this section. Any criminal proceeding may be brought in the district wherein any act or transaction constituting the violation occurred. Any action to enjoin any violation of this section or regulations thereunder or to enforce any duty created under this section may be brought in any district wherein the defendant is found or is an inhabitant or transacts business, and process in such cases may be served in any other district of which the defendant is an inhabitant or transacts business or wherever the defendant may be found. Judgments and decrees so rendered shall be subject to review as provided in sections 128 and 240 of the Judicial Code, as amended (U. S. C., title 28, secs. 225 and 347).

"(g) Administration: In administering this section, the Board may act through its duly designated representatives and may utilize the services of the Federal Reserve banks and any other agencies, Federal or State, which are available and appropriate. The Board shall include in its annual report to the Congress such information, date, and recommendations as it may deem advisable with regard to matters within its jurisdiction under this section."

JOINT RESOLUTION To provide for the regulation of consumer credit for a temporary period

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to protect the Nation's monetary, banking, and credit structure, and interstate and foreign commerce, against increased inflationary pressures, the Board of Governors of the Federal Reserve System is authorized, up to and including ——— to exercise consumer-credit controls in accordance with and to carry out the purposes of Executive Order Numbered 8843 (August 9, 1941) insofar as it relates to installment credit; and no such consumer-credit controls shall be exercised after such date except in time of war which begins after the date of enactment of this joint resolution or any national emergency which is declared by the President after such date of enactment. All the present provisions of sections 21 and 27 of the Securities Exchange Act of 1934 as amended (relating to investigations, injunctions, jurisdiction, and other matters) shall be as fully applicable with respect to the exercise by the Board of Governors of consumer-credit controls as they are now applicable with respect to the exercise by the Securities and Exchange Commission of its functions under that Act, and the Board shall have the same powers in the exercise of such consumer-credit controls as the Commission now has under the said sections.

SEC. 2. Public Law 386, Eightieth Congress (terminating consumer-credit controls after November 1, 1947), is hereby repealed.

FULL CONSUMER CREDIT BILL PREFERABLE TO JOINT RESOLUTION OR SHORTER BILL MERELY REVIVING EXECUTIVE ORDER

A comprehensive bill fully and explicitly authorizing consumer credit controls, somewhat along the lines of a draft prepared by the Board of Governors several months ago, is much preferable to a joint resolution or a brief form of bill which would merely authorize the Board to reinstitute consumer credit controls pursuant to the terms of Executive Order 8843 which was issued in August 1941. A comprehensive bill would not require more than a few pages.

The Executive order, and the statute under which it was issued, are sorely lacking in appropriate enforcement provisions. They contain only criminal penalties and authority to suspend licenses. Both penalties are so drastic that it is difficult to apply them in actual practice. Accordingly, they tend to make enforcement either too lax or unduly severe. To provide enforcement that is both equitable and effective, it is essential that there be specific provision for courts of equity to aid enforcement through their power to enforce subpenas and enjoin violations. That is a sound type of enforcement machinery that Congress has adopted in connection with other Government agencies.

A general provision giving the Board of Governors authority to obtain such aid from the courts in connection with all of its functions would be desirable. Such a provision, however, is especially needed in connection with the exercise of consumer credit controls.

Six years of experience with consumer credit controls under the Executive order have also shown the need for other changes in the underlying authority. For one thing, the statute should now prescribe clearer and more appropriate standards or guides to be followed by the Board in prescribing its regulations on this subject. In addition, it should place clearer and more precise limits on the Board's authority. The Executive order covers all consumer credit, whether or not it is installment credit. Experience has shown that present purposes can be served by a somewhat narrower statute applying only to the installment portion of consumer credit, and it is desirable that the Board's authority be so limited.

In addition, it is most desirable to have explicit and precise authority from Congress contained in one legislative enactment. If Congress should merely revive the Executive order, it would be necessary, in considering the scope of the authority granted, to look at at least three basic documents—the Trading With the Enemy Act on which the Executive order was based, the Executive order itself, and the action of Congress in reviving the Executive order. This is not merely a matter of inconvenience for the persons affected by consumer credit controls but makes for uncertainty as to the exact scope of the authority granted and just what provisions are applicable.

For the reasons stated, a comprehensive bill is preferable. Even if Congress should decide not to enact permanent legislation but to make it effective only for a limited period, such a bill could be utilized with a limitation as to time included. If, however, Congress should determine to reject the idea of a comprehensive bill on this subject and to enact merely a joint resolution or very brief bill, it is most important that any such brief enactment include authority for subpenas and injunctions with the aid of the courts. If necessary, this authority could be given in a one-sentence provision through the incorporation by reference of provisions on this subject already applicable to other agencies.

The CHAIRMAN. The committee will adjourn.

(Whereupon, at 12 noon, the committee adjourned.)

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